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February 23, 1938.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston

SUBJECT: President's Press Conference, Friday, 10:30 A.M., Feb. 18.

Just before the conference the President sent for Secretary Morgenthau and also for Gaston, who was at that time in Early's office straightening out the release. (Only one chart had been attached to each release, but Miss Shannon promptly rectified this when it was called to her attention.)

The President devoted a few minutes to reading a communication from Fred Wile, which was a poem referring to the President's attributing one of Fred's questions at a previous conference to Mark Sullivan. The concluding line was: "God save the Mark." and Sullivan commented that God was about the only person he could rely on.

The President read the press statement slowly, with good effect. He then turned to the prepared questions and answers. He explained that he had anticipated that certain questions would be asked by the correspondents and he had prepared replies to them. There were a few but not many questions from the correspondents. The answers seemed to meet the questions they had been prepared to answer.

It was a long conference, lasting forty-five minutes and was very well attended. Comment by correspondents was first that it was an unusual sort of conference but remarkably well handled. A secondary

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comment was that the announcement was not as sensational as some had expected and therefore was something of an anti-climax. There was great interest in the statement that no devaluation or monetary inflation was contemplated. This got into the bulletin leads and was undoubtedly responsible for a slight recession in stocks and commodities. The press reception of the statement was decidedly friendly.

--oOo--

February 23, 1938.
9:37 a.m.

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H.M.Jr: Hello.

Operator: Dr. Luben. Go ahead.

Dr. Luben: Good morning.

H.M.Jr: Hello Luben.

L: How are you? Say, I dictated a little note to you reminding you of a telephone call, probably - sent it over by messenger.

H.M.Jr: That's all right. Now look Luben, I talked to the President yesterday and he's delighted that we go ahead with this.

L: Swell. Now I tell you what we're doing.

H.M.Jr: Please.

L: We're picking each one of these building materials and we're charting them, individually, and then we're going to have a story about each one, telling what factors determine the price situation.

H.M.Jr: Yes.

L: I mean in what instances, we know of one organization fixing the price for the whole industry and other industries where tariff sketching comes in, and giving you sort of an economic picture of each of these prices.

H.M.Jr: Well, now do you think if - could I get a peek at it, say by three o'clock?

L: Well, gosh, I don't know, my - a lot of my people were away on Monday, and none of them were here yesterday, but we can - we'll have the figures, that is the indexes for most of them by three.

H.M.Jr: Well, I - I - I'd like - you know me, when I get on something -

L: Yes.

H.M.Jr: By now. Why - and then I want to let the people know that we're started, see?

L: Yes.

H.M.Jr: Let's do what we can.

L: All rightie, fine.

H.M.Jr: Now, I want to check with you. Have you talked to Fischer, over at FHA?

L: No, I have not.

H.M.Jr: Do you know him at all?

L: Yes.

H.M.Jr: Is he good?

L: He's a pretty good man. He's a sort of retiring fellow, but he knows his stuff.

H.M.Jr: Well oughtn't we to have him in?

L: I think it would be worth while.

H.M.Jr: All right. Now, let's just go over the list. Can Federal Reserve contribute anything on this?

L: Well, I'd let Curry stay, absolutely.

H.M.Jr: You would.

L: Yes.

H.M.Jr: All right. Now, how about Agriculture?

L: Well, I - I'd let Zeke stay in with it.

H.M.Jr: All right. Has Straus got anybody over there?

L: No, he doesn't have a soul.

H.M.Jr: Hasn't got a soul. Ought he sit in, so he'll know what's going?

L: I don't know that it has much bearing really, on what they're doing.

H.M.Jr: You don't. Not the first meeting. Well, we'll leave him out the first meeting.

L: Yes, I should.

H.M.Jr: Then we'll have the same crowd plus Fischer. Is that right?

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L: Yes.

H.M.Jr: And - let me just think a minute - oh, yes, well I'll have somebody in from Procurement.

L: All rightie.

H.M.Jr: See? How about that?

L: Good. I think it would be worth while.

H.M.Jr: All right. Meanwhile, they have no statistician, they're on the firing line, they're doing the buying.

L: Yes.

H.M.Jr: Well then let's get started at three.

L: Three. Fine.

H.M.Jr: All right.

CARTER BLAIR, VA., CHAIRMAN

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United States Senate

COMMITTEE ON APPROPRIATIONS

February 23, 1938

Strictly Personal

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

My Dear Mr. Secretary:

Not having heard further from you concerning the proposal relating to bank holding companies, I have withheld a bill on the subject prepared by my direction. This I have done at the request of the President. However, if anything is to be done with this problem at this session of Congress, it is about time to introduce the bill for appropriate reference and for hearings, particularly as Senator McAdoo is persisting in asking hearings for his bill proposing to abolish holding companies and to extend branch banking across state lines.

The McAdoo bill extending branch banking across state lines has not, in my considered opinion, the ghost of a chance of being enacted into law. The Senator's bill dealing with holding companies by banks which are members of the Federal Reserve System is totally inadequate in my view, since there are more banks outside the Federal Reserve System than are members; and, in my opinion, the McAdoo bill, if enacted, would induce many of the holding company banks to withdraw from the Federal Reserve System and do business under state bank charters. The only way to reach practically all holding company banks would be to comprehend, as in the bill, a copy of which I am sending you, all insured banks.

If you have any suggestions to make, I would be glad to have them as promptly as possible; and in conclusion I would ask you to consider whether we should attempt any banking legislation at this session, for the reason that certain members of the Senate, and particularly of the House, will inevitably undertake to tag on to any bank bill their respective vagaries concerning monetary control and the complete abolition of the Federal Reserve Banking System. This, as I am sure you will know, would mean interminable controversy, which very likely would result in no banking legislation at all or legislation of an evil nature.

Sincerely yours,

Carter Glass

I am writing now because my physicians are urging me to leave Washington for a month or two weeks to avoid a nervous breakdown. I could not personally manage the bill until my return.

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- (2) "Person"
- (3) "Company"
- (4) "Director"
- (5) "Securities"
- (6) "Capital Stock"
- (7) "Control"
- (8) "Holding Company"
- (9) "Affiliate"
- (10) "Effective Date"

SECTION II. Prohibits dealing with or in securities of affiliates and provides for orderly liquidation of existing investments.

SECTION III. Prohibits further development of holding companies.

SECTION IV. Prohibits insured banks controlled by holding companies from establishing new or additional branches.

SECTION V. Requires filing of reports by holding companies and affiliates with insured banks.

SECTION VI. Authorizes Federal Deposit Insurance Corporation to require reports from and make investigations of holding companies and affiliates.

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- SECTION VIII. Authorizes injunctions to prevent threatened violations.
- SECTION IX. Prohibits dividends to holding companies violating act.
- SECTION X. Authorizes termination of insurance of banks controlled by holding companies violating act and other penalties.
- SECTION XI. Prescribes procedure for reviewing orders of Federal Deposit Insurance Corporation.
- SECTION XII. Prohibits violations by persons connected with holding companies or affiliates.
- SECTION XIII. Penalties of fine and imprisonment for violations.
- SECTION XIV. Exemption of governmental corporations and agencies.
- SECTION XV. Separability clause.

A B I L L

To provide for the regulation of bank holding companies and affiliates, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,
That this Act may be cited as the "Bank Holding Company Act of 1938".

SECTION I. (1) "Insured Bank" means any operating bank, banking association, trust company, savings bank, or other banking institution, the deposits of which are insured in accordance with the provisions of Section 12B of the Federal Reserve Act, as amended.

(2) "Person" means any individual, partnership, association of persons, or company.

(3) "Company" means any corporation, incorporated bank, banking association, insured bank, joint-stock company, business trust or trustees of any voting trust.

(4) "Director" means any director or trustee of any company, or any individual who performs similar functions in respect of any company.

(5) "Securities" include notes, drafts, acceptances, bonds, debentures, capital notes, voting trust certificates, capital stock, treasury stock, warrants, and rights to subscribe to or certificates of deposit for any of the foregoing.

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(6) "Capital Stock" includes common and preferred stock, capital notes and debentures.

(7) "Control" means the legal or equitable ownership or holding of more than ten per centum of the total number or par value of the outstanding shares of capital stock or total number of voting rights for electing directors, or the domination, directly or indirectly, in any manner of the election of a majority of the directors of an insured bank or any other company, and wherever used in this act, the word "control" in any grammatical form shall have this meaning.

(8) "Holding Company" of any insured bank means any company which controls the insured bank or controls any other company which in turn controls the insured bank, and every company in any series or succession of companies in any system of controlling and controlled companies, in which any company or combination of companies control the insured bank.

(9) "Affiliate" of any insured bank means any company which with respect to the insured bank is a holding company, every company in any series or succession of companies constituting any system of controlling and controlled companies, in which any company is controlled by the insured bank or by such holding company or by any company or combination of companies in such system, and any company having one or more shareholders who have legal or equitable ownership of more than fifty per centum of the

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number or par value of the outstanding shares of capital stock or voting rights for electing directors of both the company and the insured bank; provided, that notwithstanding the foregoing, any company engaged solely in the business of (a) operating a safe deposit vault; or (b) holding or operating the building and premises occupied by any insured bank, shall not be an affiliate of the insured bank.

(10) "Effective Date" means the date of enactment of this Act.

SECTION II. It shall be unlawful for any insured bank, directly or indirectly or by any device whatever: (1) to make any loan or extension of credit to any of its affiliates or to invest any of its funds or any funds administered by it, in any securities issued or guaranteed by any of its affiliates; or (2) to purchase any securities from any of its affiliates; or (3) to make any loan or extension of credit to any person secured by any collateral consisting of any securities issued or guaranteed by any of its affiliates. Notwithstanding the foregoing, any insured bank, which prior to the effective date, shall have made any loans, extensions of credit or investments which by virtue of this section would constitute prohibited loans, extensions of credit or investments if made after the effective date, shall have three years after the effective date within which to collect, sell or otherwise dispose thereof. During said three year period any such loans or extensions of credit may be renewed or extended, but no renewal or extension

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shall be given beyond said period. Within two years after the effective date, where necessary to save itself from loss, any such insured bank may accept securities issued or guaranteed by its affiliates, as payments to apply on or as collateral security for loans or extensions of credit made prior to the effective date to any person other than one of its affiliates, and in such event the insured bank shall collect, sell or otherwise dispose of such securities within three years after the effective date.

SECTION III. It shall be unlawful for any company to acquire any capital stock, or voting rights for electing directors, of any insured bank or of any holding company of any insured bank, if such company is or upon such acquisition would become a holding company of any insured bank.

SECTION IV. No insured bank shall establish or operate or be permitted to establish or operate any new or additional branches while such insured bank is controlled by any holding company.

SECTION V. Every company shall before the expiration of sixty days after the effective date cause to be filed with the cashier or secretary of every insured bank as to which it is an affiliate, an affidavit to be signed by one of its executive officers having knowledge of the facts, which shall set forth as of the effective date, (1) the total number and par value of the outstanding shares of capital stock and total number of voting

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rights for electing directors of such insured bank, which such company owns or holds, the names of the persons in whose names such shares or rights are issued and a full description of any instruments evidencing such shares or rights, (2) the amount of any indebtedness of such company to the insured bank, direct and indirect, the maturity dates, and the person in whose name such indebtedness stands, if other than the company, and (3) an itemized statement of its assets and liabilities as of the last day of the preceding month and of its earnings for the current fiscal year to the last day of the preceding month, if the company be directly or indirectly indebted to the bank. Within twenty days after the close of each calendar month thereafter, if there has been any change in any of the matters covered in such affidavit, except item three thereof, during such month, the company shall file a like report, so long as it shall continue to stand in the relation of an affiliate to such insured bank. Every company shall file within thirty days after the last day of June and December of each year with the cashier or secretary of every insured bank as to which it is an affiliate, a like sworn itemized statement of its assets and liabilities as of the last day of June and December of each year and of its earnings for the current fiscal year to the last day of June and December of each year. Every insured bank shall retain such affidavits and statements on file as a part of its records for at least three years.

SECTION VI. Every insured bank, holding company and affiliate shall file with the Federal Deposit Insurance Corporation such annual, semi-annual, quarterly and other periodic and special

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reports, the answers to such specific questions and the minutes of such directors', stockholders', committees' and other meetings, as the Corporation by order may prescribe as necessary or appropriate for the proper consideration of the condition of any insured bank or for the proper supervision of the federal deposit insurance system, and the Corporation may make such investigations of any insured bank, holding company or affiliate, and the books and records thereof, as shall be necessary or proper to disclose the condition of any insured bank or the effect of the relations between any holding company or affiliate and any insured bank, upon the federal deposit insurance system or any insured bank. And such investigations shall be made at the expense of the Corporation; and it shall be unlawful for any insured bank, holding company or affiliate knowingly to make any false statement or report to the Corporation or to refuse authorized representatives of the Corporation access to any information required in connection with any such investigations.

SECTION VII. After the effective date, the Board of Governors of the Federal Reserve System shall not, without the consent of the Board of Directors of the Federal Deposit Insurance Corporation, grant or extend the operative effect of any voting permit to any holding company affiliate under the provisions of Section 2 of the Banking Act of 1933, as amended (Section 61 of Title 12 of the United States Code).

SECTION VIII. Whenever it shall appear to the Board of Directors of the Federal Deposit Insurance Corporation that any

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person is engaged or about to engage in any acts or practices which constitute or will constitute a violation of the provisions of this act, the Board in its discretion may bring an action in the proper district court of the United States or the Supreme Court of the District of Columbia, to enjoin such acts or practices and to enforce compliance with this act, and upon a proper showing, a temporary or permanent injunction, decree or restraining order shall be granted without bond. The Corporation may transmit such evidence as may be available concerning such acts or practices to any United States Attorney or to the Attorney General, who, in his discretion, may institute appropriate criminal proceedings under this act. The proper district for the commencement of any injunction proceeding pursuant to this section shall be any district wherein any act or transaction constituting the violation occurred or in which the defendant is an inhabitant or transacts business, and process in such cases may be served in any district in which the defendant is an inhabitant or transacts business or wherever the defendant may be found. Judgments and decrees so rendered shall be subject to review as provided in sections 225 and 347 of Title 28 of the United States Code, and section 7, as amended, of the Act entitled "An Act to establish a court of appeals for the District of Columbia", approved February 9, 1893 (D.C. Code, Title 18, Section 26). No costs shall be assessed for or against the Corporation in any proceeding under this act brought by it in any court.

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SECTION IX. It shall be unlawful for any insured bank to pay to any holding company, directly or indirectly, any dividend on any shares of its capital stock so long as such holding company shall continue to hold any shares of the capital stock or voting rights for selecting directors of such insured bank, or of any company which is a holding company with respect of such insured bank, acquired in violation of any provision of this act.

SECTION X. Whenever the Board of Directors of the Federal Deposit Insurance Corporation shall determine, after reasonable notice to the company affected an opportunity for a hearing, that any insured bank or any company which with respect to any insured bank is a holding company, has violated any provision of this act, and that such action is necessary for the protection of the public or the safety and integrity of the federal deposit insurance system, it may make a finding of the facts of such violation. Upon making such finding, the Board of Directors of the Federal Deposit Insurance Corporation may cause the same to be published in the Federal register and thereafter the insured bank shall be ineligible to receive deposits of public funds of the United States or of any public officer, agent or instrumentality of the United States. Upon making such finding the Board of Directors of the Federal Deposit Insurance Corporation may proceed to terminate the insured status of the insured bank, in like manner as provided in subsection

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(1) of Section 12B of the Federal Reserve Act, as amended. Upon notification in writing by the Board of Directors of the Federal Deposit Insurance Corporation to the Board of Governors of the Federal Reserve System of any such finding of such violation on the part of any holding company and request for such revocation, the Board of Governors of the Federal Reserve System forthwith shall proceed to revoke any voting permit theretofore granted to such holding company as a holding company affiliate under the provisions of Section 26 of the Banking Act of 1933, as amended (Section 61 of Title 12 of the United States Code). The Board of Directors of the Federal Deposit Insurance Corporation shall have the right, upon such terms and conditions as may be consistent with the public interest, the safety and integrity of the federal deposit insurance system and the purposes of this act, to review, suspend, modify or revoke any order or finding made pursuant to this section.

SECTION XI. Any person or party aggrieved by an order issued by the Board of Directors of the Federal Deposit Insurance Corporation under this act may obtain a review of such order in the circuit court of appeals of the United States within any circuit wherein such person resides or has his principal place of business, or in the United States Court of Appeals for the District of Columbia, by filing in such court, within sixty days after the entry of such order, a written petition praying that the order of said Board be modified or set aside in whole or in part.

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A copy of such petition shall be forthwith served upon any member of said Board, or upon any officer thereof designated by the said Board for that purpose, and thereupon the said Board shall certify and file in the court a transcript of the record upon which the order complained of was entered. Upon the filing of such transcript such court shall have exclusive jurisdiction to affirm, modify, or set aside such order, in whole or in part. No objection to the order of said Board shall be considered by the court unless such objection shall have been urged before said Board or unless there were reasonable grounds for failure so to do. The findings of the said Board as to the facts, if supported by substantial evidence, shall be conclusive. If application is made to the court for leave to adduce additional evidence, and it is shown to the satisfaction of the court that such additional evidence is material and that there were reasonable grounds for failure to adduce such evidence in the proceedings before said Board, the court may order such additional evidence to be taken before the said Board and to be adduced upon the hearing in such manner and upon such terms and conditions as to the court may seem proper. Said Board may modify its findings as to the facts by reason of the additional evidence so taken, and it shall file with the court such modified or new findings, which, if supported by substantial evidence, shall be conclusive, together with its recommendation if any, for the modification or setting aside of the original order. The judgment

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and decree of the court, affirming, modifying, or setting aside, in whole or in part, any such order of said Board shall be final, subject to review by the Supreme Court of the United States upon certiorari or certification as provided in sections 346 and 347 of Title 28 of the United States Code. The commencement of proceedings under this section shall not, unless specifically ordered by the court, operate as a stay of said Board's order.

SECTION XII. It shall be unlawful for the individual directors, officers or agents of any company to authorize, order or do any act constituting in whole or in part a violation of the provisions of this act by such company.

SECTION XIII. Any person who knowingly violates any provision of this act shall be guilty of a misdemeanor; any company which knowingly violates any provision of this act, upon conviction thereof, shall be punished by fine of not exceeding \$5,000 for each violation, and any natural person who knowingly violates any provision of this act, upon conviction thereof, shall be punished for each violation by fine of not exceeding \$5,000 or by imprisonment for not exceeding one year, or by both, in the discretion of the court.

SECTION XIV. No provision in this act shall apply to, or be deemed to include, the United States, a state, or any political subdivision of a state, or any corporation which is wholly owned, directly or indirectly, by any one or more of the

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foregoing, or any corporation which is managed by a person or persons appointed pursuant to law by the President of the United States or the Governor of a state or the chief executive of any political subdivision of a state, or any officer, agent or employee of any of the foregoing acting as such in the course of his official duty or to any company which is determined by the Board of Directors of the Federal Deposit Insurance Corporation, on application for exemption or of its own motion, to be only incidentally a holding company and to be primarily engaged in business other than holding the stock of or managing or controlling banks, banking associations, savings banks or trust companies, or to be only incidentally or temporarily an affiliate of any insured bank.

SECTION XV. If any provision of this act or the application of such provision to any person or circumstances shall be held invalid, the remainder of the act and the application of such provisions to persons or circumstances other than those as to which it is declared invalid shall not be affected thereby.

MBo

SPECIAL GRAY

Paris

Dated February 23, 1938

Rec'd 11:10 a.m.

Secretary of State,
Washington.

283, February 23, 10 a.m. (SECTION ONE).
FROM COCHRAN.

When I was at Basel on February 14 I discussed with an economist friend the question of the present franc exchange rate. His views interested me so much that I asked him to expand them and put them in writing. I have now received from him the following memorandum which may be helpful in connection with my 279, February 21, 10 p.m.:

"The French national income is at present usually estimated at 240,000,000,000 francs, total public expenditure (central and local, and including for example payments for the railway deficit) is fully 100,000,000,000 francs, of which something like 70,000,000,000 is met by current revenue and 30,000,000,000 has to be met by borrowing. On the basis of these figures public expenditure is at the rate of 40% of the total national income. It

is,

2- No. 283, February 23, from Paris.

is, however, possible that for the purpose of comparison between the national income and the budget charges, the figure for the national income should be somewhat increased.

BULLITT

KLP:HPD

February 23, 1938

11:30 a.m.

Present:

Dr. Feis
Mr. Taylor
Mr. Lockhead

HM, Jr.: Herbert, I have read this tale and, as I said to somebody, they told us everything but what they had for dinner. That might be more interesting than what is in the cable. And I simply felt ...

Dr. Feis: That's right. I agree with you that the cable is not very informative.

HM, Jr.: What I thought I would say is this: All right, gentlemen. I would tell Cochran, if you want to consult, let's start consulting. What's all the shooting about? I am ready.

Mr. Taylor: And always have been.

HM, Jr.: They want to consult? All right. When do they want to do it?

Dr. Feis: I don't know.

HM, Jr.: I felt it is so important that I did not want to do it without the State Department knowing about it and advising me.

Dr. Feis: I will certainly report back and ...

HM, Jr.: I will tell him ... (To telephone operator: I will take Cochran any time I can get him.)

Dr. Feis: I have one observation and one thought that I would like to be bold enough to put before you, because I am not too certain of the observation or the thought.

One is an observation in regard to an individual. Monick. Well, I think I hold a somewhat dissimilar attitude as regards the individual. I won't attest as to his

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methods. As to his intelligence, watching him for a long, long time, he has always been to me one of the most intelligent one would meet. He has seen situations before the rest have and he has clear perspective and I, therefore, take seriously any initiative that Mr. Monick pronounces, even if involved in that initiative might be a question of his personal position. It usually springs from reality. He usually sees pending reality over there, from my experience, from watching Monick from the days he was in Washington.

Then you say, Can you dimly see what reality? I would say yes. I think I can, which is that there is for France, in the present circumstances, no way out along its current lines of policy. Considering its political situation, its labor situation, its armament expenditure, the franc at this present moment just has no destiny and it's in the sense the French policy has to be changed I guess Monick is active. I know if I were there I should be looking around for a possible change.

The particular suggestion or form of action that he puts forward is hard for me to perceive at all -- going back to the gold standard. I don't know whether he means it seriously in itself or just to provoke discussion. If I were trying to short-cut through a great many things in my own mind -- I would repeat again, I am giving you my personal judgment -- I would say that the French situation in international economics, international politics, is such that they probably can't escape some type or measure of exchange control.

And if that is to be a correct judgment, then the problem from their point of view and from our point of view would be to try to work out, through consultation, some methods or measures of control which would still be of a character not to rob the Tripartite arrangement of its significance as a working arrangement between the three Governments, and that's the problem over which I would like to see consultation.

Now that, I realize, is making very impromptu declarations in a very short time, but in extenuation of that fact I can only say that they have been shaping up in my mind slowly over the last two or three months and in that sense they are not impromptu observations.

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Mr. Taylor: The only thing that strikes me in regard to consultations -- we are always open for consultations. Do you think they want to put these observations on a different form? Give them a more formal tone? That they are going to announce that they are having consultations? Or do they want some special missions? Or what?

Dr. Feis: I don't know, but I think we will have to be very much on the alert lest they want to make what should be technical monetary conversations.

Mr. Taylor: I can't get that out of my head that that's what it is about.

Dr. Feis: Or some element in it might possibly have that aim in view. Different purposes usually combine in circumstances like this and I am sure

HM, Jr.: Of course, the surprising thing is that this action which we took last week, you know, is working. You know that.

Dr. Feis: No, I did not.

HM, Jr.: Well, look at the charts. Stock prices and there are the commodity prices, and the thing is working.

Dr. Feis: Still can't work for France.

HM, Jr.: Now, that's my question. Now that's what I am leading to. I had been hopeful in doing this thing, I had two things in mind. First, to help our internal situation and then I was hopeful it would change the downward trend of world prices of commodities. And the thing that I was hopeful that it would help the French, but none of us was sure.

Now, the way the franc acts today, it looks as though people, in checking up what has happened over the week-end, that they have more confidence in Great Britain and less in France. Just from reading the foreign exchange and sitting here, looking back -- I have had a very quiet time; lots of rest, and only talked to the

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President once -- outside of Hungary, nothing to bother me, and while what's happened is not surprising, I think looking forward over the next ten years, I think we are all going to pay for this thing, but for immediate results from the standpoint of business, I think it is going to be helpful in the world. England. I don't know whether you checked it or not.

Mr. Taylor: Yes.

HM, Jr: I tried to evaluate this thing and I read the cable from Clay and I think from the standpoint of England -- let's leave us out of the picture -- I can't help but think this is bullish on English business.

Mr. Taylor: Yes. You are talking about what happened over the week-end.

HM, Jr: Yes.

Mr. Taylor: Of course I do.

HM, Jr: Nobody regrets it more or is more upset about it than I am personally, but looking at it as a business man, what must the business man think? I can't help but think that for the short run it is constructive.

Mr. Taylor: Yes.

HM, Jr: If I had known where you (Taylor) were, I would have called you up. I made a remark to the President which I thought was interesting. I said, Evidently the Englishman is only thinking six months in advance. He said, 'Six months, nothing! He's only looking ahead six hours.'

That's the way I feel, but certainly I am not going to say it outside of the room. But I am trying to be realistic about it.

Incidentally (to Dr. Feis) to sidetrack a minute, I put another proposition up to him which way, as we go along, interest the State Department. I asked the President whether I could continue our price studies and confine it to the housing industry. In that thing I am going to approach it from this angle: we will take gypsum, which

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happens to be twice the 1929 price. Should it go to the Tariff Commission or should it go to the Federal Trade Commission or the Department of Justice or do we need legislation? I don't know. It's a very important item. As we get into these things and find out what device -- if it gets into the tariff thing, would you like to be kept informed?

Dr. Feis: Sure.

HM, Jr: But we are going to attack it. We now have the philosophy of the Administration towards prices, which -- I don't know what you think.

Dr. Feis: Good.

HM, Jr: But everybody, the only criticism is, What are you doing to do about it? All right. We are going to apply that philosophy, watch some group of housing and take the important component parts and Lubin is going to be ready to report at 3 o'clock this afternoon. He said I have crowded him a little bit, but he's going to give me a preliminary report. If and when it gets into tariff, then you would like to be notified, wouldn't you?

Dr. Feis: Yes, but the other way about. I don't think anything you might do would disturb us. It might be that your group might rather want to make recommendations to the tariff-making group regarding tariff action. It's not likely that your group is going to come out at any point and suggest increase of tariff.

HM, Jr: No. Lowering.

Dr. Feis: In all likelihood, most of your recommendations would be for lowering.

HM, Jr: I don't know where gypsum is, but suppose there is a nice lot of gypsum up in Canada. Or take sandalwood.

Dr. Feis: I think as far as the State Department is concerned, if your price group conceives the idea that tariff revision would be useful, why it would welcome you with open arms. As a matter of fact, just in this room, in the housing field we put through various rejections with this in mind. Put through cement. Put through brick.

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Dr. Feis: In our trade agreements program we have had housing prices particularly in view. On cement we have had a perfectly terrific scrap. Of course they have tried every indirect device to stop us. They get State legislation to legislate State inspection fees and tricks of that type, but it has worked out. In the Czech agreement, if it goes through, there will be also be one cut in the field of glass. It's in there primarily because it is glass you want for housing. So we have had that. We have had our own price study on that for a long time, very informally. So I can only foresee cooperation. I don't see any points of conflict.

HM, Jr: Who could sit in? Who would give us the benefits of what has been done?

Dr. Feis: I will find out for you. Someone from the Trade Agreements Division.

HM, Jr: Well, it will be at 3 o'clock. Who is their chief economist?

Dr. Feis: Edminister is probably the Senior Economist, but he works almost solely on agricultural questions.

HM, Jr: Who is head of that?

Dr. Feis: Harry Hawkins. He's probably holding his first meeting with the British delegation today. I think the simplest thing for coordination, I will probably ask young Stinebower, of my Division, who is also a member of the Trade Agreements Committee.

HM, Jr: You wouldn't want to come to the first one yourself?

Dr. Feis: I would like nothing better, but I have suspicion the Secretary will be summoning me to the conference.

Can I leave it that way? If I am not here, Stinebower will be. And the reason he is the logical man is he is actually a member of the Trade Agreements Committee.

HM, Jr: Yes. We are going to town on this.

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Dr. Feis: I am very glad to hear it.

HM, Jr: Because, as I was saying to you people, about this meeting which took place last week to try to get WFA labor to help out on the housing thing, they have talked about every conceivable thing and they have had Taylor and me almost crazy.

The reason people are not building houses is because prices are too high and a 5 1/2% interest rate is not going to make people build houses if they think prices are too high. Take shingles. Has that ever come up?

Dr. Feis: That's another thing we are already active on. We increased the import quota of shingles on Canada. We imposed a tariff quota of 25% of domestic production. I think that if we had known that the President would stand behind us for more, we probably would have given them an even larger quota and the new Canadian agreement will be -- we are negotiating a second agreement with Canada, and if we know we have the unified backing of the Government....

HM, Jr: You will.

Dr. Feis: Quite possibly we will be able to reopen the shingle quota if shingles turns out to be one of the things bothering you.

HM, Jr: We are going to have the Federal Reserve, Agriculture, plus Federal Housing and plus State Department this time and bring in Procurement Division.

Dr. Feis: I think probably, if and as this effort of your group develops, the Trade Agreement organization would appoint, as they so often do, a Building Materials Sub-committee to advise on that and it would ask its chairman, whoever that might be

HM, Jr: I am going to move awfully fast, Herbert.

Dr. Feis: I will do my very best to move fast. I will try to talk before your 3 o'clock meeting and get the appointment of such a committee sketched out and get the chairman named and gets its chairman over here by three o'clock.

HM, Jr: Good!

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Dr. Feis: I hope I can do all that, but I am not sure.

H.M. Jr.: Yes. Because -- well, I need not point out the importance of trying to revive the building industry.

Dr. Feis: You know, and I need not say, we can only touch tariffs in a trade agreement and trade agreements are not things that -- I mean, they take months of previous negotiations. Just what you can or can't do depends upon circumstances. I should expect, as a matter of fact, between the British and Canadian agreements, which are coming up for discussion, there is quite possibly something to be done. That happens to be a happy circumstance.

H.M. Jr.: We have the spring building facing us. Supposing we agreed on a dozen things that we have to get prices lower one way or the other and that four of them could be lower by lowering the tariff. Could they be done as part of the trade program?

Dr. Feis: You would have three possible ways of acting. One is special legislation in Congress changing the tariff. Two is what they call Section 336, investigation by the Tariff Commission, and under the President's orders the Tariff Commission can put through such an investigation rather promptly. Three, the Trade Agreement program. That would be the slowest operation.

H.M. Jr.: What I am doing here would be welcomed by the State Department?

Dr. Feis: Certainly, in the large; oh, yes!

Mr. Taylor: Section 336 could act fairly fast.

Dr. Feis: 336 could act fast.

H.M. Jr.: What is that?

Dr. Feis: The power to reduce duties.

H.M. Jr.: Up to 50%?

Dr. Feis: Up or down.

If the commodity is one we can use in a trade agree-

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ment, of course we would rather have it done in a trade agreement rather than 336 because we can get something for it for some American product.

HM, Jr.: You see, Eccles has harped on this for a year and got nowhere.

Dr. Feis: I am sure you will get the readiest co-operation possible.

Mr. Taylor: You could get effect if you picked some particular commodity or two or three and if the President initiates an inquiry into that commodity under Section 336, I think you would almost immediately get your price pressure and reduction in that.

Dr. Feis: Now, this is jumping from the pure economic point of view -- if there is going to be high-pressure action to curtail tariffs in the building materials field and nothing done in building wages, it means that you are largely taking it out of the hides of the workers that produce building materials in order to make it easier for your building operators to maintain their high wage scale. You are going to step in and -- I, myself, would welcome the broader program, also some direct tackling of the building wage situation.

HM, Jr.: I know we will get into it. We can't help it. On this thing should I have Fox from Federal Trade or is it too early.

Dr. Feis: Fox from Tariff? No, it's not too early.

HM, Jr.: Should he be here?

Dr. Feis: I should think he should be here, but you know you have to hold him with a pretty strong rein or

HM, Jr.: Should he be at the first meeting?


Dr. Feis: Yes. I think I would have him at the first meeting, but if you don't hold him with a strong rein his tongue will run away with the whole meeting.

HM, Jr.: Maybe we had better not have him at the first meeting.

(At this point, HM, Jr spoke to Cochran and record of their conversation follows this page.)

February 23, 1939.
11:55 a.m.

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H.M.Jr: Hello.
Operator: Mr. Cochran
H.M.Jr: Oh.
Operator: All right.
H.M.Jr: Yes. Surely.
O: Go ahead.
H.M.Jr: Hello. 
H. Merle Cochran: Hello, Mr. Secretary.
H.M.Jr: How are you?
O: All right, sir, thank you.
H.M.Jr: I'm very much dis- - I'm disappointed in that cable you sent me. Hello.
O: Yes.
H.M.Jr: I'm disappointed in the cable you sent me.
O: You mean - did you want something more specific?
H.M.Jr: I wanted to know what you had to eat.
O: Oh!
H.M.Jr: And what you had to drink.
O: eat very much.
H.M.Jr: Well, at least that would have made it interesting.
O: Oh, no, it was nothing unusual. But the two men went directly to the station.
H.M.Jr: Yes.
O: So my friend and I talked it over, just in a taxicab, going out.
H.M.Jr: I see.
O: And so he didn't get to help on the drafting, although we did talk over the wording in the car.

- 2 -

H.M.Jr: Well, now, to be serious. Dr. Feis is sitting at my elbow, and we've gone over this thing, Taylor, Lockhead and myself.

C: Yes.

H.M.Jr: And our answer is this. We're ready to listen, any time.

C: Yes.

H.M.Jr: And that's all I can tell you.

C: Fine, I think that's enough.

H.M.Jr: All right. I mean I can't say anything more because you haven't told me any more.

C: That's right. They didn't tell us any more, and even then, Frederick and I differ a little as to what they meant to say even.

H.M.Jr: Uh-huh. I call him Freddie.

C: Yes.

H.M.Jr: All right. Well, you - you tell them we're ready to listen any time.

C: All right, sir.

H.M.Jr: And that's all I can say.

C: All right.

H.M.Jr: Now, - just a minute - and Mr. Taylor adds we always have been ready to listen.

C: Yes, sir.

H.M.Jr: Now Mr. Feis wants to say something. Mr. Feis very wisely suggests that these be confined to confidential technical exchanges.

C: Confidential technical -

H.M.Jr: Yes.

C: What was the last word?

H.M.Jr: Conversations.

C: Confidential technical conversations.

H.H.Jr: And not on the front page of any newspaper.

C: Fine.

H.H.Jr: See?

C: Yes.

C.H.H.Jr: So, now that's for that, and the franc seems rather weak.

C: Yes, sir. Did you get my wire that I sent this noon.

H.H.Jr: No.

C: I mean, up until 11:45 this morning.

H.H.Jr: Yes.

C: They had lost one half million pounds.

H.H.Jr: Yes.

C: And it's improved a little since then.

H.H.Jr: Yes.

C: Having to be supported.

H.H.Jr: All right. Well - wait a minute. I just want to add that the importance of keeping it in the early stages confidential on account of the atmosphere over here toward international affairs generally.

C: Yes, yes.

H.H.Jr: See?

C: Yes, Henry, I appreciate that.

H.H.Jr: I mean the isolation - I have the upper hand for the time being.

C: All right.

H.H.Jr: See?

C: Yes.

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H.M.Jr: So that's that and when you have something, why, as I say we're ready.

C: All right, sir.

H.M.Jr: Well thank you Cochran.

C: Just one thing. In a message today I'm giving you a memorandum, which my friend Yackupson.

H.M.Jr: Yes.

C: Though I didn't mention his name in the cablegram.

H.M.Jr: Yes.

C: Had drawn up the last two days.

H.M.Jr: All right.

C: With him, this last week end.

H.M.Jr: Yes.

C: Talked over the local situation here.

H.M.Jr: Yes.

C: Before any of this stuff came up.

H.M.Jr: All right.

C: And I asked him to give me some background on what he thought the rates should be.

H.M.Jr: Good.

C: Coming to you today, it's on the wire.

H.M.Jr: Now will you please tell Ambassador Bullitt of this conversation.

C: Surely.

H.M.Jr: Thank you.

C: He sails tomorrow.

H.M.Jr: Oh, he sails tomorrow.

C: That's right.

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

C: Go on the Washington tomorrow.

H.M.Jr: All right. Well, you tell him anyway.

C: Right. I'll get word to him this evening and I'll call for an appointment with the Minister for this evening or in the morning, yes sir.

H.M.Jr: All right.

C: Fine.

H.M.Jr: Fine.

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HM, Jr: Every time something comes up with the French, Bullitt has been on the water! Every single time!

Dr. Feis: I think it might be rather useful to have him over here.

Mr. Taylor: I have some information. Trentham is leaving here to return to England the 16th, to be replaced by Mr. Bewley, who arrives on the 31st.

HM, Jr: Thank God!

Dr. Feis: I cordially echo your statement!

HM, Jr: Well, thank God for that! So Bewley is coming back?

Mr. Taylor: Yes.

HM, Jr: Grand!

Mr. Taylor: And Trentham will have a special administrative job, something to do with the Post Office, so he will not be in the Treasury end of it.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 23, 1938, noon

NO.: 286

RUSH

FROM COCHRAN.

This morning by 11:40 the French control had lost approximately one half million pounds, but had brought the rate back from ~~the opening~~ 153.85 to 67 - the opening rate had been 153.50 - and there was no let up in the demands for sterling. The pressure this morning has been considerably heavier than the pressure yesterday. My friend said this tendency is due both to international and internal factors. Among the latter are the rumors of new increased borrowing for national defense purposes, and rumors of possible changes in the French Cabinet.

BULLITT.

EA:LWW

February 23, 1938. 39
12:48 p.m.

H.H.Jr: Hello.
Operator: Governor Harrison calling.
H.H.Jr: All right.
G: Go ahead.
Governor Harrison: Hello.
H.H.Jr: Hello, George.
G: Good morning Henry.
H.H.Jr: How are you?
G: First rate, thank you. I tell you, I didn't know whether you had seen it or not, but I just thought I'd tell you that Parker Gilbert died this morning.
H.H.Jr: No!
G: Yes.
H.H.Jr: Oh, I did not know that.
G: He had been quite sick for the last two weeks.
H.H.Jr: I'm terribly sorry.
G: And it was inevitable yesterday, I guess.
H.H.Jr: No, I did not know.
G: And I just thought - I knew that you knew him and liked him, and I thought I'd like to tell you, without having you see it somewhere.
H.H.Jr: Well, I appreciate it, I'm terribly sorry.
G: Yes, it's a great pity.
H.H.Jr: Yes.
G: All right Henry.
H.H.Jr: Thank you George.
G: First rate.

RE: HOUSING COSTS

February 23, 1938.
3:00 P. M.

Present: Mr. Taylor
Mr. Gaston
Mr. Haas
Mr. White
Mr. Lindow
Mr. Daggit
Mr. Engle (Commerce)
Mr. Fisher (F. H. A.)
Mr. Goldenweiser
Mr. Currie
Mr. Stinebower (State)
Mr. Lubin
Mr. Hinrichs
Mr. Ezekiel
Mr. Reynolds (Procurement)
Mr. Oliphant
Mr. Osthagen (Procurement)

H.M.Jr: Gentlemen, the reason I asked you to come together is the following: And may I say this, that last week four Departments completed what I think was one of the most satisfactory studies for the President, and during the process of the studies there were no leaks up to the time the President received it.

Now we have invited some new people to come in, and if I may be perfectly frank, I hope that we continue the record of last week and there will be no leaks up until the President does or does not accept what we are going to do. And that doesn't then mean you can't report to heads of your departments what is going on here. I wish you would - but I have had experiences where we have done other things like this for the President, I am sorry to say, and there were leaks and - but the last meeting went along beautifully and there were not - and we are doing this for him.

As a result of this study on prices and announcement of administrative policy, I talked to the President yesterday and asked him whether we'd like to take this policy and apply it to housing and study all the important articles that go into making a house, and finding which of them were out of line, and he said that he would be delighted if we did so.

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Now I discussed this with Mr. Lubin and he said he thought about it the day before I talked to him, so I knew I was on the right track, which gives him a head start over the rest of you, so - and the other people are ready, and I think as we get along into the thing eventually we may sort of break up into groups and study this thing, but I am most enthusiastic about the possibilities, and I have always been convinced that lowering the interest rates wouldn't make people buy houses, and that we've got to get at the costs, and whatever else goes into it; and there are here some people from the Treasury, people from Procurement, from Commerce, and State Department.

I discussed it with Mr. Feis, and the thought is this: That as we get into these things - there are really, as I see it, about four or five things that we could do. A particular commodity could be referred to either Tariff Commission, Federal Trade Commission, Department of Justice, Congress for legislation, or we might call in representatives of that particular commodity, and try to use moral persuasion; and any one of those particular methods, or all, might be used.

I am not going to be satisfied, for the State Department's information, to wait until we decide a certain commodity is way out of line, until we get a trade treaty with Great Britain; and I understand from Mr. Feis he is sufficiently impressed that he is going to have a sub-committee of the - what do you call it?

White: Trade Agreement Committee.

H.M.Jr: And appoint a Chairman.

Stinebower: I understand ---

H.M.Jr: Is that right?

Stinebower: I didn't know about the Chairman, but I do know they were to have a special sub-committee of the Trade Agreement Committee.

H.M.Jr: Just on price?

Stinebower: Just on building materials.

H.M.Jr: Yes. And as we go along possibly you - look around,

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see - certain people not here should be invited, and I'd be more than glad to get suggestions.

Well, that briefly is it. Now, Mr. Lubin, in a very short time, since you and I thought of this, what have you got to say?

Lubin:

We drew up some tables, Mr. Secretary, - oh, we haven't enough for everybody, but I think we can distribute them so everybody can look at one - giving the changes in prices of all the important building materials from '29 to date; that is, in terms of '29 levels, the depression level, and the present level. And as you glance through these you can note that there are many of these materials that came down relatively little during the depression, but there are many more of them that in January, 1938, were selling at prices above the 1929 level.

H.M.Jr:

May I interrupt you? The President is not satisfied to only use '29 - I mean he feels that you shouldn't use that. I mean - I think what he had in mind is possibly going back a little before that and then coming up a little bit.

Lubin:

Well, as a matter of fact, you can do that automatically because in all these instances, '26 is a hundred, so you can tell what happened between '26 and '29 by looking at '29, and looking at '38, in the last column, shows you what the situation is today.

Now as you look through those you will note very specifically that your brick and tile materials, with the exception of fire clay and silica are selling below their 1929 levels. Brick and fire clay, on the other hand is 123, as opposed to one hundred in '26 and 103 in 1929, and silica is 125 to date as compared to one hundred in '26 and 104.9 in '29.

H.M.Jr:

Excuse me. Index means 1926?

Lubin:

One hundred. Yes.

H.M.Jr:

So if it is 64.9, that is of ---

Lubin:

--- of the 1926 level.

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H.M.Jr: That is the way you run your statistics?

Lubin: Yes. Now in case of tile, you will find that with the exception of hollow building tile and roofing and glazed tile, floor tile and drain tile are above their 1929 levels and above their '26 levels, and so you can go down the entire list there and you will find paints, for example, below their 1929 levels in all instances; and paint materials, barytes, being just about where they were in 1929, and butyl acetate being considerably below, thirty-five per cent below.

On the next page you get into other types of paint materials like powdered bone, which is eighteen per cent above where it was; prussian blue being above '29, and everything else, with the exception of gum, being just about where they were in '29.

Now I am not going to ---

H.M.Jr: What about this ethyl acetate?

Lubin: Ethyl acetate - fallen fifty per cent in price since '29 - just where it was at the bottom of the depression.

H.M.Jr: Well, it is 147 per cent.

Lubin: No, 1929 is 147. The last column - extreme right - is present price.

H.M.Jr: Oh, you go clear over. I see.

Lubin: Now as you go down the last column you can pick them most easily - Chinawood being above '29.

H.M.Jr: What is Chinawood?

Engle: Tung oil.

H.M.Jr: Tung oil?

Engle: Yes.

Lubin: Now on page 3 you get the heavier items; you get cement, which is above '29; you get laths, which is above '29. Douglas - pine, yellow pine laths being above - and then you have all your types of lumber, down to douglas fir, being above '29, virtually - California redwood being above, and

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the others, yellow pine floor being above; all the others being below. Maple just about where it was.

Now the interesting - Mr. Secretary, if you look at the fourth column, May 1936, and see what happened to the prices of these things - in lumber for example, see the jump from 77 to 101? Chestnut from 89 to 106; cypress from 92 to 102; on the other hand, douglas firs falling from 120 to 108. So you will notice that you can't generalize about any particular commodity. Within each commodity you have different types of items, some going up and some going down.

Another interesting case is shingles, which were 110 in '29. Cedar shingles were 110 - fell to 62 in '33, '34; went up to 117 in '36, up to 133 in May '37, and back down to where they were in May '36 - a little bit below.

And the significance of these figures, I think, is to show three things: First, those commodities that haven't changed at all, virtually; those that have fluctuated, came down markedly during the depression and are still below the present depression levels, and third, those that fell way below present depression levels but are above them now. And that last group are, in many instances, competitive, but you have certain artificial factors prevailing in the situation, such as the strike last year in the northwest which made it impossible to get certain types of lumber on the east coast.

Now we have gone through all these building materials, including plumbing and heating materials, glass, gravel, lime, hardware, sand - everything that goes into it. (To Hinrichs) How many?

Hinrichs: 111.

Lubin: 111 of them.

H.M.Jr: Well, which group would you suggest that we start with?

Lubin: I'd say we ought to start with all groups.

H.M.Jr: But I mean just something to work out a formula for ourselves, you see, because ---

Lubin: Well, I think what we are going to find is this: That you have in each instance certain factors that are peculiar to that instance. Now one of the

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things that was discussed by the President was plaster, you remember. Now we have been trying to go behind the price of plaster and see what it was all about. Well, the plaster prices are affected by gypsum price. I mean it is their basic raw material. The production of gypsum is controlled by three companies. Sixty per cent of it is controlled by United States Gypsum, National Gypsum, and Universal Gypsum. In some instances they control the raw materials and by controlling the source from which that comes, they can regulate the situation. We do know that the price fixed by the United States Gypsum dominates the market; they all follow it. I mean they tell us that themselves.

Now you will find that the situation, on the other hand, in case of fire brick - you will find an entirely different situation.

H.M.Jr: Well, let's just stick to gypsum. For instance, does Canada have any gypsum?

Lubin: Canada has some gypsum, and, as a matter of fact, we import some gypsum.

H.M.Jr: Well, is there a tariff on gypsum?

White: High tariff - range from twenty-five to forty per cent as it is a specific duty, and therefore ranges over a wide area.

H.M.Jr: What I thought was - those that don't know me will get used to me after a while. Talk up, because this is not to be a "one-way" conversation. I mean to get help.

What I thought was if we could break this up into committees, so to speak, and let's take a thing like gypsum, which might be affected by tariff, and then set up a committee that would handle those things which might be helped through tariffs. You see ---

Lubin: Now there you have an interesting situation.

H.M.Jr: I mean just use gypsum as an example, and then, let's say, set up a committee and refer the matters that would go to - State Department and Tariff Commission would be interested there. And then there

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would be other things that would have to go to the Department of Justice; we could have a committee on that. But otherwise - I think we have to break it down into groups.

Esakiel: Mr. Morgenthau, if I might make a suggestion - in the original lineup you suggested the approach - one of them - those that might be handled - of negotiation with the firms involved. I wonder if in each case, no matter where the preliminary study was - whether it could be helped by tariffs or anti-trust - it wouldn't be desirable as a general procedure to have that phase of the work devoted to developing the background of facts - whether something could be done, but then with the understanding in each case, after it was determined whether something could be done in that manner, then to have that turned over to the negotiating group to discuss with the company involved to see if rather than carrying that through they wouldn't voluntarily take action.

H.M.Jr: Well, I think that that is right. Now let's just take gypsum, plaster, which, I think - another thing is, I think we want to take things which are fairly important items in building. I mean I don't want to take something which might be one-tenth of one per cent, but certainly in any house - certainly if we are thinking of houses of ten thousand dollars or under plaster must be a fairly important cost item.

Lubin: Well now ---

Olipiant: A builder told me this morning that cement and plaster are the things that are worrying builders more than any other one item.

Lubin: The important thing - and that is the point I want to come to in regard to gypsum - the raw gypsum, in the state - is imported free. The tariff is on the finished product - which is an interesting device - makes it easier to handle if you were going to do anything about prices. Then there is the other thing. Now gypsum comprises about five per cent of the cost of building a house.

H.M.Jr: Five per cent?

Lubin: About five per cent. But of that five per cent the largest portion is labor. The actual cost of the gypsum isn't the thing; it is - the cost of

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plastering and labor is a big factor there. Now plasterers are among highest paid, both union and non-union. The union wage rate is not abnormal considering that this is a skilled group. It is terrifically hard work, especially when building ceilings. So I am glad you raised the question of not picking something of no significance. Although it worries the builder in terms of the total cost, you won't do so very much by bringing gypsum prices down.

White: Except it is a very spectacular and an easy case to handle which there are several approaches to.

H.M.Jr: Well, take - go ahead.

White: I was going to say it is so spectacular that its value has utility in a consideration beyond the item of cost.

H.M.Jr: Well, because - there's over a hundred items here; if we could take several items which would come under each one of those categories and then accomplish something, unless the American business man is dumber than I think he is he'd get busy and meet this thing before we came around.

Now I think what Dr. Ezekiel said is right. Using plaster as an example, if you could give us a few more - because there it is, in the hands of - eighty per cent in three companies. If that could be developed up to a stage so that whoever was going to see these representatives of three companies, he would have all the things, and say, "Gentlemen, we hope you will do it yourselves, but if you don't these are the things the government can do." I mean all the editorials will say "Well, this is fine, but what is the Government going to do?" "Well, now, Mr. Gypsum, the Government can do this, or it can do this, or it can do this, or it can do this, if you won't play ball." I am all for seeing the companies first and giving them a chance, but I do think when you do see them you want the whole story.

Now couldn't - how many other things are there like gypsum which might be affected, say, which would go where tariff would?

White: Take iron and steel products. There are some - there are a few items that go in, like nails and others, but there are duties on a lot of commodities, and it might be merely the suggestion of a 336

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investigation would be effective in getting them to reduce prices even though we don't import any or are not likely to import a great deal with the duty lowered. There are a lot of items, in other words, which are closely related to commodities which are imported.

H.M.Jr: Well now, wouldn't shingles come into this?

White: Yes, there is a quota on shingles. That is one of the reasons it shot up in price.

H.M.Jr: Wouldn't that be shingles - I mean I am just thinking first of gypsum - shingles.

White: Glass.

H.M.Jr: What?

Oliphant: Would cement go too?

White: Glass - window glass. But it is an item on which we have reduced the duties somewhat. There is little more room for it.

Ezekiel: Glass is pretty cheap though. We haven't got a good case there. It is already ---

White: It is already low in price.

H.M.Jr: Certainly a very closely controlled one, but it's also got to be high in price.

White: Certain types of lumber.

H.M.Jr: Wait a minute. Let's just get - if we had six things - one thing, tariff - would be enough to play with at one time. If we had six don't you think it would be enough? What? We were talking about - I'll use the word "plaster" - shingles. Is there any other?

White: Bricks and tiles, fiber, clay products.

H.M.Jr: Use clay products. Does clay products ---

Oliphant: Cement.

H.M.Jr: Does clay products - does that include cement?

Fisher: No, that includes brick and tile.

H.M.Jr: Shall we put cement on?

Fisher: Yes.

Gaston: Would you want to use structural steel?

Lubin: Structural and reinforcing bars.

H.M.Jr: What?

Lubin: Structural steel and reinforcing bars.

H.M.Jr: Structural ---

White: The biggest rise has taken place in structural steel.

H.M.Jr: Biggest what? Huh?

White: Rise. There are also certain types of paints which have not dropped and which there are very high import duties against - certain types of ingredients in paints - there are certain types of basic materials that are - this is used in various coloring - oh, a whole lot of chemicals and dyes - colored products.

H.M.Jr: Well, I've got one, two, three, four - I've got six now. I've got plaster, shingles, clay products, cement, structural steel, and reinforcing bars. Mr. Fisher, you think of anything else?

Fisher: I think those are the most important.

H.M.Jr: Pardon me.

Fisher: I think those are the most important. You get into lumber rather than shingles. I'd - if you want to break lumber down, shingles is one of the important points.

H.M.Jr: Should I substitute? Say shingles and lumber?

Gaston: I think your structural steel and reinforcing bars are really one item.

H.M.Jr: Shingles and lumber.

Ezekiel: Radiators.

Currie: You might make that iron and steel and its products - cover all the heating equipment - all the other things. That ---

Lubin: Take your case - iron pipe - it's jumped from 71 in '29 to 103 today.

H.M.Jr: I am not going to make this too rigid. I'd just like something - what I'd like to know is which gentlemen are working on these things. I mean which - this will be listed under tariff, wouldn't it? Now who ---

White: Tariff Commission has several experts on it.

H.M.Jr: Well, now let's just see who would naturally - who would naturally fall into ---

White: I think Mr. Stinebower of the State Department, handling that sub-committee, would be the one to approach it from that angle.

H.M.Jr: How about it, Mr. Stinebower?

Stinebower: I should think if this committee which it is proposed to set up might conceivably take this over - possibly broaden it out.

Oliphant: As though - it might be set up originally as a sub-committee of the Trade Agreement Committee.

H.M.Jr: If you don't mind, I'd like to - I mean I don't want to interfere with you people, but I'd rather have the Trade Agreement people say, "Well, we'll give you somebody to work with you," and keep it over here.

Stinebower: I understand. That is what I had in mind; that although Mr. Feis had originally suggested setting up a sub-committee of the Trade Agreement - perhaps those same people which would properly represent those various departments - or perhaps expand it somewhat - could be this sub-committee rather than a sub-committee of that Committee.

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H.M.Jr: Well, just for the short run I am going to give this thing, and the high pressure, keep it over here and just make sure that we are not doing anything in conflict, but I want to get something that is going to be effective this spring.

Whites: Mr. Secretary, the Tariff Commission has quite a staff of competent technicians who are on top of it. I wonder if you might consider getting possibly Mr. Fox from the Tariff Commission to be on that committee, who could drive the work much more rapidly than we would be in a position ---

H.M.Jr: Wayne, would you contact them and ask them to lend us Mr. Fox?

Taylor: Mr. Fox, or somebody else?

H.M.Jr: Or somebody else.

Now how about Commerce? Would they be in on this thing?

Engle: I don't think so.

H.M.Jr: Not on this?

Engle: That is Tariff Commission, primarily.

H.M.Jr: Ezekiel, you want to get in on this, or you want to ---

Ezekiel: I'd rather wait for something that I was already in touch with.

H.M.Jr: All right. How about the Federal Reserve? Want to get in on this particular thing?

Goldenweiser: I don't think so.

H.M.Jr: Mr. Fisher - Dr. Fisher?

Fisher: I don't think we can contribute. We can give you some help, probably, on the relationship of particular items to the total cost, but not ---

H.M.Jr: All right. Procurement? No?

Reynolds: I don't think so. I think that we could contribute to giving you a balanced or a weighted average

of the costs, of the amount of materials that go into different type structures. Of course, if you are talking about housing, or low-cost housing, this is one thing; if you're talking about larger buildings, that is something else. For instance, the Department of Interior has every single item broken down in its cost, so we know what its weighted average would be with respect to the total ---

H.M.Jr: Department of Interior?

Reynolds: Department of Interior Building - yes.

H.M.Jr: Well, what I would suggest, Reynolds, on that is that you work with Dr. Lubin - see? Find out - the two of you put your heads together, see?

Reynolds: Yes.

H.M.Jr: I mean Lubin's got the statistics, and let him call on you.

Reynolds: We have a number of statistics and averages of costs of materials, but I have never seen, as yet, a weighted average of the cost of a building.

Haas: He's got one - I mean we ---

Reynolds: And our costs don't seem to follow at all the cost of labor and materials. There are other elements enter into the picture which change it very rapidly, and you will find labor increasing and materials increasing, and building costs increasing very much more rapidly, and when a recession takes place the construction costs drop off more rapidly than costs of materials and labor.

H.M.Jr: Again, I say, if you and Lubin would get together - will you, and give him what you have. Do you know what he's got over at Procurement? Have you ever seen it?

Lubin: No.

H.M.Jr: Well ---

- Reynolds: For instance, we have this information - you are discussing structural steel. The price of structural steel at Pittsburgh is the same as it was six months ago. The cost of steel delivered on the job today is ten dollars a ton lower than it was six months ago, without any change in the base price.
- H.M.Jr: Well, that bears out what Dr. Viner said when he was here, - that these prices which go into these things - these so-called advertised prices - isn't the same, and the reason I want you fellows in here is when we get into prices - so - you are taking quotations every day, aren't you - bids?
- Reynolds: We have a curve based on the contracts on eleven hundred buildings in the last four years, showing the change in prices every month for that period of time, and it does not follow the cost of materials and labor.
- H.M.Jr: All right. Well, now, when we get in somebody to talk about plaster and he talks, you can tell whether he is kidding us or not?
- Reynolds: Quite decidedly.
- H.M.Jr: What?
- Reynolds: Yes sir.
- H.M.Jr: How many contracts you got out now on bids for building?
- Reynolds: Well, we have under advertisement usually about ten or fifteen at a time - that is most - we have several hundred under contract.
- H.M.Jr: Well, that would be most useful. You see what we are getting at?
- Reynolds: Yes sir.
- H.M.Jr: Well now, do the people know - who are going to work on these half dozen, with the feeling that they have a right to switch and throw out and substitute - do they know who is going to work on this? Do you?

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Ezekiel: There is one other man, Mr. Secretary, I suggest might be useful to work on this particular group, and that is Tom Blaisdell.

H.M.Jr: What?

Ezekiel: Tom Blaisdell.

H.M.Jr: Of the ---?

Ezekiel: Of Social Security. He's been making a ---

H.M.Jr: You don't mean Social Security.

White: Well, he works for both the National Resources and Social Security.

H.M.Jr: Blaisdell?

Ezekiel: Yes. He's been spending a lot of time on housing in this study for the Social Security Board.

H.M.Jr: National Resources Committee. Can we get hold of him?

Ezekiel: I'll be glad to call.

H.M.Jr: All right. Well now, Lubin, you want to sit in on this particular group?

Lubin: I'd rather Hinrichs do it.

H.M.Jr: Let Hinrichs do it. All right, now who have we got on this? Just raise this hand. Who are going to sit on things that raise tariff?

(Hinrichs raises hand.)

H.M.Jr: Harry?

White: If you like.

H.M.Jr: What?

White: If you like.

H.M.Jr: Commerce not interested.

Engle: We have a man, Chawner, who has been doing quite a lot of work in construction. He might be helpful if you ---

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H.M.Jr: Chalmers? Tower?

Engle: Chawner.

H.M.Jr: Yes. All right. And Blaisdell - is that his name?

Ezekiel: Yes sir.

Haas: And the man from the Tariff Commission.

H.M.Jr: Yes. Well, I am going - I am not asking Mr. Taylor to sit on any of these because he is sitting on my side of the table; we are on the receiving end. If you don't mind I think I'll make White Chairman of this, for the Treasury, and then you can substitute any of these things, see? If you don't like these you can put - you know what the six are Harry?

White: I do - yes sir.

H.M.Jr: And when - you got the picture?

White: Yes, I have. There are a lot of sub groups under that but that needn't come in at this point.

H.M.Jr: Now, go ahead Hinrichs.

Hinrichs: May I make one point on procedure here. It seems to me that what we are likely to find in connection with any one of these materials that we tackle, as in the case of gypsum, is that we are dealing with an item where a change in the price of that particular item would not particularly affect the volume of buying activity. The change in - simultaneous change in all prices is tremendously important and might have a very large effect. It may very well be that you will finally come to the conclusion that simultaneous action is impossible and you want to take something that might appear to be punitive or corrective action on the particular items that are susceptible of treatment, but that, at least, in terms of the start - in terms of the attitude of the sub-committee, it would be very wise to regard these things as exploratory studies of what would be done in those particular items that we are planning in the first instance - action across as broad a field as

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possible and not action with reference to a few commodities. That is, action on gypsum would clearly be in the order of punitive action against a particular industry which might have no effect as to economic consequences and highly undesirable political reflections in terms of attitudes. It is what we are driving for - lowering the cost of building.

H.M.Jr: That's right.

Hinrichs: Plaster isn't going to lower the cost of building even if you get it free - more than one and a quarter per cent ---

H.M.Jr: Well, I think - I understand - I mean, what I am ready to do is work just the way we did the last time. Just as soon as you fellows see day light this group will meet again; then you will come in and talk at us, and - I mean - but it is too big a group to work as a committee, and just as soon as you've got something you can come in and say, "Well now, what would you do? We've got so far, but we don't know how to handle this; we think this is something should be taken up by the whole group." See? Does that answer you?

Hinrichs: Yes. We are working on six items, and supposedly other people are working on other items, or another approach is being made.

H.M.Jr: Well, the thing that I wanted to take up next would be what things would not come under tariff, which would be things that would come under monopoly. Wouldn't that be the next point, Wayne?

Taylor: It would seem to me that we'd make a little better speed if you would take a given material at a point you've got here and appoint a sub-committee for each one of those materials, and put them all together into six, and come out with a specific recommendation covering all aspects of a particular material.

H.M.Jr: You mean not confine it to ---

Taylor: Not confine it to tariff.

H.M.Jr: Let everybody work on it?

- Taylor: How to break that down I haven't a suggestion at the minute. I think you could make more speed at the end if you were able to eliminate certain things right at the beginning. In other words, take whatever this material is - gypsum, for example, and you'd go - you look at the gypsum picture as a whole, and then eliminate all except say two, and have that sub-committee report back and say only these two things would be affected.
- H.M.Jr: Well, I expect that ---
- White: Mr. Secretary, would this - to combine that with the other, you could divide up all that 111 commodities in six or seven or ten groups, and then have a man in charge of each, and then have one member of the Tariff - one member of Monopoly, one member of something else, represented on that group, so when a particular commodity came up it would be examined from each one of those angles.
- H.M.Jr: Well now, let me, just for a minute, go through this - see if we could appoint a committee which would handle monopoly. If we can't then we've got to get you fellows to work together. Lubin, which things would come under monopoly?
- Lubin: Well, there you get back to the thing that was talked about by Wayne. Some of these things come under both tariff and monopoly; gypsum might be a case in point. Same is true of steel, no doubt, or same is true of cement.
- H.M.Jr: Then there is no use having a sub-committee ---
- Oliphant: I think all of those items are both in the Department of Justice and Federal Trade Commission, or ---
- H.M.Jr: Well, if that is true there is no use having any sub-committee, and you fellows will have to try to work together.
- Reynolds: Well, any item that has a fixed price is a monopoly isn't it?
- H.M.Jr: I don't know. This is a long time, but we've got ninety-nine per cent economists and one per cent lawyers - kind of tough on the lawyers. Mr. Oliphant will do the best he can.

Reynolds: You take plumbing, for instance. That represents a third of the cost of a building in a great many cases; plumbing and electric wire - third of the cost, about.

Oliphant: They are not in the Department of Justice.

Reynolds: These curves show that plumbing prices have dropped off. We know that. But there is a ring between contractors and the labor unions, and if you aren't in with them you can't hire a laborer to work. Got to be handled through a sub-contractor. It is a perfect ring. You are talking about monopoly - that is one ---

H. H. Jr.: Well, we are talking about bringing the prices of houses down. That is what we are talking about doing. We want to make it - if Mr. Fisher doesn't mind I want to make it possible for F. H. A. to do their job. I don't happen to believe that five and a quarter of a per cent, or one quarter of one per cent is going to do, as long as there is this price situation. I don't know whether you agree with me or not.

Fisher: It would be very helpful.

Taylor: How long do you think it would take to check over each one of those items, and say, "All right, generally satisfactory - unsatisfactory. If unsatisfactory, what are the approaches?"

Lubin: Well, I have a Committee on Prices that could go through these and on the basis of their knowledge handle most of them. On some of them they have no knowledge, but I think by and large it could be done by them.

Currier: I wonder, Mr. Secretary, if you still couldn't have a sub-committee to handle the five or six important commodities or groups of commodities we think are important, and have the tariff men sit in on these different ones, if it is necessary, or the monopoly people - shifting body - but enable a smaller group to work - do more intensive work on each commodity group.

Gaston: You could make a logical division there as between wood products, iron and steel, cement, brick and tile, paint and paint products, and so on.

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Taylor: Well, it seems to me, Herbert, that by eliminating you will concentrate on the ones that you have the bugs in - the ones that you have the bugs in why you'll have your sub-committee immediately operating for a time there.

H.M.Jr: Tell you what you do - didn't have any Chairman last time - all managed to get along, didn't you?

Lamin: Seems so.

H.M.Jr: Well, why don't - was it 296 where you spread it out?

Taylor: We moved them in there.

H.M.Jr: Why don't you go down to 296 and what I would - I'd be more than pleased to meet with you again at three o'clock tomorrow. What? And by that time - enough brains in this room here - leaving me out of it - that you ought to have something. Some of you people may talk more freely when you are in there.

Goldenweiser: Mr. Secretary, I think that here - the six committees you want are right on this chart.

H.M.Jr: Six Committees?

Goldenweiser: One on plumbing, one on paint, one on brick, one on cement, one on lumber, one on steel.

H.M.Jr: You go back and try to sell it to these gentlemen. It is all right with me, but you try to sell it to them. How about that? I think you get in there, take your coat and vest off and get out your cigars and pipes --- What?

Haas: Mr. Secretary, may I ask one question?

H.M.Jr: Ask me two.

Haas: Do you want - as I take it, the main interest is getting a revival as rapidly as possible in housing.

H.M.Jr: That is right.

Haas: You don't want - or have no preference - to our confining our discussion in there to just the

commodity price aspect, because there may be other related points which are just as important - or taken into conjunction with the price things, are very important.

H.M.Jr: Well, railroad freight rates ---

Haas: That's right.

Taylor: That would be one of the bugs which would appear.

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

Taylor: Regardless of what it may be, why, red flag up.

Gaston: Another one is distribution channels.

Lubin: And the one mentioned a minute ago. We've got plumbing ---

H.M.Jr: Reynolds knows this game. He ought to by now - either know it or get canned, and I don't know any reason why I should can him. I mean he buys - he is up against this every day.

Reynolds: We can take a typical house and break it down into the basic commodities and get percentages if you wish.

H.M.Jr: Well, make sure that Dr. Fisher hasn't done this already.

Fisher: We've done some work on that already.

H.M.Jr: Make sure that he hasn't done this.

Fisher: It seems to me that probably we'd get quicker action if we approached the matter functionally rather than by types of material. Since this suggestion was made of distribution channels - so on - there are a number of aspects of it we wouldn't get if we take it by materials.

H.M.Jr: Could I ask just what the Department of Commerce - I mean how much they have done - I mean how much can they contribute? I am not - somebody - I don't know what you people are doing over there. Do you mind just educating me?

Engle: Yes. We have a construction economics unit - maybe a half dozen or so people have been working on various phases of the problem. The latest report which they had today on page proof is an estimate on the total volume of construction from 1915 to date, and they are carrying on research along those lines. Now that is all under the direction of Mr. Chawner, who is out of the city today or I would have sent him over because he is intimately familiar with that particular problem. I think he's been in touch with the other technical men in town on that subject.

H.M.Jr: Well, you people suggested bringing this man in who works for Social Security and for the ---?

Ezekiel: Resources Committee.

H.M.Jr: What? And who else? That is all, isn't it?

Lubin: Tariff.

H.M.Jr: Tariff.

Ezekiel: There is one other phase, Mr. Chairman. If we really went into it, to get any where might involve - don't know whether it would be Justice or not - and that is this thing we just mentioned, about really racketeering arrangements between shady labor outfits and shady groups of contractors. A few dominate in a number of individual cities. Whether the method of approach would be by getting local law enforcement officers to get after the situation - it is possible that a Federal agency might, in some way, get local action in that type of case, but it would mean probably Labor and Justice going at it that way rather than going at it from Federal action, as such.

H.M.Jr: Well, isn't there something like that, when you go to wiring your house - isn't there a similar arrangement that you've got to get a certified electrician; otherwise you can't buy anything - any supplies?

Ezekiel: Well, it is worse than that. In some particular cities the labor unions and certain contractors have gotten together so that no contractor will

work except when the - no sub-contractor will take the contract except under conditions imposed by the union, and the union requires its men to do not, say, over one tenth day's work per man on the job. So that the costs are terrifically high.

M.M.Jr:

Well, I am in this position - whatever it is let's have it, and I am willing to try to handle it, if I know what the problem is, but you've kept fussing around here with interest rates and I don't think that we are going to get anywhere, and if I understand Mr. Stewart McDonald, he isn't very hopeful that we are going to get anywhere, and I don't think we are until we bring the price of a house down to the people that buy. When we bring the price down they will buy it - and the present price - I don't think the interest rate situation is going to make people buy houses, and that is why, the President having determined what the price formula is, let's apply this to this very important question - that is, the question of housing. I know Straus isn't going to get anywhere - I mean we are talking here in the room here - I mean - and all this last week this business of trying junior mortgages, then unemployment - people were going to build sidewalks and everything like that - but all going around the bush, trying to find out why a man, after he puts down ten per cent - that isn't - they know he won't put down the ten per cent - and therefore they are trying to do what they say they do in England, - I don't know whether it is true - give him a cash bonus, and next thing they are talking about is the Government should build the houses. All because, why? The price of that finished house is too high.

Spekiel:

There is another area of operation, Mr. Secretary, that lies entirely outside of either the cost of materials or the costs of labor, and that is in the organization of the industries, because of the inefficient way the industry is organized and small scale operations, - and so on. There has been success in dealing with that in England and it's been dealt with here in building five thousand dollar houses on a mass basis. In Farm Security they have been able to build, at \$2500.00, a house that would sell for seven thousand dollars in

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Washington; where they have actually built five thousand houses - but how to get that on a commercial scale - one thousand - that hasn't been solved. Do you want us to go into such a question?

H.M.Jr: Anything. Anything to bring the price of a house down. The sky is the limit, just as long as you don't use Brownbrook as an example. Ezekiel didn't hear that. Did you hear that?

Ezekiel: No, I didn't.

H.M.Jr: I said just as long as you don't use Brownbrook as an example.

Ezekiel: Lots of examples we can use instead.

H.M.Jr: What?

Ezekiel: We have other examples of twelve hundred dollars a house we can use.

Fisher: Those are some of the problems I had in mind when I suggested the functional approach.

H.M.Jr: All right.

White: Couldn't we come back with an agenda and a preliminary survey of the field ready by tomorrow?

H.M.Jr: Three o'clock tomorrow. I just want to warn you, that those people who haven't worked with this group before - they work hard and fast, and the time is short - if we are going to get anything done this spring - if you are willing, why, I'd appreciate your assistance, and I am sure, as I say, the President will also, so if you will go down to 296 why I'll be more than pleased to meet with you at three o'clock tomorrow.

INDEX NUMBERS OF WHOLESALE PRICES OF BUILDING MATERIAL ITEMS
1928 = 100

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Item	1929	Depression Low		May	May	January
	Average	Index	Date	1936	1937	1938
<u>Brick and Tile</u>	94.3	74.9	Jan. 1933	88.8	95.0	91.8
Blocks, concrete, per unit, plant	113.2	78.9	May 1932-Dec. 1933	80.9	82.1	71.9
Brick, per 1000						
Common building, composite, plant	97.9	76.4	March 1933	88.5	91.2	91.1
Fire clay, straights, works	103.6	84.3	June 1932-May 1933	108.4	123.6	123.6
Front, light-colored, New York	83.6	74.2	June 1932-June 1933	81.6	94.4	84.9
Paving, 3-inch, St. Louis	100.8	85.9	October 1932	82.4	87.1	87.1
Sand-lime, plant	95.5	71.5	June 1932-May 1933	80.2	81.0	84.5
Silica, standard, car lots, plant	104.9	85.4	June 1932-May 1933	109.8	125.1	125.1
<u>Tile:</u>						
Drain, per 1000 feet, New York	92.6	58.2	July 1932	89.3	97.3	97.3
Floor, standard, per square foot, factory	97.5	66.7	Dec. 1932-April 1933	101.0	101.0	101.0
Hollow, building, per block, Chicago	97.1	57.5	May 1932	89.9	89.9	90.0
Roofing, cement, per square, Illinois	91.4	86.5	Feb. 1931-Dec. 1931	87.0	87.0	87.0
Wall, glazed, white, per sq.ft., factory:	82.3	38.2	Dec. 1932-April 1933	47.8	55.3	47.9
<u>Paint and Paint Materials</u>	34.9	66.8	July 1932	76.3	83.7	80.1
Paint, prepared, per gallon:						
Enamel, plant	100.0	76.0	July 1932-May 1933	83.2	83.2	85.2
Inside flat, house, all colors, delivered destination	87.0	76.0	July 1932-May 1933	78.0	78.0	76.5
Outside, white, flat, house, plant	93.3	70.6	July 1932-May 1933	92.0	92.0	92.0
Porch and deck, all colors, plant	104.5	79.3	July 1932-May 1933	92.3	92.3	92.3
Roof and barn, red, plant	100.0	81.5	July 1932-May 1933	94.6	94.6	94.6
Varnish, floor, bulk, 5's, plant	100.0	79.8	July 1932-May 1933	95.3	95.3	95.3
Paint materials, New York:						
Barytes, western, per ton	89.7	89.7	Aug. 1927-April 1935	88.2	88.2	88.2
Butyl acetate, per pound	86.7	51.5	May 1933-July 1934	49.1	51.5	51.5

Item	: 1929 : Average	: : : Index	: : : Date	: : : May : 1936	: : : May : 1937	: : : January : 1936
Paint and Paint Materials (con't.)	:	:	:	:	:	:
Paint materials, New York: (con't.)	:	:	:	:	:	:
Colors, per pound:	:	:	:	:	:	:
Black:	:	:	:	:	:	:
Bone, powdered	: 100.0	: 100.0	: 1922 - Feb. 1937:	100.0	: 118.2	: 118.2
Carbon, standard, works	: 97.3	: 54.0	: Aug. 1932 - Dec. 1933:	50.0	: 50.0	: 50.0
Iron oxide, dry	: 95.2	: 72.7	: Jan. 1934 - June 1937:	72.7	: 72.7	: 75.0
Lamp	: 94.6	: 66.7	: Jan. 1933 - Jan. 1938:	66.7	: 66.7	: 66.7
Blue, prussian	: 105.9	: 108.1	: May 1929 - Dec. 1933:	118.9	: 114.3	: 114.3
Green, chrome	: 97.2	: 82.8	: May 1931 - Feb. 1937:	82.8	: 86.4	: 86.4
Yellow, chrome	: 97.2	: 87.0	: Dec. 1932 - Dec. 1933:	89.6	: 89.9	: 89.9
Ethyl acetate, anhydrous, per pound	: 147.1	: 78.5	: July 1931 - Nov. 1931:	68.6	: 73.5	: 73.5
Gum, copal, manila, per pound	: 86.8	: 62.6	: Nov. 1931 - Dec. 1932:	89.1	: 78.3	: 84.3
Lead, per pound:	:	:	:	:	:	:
Red, dry	: 87.7	: 55.4	: July '32; Jan-Feb '33:	68.2	: 81.0	: 70.2
White, in oil	: 90.3	: 72.3	: Jan. '33-Mar. 1936:	75.6	: 85.4	: 79.8
Litharge, commercial, per pound	: 82.7	: 49.0	: July '32; Jan-Feb '33:	62.3	: 75.7	: 64.6
Lithopone, domestic, per pound	: 95.8	: 82.1	: Dec. 1930 - Apr. 1936:	81.2	: 77.6	: 84.5
Oil, per pound:	:	:	:	:	:	:
Chinawood	: 104.8	: 36.7	: Feb. 1933	: 136.5	: 100.5	: 113.0
Linseed, raw	: 109.9	: 49.6	: Aug. 1932	: 83.9	: 101.3	: 91.7
Putty, commercial, per pound	: 137.5	: 85.0	: July 1932 - June 1933:	113.8	: 116.3	: 116.3
Rosin, B grade, per barrel	: 87.4	: 23.3	: January - March 1933:	36.2	: 68.6	: 47.8
Shellac, T.N., per pound	: 122.0	: 24.8	: Feb. 1933	: 42.3	: 37.9	: 35.0
Turpentine, southern, per gallon	: 59.1	: 38.6	: Oct. 1931	: 40.8	: 43.7	: 36.7
Whiting, commercial, imported chalk, per:	:	:	:	:	:	:
100 pounds	: 80.0	: 80.0	: 1927 - Dec. 1933:	85.9	: 85.9	: 89.4
Zinc oxide, leaded grades, per pound	: 89.2	: 74.8	: April 1932 - Feb. 1934:	66.4	: 80.0	: 83.4

U.S. Department of Labor
BUREAU OF LABOR STATISTICS
Washington

Index Numbers of Wholesale Prices of Building Material Items
(1926 = 100)

Item	1929 Average	Depression Low: and 1931 Date 1934	May 1936	May 1937	January 1938
Cement.....	91.8	11/31 - 74.6	95.5	95.5	95.5
Portland, per barrel, plant (composite price).....	91.8	11/31 - 75.1	95.6	95.6	95.6
Huffington.....	92.6	4/31 - 60.6	97.0	97.0	97.0
Northampton 4/.....	85.9	6/31 - 64.8	90.4	90.4	90.4
Lumber.....	93.8	8/32 - 55.5	83.0	103.0	92.6
Soft, per M, mills:					
Douglas fir, no. 1.....	83.0	1/33 - 55.6	97.0	97.0	97.0
Pine, yellow, no. 1.....	73.4	12/32 - 35.5	72.2	83.0	78.7
Hard, per 1,000 feet:					
Cedar, red, bevel siding, mill.....	92.1	8/32 - 66.2	77.9	107.1	101.2
Chestnut, Cleveland.....	89.0	Yr. 32 - 73.9 ^{1/}	89.3	106.4	106.4
Cypress, shop, St. Louis.....	86.0	8/32 - 68.6	92.8	102.4	102.4
Douglas fir, mills:					
No. 1, common, boards and shiplap.....	109.4	2/33 - 53.0	120.8	134.3	108.2
B and better, drop siding.....	102.7	1/33 - 43.8	86.1	105.1	88.3
Gum, plain sap, St. Louis.....	102.7	8/32 - 52.4	68.7	113.8	77.7
Hemlock, northern, no. 1, Chicago.....	105.9	3/33 - 79.1	98.2	101.1	96.7
Maple, hard, no. 1, Chicago.....	98.1	7/32 - 44.9	83.5	98.8	97.0
Oak, plain, white, no. 1 common, Cincinnati.....	87.3	7/32 - 60.6	68.2	86.3	72.7
Pines:					
White, no. 2, Buffalo.....	96.8	7/32 - 76.3	80.8	93.4	89.8
Yellow, mill:					
Flooring.....	83.1	8/32 - 36.8	80.8	98.6	94.4
Timbers.....	98.0	1/33 - 54.5	2/	2/	2/
Ponderosa, no. 2 common.....	101.6	10/32 - 58.8	92.8	112.9	95.4
Poplar, no. 1, Cincinnati.....	93.1	12/32 - 54.1	72.2	93.9	77.6
Redwood, California, 4/4, New York.....	101.7	8/33 - 62.5	84.0	99.3	104.9
Spruce, eastern, Boston.....	99.9	5/32 - 58.6	83.3	100.3	92.4
Angles, mill:					
Cedar, red, per square.....	110.2	2/33 - 62.4	117.4	133.6	113.7
Cypress, per M.....	98.7	6/32 - 55.8	94.4	106.4	106.4

^{1/} No monthly data available prior to 1934. ^{2/} No quotation. ^{4/} Not included in weighted index.

U.S. Department of Labor
BUREAU OF LABOR STATISTICS
Washington

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Index Numbers of Wholesale Prices of Building Material Items
(1926 = 100)

Item	1929 Average	Depression Low: and Date 1931	May 1936	May 1937	January 1938
<u>Plumbing and heating</u>	95.0	2/33 - 59.4	73.8	78.7	79.6
Boilers, each:					
Heating, New York.....	94.1	12/33 - 63.3	77.0	82.8	82.8
Range, 30 gallons, galvanized, Chicago.....	98.7	3/32 - 91.5	83.4	123.4	123.4
Closets, water, without fittings, each, factory.....	104.2	2/33 - 43.0	63.1	63.1	63.1
Lavatories, each, factory.....	88.9	3/33 - 57.5	70.6	75.1	74.1
Radiation, steam or water system, per square foot, New York.....	118.1	2/32 - 66.5	93.1	99.8	104.8
Sinks, 8-inch back, with apron and drainboard, each, factory.....	81.0	10/34 - 44.4	55.7	55.7	55.7
Tubs, each:					
Bath, 5-foot, no fittings, factory.....	80.8	2/33 - 47.3	66.7	66.7	66.7
Laundry, 2-part, cement, with fittings, Chicago.....	103.7	8/32 - 58.7	68.0	83.1	82.8
<u>Structural Steel</u>	98.1	1/32 - 77.3	92.0	114.9	114.9

U.S. Department of Labor
BUREAU OF LABOR STATISTICS
Washington

Index Numbers of Wholesale Prices of Building Material Items
(1926 = 100)

Item	1929 Average	Depression Low: and Date 1934	May 1936	May 1937	January 1938
Other building materials.....	97.7	6/32 - 77.6	89.9	101.3	95.8
Asphalt, bulk, per ton, refinery.....	100.0	5/32 - 66.7	100.0	100.0	100.0
Bars, reinforcing.....	101.5	5/33 - 70.3	99.6	125.1	120.1
Board, per 1,000 square feet, plant:					
Plaster.....	89.1	1/31 - 93.8	93.8	81.3	81.3
Wall, 48 inches wide.....	82.8	2/33 - 69.0	75.9	75.9	75.9
Bricks.....	96.9	6/32 - 81.5	94.5	118.2	98.5
Doors, white pine, 5-panel, no.1, each, delivered.....	101.6	10/31 - 73.0	94.1	121.4	106.8
Frames, per set, Chicago:					
Door, white pine.....	98.1	7/32 - 75.0	78.3	106.2	93.2
Window, Penderosa pine.....	96.2	7/32 - 77.3	79.4	103.0	93.0
Glass:					
Plate, per square foot, New York:					
3 to 5 square feet.....	87.9	8/34 - 61.5	64.0	69.0	69.0
5 to 10 square feet.....	80.5	8/34 - 54.4	56.4	60.6	60.6
Window, per 50 square feet, jobbers' price:					
Single, A.....	107.7	6/31 - 62.7	76.7	83.7	69.7
Single, B.....	110.0	5/34 - 57.6	82.2	90.4	74.0
Gravel, building, per ton, plant (composite price).....	96.3	10/32 - 80.5	90.2	94.0	94.7
Joists, door.....	108.8	11/34 - 37.1	55.7	74.3	57.1
Lime, building:					
Common, per ton, plant (composite price).....	88.9	4/33 - 73.8	79.2	78.1	80.4
Hydrated, per ton, plant (composite price).....	92.5	4/33 - 75.4	86.5	86.8	88.3
Locks.....	114.5	11/34 - 42.1	64.7	84.2	75.2
Nails.....	97.0	6/31 - 69.1	80.0	103.6	103.6
Pipe:					
Black-steel.....	100.0	4/33 - 79.5	83.3	96.2	96.2
Cast iron.....	71.4	4/32 - 54.9	88.0	103.2	103.2
Galvanized.....	100.0	4/33 - 82.0	82.0	94.0	94.0
Lead.....	83.5	7/32 - 48.5	65.6	80.7	68.1
Sewer, per foot, delivered, New York.....	75.7	7/32 - 54.8	73.0	73.0	70.4

U.S. Department of Labor
BUREAU OF LABOR STATISTICS
Washington

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Index Numbers of Wholesale Prices of Building Material Items
(1926 = 100)

Item	1929 Average	Depression Low: 1931 and Date 1934	May 1936	May 1937	January 1938
Other building materials (continued)					
Plaster, per ton, plant.....	70.8	1/31 - 100.0	125.0	125.0	125.0
Roofings					
Prepared, per square, factory:					
Individual shingles.....	73.6	7/32 - 57.6	85.3	101.1	84.1
Medium.....	78.7	6/32 - 67.1	71.1	78.2	68.1
Slate-surfaced.....	77.1	2/33 - 61.8	86.1	91.5	71.1
Strip shingles.....	69.0	3/33 - 59.3	88.5	102.1	80.9
Slate, sea green, per 100 square feet, quarry.....	100.0	10/32 - 50.0	54.3	61.1	61.1
Sand, building, per ton, plant (composite price).....	92.3	10/32 - 81.5	98.3	102.5	104.2
Sash, window, 2-light, white pine, each, delivered.....	100.0	10/31 - 62.5	93.7	128.7	110.0
Shingles					
Copper.....	125.4	3/33 - 62.5	78.7	100.4	87.9
Lime.....	86.9	5/31 - 74.3	80.9	89.6	86.3
Stone, crushed, 1½-inch, per cubic yard, New York.....	107.2	9/32 - 90.3	98.7	93.1	93.1
Tar, pine, kiln-burned, per gallon, New York.....	76.5	9/31 - 53.3	78.4	78.4	78.4
Template.....	95.2	4/33 - 74.4	85.5	94.0	102.6
Wln, copper.....	125.6	6/32 - 46.1	78.4	111.4	92.2
Wood screws.....	118.9	11/32 - 80.7	107.4	135.4	135.2

Wholesale Price
Division
WMA/hhh
January 23, 1938.

REB

SPECIAL GRAY

Paris

Dated February 23, 1938

Rec'd 3:23 p. m.

Secretary of State,
Washington.

205, February 23, 10 a. m. (SECTION TWO)

A considerable portion of the bulk of expenditure (pensions and payment of interest on the public debt) represents transfers of income from one group of citizens to another, the amounts involved being subject to taxation in the hands of both groups. Taking account of such transfers the national income from the fiscal point of view may perhaps be increased to 270 billion francs.

After taxation has taken 70 billion francs there will remain in the hands of the public 200 billion francs (270 minus 70 equals 200). It is not likely that the French people can save annually more than ten percent of the income that remains in their hands. For this reason private savings are probably not more than twenty billion francs or say maximum twenty-five billion per annum. As the state must now borrow thirty billion francs a year, current savings are not sufficient even to meet the requirements of the state. And some savings are required for

REB

2-#283, From Paris, Feb.23,10a.m.

for ordinary economic development especially in a period when, through the introduction of the forty-hour week, French industry will have to be rationalized in order to save labor, et cetera.

BULLITT

SMS

WVC

REB

SPECIAL GRAY

Paris

Dated February 23, 1938

Rec'd 3:27 p. m.

Secretary of State,
Washington.

233, February 23, 10 a. m. (SECTION THREE)

Insofar as the figures given above are correct some recourse to currency and credit expansion seems to be inevitable; the hope is that at the rate of 152 French francs to the pound the franc has been sufficiently depreciated to provide a margin for the amount of expansion to be anticipated. It is typical that the Bank of France has had to recount an increasing amount of commercial bills which shows that even for private credit needs recourse has been had to the Central Bank.

Before the war the French national income was estimated at 36 billion francs. The French franc has become depreciated in terms of gold about ten times but prices have not yet risen correspondingly. In January 1938 the index of wholesale prices calculated on a gold basis stood at 64 (1913 equals 100) and the index of retail prices (also in gold) at 71.

On

REB

2-1283, From Paris, Feb. 23, 10a.m.
(Sec. Three)

On the basis of these figures alone that is assuming that the national income had developed in proportion to the devaluation and price changes only, the present national income would be about 240 billion francs (ten times thirty six billions equals three hundred sixty billions which reduced to sixty six per cent to allow for movement of gold prices equals about 240 billions). During the war France lost a considerable amount of her foreign investments but on the other hand Alsace and Lorraine were added to the national territory; and from the point of view of national income Alsace-Lorraine undoubtedly counts for more than the yield from the lost investments.

BULLITT

CSB

REE

SPECIAL GRAY

Paris

Dated February 23, 1938

Rec'd 3:43 p. m.

Secretary of State,
Washington.

283, February 23, 10 a. m. (SECTION FOUR)

But should not some addition be made in respect of the great technical and other developments since 1914? In this connection it is interesting to make a comparison with the United Kingdom. In 1913 the national income of the United Kingdom was about 2,200 million pounds and in 1937 probably about 4,400 million pounds. The depreciation of the pound by 40% would correspond to an increase in the national income of nearly 70% but as a matter of fact the national income has doubled in terms of sterling the increase over and above the 70% increase being at the rate of 18% (2,200 million pounds plus 70% of 2,200 million pounds equals 3,740 million pounds which increased by 18% makes 4,400 million pounds).

If the same increase had occurred in France over and above the depreciation factor the national income would at present work out at about 425 billion francs. This
can

REB

2-#283, From Paris, Feb. 23, 10a.m.
(Sec. Four)

can be considered a figure that may be attained at a rate of depreciation of 152 francs equals one pound provided that certain conditions are fulfilled:

(one) the increase in the prices of goods and services which it would be natural to expect in France as a result of the depreciated rate of exchange and the price level in other countries must become effective all through the price structure.

BULLITT

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REB

SPECIAL GRAY

Paris

Dated February 23, 1938

Rec'd 3:48 p. m.

Secretary of State,
Washington.

283, February 23, 10 a. m. (SECTION FIVE)

At the moment rents and a number of other prices are probably far below what they will be when present trends have worked themselves out and the money income is therefore temporarily lower than what it may be expected to become.

Two. The physical volume of production must be allowed to increase at the rate ruling in other countries and insofar as the example above is concerned in comparison with the rate in the United Kingdom. If by the application of the forty-hour week and through other measures, the physical volume of French production is being restricted, the figure of 425,000,000,000 francs for the national income will not be attained.

At this time of deliberation the strain of public expenditures and public borrowing on the national savings in France is no doubt very heavy. If, however, the physical volume of production were to rise and internal prices

REB

2-#285, From Paris, Feb. 23, 10a.m.
(Sec. Five)

prices to become adjusted as in other countries, it should be possible for the money value of the national income in France to attain the figure of say 400,000,000,000 French francs and at that figure it should not be impossible to balance the national accounts. It will be seen that there is still a large gap between the present figure of 240,000,000,000 and the possible figure of 400,000,000,000. It is certain that this gap cannot be bridged without an increase in the physical volume of production.

EULITT

NPL

GEB

CA

Special Gray

PARIS

Dated Feb. 23, 1938

Recd 5:47 p.m.

Secretary of State,
Washington.

233, February 23, 10 a.m. (SECTION SIX)

Prices in France at present rate of exchange are lower than in the world markets; there should thus be a possibility of an increase in exports and enterprise generally which would gradually bring about a rise in French prices to equilibrium level. The dangers are on the one hand that the forty hour week leaning toward similar measures will impede industrial enlightenment and on the other that Treasury requirements to meet the deficit will unduly increase the monetary circulation and precipitate the advance in prices depriving private economy of the margin so badly needed. These dangers are real but should not be exaggerated. Treasury borrowing has been more successful lately and French prices have not risen for several months. The important conclusion to remember is that with a rate of 152 francs ^(equaling?) equals one pound the national money income may be increased to a figure at which the burden of central and local charges would be bearable."

In his letter of transmission my friend supplemented the memorandum with the following:

"I have two additional comments to make: firstly,

you

CA

--2--283 from Paris..

you will have seen in the ECONOMIST and other papers recently estimates of the France national income and savings which show an almost hopeless condition and the conclusion many people draw from this is that even the rate of 152 francs to the pound is not a sufficient depreciation to enable France to square the national accounts. I have wanted to react against such an opinion. I believe, although I do not say so in so many words, that the estimate of 240,000,000,000 francs is definitely on the low side and for purposes of comparison with public charges the estimate should be increased to at least 270,000,000,000.

BULLITT

NPL

CA

Special Gray

PARIS

Dated Feb. 23, 1938

Recd 5:35 p.m.

Secretary of State,
Washington.

283, February 23, 10 a.m. (SECTION SEVEN)

But to go even further--at the rate of 152 francs to the pound there is in my opinion room for a considerable expansion of the national money income. In 1913 when the national income of the United Kingdom was a little over 2,000,000,000 pounds and that of France about 36,000,000,000 francs the French income was about two thirds the British. If the same proportion were applied today the French income would be about 440,000,000,000 francs which corresponds roughly to the figure of 425,000,000,000 mentioned in my note. That in my opinion is the limit to which the French income can expand at the rate of 152 but some figure near to that limit should produce a bearable relationship between the income of the country and the physical burdens to be borne by it.

Secondly I must admit that there are some snags. Even if from an economic point of view the rate of 152 to the pound were bearable there might be psychological reactions of doubt and uncertainty which would precipitate a crisis. Furthermore, inflationary financing within France to cover the budget deficit will tend to increase the amount of

money

CA

--2--283 from Paris Sec 7..

money at the disposal of the market and in that way produce not only an inflation in internal prices but also facilitate the flight of capital. The rise in prices should come as the result of a healthy economic determination strengthening the demand for commodities and not simply as a result of more purchasing power being pumped out. The required time sequence is not easily secured."

END MESSAGE

BULLITT

NPL

EG

GRAY

Paris

Dated February 23, 1938

Rec'd 3:55 p.m.

Secretary of State,
Washington.

289, February 23, 4 p.m.

FROM COCHRAN

Three legislative bills relating to government finance and the economic situation were approved at Council of Ministers yesterday. First relates to opening of special credits for national defense, the second embodies plan for setting up independent organization for administering funds to be applied to national defense and third provides for certain tax reductions.

With respect to the first project no official information yet available regarding importance of the new credits which Parliament will be asked to approve.

The second involves the creation of a "Caisse Autonome de la Defense Nationale" similar to amortization fund set up in 1926 to undertake redemption and administration of national defense bonds issued during and after the war. The organization as approved yesterday will according to the press procure funds through direct loans, the service

-2-#289, February 23, 4 p.m. from Paris

service and amortization of which will be dealt with through normal budgetary receipts. The object seems to be to ensure that money paid into the fund, disallowance from the proceeds of taxation or from the issue of special national defense loans, shall be unalterably devoted to national defense purposes.

Third project embodies plans intended to stimulate production and export trade through fiscal relief.

(END SECTION ONE)

BULLITT

CSB

PARTIAL PARAPHRASE, SECTION TWO, NO. 289
OF FEBRUARY 23, 1938, FROM PARIS

According to the press the government will exempt from taxation a proportion of industrial and commercial profits applied to improve output or devoted to subventions for certain social works. Tax relief is to be afforded as conciliatory spirit exported merchandise. Government issued official denial February 21 of rumors that plan to increase taxes was under consideration.

Minister of Finance also explained to council main features of plan of reorganization of departmental and communal finances.

The little press comment so far noted appears cool and reserved and indicates that the tax relief measures proposed are regarded as lacking depth and vigor.

Referring to first measures it is stated in the press of this afternoon that Parliament will be asked to approve additional credits for national defense amounting to 3,200,000,000 francs of which 1,800,000,000 for air force, 800,000,000 for navy and 600,000,000 for army.

Demand for sterling a little lighter this afternoon. Swiss selling more dollars against gold in London. French operators confused as to what French national policies may be and are awaiting Parliamentary debates on foreign affairs Friday and Saturday.

Rumors are current that there will be reinstatement of pre 1926 system of requiring detailed reports of all foreign

- 2 -

foreign exchange operations. It is also rumored that the Bank of France will start operating exclusively through other institutions when it desires to put through control transactions on the market.

END MESSAGE.

BULLITT.

EA: LWW

REB

PLAIN

London

Dated February 23, 1938

Rec'd 4:07 p. m.

Secretary of State,

7. Washington.

155, February 23, 3 p. m.

FOR WIRELESS FROM BUTTERWORTH.

The London stock exchange marked up prices today. This action seems to be due (1) to the fact that the internal political tension of Sunday and Monday has decidedly abated and the size of the government's majority last night is taken to mean that no cabinet split or general election is to occur in the near future; (2) to the fact that the Prime Minister has personally assumed responsibility for the conduct of foreign affairs and has committed himself to an active policy of conciliation towards Italy and Germany; Eden's going is not generally regretted but the timing of it in relation to events in Berlin and Rome is regarded as "unfortunate" even in the city.

While opinion is by no means unanimous most of the city take what they like to call a common-sense attitude towards international affairs which in this instance means that

REB

2-155, From London, Feb. 23, 8p.m.

that despite a real antipathy to Italy they regard Eden and other League supporters as "new-style jingoists" who are demanding that Great Britain, menaced in greater or lesser degree by three major powers, should in effect refuse on high moral grounds to enter the realm of conciliatory compromise. In general the city holds that unless Great Britain's diplomatic position is improved the government's "business-as-usual" policy cannot be continued indefinitely and that armament activity will have to be given precedence over ordinary commercial transactions, an eventuality which the city would find unwelcome. Ironically the significance of Hitler's "truculent" speech has been completely overshadowed by domestic concerns.

Incidentally questioned in the course of the debate of February 21 on a matter respecting the old Russian debts the Prime Minister made the interesting assertion "It may be reasonable to say that if a country owes money there should be some indication that it is going to pay that money."

The dollar weakened in the early afternoon on heavy selling by the Credit Suisse but later recovered. The franc was offered but in very small quantities. The gold market continues active.

NPL

JOHNSON

February 23, 1938. 88
4:30 p.m.

H.M.Jr: Hello.

Operator: Dr. Gruening.

H.M.Jr: Hello.

Mr. Gruening: Mr. Secretary, this is Ernest Gruening speaking

H.M.Jr: Talking.

G: Mr. Secretary?

H.M.Jr: Yes.

G: I'm appealing to you for help.

H.M.Jr: Go ahead.

G: Admiral Waesche, under orders from you as I understand it, is about to send a cable to Hawaii to hold up that coast guard cutter.

H.M.Jr: That's right.

G: And I understand the only thing that you're waiting for is a letter from the Secretary of State.

H.M.Jr: And Mr. Ickes?

G: Well - and Mr. Ickes?

H.M.Jr: Yes.

G: Well -

H.M.Jr: I'm not going to send American coast guards, armed force, to land on British territory without a written letter from Mr. Hull.

G: Well it -

H.M.Jr: I'm not going to do it.

G: I'm not - I'm not saying what you should or shouldn't do, I -

H.M.Jr: Well I'm saying what I won't - or won't do.

G: I was just going to ask you please to withhold that telegram.

- 3 -

H.M.Jr: Well I'm not going to do it. I'm not going to send a boat out until Mr. Hull and Mr. Ickes write me that this is what they want. I mean when we start landing people on an island with the British flag flying I'm not going to do it on what somebody tells me that the President said.

Q: Well I, -

H.M.Jr: Because I heard the President lay down an entirely different formula at Cabinet.

Q: Well -

H.M.Jr: An entirely different formula. He told us that from now on he would take it up with the British and we'd both come to an agreement about these islands, and that's what he said last Thursday.

Q: Well would you be willing to do this, Mr. Secretary? The only thing that I'm concerned about - I know what the President said, and what was written and I know that when it reaches you, you'll be satisfied with it. The only thing that I'm concerned about - we had to work awfully fast. If you could simply call up Mr. Hull yourself and tell him the - tell him why you feel and he'll give you word the letter is coming.

H.M.Jr: Well, let Mr. Ickes do it.

Q: No, Mr. - Mr. President called me directly on this, and it's the State Department that is chiefly concerned on this international question.

H.M.Jr: Well Ernest I'm very sorry. I cut corners all the time. I'm not going to let and you people have got these coast guards boats running all over the place, nothing can satisfy you.

Q: Well I thought - I - I'm just carrying out my orders, Mr. Secretary. I'm not making any orders.

H.M.Jr: They took you for thirty days all over the Pacific, and you were not satisfied.

Q: I beg your pardon.

H.M.Jr: Well I beg yours.

- 3 -

Q: Mr. Secretary, I don't - I was satisfied, I'd had this conversation to tell you something which I thought you wanted to know and it rather slipped out, and I was satisfied, that I was very well satisfied.

A. Mr. Tolson: Well I gathered -

Q: I was very appreciative of everything, and I am appreciative of, and if you have any impression that I made a complaint, I'm extremely sorry, it was on your own suggestion that I took it up with Waesche, and I was - we were all very appreciative of what you had done - what the Coast Guard had done.

A. Mr. Tolson: Well -

Q: This situation is simply this - that I'm simply carrying out the President's instructions - I'm just - just an obedient servant in this matter, and the letter that was drafted was sent over, was okayed by the - initiated by the State Department - it was left for the President with Marvin McIntyre - to be given to him. The President knows all about it. We're making no move ^{that} he hasn't approve of. Now the only thing that's going to be terribly embarrassing and make it difficult. If an order goes out tonight holding everything up and then a day or two later, when it's almost the eve of sailing another order goes out making them to reverse everything, - Won't you be kind enough to call up the Secretary of State and get his word on this thing? That's all I ask you to do, so - simply we won't interrupt everything out there and I'll be held responsible for not carrying through the instructions which the President gave me.

A. Mr. Tolson: Well, to whom is it going to be embarrassing?

Q: If nothing happens?

A. Mr. Tolson: I mean if the boat is delayed twenty four hours.

Q: Well, it's going to be very embarrassing to - to all those who have made their preparations, including - including me. They will stop everything when they get this telegram and won't load the boat - won't do any of the - take any of the particular supplies the President asked to take along.

W.H.H.Jr: There's nobody who was more meticulous than President Roosevelt about issuing orders to the Army, the Navy or the Coast Guards.

Q: Yes.

W.H.H.Jr: And I have worked for them now - longer than anybody else, and there's nobody who is more particular about it than he.

Q: Yes.

W.H.H.Jr: We can not land on - on any foreign territory without -

Q: Well of course they - they don't consider this foreign territory, neither does he.

W.H.H.Jr: Well Mr. Hull isn't any busier than I am, why the hell can't he call me up? I'm sick and tired of having people call me up from all over and put pressure on. He's no busier than I am.

Q: Well -

W.H.H.Jr: Neither is Mr. Ickes.

Q: Well the point - the point is this, Mr. Secretary, that the State Department, as I understand it, transmitted the request in the form in which they usually do and apparently over the - I don't know what their custom is, or what your relation with them is, but we understood, or they told me that was the usual form of transmittal.

W.H.H.Jr: Well, I don't know whether it is or isn't, but every time I get anything it's signed by Mr. Hull.

Q: Well, would you - would you, as a personal favor to me, call Mr. Hull? Then I will feel that I've done my duty in the matter.

W.H.H.Jr: Well, why can't Mr. Hull call me?

Q: Well -

W.H.H.Jr: I'm -

- 5 -

G: I can't - I can't reach - I can't reach Mr. Hull.

H.M.Jr: Where is Mr. Ickes?

G: Mr. Ickes, I don't know.

H.M.Jr: Why can't - why can't he take an interest in this thing?

G: Well, I - I suppose the President asked me to handle this particular part of it with the State Department, and -

H.M.Jr: What are the names of these two islands?

G: Canton and Enderbury.

H.M.Jr: Canton.

G: Canton and Enderbury.

H.M.Jr: Conton?

G: Yes. E-N-D-E-R-B-U-R-Y.

H.M.Jr: And what's the other island called?

G: C-A-N-T-O-N Canton

H.M.Jr: Yes.

G: And the other is Enderbury. E-N-D-E-R-B

H.M.Jr: Slower please.

G: E-N-D-E-R-B-U-R-Y.

H.M.Jr: Well I'll think about - I'll - You stand by for the next five minutes.

G: Well, I'd greatly appreciate it because I'm on an awful spot here, and the President ordered me to do this thing, and - and if it's simply held up and the thing is all messed up I'll be held responsible.

H.M.Jr: Well the President - it's the first time it's ever happened this way. Let me think about it, I'll call - you - stay there for five minutes, please.

G: All right, thank you.

February 23, 1938.
4:37 p.m.

93

H.M.Jr: Hello.

Operator: Secretary Hull coming on.

H.M.Jr: Thank you.

O: The Secretary is on the line.

H.M.Jr: Hello, Mr. Secretary.

H.M.Jr: Hello.

H.M.Jr: Just a moment, sir.

H.M.Jr: Hello.

H.M.Jr: Mrs. Klotz, Secretary Morgenthau's secretary, please.

H.M.Jr: Hello.

O: He said he'd put him right on.

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

Secy.
Will:

H.M.Jr: Hello Cordell.

H: How are you?

H.M.Jr: I'm all right, thank you.

H: That's good.

H.M.Jr: Cordell, the reason I'm calling you is this. It may be unimportant and it may be very important. Gruening, over the Department of Interior insists that he was called by the President, and wants the coast guard boat to leave Honolulu, and plant the American flag on two islands which are flying the British flag, and I said that in my whole experience I had never known the President to send the Navy or the Army or the Coast Guard some place without first notifying us through you, and I've been taking the position unless you said to me, officially, that's all right, you'll stand for it. That I wouldn't let these boats sail unless the Secretary of State officially said it was all right.

- 2 -

- Q: Yes, well I presume that must have happened while I was out in - out in the West.
- W.M.Jr: Well -
- Q: That Cliff with Moore and Gruening must have been over to the White House.
- W.M.Jr: Well, Moore has written me a letter, but this is a conversation that Gruening said, that took place between him and the President. Now these two islands, Canton and Enderbury, are both flying the British flag.
- Q: Now, they brought that to my attention while I said there's two reasons why I would suggest that the matter be taken up with the President.
- W.M.Jr: Fine.
- Q: One was that I wasn't present and I have no personal knowledge of this in any way, and the other is, that the President perhaps would want to give that order direct himself.
- W.M.Jr: Well -
- Q: In other words, I'm sure, of course, that Moore is accurate in what he said.
- W.M.Jr: Oh, I'm not questioning his veracity, but -
- Q: The only thing it's a message, and I - I just suggest - suggested that the matter be taken up with the President tonight.
- W.M.Jr: Well, that - that's entirely checked, but they did not tell me that, and they said if I would call you I'd get a clearance from you.
- Q: Yes.
- W.M.Jr: Well, I said it seems to me that the thing should go from Gruening to Ickes, Ickes to you and you to me.
- Q: Yes, well, you know on a pretty important matter I'd don't like - I don't like to -
- W.M.Jr: Shoot from the hip.

- 3 -

- Q: Get in on it unless I - unless I've been handling it.
- H.M.Jr: Well, you're not going to - in other words you're not telling me now that this ship should sail.
- Q: No, I'm just not on deck - because it may be important in the first place, and in the second place, I wasn't the bearer of the message.
- H.M.Jr: Well then, if you don't mind -
- Q: And of course I have no personal knowledge from that angle.
- H.M.Jr: Well then, if you don't mind, the ship won't sail until I get official word from you.
- Q: Yes, or the President.
- H.M.Jr: Or the President.
- Q: Yes.
- H.M.Jr: Either from you or the President.
- Q: Yes, I would - I think - I think in a sense he took this up himself and gave the order himself. I think it'd be well enough, so there can't be any mistake about the details.
- H.M.Jr: Yes.
- Q: If I were you I'd talk with him about it.
- H.M.Jr: Well, those things normally would come through the State Department. In the first place, we're landing on British territory, even though it's in -
- Q: Yes.
- H.M.Jr: And we'd never land an armed force on British territory without getting authority from you.
- Q: Yes. Well, we can decide on - on the formalities. The only thing I thought you'd probably want to get the exact details from him, at first hand, where they originated.

H.H.Jr: Yes.

H: Because that's - as you say, it might be important.

H.H.Jr: Well, what I'm going to do, I'm going to call back, Dr. Greening, and tell ^{him} that Mr. Ickes should take it up with the President, and -

H: Let the President - let the President -

H.H.Jr: Either instruct you or me direct

H: Yes.

H.H.Jr: Right.

H: Yes. I think - I think it's - as I say you're the one that ought to be handling this boat, and if I were you, why I'd have a little informal talk with him.

H.H.Jr: With him.

H: Settle exactly on the situation.

H.H.Jr: Right. I don't know a thing about it. I don't know about these islands, but the President has never issued orders to me -

H: Yes.

H.H.Jr: Through a Bureau chief to send a boat on a trip to land on -

H: Then we can fix up the formalities in short order.

H.H.Jr: Thank you.

H: All right.

H.H.Jr: Thank you.

February 23, 1939.
4:45 p.m.

W.H.Jr: Hello.

Operator: Dr. Gruening.

W.H.Jr: Hello.

Ernest
Gruening: Yes, Mr. Secretary.

W.H.Jr: As a personal favor to you and against my better judgment I called Secretary Hull.

G: Well, that's very nice of you.

W.H.Jr: And he said he had been acquainted, informed of the matter, and he had told his people that he would not recommend that the coast guard go unless he personally received direct word from the President.

G: I see.

W.H.Jr: And he could not advise me to let the boat go.

G: He - he did call you.

W.H.Jr: I called Mr. Hull.

G: Oh, yes, I see.

W.H.Jr: I called Mr. Hull, and he said he was informed and he had just told his people that he would not recommend it to the Treasury that the boat go unless he personally received direct communication from the President.

G: Well, then he overruled Secretary Moore's communication.

W.H.Jr: Well, that may be so, but he told me he - he said unless he, Mr. Hull, got direct word from the President, he could not advise me to let the boat sail.

G: Well then, I suppose the best thing to do, is for the President to give his own instructions to the respective secretaries.

W.H.Jr: I would say so, and I'm going to call up Mr. Ickes and tell him, if he's there, just what happened, so that there can be no misunderstanding between us.

- 2 -

G: I see. Well now, when does the President get back?
H.M.Jr: Ten o'clock tonight.
G: Oh, well then, that isn't very serious.
H.M.Jr: I don't think so, I mean I don't - Mr. Hull very
definitely would not recommend to me that the boat
sail.
G: I see. All right, thank you very much.
H.M.Jr: I've done the best I can.
G: Thank you very much.
H.M.Jr: All right.

February 23, 1938.
4:47 p.m.

H.M.Jr: Hello.

Operator: Secretary Ickes.

H.M.Jr: Hello.

Secy: Hello.

Ickes: Hello.

H.M.Jr: Harold?

I: Hello, Henry.

H.M.Jr: This is Henry. I've just had two conversations with Gruening, and one with Mr. Hull, and I wanted you to get it first hand from me. Gruening appealed to me to rescind an order that the coast guard cutter should sail, to this island Canton and island Enderbury.

I: Yes.

H.M.Jr: Are you familiar with it?

I: Well, when he straightens it up and let me know what he's doing.

H.M.Jr: Well the position that I took was this, that unless I got a request from you and Mr. Hull that I couldn't let an American armed boat sail.

I: Good for you.

H.M.Jr: To land on British - so called British territory.

I: Good for you.

H.M.Jr: Well, Gruening -

I: I've called him two or three times on this thing -

H.M.Jr: Who?

I: Why, Gruening.

H.M.Jr: Yes.

I: Damp it he's one of these fellows you know, that just short cuts you all the time.

H.M.Jr: He does what?

- 2 -

I: Short cuts you.

W. J. Jr: Well Greeming got very excited, well you'd think that the whole European war depended on it, and I said I would not do it unless Mr. Hull asked me to.

I: Yes.

W. J. Jr: And you asked me to.

I: Well, I appreciate that.

W. J. Jr: So I called up Mr. Hull and Mr. Hull said that he had just gone into the matter, and he had refused to act on it until he received a direct communication from the President.

I: Well, he's right about it.

W. J. Jr: So I called back Mr. Greeming and I said, "Unless the President instructs me, or I get what I ask for, a letter from Mr. Ickes and Mr. Hull, the boat doesn't sail."

I: Well, you're quite right.

W. J. Jr: And I - but I wanted you to get it when it wasn't twisted.

I: Well, I appreciate your telling me about it.

W. J. Jr: And - but - I don't know whether - and Hull knows nothing about it, but he - so Greeming said "Well then Hull overruled Moore". I said, "I don't know about that, but Mr. Hull says he refuses to act until he's heard directly from the President."

I: Yes. So would I.

W. J. Jr: And - but, I wanted you to get it direct from me.

I: Yes, thanks a lot.

W. J. Jr: You're welcome.

I: All right.

February 23, 1938.
4:57 p.m.

H.M.Jr: Hello.

Operator: Admiral Waesche has gone to a tea at the White House.

H.M.Jr: Well tell him to call me at the house, without fail, at seven fifteen.

O: Seven fifteen.

H.M.Jr: Yes.

O: All right.

February 23, 1938

My dear Mr. Secretary:

I am transmitting herewith the consolidated report for the month of January, based on preliminary reports previously furnished you, on United States trade with Japan and China.

Sincerely yours,

The Honorable

The Secretary of War.

100-107

February 23, 1938

My dear Mr. Secretary:

I am transmitting herewith the consolidated report for the month of January, based on preliminary reports previously furnished you, on United States trade with Japan and China.

Sincerely yours,

The Honorable

The Secretary of State.

February 23, 1938

My dear Mr. President:

I am transmitting herewith the consolidated report for the month of January, based on preliminary reports previously furnished you, on United States trade with Japan and China.

Respectfully,

The President,
The White House.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 17, 1938.

TO Secretary Morgenthau
 FROM Mr. Haas
 Subject: Current trade with Japan and China.

A. United States trade with Japan during January 1938. 1/

(1) United States exports to Japan.

United States exports to Japan in January 1938 were 30% greater than during December 1937 but 6% less than in January 1937.

	<u>1938</u>	<u>1937</u>
January	\$20,981,000	\$22,364,000
	<u>1937</u>	<u>1936</u>
December	16,140,000	16,433,000
November	18,133,000	24,100,000
October	20,129,000	26,668,000
September	16,842,000	21,328,000
August	24,643,000	10,764,000

Excluding exports of raw cotton, our exports to Japan in January 1938 were only 7% greater than our exports during December 1937, or in absolute terms, about \$1,000,000 more than the preceding month. Exports exclusive of raw cotton were 15% less than the average for the last six months.

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

Secretary Morgenthau - 2

United States exports to Japan, excluding raw cotton:

	<u>1938</u>	<u>1937</u>
January	\$15,164,000	\$13,536,000
	<u>1937</u>	<u>1936</u>
December	14,232,000	8,691,000
November	17,336,000	9,335,000
October	18,558,000	9,787,000
September	15,354,000	10,552,000
August	23,449,000	9,201,000

(2) United States imports from Japan.

United States imports from Japan in January 1938 were only slightly lower than in the preceding month but were 26% less than the average for the past six months and 36% less than in January 1937.

	<u>1938</u>	<u>1937</u>
January	\$11,342,000	\$17,683,000
	<u>1937</u>	<u>1936</u>
December	11,674,000	16,427,000
November	17,190,000	15,340,000
October	15,420,000	15,930,000
September	15,988,000	16,012,000
August	16,297,000	16,948,000

(3) Cotton exports to Japan increased sharply in January 1938 as compared with December 1937. They were, however, \$3,000,000 less than in January 1937.

United States exports of cotton to Japan.

January 1938	\$5,817,000
December 1937	1,908,000
November 1937	797,000
October 1937	1,571,000
January 1937	8,828,000

(4) Exports of iron and steel scrap to Japan increased slightly in January 1938 as compared to December 1937 but were only 10% of the monthly average maintained from May to August 1937.

Secretary Morgenthau - 3

United States exports of iron and steel scrap
to Japan.

January 1938	\$ 534,000
December 1937	479,000
November 1937	633,000
October 1937	1,148,000
September 1937	1,402,000
Monthly average May to August 1937	5,600,000

(5) The following export items show important increases in our trade with Japan during January 1938, compared with December 1937.

	<u>January 1938</u>	<u>December 1937</u>
Raw cotton	\$5,817,000	\$1,908,000
Petroleum products	5,066,000	3,744,000
Industrial machinery	2,853,000	2,540,000
Copper	1,883,000	964,000
Vehicles, parts and accessories	1,185,000	907,000
Electrical machinery and apparatus	251,000	65,000
Pig iron	242,000	nil

(6) The following export items show important decreases in our trade with Japan during January 1938 compared with December 1937.

	<u>January 1938</u>	<u>December 1937</u>
Iron and steel semi- manufactures	\$1,248,000	\$1,385,000
Paper base stocks	492,000	1,389,000
Fertilizer and ferti- lizer materials	24,000	134,000
Hides and skins raw	22,000	278,000
Wood, unmanufactured	16,000	119,000
Scrap brass and brass	1,000	304,000
Tobacco and manufactures	nil	257,000

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(7) The decrease in our imports from Japan during January 1938 affected all but a few of the major items of imports.

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

	January 1938	December 1937
Chemicals and related products	\$ 406,000	\$ 214,000
Silk manufactures	323,000	252,000
Perilla oil	143,000	25,000

(b) The import items showing significant decreases were:

	January 1938	December 1937
Cotton manufactures	\$ 738,000	\$ 858,000
Fish and fish products	192,000	317,000
Tea	185,000	509,000
Paper and manufactures	174,000	300,000

(8) Of the total exports of \$20,981,000 to Japan during January 1938, the following items, with an export value of \$100,000 or over, account for \$19,880,000 or 95%. These same items are shown for December 1937 for comparison.

	January 1938	December 1937
Raw cotton	\$5,817,000	\$1,908,000
Petroleum products	5,066,000	3,744,000
Industrial machinery	2,853,000	2,540,000
Copper	1,883,000	964,000
Iron and steel semi-manufactures	1,248,000	1,385,000
Vehicles, parts and accessories	1,185,000	907,000
Scrap steel	534,000	479,000
Paper base stocks	492,000	1,389,000
Electrical machinery and apparatus	251,000	65,000
Pig iron	242,000	nil
Ferro-alloys	192,000	124,000
Pig lead	117,000	101,000
Total	19,880,000	13,606,000
All other	1,101,000	2,534,000
Grand total	\$20,981,000	\$16,140,000

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(4) Of the total imports of \$11,342,000 from Japan in January 1938, the following items with an import value of \$100,000 and over account for \$10,047,000 or 89%. The value of the same items of import in December 1937 are shown for comparison.

	January 1938	December 1937
Raw silk	\$5,947,000	\$5,909,000
Cotton manufactures	738,000	858,000
Chemicals and related products	406,000	214,000
Silk manufactures	323,000	252,000
Inedible animal products	304,000	335,000
Edible vegetable products other than tea	298,000	262,000
Pyrethrum flowers	295,000	277,000
China and porcelain ware	271,000	325,000
Fish and fish products	192,000	317,000
Tea	185,000	509,000
Flax, hemp, and ramie and manufactures	185,000	163,000
Paper and manufactures	174,000	300,000
Metals and manufactures	173,000	179,000
Wood and manufactures	151,000	149,000
Toys and parts	147,000	1/
Perilla oil	143,000	25,000
Hats and hat materials of paper, straw or other fibre	115,000	1/
Total	10,047,000	10,074,000
All other	1,295,000	1,600,000
Grand total	\$11,342,000	\$11,674,000

B. Trade with China in January 1938.

(1) Total United States exports to China, Manchuria and Hong Kong increased slightly in January 1938 compared with December 1937 and were about \$1,400,000 larger than in January 1937. Exports to North China and Manchuria decreased while exports to South China and Hong Kong increased.

1/ Not shown separately.

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	<u>Total</u>	<u>To North China and Manchuria</u>	<u>To Shanghai, South China and Hong Kong</u>
January 1938	\$7,993,000	\$2,101,000	\$5,892,000
December 1937	7,947,000	2,748,000	5,199,000
January 1937	6,623,000		

(2) Total United States imports from China, Manchuria and Hong Kong decreased in January 1938 compared with December 1937 and were over \$2,000,000 less than in January 1937.

	<u>Total</u>	<u>From North China and Manchuria</u>	<u>From Shanghai, South China and Hong Kong</u>
January 1938	\$4,470,000	\$1,069,000	\$3,401,000
December 1937	5,595,000	1,200,000	4,395,000
January 1937	6,882,000		

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

(a) To North China and Manchuria:

	<u>January 1938</u>	<u>December 1937</u>
Iron and steel semi-manufactures	\$1,074,000	\$1,521,000
Vehicles, parts and accessories	285,000	445,000
Petroleum products	270,000	199,000
Raw cotton	130,000	38,000
Industrial machinery	104,000	266,000
Total	<u>1,863,000</u>	<u>2,469,000</u>
All other	<u>238,000</u>	<u>279,000</u>
Grand total	<u>\$2,101,000</u>	<u>\$2,748,000</u>

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

	January 1938	December 1937
Vehicles, parts and accessories	\$1,777,000	\$1,229,000
Industrial machinery	1,318,000	118,000
Firearms and ammunitions	546,000	99,000
Petroleum products	424,000	1,103,000
Tobacco and manufactures	269,000	605,000
Iron and steel semi-manufactures	214,000	615,000
Edible vegetable products	207,000	335,000
Inedible vegetable products other than tobacco	175,000	99,000
Dynamite and T.N.T.	150,000	nil
Paper and manufactures	121,000	101,000
Total	5,201,000	4,304,000
All other	691,000	895,000
Grand total	\$5,392,000	\$5,199,000

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

(a) From North China and Manchuria:

	January 1938	December 1937
Bristles	\$ 221,000	\$ 417,000
Non-metallic mineral products	97,000	12,000
Perilla oil	30,000	57,000
Wool and manufactures	57,000	237,000
Metals and manufactures	57,000	30,000
Flax, hemp and ramie and manufactures	54,000	64,000
Total	566,000	817,000
All other	503,000	383,000
Grand total	\$1,069,000	\$1,200,000

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

	January 1938	December 1937
Tung (wood) oil	\$ 886,000	\$ 784,000
Flax, hemp and ramie and manufactures	470,000	690,000
Tin, ore, bars, pegs, blocks, scrap, etc.	311,000	598,000
Bristles	285,000	289,000
Vegetable food, other than tea	209,000	226,000
Cotton manufactures	131,000	126,000
Tungsten ore and concentrates	129,000	110,000
Tea	118,000	139,000
Edible animal products	115,000	167,000
Silk, unmanufactured	79,000	164,000
Chemicals and related products	79,000	50,000
Wood and manufactures	56,000	37,000
Total	2,868,000	3,380,000
All other	533,000	1,015,000
Grand total	\$3,401,000	\$4,395,000

February 23, 1938

9:30 Group Meeting.

Mr. Magill
Mr. Oliphant
Mr. Taylor
Mr. Gibbons
Mr. Gaston
Dr. Haas
Mr. Lockheed
Mr. Bell
Mr. Upham
Mr. McReynolds

HM, Jr: I called the President yesterday about half past twelve. Oh! Let's go back. Sunday I called Dr. Lubin and I said to him -- this stuff is very confidential -- I said, 'Now, listen, Doctor. I have had a chance to think. It seems to me the next follow-up on this price study is to take one industry, like building, and let's make a study of the prices that have to do with building, and then let's decide, after we have studied it, should we send it to the Federal Trade Commission, or to the Tariff Commission or should we send it to the Department of Justice or do we need legislation. And unless, I said, 'we do something along those lines, why this building question is never going to get going.'

He said, 'That's funny. Hinrichs and I had lunch Saturday and we decided on the same thing.'

So I said, 'I know it's good.'

I talked to the President yesterday at a quarter of one and asked him would it be agreeable to him to go ahead and he said, 'Fine!' And then he went into a long dissertation that we should try to educate the contractors to use Southern yellow pine instead of Oregon spruce.

Mr. Gaston: Douglas fir.

HM, Jr: And save the long haul through the Panama Canal. But as to the principle, it's all right. So I am

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going to start this afternoon. I want to get hold of Lubin. I want to do it at 3 o'clock and find out who he wants. There is this man, Fisher, over with Federal Housing.

Mr. Bell: Ernest Fisher.

HM, Jr: Who else? Straus does not have any economic section, does he?

Dr. Haas: PWA had somebody over there at one time. I could find out. Lindow has been working with some of the people.

HM, Jr: Find out, will you?

Mr. Gaston: How about Commerce?

HM, Jr: Why burden ourselves at the beginning?

Dr. Haas: I don't think there is anybody over there.

Mr. Gaston: The only notable omission from that list was Commerce. You would think it was particularly their field. I don't know who you would have.

HM, Jr: I am quite excited about this. The editorials say, Now what are you going to do? I think if we get started on this, we can go places. I talked to Jake Viner about it yesterday and he's very enthusiastic.

Mr. Gaston: I think Waltman had an excellent column on the thing.

Mr. Taylor: Very good.

HM, Jr: I did not see it. When was it?

Mr. Gaston: The following morning.

(At this point, HM, Jr spoke to Dr. Lubin and he said he would be in the Secretary's office at 3 o'clock.)

Mr. Oliphant: National Resources Board has some studies.

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HM,Jr: I can't work with too many people. I think the beautiful thing about this, nobody irritated anybody else and nobody dominated it and everybody kept his mouth shut, which was unique.

Mr. Gaston: And everybody worked together.

HM,Jr: Everybody worked together.

Dr. Haas: There was a lot of argument.

HM,Jr: But when they came out, the unusual thing thing was to get agreement.

Mr. Magill: anything?

Mr. Magill: Sometime later in the week I would like to have 15 or 20 minutes with you on various things. I am in no great hurry. But I want to plan the campaign a little further.

HM,Jr: Yes. Supposing you have lunch with me.

Mr. Magill: Fine. You mean today?

HM,Jr: Yes. I am getting awfully restless over this tax bill.

Mr. Magill: You are not half as restless as I am.

HM,Jr: Herman?

Mr. Oliphant: Jimmie Roosevelt called another meeting on that WPA housing thing. Ed Foley was over there.

HM,Jr: Let me read this now. (Memorandum from Foley.) Any objection to reading it out loud?

Mr. Oliphant: No.

HM,Jr: Here comes Mr. Bell. I will transfer this to him. I have checked a number of places where Jimmie Roosevelt said he is going to have WPA do this, that and the other thing. After you have read it, get hold of Colonel Harrington. I want a written memorandum how they are going to do this. This does not come in any agreement that you

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and I have with those babies and handle it as I always handle it, with a stenographer. The first part is encouraging. The President has told them no on what they have been working on for four days.

Mr. Bell: You mean that's housing?

HM, Jr: Yes, but they are to do utilities. I don't know how they are going to do it. But I very much want Colonel Harrington to see you at your earliest convenience and get a written memorandum on what he proposes to do.

Mr. Bell: Yes.

HM, Jr: Based on that, and afterwards give it back.

Mr. McReynolds: In other words, the President has told them no and then they go ahead in the next three pages to tell how they are going to do it anyway.

Mr. Taylor: I went to the Planning thing Friday afternoon. They went through pretty much this same stuff.

HM, Jr: Where was this?

Mr. Taylor: In Chairman Eccles' office. Mr. Cummings was not there, but otherwise the same general group. And they discarded practically all of these ideas.

HM, Jr: What time was your meeting?

Mr. Taylor: Four o'clock.

HM, Jr: This was going on simultaneously.

Mr. Bell: It's a sub-committee. There are ten sub-committees around town.

HM, Jr: But Bell and I -- fortunately we had a man there -- and we just don't know about this, do we Dan?

Mr. Bell: No.

HM, Jr: And I haven't time today to see Harrington and I wish you (Bell) would see Harrington. He is a square

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shooter and he will tell us. Okey-doke?

Mr. Bell: Yes, sir.

We get over here compromises on HOLC which we have to accept, on very unfavorable terms, merely because there is not money to put those foreclosed houses in condition to sell, so the Treasury has an interest in that. They say 150,000 at the end of this year. We have to approve those compromises.

HM,Jr: I did not know that, but keep after me on that because after I get this price thing going -- this has been around the shop for two or three years. Somebody is going to have to sit down with Fahey and study his problem and it will come to the fore when -- Dan, he won't bring me his amendments! But sometime I have to put my teeth in it; I just have to do it.

Mr. Taylor: That's in process of happening, because I have got a date with Mr. Fahey for tomorrow morning.

HM,Jr: Just remember, Mr. Bell and I are keenly interested.

Mr. Taylor: I was trying to take first shot because this will probably last for sometime.

HM,Jr: Good! I think I put it in your lap when I sailed for Honolulu and I hate to take anything back for fear of hurting your feelings.

Mr. Taylor: I am coming in to you overbruised in about a day and a half.

Mr. Oliphant: You asked for a check-up on whether there is a law for auditing FDIC. Here is a short memorandum on it.

HM,Jr: What does it say?

Mr. Oliphant: Briefly, the Board may at any time order an independent audit and they had one two years ago; (2) under Executive Order, it is subject to scrutiny by the Comptroller General, but FDIC is not going along on that.

HM,Jr: Do you (Upham) mind carrying this in your lap until I get around to it. I did not have Cy come to see me over the week-end, much to Cy's relief.

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Mr. Upham: I showed that too plainly, I am afraid.

Mr. Haas: Our end of increasing deposits in country banks.

Mr. Upham: Give that to Herman Oliphant!

HM, Jr.: This meeting is swell!

Mr. Bell: May I have a copy of that. I have the other end and ready to discuss it at any time.

HM, Jr.: Give Archie and Bell each a copy, and Taylor.

Mr. Oliphant: Finally, here's a summary of SEC costs.

HM, Jr.: Hang on to that. I want to sit down with you on that myself.

On this three o'clock meeting, either you (Mr. Oliphant) or Ed Foley or both, I would like you here. I am quite excited about it because I think we will never get anywhere on housing until we do this thing and as we go into this thing and keep in one field, we may get quite a policy out of this for the President.

Mr. Taylor: That particular field is made to order.

Mr. Haas: Yes. We go swell up to the time we get to the labor end.

Mr. Oliphant: I don't feel hopeless about that. Let these private companies negotiate with those people.

HM, Jr.: Well, anyway, we are in it now. And I think all these things -- having WPA do sidewalks, Jesse Jones taking junior mortgages, then doing utilities, they are all evading the issue. People don't want to buy houses because they cost too much. Automobiles cost too much. Very nice to lower the interest rate to 5½%, but just as long as the house costs too much, they are not going to buy.

Mr. Oliphant: Did you see the study of the housing market showing 70% of the housing shortage was in the rent group from \$10 to \$20?

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HM, Jr: I saw that somewhere. I don't know who made it, but I saw it.

Mr. Bell: Is this a legal opinion on deposits? You go back to the old National Bank Act for authority of the Secretary to deposit public money. Why don't you go to the Liberty Loan Act which covers the bulk of our deposits in special deposits? I think that's the one we want to hand our hat on.

HM, Jr: Gents! Get together and do your homework; then come and see me.

Mr. Bell: O. K.

HM, Jr: I mean, I am not on it today, but when you have been together, I will be more than pleased to talk with you.

Mr. Oliphant: And I will hang on to the SEC thing?

HM, Jr: Yes. You are going up tomorrow on SEC and Genesee. Come home with the bacon now!

Here is the United States Treasury been pounding these fellows for one month to get a lousy \$800,000 reorganization and Oliphant is pushing and gosh! one month we are on it and we haven't got there yet! We have turned SEC inside out to get

Mr. Oliphant: You are learning something about the laws of the land, because in the three weeks we have been on it we have accomplished what would ordinarily take a year, but I do think it will be so that your announcement or the President's announcement can be made very shortly because your interest in it is to disclose to the country what the Government's attitude is and that does not have to wait until three-fourths of the bondholders have accepted it.

HM, Jr: I don't want to announce it until we have tied it up.

(To Mr. Gaston) I have not seen the Washington papers. Anything particularly happy which you think would do me any good, you might get for me.

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Mr. Gaston: All right. I think you should see the Frank Waltman clipping. I was surprised. He thought it was swell.

HM, Jr.: I don't know, but going up in the train the people around the President have a number one dislike in columnists is Waltman. I don't know why.

Mr. Gaston: He has gotten under the skin in several places. He has had some very biting things.

HM, Jr.: (To Mr. Haas) I think Lindow ought to be here.

Mr. Haas: Yes.

HM, Jr.: Who else?

Mr. Haas: Dagritt, because he works on the whole general picture. I suppose you might have Harry although it's a little out of his main field.

HM, Jr.: Let him start.

Mr. Gaston: He's a good worker.

HM, Jr.: We had a good crowd. I don't want to break the combination.

You (Taylor) will be here at three?

Mr. Taylor: All right.

HM, Jr.: Oh, incidentally, let me get this right. What was yesterday? Monday night Feis called me up and said that Mr. Hull and Mr. Welles had cleared with the President the question, Could the Hungarian Minister announce -- give out -- his aide memoire on the Hungarian debt and the President said, Yes, as long as there was no date on it. So I said, All right. But I have not seen it.

Mr. Taylor: Mr. Gaston and I were supposed

Mr. Gaston: You know what happened. McDermott said the Minister said I was in favor of giving out the aide memoire. I said, No. No. I did not say anything.

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HM, Jr.: Previously to that, Saturday at about one o'clock Mr. Welles called up saying that the Hungarian Minister was having kittens all over the place and Mr. Welles thought we ought to do it and would I call the President and I said I would not; I would not call the President, unless it was a great emergency. So the next I heard was Monday night when Feis told me that both Hull and Welles had talked to the President and cleared it and wanted to clear it with me.

Mr. Gaston: I think it is a good idea to give it out.

HM, Jr.: I do too.

Mr. Cliphant: Did it clear with the leaders?

HM, Jr.: I don't know. I have kept out of it.

Mr. Gibbons: Do you know about the conference the President had with Secretary Moore and Dr. Greuning about taking over two more Islands in the Phoenix group?

HM, Jr.: I saw Greuning somewhere and he talked to me about it.

Mr. Gibbons: The British flag is already flying there and we are going out there and put the American flag alongside of it. Coast Guard is starting in about a week.

HM, Jr.: You had better get written instructions from the State Department.

Mr. Gibbons: Waesche has talked to Moore. The President sent for Moore and Greuning.

HM, Jr.: Get it in writing or I wouldn't do it. I happened to overhear the instructions on bringing the High Commissioner of the Philippines and when I read it in the paper it was just about as different as day and night. I am not going to let Coast Guard do any more Island work unless it comes in writing from the State Department. I want it from Hull. I will not take Moore's orders. I want it from Mr. Hull and then initialed by the Secretary of the Interior. Unless they do that, the boat does not sail.

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Mr. Gibbons: Of course, Greuning and Moore were with the President.

HM, Jr: I don't care. I am just telling you. Who the hell is Greuning to get us in war? Signed by Mr. Hull and signed by the Secretary of the Interior and without that, she don't go. This supercargo of Interior! When I was out there, gives all kinds of orders. They spent a million dollars putting a landing field in the middle of the Pacific and then -- craziest thing I ever heard of! -- have land ships to land out there. And unless Mr. Hull -- after all, it is landing on British territory.

Mr. Gibbons: The British flag is there. It's a mountain and another hill.

HM, Jr: That the President said is 'I have a new idea. I am going to the British Government and say, Look here. Some of you people have got people on islands' -- and I don't know why they do this, but we put two men and a dog on an island. 'Let's say we fly both flags and not raise the question of sovereignty for 20 years.'

Mr. Taylor: 25.

HM, Jr: And we will raise the British and American flag and not raise the question of sovereignty. I heard him say that himself. Without Mr. Hull -- and while you are on it, I want you, Gibbons, to tell Waesche that I don't want him to fly anybody other than Coast Guard personnel, now get this, without written authority from you.

Mr. Gibbons: Is he doing that?

HM, Jr: Of course! All the time!

Mr. Gibbons: News to me.

HM, Jr: All the time! All the time!

Mr. Gibbons: I will check on it because it's news to me.

HM, Jr: Unless he gets a written order from you, nobody who is not in Coast Guard, in which you call line of duty They break it every day. Ask him. He will

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tell you. Ask him, at 2:30, if they fly anybody other than Coast Guard personnel. My God! over at the White House you can't get an army plane unless McIntyre initiate it.

Mr. Gibbons: The only redeeming thing is they are our boats and it will take a week to get supplies and on that account I did not bother anybody yesterday.

HM, Jr: This thing, anyway, about the Department of the Interior having them tell Coast Guard where to go all over the Pacific and nothing in writing and then if the post gets there five hours late, Greuning raises hell.

Mr. Gibbons: This is not an official thing. They tell me Corcoran is sending word what we are to do on this Bob Jackson dinner. Supposed to come from the President. (Laughter from the group.) This is not a laughing matter. I like Bob Jackson personally, but when it comes to a little rust like that telling us what to do! He calls up and says, The boss issues these instructions. I agree with you. It's like this man Greuning going around in some official capacity, telling you and me what to do with some equipment that's under us.

HM, Jr: It's terribly hard on you having Miss Chauncey here, Steve. Your language would be much better.

Mr. Gibbons: Yes.

Mr. Merrill: Would it help you to know where I got my orders to go to that dinner?

Mr. Taylor: Did you get a call, too, from Tommy himself?

Mr. Merrill: No. Tommy's adjutant is Bill Douglas. Tommie goes to Montreal and calls Bill up on the phone and tells him somebody from the Treasury has to be at the dinner, so Bill gets me at home and I can't go; I have to go to the Italian Embassy, and he said, 'Well see to it that Wayne and Steve Gibbons are there.'

HM, Jr: Who is going?

Mr. Gibbons: I think Wayne.

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Mr. Taylor: I can feel it coming.

Mr. Olinhart: Eddie asked me to go.

HM,Jr: Well, after all, Governor Lehman is Governor of the State and titular head of the party and Chairman Farley is Chairman of the New York State Democracy. If Lehman or Farley should call me up and ask me to do something, that would be entirely different. Now, when either of those two gentlemen call me up, that's the time for us to listen. In the meantime, Bob Jackson knows just where I stand on his candidacy because he and I had lunch and we discussed it for one solid hour. He asked my advice and I gave it to him as one friend to another.

Mr. Gibbons: I understand he is going to withdraw.

HM,Jr: We understand each other perfectly. When Jim Farley or Lehman calls up -- I think it's nice to listen -- but until that happens

Mr. Gibbons: This fellow called me personally.

HM,Jr: Charley West did not call you, did he?

Mr. Gibbons: If Charley called, I would do something for Charley.

Mr. Macill: Did he call you directly?

Mr. Gibbons: Oh, yes! A week ago, and I paid no attention to it.

Mr. Bell: Mr. Taylor asked me to write you a memorandum on that U. S. Savings Bond matter that came up at Cabinet. I have not had a chance to do it.

HM,Jr: Could I have it Friday for Cabinet?

Mr. Bell: You want a memorandum to take with you?

HM,Jr: Yes.

Mr. Bell: We are, of course, taking care of it. Every time interest accrues, we charge it as interest.

HM,Jr: The President took great delight. He

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thought he had one on me. Perfectly nice about it.

Mr. Bell: Our Public Debt carries those obligations after redemption value.

Today is the day for Treasury bills.

HM, Jr: We start as per schedule.

Mr. Bell: With an extra 50 million on the 2nd?

HM, Jr: Yes. Just as we scheduled.

Mr. Bell: I had to listen to Wallace about additional money.

HM, Jr: He called me just as I was going to catch the train and I told him I could not talk to him; that he had better talk to you. When you have time, bring me up to date.

Mr. Bell: It's the usual story. They had to leave town on the one o'clock train so I had to come down and listen. We are going to have another hearing this week on it.

HM, Jr: When it's in order, let me know.

Archie, go out and see what's going on and come back.

(Mr. Lochhead left the meeting.)

Mr. Upham: Nothing.

Mr. Oliphant: I have an afterthought. Oppen will be on duty until Monday so sometime I would like to talk to you about reassignment of duties.

HM, Jr: All right.

Are you (Mr. Upham) ready to go places?

Mr. Upham: Number of things to be discussed.

HM, Jr: Let me ask you for your horseback opinion: in your opinion, ought there to be any loosening of the regulations of the Comptroller in regard to the kinds of securities banks may buy?

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Mr. Upham: Well, horseback, no.

HM, Jr: You know Eccles is pushing me on this all the time.

Mr. Upham: That's right. I would not want to say that definitely. That's the way I approach it.

HM, Jr: The way I look at it, everything, we have tightened up and what is good economics -- to loosen it? What can we loosen? So give me an answer on that.

Mr. Upham: Right.

HM, Jr: Wayne, if you have an idea. Everything we have tightened. Is there anything we can loosen and is it still good economics. Because if there is nothing there, there is no particular hurry. With these examiners coming, and are they too strict in their examination as to what kind of securities the banks may buy?

Mr. McReynolds: Nothing.

HM, Jr: I have a call in for a quarter of eleven for Cochran and you (Taylor) haven't read this.

Mr. Taylor: Not the one that came in today.

HM, Jr: Well, you read that and have Feis over here at 11:30 and we could talk about it for 15 minutes.

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February 19, 1938

Mr. Oliphant

Mr. Feley

At Col. Roosevelt's suggestion, I attended another housing meeting in his office yesterday afternoon. In addition to Col. Roosevelt and his assistant, James Rowe, there were present:

From WPA - Aubrey Williams and Col. Harrington; from FHA - Stewart McDonald, Charles McGehee and Mr. Daiger; from FSA - Capt. Lord and Mr. Baldwin; and from USHA - Nathan Straus.

Col. Roosevelt told the group that the President had decided not to spend WPA funds for housing construction for the present but wanted to give the current program a trial period of 3 months to demonstrate what it can accomplish. During this time its effect on the building industry and unemployment will be observed closely. Around the first of June the matter is to be considered again in the light of accomplishments.

Col. Roosevelt explained that Mr. Jones was willing to make RFC funds available to assist FHA operations. Stewart McDonald said that Mr. Jones intends to incorporate at once an emergency mortgage company to make available junior money, where necessary, to assist in financing FHA projects. He said that there were many situations where the private lending institutions, even with FHA insurance, would not be willing to lend enough on a first mortgage to finance the project. In such cases, he contended, the new RFC Mortgage Company could supply the difference between the borrowers equity and the amount the lending institutions would make available. Mr. McDonald

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also added that arrangements are being worked out with WPA for the construction of utilities, sidewalks and streets where necessary in connection with FHA activities.

Mr. Daiger of FHA explained that HOLC, as of last November 30, had acquired through foreclosure, title to approximately 87,000 properties and by the end of 1938 he estimated that it will have acquired in this manner approximately 150,000 properties. He went on to say that houses on these properties were, for the most part, quite dilapidated and needed renovating and repair before they could be rented or sold. Aubrey Williams said that WPA labor could be made available for this work and promised to get in touch with Mr. Fahey at once and work out the details.

Nathan Straus said that he expected to have \$100,000,000 of housing under contract by July 1. Wherever streets, sidewalks and utilities are needed in connection with his developments, he will ask WPA to furnish the necessary labor.

Capt. Lord explained that FSA owns approximately 4,700 acres of land in more than 15 states which had been acquired at prices ranging from \$100 to \$150 per acre. Most of this land is located in suburban areas or is adjacent to large cities. By making the land available on long term leases to non-profit corporations and by having WPA furnish the necessary streets, sidewalks and utilities, a sufficient equity for a loan from the RFC Mortgage Company could be established. In this way a \$37,000,000 program for the construction of \$2,500 to \$4,000 houses to rent from \$15 to \$30 would be started without great delay. Col. Roosevelt asked Capt. Lord to sit down with the FHA people and select projects in localities that would not interfere

-5-

with FHA activities, then arrange with WPA for the transfer to FSA of the funds necessary for utility construction. Capt. Lord estimated about \$7,000,000 would be needed for this purpose. In addition, Capt. Lord said they would need about \$1,000,000 for plans. After Capt. Lord makes his arrangements with FHA and WPA he is to talk further with Col. Roosevelt about the money for plans.

Col. Roosevelt is to be away for about two weeks and in his absence Mr. Rowe is to keep himself informed of developments.

EHFJr/met

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

Secretary Morgenthau

Herman Oliphant

FDIC Board of Directors (of which the Comptroller of the Currency is one) has the inherent power to order an audit of the books of FDIC. Inherent to this power, the Directors have in the past hired a private firm of accountants to audit the books of FDIC. We have been told that the books of FDIC have not been audited for about two years.

By Executive Order Government corporations created after March 3, 1933, are required to render accounts to the General Accounting Office of all receipts and expenditures unless other provision is made by law. We are advised that FDIC has taken the position that under its statute the audit is to be made by the Board of Directors of FDIC and therefore has not submitted its accounts to the Comptroller General for any audit. The Comptroller General has taken the position that the funds of FDIC should be covered into the Treasury and that he has the same control over the accounting for receipts and expenditures of FDIC as over the executive departments. In my opinion FDIC is required under the Executive Order to render an accounting to the General Accounting Office in such manner, to such extent, and at such times as the Comptroller General prescribes, but the Comptroller General has no power to disallow any payments made by FDIC. Such an audit is now being made of the accounts of Federal Farm Mortgage Corporation, Electric Home and Term Authority, and Virgin Islands Company.

FDIC is required by statute to make a report of its operations annually to Congress. FDIC's report to Congress for the year 1936 contains a financial statement of the Corporation.

The Secretary of the Treasury is authorized by statute to designate FDIC as a depository for public moneys. If FDIC were such a depository, there is no basis for believing that the Secretary of the Treasury would be authorized to make an examination of the books and accounts of FDIC.

Herman Oliphant

Executive Order

ORDER FOR AUDIT OF ACCOUNTS OF EMERGENCY AGENCIES

By virtue of the authority vested in me as President of the United States, it is ordered and directed that accounts of all receipts and expenditures by government agencies, including corporations, created after March 3, 1933, the accounting for which is not otherwise prescribed by law, shall be rendered to the Accounting Office in such manner, to such extent, and at such times as the Comptroller General of the United States may prescribe, for settlement and adjustment pursuant to Title III of the Act of June 10, 1921, 42 Stat. 23.

FRANKLIN D. ROOSEVELT

WHITE HOUSE,

January 3, 1934.

¹ [No. 6549]



DEPARTMENT OF STATE
WASHINGTON

February 23, 1938.

My dear Mr. Secretary:

Responding to your request for a memorandum of our telephone conversation regarding the Hungarian debt offer, I herewith forward a copy.

Sincerely yours,

Herbert Feis

Enclosure:

Copy of memorandum
of telephone con-
versation, February 21,
1938.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

February 21, 1938.

MEMORANDUM OF TELEPHONE CONVERSATION

I telephoned the Secretary of the Treasury this afternoon to inform him of latest developments in regard to the situation arising from the Hungarian debt proposal.

I told the Secretary of the Treasury that consequent upon the misleading reports that appeared in the press regarding the Hungarian debt offer, the Hungarian Minister had stated that it seemed to him desirable that the Aide Memoire which had been given us should be published. I informed him further that both the Secretary of State and the President believed such action would be helpful in getting the matter in its true perspective. The Hungarian Minister planned to preface the Aide Memoire with a short statement bringing out the circumstances and purposes of the offer.

I stated that the Department wished to ascertain whether the proposed action is agreeable to the Secretary of the Treasury, which the Secretary of the Treasury so affirmed.

EAPHF:LWW

MEMORANDUM OF THE DAY'S ACTIVITIES

February 23, 1938

To: Secretary Morgenthau
From: Mr. Magill

1. Tax Bill

The Subcommittee held a final session this morning on a series of amendments advocated by various lobbyists. After extended discussion all these proposed amendments were finally rejected. The procedure now agreed upon is to complete the drafting of the bill by Tuesday at which time it will be introduced in the House and immediately reported favorably by the Ways and Means Committee. Chairman Doughton hopes to have it taken up in the House on Wednesday, March 2d, under a rule providing for eight or ten hours of debate.

Run

February 23, 1938

To: Secretary Morgenthau
 From: Mr. McGill

Re: C. Rogers Arundell, Chairman of the Board of Tax Appeals

Mr. Arundell was originally appointed to the Board on September 1, 1925. His present term expires on June 2, 1938.

Mr. Arundell is fifty-three years old; and is, I believe, a Republican from Oregon. He entered the office of the Solicitor of Internal Revenue in 1920. He later became Assistant Solicitor in charge of the Interpretative Division; and at the time of his appointment to the Board was in charge of the Litigation Division in the Solicitor's office. In other words he has specialized in taxation for eighteen years. He was educated at George Washington University and admitted to the Bar in 1908.

In my judgment Mr. Arundell has made an excellent record on the Board. That he is highly regarded by his fellow members is indicated by his selection by them as Chairman. He is conservative in his general outlook but he is intelligent, active and diligent. In my judgment he clearly deserves reappointment and I strongly recommend that he be reappointed.

Of the sixteen members of the present Board nine received their appointments from President Roosevelt:

Arnold	(Illinois)
Disney	(Oklahoma)
Darron	(California)
Ell	(Washington)
Kern	(Indiana)
Mellott	(Kansas)
Oppen	(New York)
Turner	(Arkansas)
Tyson	(Mississippi)

Messrs. Black (Texas) and Sternhagen (Illinois) are also Democrats according to my information. The other five members of the Board are Republicans:

Arundell	(Oregon)
Leach	(Pennsylvania)
Murdock	(Pennsylvania)
Smith	(Massachusetts)
Van Fossan	(Ohio)

RM

2/23 - Asst Secy Navy
memo to FDR

THE ASSISTANT SECRETARY OF THE NAVY
WASHINGTON

MEMORANDUM

23 February 1938

Of all the factors that produced the present slump in business the 70% item was inventory expansion.

The index of retail sales is the principal one to watch now. If it does not fall greatly, the depression will soon end. If it does, we are in for it.

The principal factors that induced inventory expansion were:

1. Better business
2. Rising prices
3. Lengthening delivery dates
4. Labor disturbances
5. Uncertainties surrounding other forms of investments.

Of these items No. 2 - Rising prices - was by far the most potent influence.

About the middle of 1937, manufacturers more or less simultaneously found they had either enough inventory on hand or contracted for, or all they could pay for, or all they could get. Orders on primary suppliers slackened and prices ceased rising. Big buyers with "smart" purchasing agents tried to "break the market" by cancellations, and succeeded. The "boom" was over and the whole psychology changed.

When 100 units of a product are sold in a week, 100 units of inventory is but a week's supply, but when orders fall off, this same hundred units of inventory stretches out longer and longer. If only 10 units are sold it becomes 10 weeks' supply. The period of readjustment and unemployment lengthens with each drop in volume.

The only corrective is for the poor dumb public to keep on buying and not lose its head as completely as the big shots. That is why the retail sales index is so important at the moment.

No concern, big or small (and including the Government), can carry full forces at full wages in the face of declining business for any appreciable time. Readjustment is imperative. The alternative

is bankruptcy. "Better that a few should suffer than that all should perish".

All industrial concerns today are busy trying to reduce inventory. That means reduction in production with consequent lay-offs, short weeks, wage cuts, postponement of needed improvements and such things. All result in larger relief rolls.

If I am correct in saying that inventory is the 70% villain in today's drama, then Government action can help most by aiding that problem. (Construction is in a class by itself).

Plan.

Let RFC say to a manufacturer - "If you will 'freeze' the inventory you now have and begin at once to purchase for current requirements, and put your present inventory up as collateral, RFC will loan you all or part of the money represented by this 'frozen' inventory at 1/2 of 1% or so provided further that each month you draw from this inventory 1/18th of it for current needs and amortize your loan with RFC each month correspondingly".

During the first part of 1937 manufacturers were in a wild scramble to accumulate inventory, and now they are scrambling to get rid of it. Some such plan as above might go quite a way in stabilizing the situation.

Probably can be worked out with local banks doing the lending.

February 24, 1938

9:30 a.m.

Present:

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

HM, Jr.: George (Haas) this business summary, I read it. Could I have one Monday before noon?

Mr. Haas: Yes, sir.

HM, Jr.: I won't bother to give this one to the President, but if I could have it Monday forenoon.

Mr. Haas: Yes, sir. I will have it.

HM, Jr.: And if you people can expand the number of selected industries groups. I think they are distinctly worthwhile.

Mr. Haas: Sure. We can do that by Monday.

HM, Jr.: Carter Glass writes me a personal and strictly confidential letter and if you (Upham) would read this and then, inasmuch as it is strictly personal, maybe you could read it between now and press and stay behind after press for a couple of minutes and talk to me about it.

Mr. Upham: Sure.

HM, Jr.: George or Wayne, who knows what happened since I saw the price boys.

Mr. Taylor: George says they are at work.

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Mr. Haas: There was considerable general discussion and then they set up several committees, rather tentative. They are to come back with a preliminary report at 12 o'clock today. I have this progress report for you. (Read aloud the attached report dated 2/24.)

Hinrichs was very much disturbed about going into labor. Thought it was the wrong thing for fear there would be a leak on it and he wanted to talk to Lubin about it. In view of that situation we thought we had probably better let it rest until we had a chance to see Lubin about it, but he said it would be very disturbing if there were leaks. That's his opinion.

HM, Jr: Mac, as soon as you go out, give me a little pencilled chart of the set-up over in Procurement under Peoples when it comes to buying of materials and the men -- just where does Reynolds fit in and Collins and Barton.

Mr. McR: Reynolds is head of the building activities, Assistant Director in charge of building; Collins is Assistant Director in charge of all purchasing activities; Barton is an advisor to Peoples. Barton gets a chance to review all their plans on all building projects and they must have his approval.

HM, Jr: Isn't he my price man? Supposed to watch for excess costs in designs?

Mr. McR: He is supposed to clear from the standpoint of accepting contracts.

HM, Jr: Why wasn't Collins here yesterday?

Mr. McR: He's out of town. Reynolds is the best man in Procurement.

HM, Jr: Wouldn't Barton fit in? I am not particular.

Mr. McR: I should think it would be a good thing.

HM, Jr: Because if there is a racket, he knows it.

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Mr. McR: Barton and Reynolds work very closely together. Mutual respect between them. Barton is not tied in with daily operations so I think he could devote more time to it.

HM, Jr: I think the interesting thing will be to watch this thing and, as I say, I am not looking for more trouble than I have, but this thing has been going on for years and the President wants houses built and he has talked about it for five years. The Administration so far has completely failed at it and wherever the thing is, let's put our finger on it.

Mr. Gaston: You got a letter from an organization in Cleveland 'Build America'. It's an organization composed of some building material people and a man who used to be in FRA is president of it and it has some A. F. of L. people in it and they are starting a big sales promotion campaign to build houses, but I am a little bit suspicious of it, looking at the composition of the directors, etc.

HM, Jr: This group here is called 'National Housing Committee'. I wonder who set that up?

I think we are on the right track, don't you, Herbert?

Mr. Gaston: Yes, but I think there is a tough nut there.

HM, Jr: I won't take second place to anybody in the interest of labor and I think our record in the Department, especially in the Bureau of Engraving and Printing where we have about 40 different labor unions, I won't take second place with my relationship to labor unions here, and my little bit of a printing plant in Poughkeepsie. See? I have no affiliations. While the last thing we want to do is take it out of the hide of the working people, we may discover things that a union man does not know himself -- the hook-up between the leaders in some of the unions and some of the jobbers and some of the manufacturers.

Mr. Haas: That's right.

HM, Jr: Let's just go along. And if we get something, we can give it to Senator Bailey.

Mr. Taylor: Won't necessarily be his committee,

will it? I think just his resolution.

HM, Jr.: I had a chance to tell Mrs. Roosevelt about this last night and she was tremendously interested. So we will keep plugging. But keep your ears open, George, because frankly, in the room, I don't know just where the Department of Labor stands.

Dr. Haas: It is obviously a very hot potato so ~~perhaps~~ for a few hours I might leave it.

HM, Jr.: For instance, I saw this play 'Pins and Needles' and the manager came up and said 'We are bringing it down to Washington, but we have to take certain things out.' I said 'Nothing there you have to take out'. 'Oh yes, we have to.' I said 'Who said so?' 'Miss Perkins said so.' I said 'She's crazy. You can bring it down and show it to the President.' And he's going to see it.

Magill, have we any information on taxing radio broadcasting stations:

Mr. Magill: Haas took it under advisement.

HM, Jr.: Listen, I asked you (Magill.)

Mr. Magill: I don't know anything about it except what has come over the ticker. Thompson, of Illinois, has asked for a report on this bill and Mr. MacKinich of Communications seems to be pushing it hard. Don't see any reason why we should give a darn one way or the other.

HM, Jr.: On the bill, do things stand as of yesterday?

Mr. Magill: The full Committee is supposed to come in this morning at ten and the bill is supposed to be out Tuesday or next week with a report.

HM, Jr.: Anything new since lunch yesterday?

Mr. Magill: No.

I notice, by the way, with respect to tax exempts -- I will give you a reminder on that. It came up at one of our conferences across the street, on December 11th.

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HM, Jr: I know, but I still think we ought

Mr. Magill: That conference would confirm your ideas.

HM, Jr: Yes, very much.

I want to take a positive position on tax exempts and I think the sooner the better because somebody is going to call up and give it to Vandenburg,

Mr. Magill: I looked up my notes and the last time we were over there it was the evening of December 11th and the President asked whether or not it would be a good idea for him to send a message up on the Hill.

HM, Jr: You are coming through Monday with something for me?

Mr. Magill: Yes.

HM, Jr: Mr. Gaston, what do you think of the Hungarian offer?

Mr. Gaston: I think it is very reasonable. That's a matter on which we have to render an official decision. I don't think we can give an off-hand informal decision on that. We have a report to make to the President on that.

Mr. Haas: I have nothing.

Mr. Taylor: Nothing.

Mr. Gibbons: Nothing.

HM, Jr: Incidentally, that list which Waesche brought over, I wish you would go over more fully the people who got rides.

Mr. Gibbons: I have asked for a breakdown.

HM, Jr: You know what happened last night about sending this boat? About 4:30 Greuning called me up, and (see record of conversation made last night) and Mr. Hull said definitely 'I will not recommend that it go'.

Mr. Gibbons: I won't make any comment on the letter I got from Moore.

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H.M., Jr.: You remember once before Moore gave us an 18-page letter giving us hell about Harold and after waiting six months Mr. Hull over-rode him on that.

Mr. Upham: Your friends in New York are having a meeting on recovery. (Gave Secretary attached program of Academy of Political Science.)

Mr. McReynolds: Nothing.

Dr. Haas: I have one afterthought, Mr. Secretary. Crum is here today on another matter -- statistics of income. All right to bring him to this conference?

H.M., Jr.: If he can contribute anything.

Dr. Haas: Yes, I think so.

oOo-oOo

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 24, 1938

TO Secretary Morgenthau

FROM Mr. Haas *MA*

Subject: Progress report on housing meeting of February 23, 1938.

After considerable discussion respecting the scope of the problems and the procedures suitable for analyzing them, it was decided to appoint four committees to prepare preliminary reports for presentation at a meeting called for twelve o'clock on Thursday, February 24. The subjects assigned to these committees and their memberships are as follows:

(1) Discussion of housing needs with particular reference to the various price groups. Dr. Fisher (Federal Housing Administration).

(2) Analysis of housing commodity prices with the objective of determining which commodities of substantial importance in housing show undesirable price behavior. Mr. Hinrichs (Bureau of Labor Statistics).

(3) Analysis of the tariff situation with respect to each of the commodities determined to have undesirable price behavior. Mr. Stevens (Federal Tariff Commission).

(4) Analysis of the relationship between the housing industry and business cycles, supplemented by a survey of the outlook of general business conditions with particular reference to the reaction on housing construction. Dr. Goldenweiser (Federal Reserve System).

(5) Analysis of the structure of the housing construction industry with the objective of improving it. Drs. Ezekiel and Bean (Department of Agriculture), Mr. Stinebower (State Department) and Mr. Blaisdell, (Social Security Board and National Resources Committee).

First Edition

ESSENTIALS FOR SUSTAINED RECOVERY



SEMI-ANNUAL MEETING
(Fifty-eighth Year)

of

The Academy of Political Science

Friday, March 25, 1938

HOTEL ASTOR, NEW YORK CITY

ESSENTIALS FOR SUSTAINED RECOVERY

MORNING SESSION

Friday, March 25, 1938, 10 A. M.
North Ballroom, Hotel Astor

TOPIC

Impact of Reform on Recovery

LEO WOLMAN, Presiding
Professor of Economics, Columbia University

1. Public Policy and the Outlook for the Utility Industry.
Arthur E. Morgan, Chairman, Tennessee Valley Authority.
2. The Elements of a Railroad Program.
Isaiah Leo Sharfman, Professor of Economics, University of N. J.
3. The Obstacles to Recovery in the Building Industry.
Winfield Wm. Riefler, Professor of Economics and Politics, The Institute for Advanced Study, Princeton, N. J.
4. The Labor Situation as a Factor in Business Recovery.
Isador Lubin, U. S. Commissioner of Labor Statistics.
Discussion under the ten-minute rule.
William W. Cumberland.

LUNCHEON SESSION

Friday, March 25, 1 P. M.
Grand Ballroom, Hotel Astor

TOPIC

Essentials for Sustained Recovery

LEON FRASER, Presiding
President, First National Bank of New York;
Trustee, Academy of Political Science.

DONALD R. RICHBERG
Former Administrator, National Recovery Administration

THE HONORABLE JOSHUA W. BAILEY
United States Senator from North Carolina

AFTERNOON SESSION

Friday, March 25, 3 P. M.
North Ballroom, Hotel Astor

TOPIC

The Prerequisites of Rising Standards of Living

WESLEY C. MITCHELL, Presiding
Professor of Economics, Columbia University;
Director, National Bureau of Economic Research;
President of The Academy of Political Science.

1. The Formation and Use of Capital.
John H. Williams, Dean, Graduate School of Public Administration, Harvard University.
2. The Distribution of Wealth and Income.
Morris A. Copeland, Executive Secretary, Central Statistical Board, Washington, D. C.
3. Technology and the Volume of Employment.
John Scoville, Chrysler Corporation, Detroit.
4. Competition or Monopoly.
Frank A. Fetter, Professor Emeritus, Princeton University.
Discussion under the ten-minute rule.
Frederick C. Mills, Professor of Economics and Statistics, Columbia University.

Admission to the luncheon meeting will be by subscription for both men and women at two dollars per cover for members and their personal guests; three dollars for non-members. Applications should be addressed to the Academy of Political Science, Fayerweather Hall, Columbia University, New York City.

COMMITTEE ON PROGRAM AND ARRANGEMENTS

WENLEY C. MITCHELL, *Chairman*

MISS ETHEL WARNER, *Director*

W. RANDOLPH BURGESS

LEWIS W. DOUGLAS

LEON FRASER

RAYMOND V. INGERBOLL

THOMAS W. LAMONT

GEORGE O. MAY

ROSWELL C. MCCREA

SHEPARD MORGAN

WILLIAM L. RANSOM

GERARD SWOPE

LEO WOLMAN

REPORT OF THIS MEETING

The addresses and discussions at all the sessions of this meeting will be published in full in a volume of the Proceedings of the Academy and sent to members of the Academy as part of membership privileges. Orders from non-members will be filled at \$2.50 per copy.

MEMBERSHIP

The Academy of Political Science, founded in 1880, is an organization whose object is the cultivation of the political sciences and their application to the solution of social and political problems. It seeks to inform public opinion by meetings and publications. Your cooperation is invited. The Political Science Quarterly and the Proceedings of the Meetings are sent to members as part of their membership privileges.

The annual dues are five dollars; life membership, \$100. All inquiries pertaining to membership and to the work of the Academy may be addressed to

THE DIRECTOR,
ACADEMY OF POLITICAL SCIENCE,
Fayerweather Hall, Columbia University,
New York City.

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BUREAU OF THE BUDGET

WASHINGTON

MEMORANDUM FOR HONORABLE HENRY MORGENTHAU, JR.,
SECRETARY OF THE TREASURY.

At your suggestion I talked this morning to Colonel Harrington of the Works Progress Administration regarding Mr. Foley's memorandum of February 19, 1938, concerning the conference held in Colonel James Roosevelt's office on Friday afternoon, February 18.

The only question that seemed to me to be involved in the matter so far as the Works Progress Administration is concerned, is the matter of constructing streets, sidewalks, utilities, etc., by the Works Progress Administration in areas where new housing programs are being developed under the Federal Housing and the United States Housing Acts. Colonel Harrington explained that work of the character here mentioned is no different in effect from the work that the WPA is already doing in hundreds of cities throughout the country. He does not see, and I am inclined to agree, that there is any difference between rebuilding a street, or a sidewalk, or a sewer in the center of a town than constructing a new street, or a new sidewalk or a new sewer in a suburban area. We have to admit that any expenditure made by the WPA for labor on projects of this character would be in the nature of a subsidy to the project and that the WPA expenditures on any repairs to city property are no more than a subsidy.

Inclosure
(Mr. Foley's memo.)

scwB

February 24, 1938.
11:57 a.m.

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H.M.Jr: Hello. (aside) It won't be today, I'll not see today. Hello.

Operator: Mr. Sproul. Go ahead.

H.M.Jr: Hello.

Allen Sproul: Hello, Mr. Secretary, this is Allen Sparl.

H.M.Jr: Good morning.

S: Good morning. I'm calling up in Burgess' absence on the government security market.

H.M.Jr: Oh yes.

S: As you know, it had a run up yesterday. There wasn't a great deal of buying, but with what demand there was pushed prices up pretty rapidly.

H.M.Jr: Uh-huh.

S: This morning it's quiet with a little higher at the opening and for the first couple of hours and now it's down to about last night's close.

H.M.Jr: I see.

S: But in the state of the market, and we're informed by the dealers that there is some demand around for banks.

H.M.Jr: Uh-huh.

S: And that if that demand is pressed it will shove prices up further.

H.M.Jr: I see.

S: I think it might be a good idea to - you would give us specific authority under that suspended selling order we have to sell a few more of the bonds if we get a chance, and if the market tends to run up again, as it did yesterday.

H.M.Jr: Well, I'll talk it over and I'll let you know within a half an hour.

S: All right. Thank you.

H.M.Jr: Thank you.

RE HOUSING COSTS

February 24, 1938.
3:00 P. M.

Present: Mr. Taylor
Mr. Gaston
Mr. Haas
Mr. White
Mr. Foley
Mr. Lindow
Mr. Hinrichs
Mr. Blaisdell
Mr. Fisher
Mr. Goldenweiser
Mr. Reynolds
Mr. Barton
Mr. Bean
Mr. Stinebower
Mr. Chawner
Mr. Garfield (Federal Reserve)

H.M.Jr: Got everybody here, George?

Haas: I think we've got a few additions.

H.M.Jr: All right.

Haas: No, there are some absent. Dr. Lubin is not here.

H.M.Jr: I know - I got a message.

All right, what comes first?

Haas: I don't know exactly how you wish to proceed, Mr. Secretary, with this meeting. I'll tell you what we've done, then you can choose for yourself. We have discussed the problem and we set up committees who are to work on what might be called the "bugs" in the industry - about five committees: One on prices, one on organizational difficulties in the industry - the market which holds the most promise for increase in construction, etc. We could have the Chairman of each of these committees very briefly tell you - make a progress report. And our general plans were to have a preliminary report completed by about next Tuesday, if that is time enough.

H.S.Jr: Well,

Hans: And the first - Mr. Hinrichs is handling the price situation, for example.

H.S.Jr: Let's hear from Hinrichs then. Is that all right Hinrichs?

Hinrichs: Yes sir.

You had yesterday a list of the one hundred eleven building commodities, with their prices, and we boiled that list down to a point where ~~we think~~ we are likely to get significant results. About thirty-five of those one hundred eleven commodities show either a price level which seems to call for explanation or a rigidity of prices which needs explanation. Those thirty-five group themselves into commodities that have characteristic production methods and similar marketing problems.

You've got your tile group, brick group; then there is an iron and steel group - several of your lumber products.

There are also about thirty-five commodities for which it can be pretty definitely established that there is no price problem of the sort which we have been talking about here. The others have been excluded from this list as being relatively unimportant.

The plan that has been under discussion has been to turn these individual commodities or commodity groups over to commodity experts in the various departments here for a report on the method under which they are produced and marketed, character of the costs, technological developments, what might reasonably be expected - what point there seems to be where one could grab hold to effect something in the way of price changes, whether through agreement or through the action of the Federal Government.

In addition to the price list we have some information on the importance of the relative - the relative importance of different commodities which in general points to the desirability of simultaneous action with reference to several commodities rather than with reference to selecting any single commodity for action.

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- H.V.Jr: Let me ask you a question. Take any one of these commodities. This committee which you are on - will it - what will it do with this commodity after it leaves the factory? Do you drop it right there? Is this going to be - are you just taking it up to the point of F. O. B. Factory? Is that the idea?
- Hinrichs: Most of these prices are F. O. B. Factory prices. Some of them are delivered prices.
- H.V.Jr: But I mean is somebody else going to take that product after you are through with it?
- Hinrichs: No, I should think the product ought to be handled as a product, to be seen through to the site at which it is being used, as far as that can be done in the time limits that are set.
- H.V.Jr: Well, what I would like to do is get the whole picture, then see if it seems to me there is anything missing - to listen to each person before I make any - I mean comment on it. I may not have any suggestions. But that is roughly what you propose to do?
- Hinrichs: Yes.
- H.V.Jr: All right, George.
- Quinn: Now, another matter that came up in discussion, which is an important element in determining the cost of a home, is the question of certain industry practices, collusive practices, etc., and Mr. Blaisdell might discuss that.
- Blaisdell: I can say, Mr. Secretary, that no formal report has been prepared on this particular subject. The existence of very definite collusive practices is known in certain areas within the country, affecting both materials and relationships on the job between labor organizations and material organizations. This applies to suppliers of materials; it applies also to sub-contractors. And this question of the extent to which such collusive arrangements exist is a matter though of local consideration. In other words, these arrangements except in a few cases do not exist on a national scale.

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There was one outstanding example which was illustrated in a complaint and cease and desist order by the Federal Trade Commission in the last couple months, applying to a large corporation of material dealers. The method of attacking this particular problem would apparently have to be both on a national scale and on a local scale. It is not something that there is any blanket prescription for. It ties in very closely with the over-all organization of the industry and is a reflection of the general small scale character of the building operation, as well as the large scale character of the supplying of many of the materials.

A further discussion of that would carry us through to the general organization of the industry. I don't know whether Dr. Haas wants me to say anything about that, or whether Dr. Fisher might better speak to that point.

Haas: I think you might as well proceed, and Dr. Fisher can come in later.

Wells: There was considerable discussion in our committee group concerning the advisability of encouraging large scale construction companies, taking a leaf from the English book in which large scale construction companies have been organized, and, with adequate financing available, have constructed thousands of units per company in the course of a year. There are some faint indications that we are beginning to undertake that kind of development in this country. Possibly a half dozen construction companies are actually operating - none of them, I would guess, in the neighborhood though of over a thousand or fifteen hundred a year.

The Farm Security Administration has also given us an example of what well integrated design and planning right through to the site can do. They have given us a very real demonstration of what is possible in that field. As to the methods for carrying out that form of organization over into the industry, though, I am inclined to think our committee is still too young to arrive at any conclusion.

Wells: Well, if you don't mind on that - I would sort of like to let that go until the end because there are so many other groups which have worked on that,

and I - I would like to as much confine this thing to prices as possible at the beginning. I mean, we may end up and decide that that is the thing we have to do, but after all, I have listened to this thing now for five years and we haven't got anywhere yet, and from what I've listened to in the past my suggestion would be to let that go until the end.

Now, talking with Reynolds and Barton at lunch, from Procurement - now Barton says he knows people - a concern in Philadelphia that has the money, the Penn Mutual, but there are certain reasons why they have decided they shouldn't go into it. Now they are going to get the head of that concern down here and make him put down - one, two, three, four - why they aren't starting. And I think if we could get a man with the money, all organized, an organization, and get him to tell us "These are the reasons why we are hesitating to go" - I mean it would be helpful. And if they can through their contacts find out where anybody else - can find anybody else that is organized for this thing Barton talked about first this question of collusive practices. I think from the little I have listened the last thirty-six hours that is a big job, and it - this other thing, what the English are supposed to have done - if it's agreeable to you, I'd like to let that go until the end.

W. S. Adell: Well, I've said my say, as far as

T. J. Jr: Do you agree?

W. S. Adell: Quite.

T. J. Jr: What?

W. S. Adell: Quite.

T. J. Jr: Again talking to Reynolds and Barton - I mean they know what the practices are, but no one has ever yet been able to find out what the rules of the game are. But they have been giving me an earful, and they would be more than pleased to give you an earful, and they'll give you the actual contracts and the situation. I mean, a contract just let for electrical work, just double what it was - same work - a year ago - I mean that sort of thing. So if you've got the courage to

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take on that end of it, why, I think it would be most useful. But frankly - I mean the little time I've had to look into this thing, it looks to me this, compared with the maritime unions, looks as if the maritime union may look like a playboy.

All right George.

Mass: We have Dr. Fisher's report next. I think in addition to giving his report, Dr. Fisher is very familiar with the British experience, and they have worked out a way of handling their material prices over there, keeping them from advancing too rapidly, which I thought might interest you.

W.M.Jr: Well, I just wanted to say - you (Blaisdell) understand that Procurement, through Reynolds and Barton, is ready to give you any examples that you want, and they will get them for you just as rapidly as you need them. Actual cases, not - I mean they will get you cases right here in the Treasury building where we did a repair job - just as many cases as you want of different types of work all over the United States. And they will get them very fast for you. So - I mean I don't know what other sources there are, but they can get them - both Government and non-government. They will get you all you want.

Blaisdell: Yes sir.

W.M.Jr: Is that right, Reynolds?

Reynolds: I think so.

W.M.Jr: What?

Reynolds: I think we can.

W.M.Jr: All right. Dr. Fisher.

Fisher: I was asked to report, Mr. Secretary, on price ranges within which building might go forward on a sound basis, and as to whether it should be built for rent or for sale. The data necessary to be specific in this case are not available, but it looks as if from data we have available that most of the building ought to be in the price range under five thousand dollars, and the further under the better.

H.M.Jr: Pardon me.

Fisher: The building ought to be in the price range of five thousand dollars and under, and the further under the better - the wider the market, so far as houses built for sale are concerned. As a matter of fact, in a number of cities that have been surveyed in the last three years it seems that only eight per cent of all the dwelling units, owner occupied, single family dwelling units, are reported by their owners as worth more than ten thousand dollars, and only twenty-seven per cent were reported as between five and ten thousand. Most of them are under five thousand dollars.

In the rental range, it would seem desirable to hit again as low as possible, and tentatively I have reported to the committee that a rental range between thirty and fifty dollars a month was probably attainable and would certainly open a much wider market than rentals at a higher range than that.

H.M.Jr: May I interrupt you? I was shown this morning this report of this National.....

Poley: Housing Conference.

H.M.Jr:National Housing Conference. Who is it.....

Lindow: Father Ryan.

H.M.Jr: Isn't that the same?

Fisher: I think he is somewhat lower than I am.

H.M.Jr: But I mean you are familiar.....

Fisher: The same philosophy underlies both reports.

H.M.Jr: Yes. A lot of people in the room here are on that Committee.

Fisher: As to the distribution of dwelling units between rental units and units for sale, it is pretty much a guess as to what should be done because heretofore we have built only multiple family dwellings for rent, but in 1935 and '36 about sixty per cent of our families were renting their quarters and it would seem to be conservative to say that sixty

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per cent of our buildings should be built for rent within the next year or two years.

H.W.Jr:

Well now, Doctor, if you don't mind I think that that - isn't that just a little bit beyond what we are trying to accomplish here? - I mean I want to - I mean, isn't that just - do we want to go into that? Let me put it this way: We want to build a five thousand dollar house. Well, what I am trying to do - does it make any difference whether that house is to be rented or sold as to the cost of the materials that go into it?

Fisher:

No. It doesn't, Mr. Secretary. It seems to me that it will make a considerable amount of difference as to the volume of that house which can be absorbed by the market, as to whether it is built for rental or sale.

H.W.Jr:

True, but I want to keep this within workable limits. I mean I am not going into this question - I mean I don't want to go into the question of this - I mean this isn't a coordinating of housing activities. I mean, if you don't mind my talking.....

Fisher:

Not at all.

H.W.Jr:

.....What you are saying is terribly important, but I just want somebody else - I just raise the question, do we at this stage want to go into this at all? I mean what difference does it make, if what I am trying to get at is the cost, whether the house is going to be sold or rented? I mean, do we want to go into that? Some of you people tell me. I just wondered.

Fisher:

I have no defense at all for my topic. It was assigned to me by the Committee.

H.W.Jr:

Now don't misunderstand me. I am just - I am terribly enthusiastic about this, and I want to get somewhere, and I am going to get somewhere, with the help of you people. Now if we haven't got the intelligence to turn out something, it is pretty depressing. But all I can do here is just to say, "Let's put this off for another day." And my suggestion is to you people that that would be something that we may or may not take up later on. My own reaction would be that for the time being they should use your talents on something else, but - now I'm more than willing to be overruled.

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Reynolds:

That is a factor from this viewpoint I think, Mr. Secretary, that in a search of the possible ways of controlling prices, there is an indication that that may be reached more quickly by large scale operations, and those large scale operations are dependent upon whether you are going to build these buildings for sale or for rent. You might be able to get large scale operators that would build them for sale, but not for rent under any conditions.

H.L.Jr:

Well, that gets back to that other question, Reynolds, which I am not ready to take up, and I don't know whether I want to take it up at all, and that is this thing, whether this group should go out and try to organize companies that are going to build on a large scale. I mean at the time being my own feeling is I don't want to get into that. This thing that we are taking on - I mean prices and collusive - these combinations - are so vast, and it is going to take all of the backbone that we have all got to see it through, so I just think that that - I mean there are lots more days and there are lots more other people. But I've seen so many of these coordinating committees on housing go on the rocks, and I'd like to keep this one from going on the rocks, so if you don't mind, Dr. Fisher, for the time being I would like to postpone that. Is that all right?

Fisher:

Yes. Quite all right.

H.L.Jr:

And you get him (Fisher) to - if you are looking for worlds to conquer, I mean, get in on this sub-contractor thing or something like that.

Well, let's go around the room and we'll see again - Haas, who else?

Haas:

Well now.....

H.L.Jr:

Wayne, are you with me on this?

Taylor:

I think it is essential to concentrate on the "bugs." Until you can get an agreement on what is wrong why it's - I think it's wasting everybody's time to try to correct them.

H.L.Jr:

Well, I mean you don't want to look - I mean you don't want to go into this?

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Taylor: Not until there is agreement as to what the difficulties are.

H.M.Jr: Do you agree with me?

Taylor: I do, indeed.

H.M.Jr: All right. Thank you.

Haas: There is another Committee. What the group endeavored to do, Mr. Secretary, was to cover more or less the whole field and then do just as you are doing now. We wanted to make sure the field was covered in the way you were looking at it.

H.M.Jr: What else George?

Haas: The other two committees, one of them headed by Mr. Bean, took up the question of industrial organization of the industry and the question of why progress hadn't been made in the construction industry that had been made in other industries, such as the automobile industry, which had the advantage of large scale production, and so on. And part of the report, at least some of it, was given by Mr. Blaisdell, and he made some suggestions for setting up large scale corporations, so I don't know whether you want to hear from Mr. Bean or not.

H.M.Jr: I am always glad to hear from Mr. Bean.

Bean: The part of the report which hasn't been touched on deals with the very thing you have been setting off until the last day. This is the very last-day subject.

H.M.Jr: Well, let's hear it anyway.

Bean: I think I can perhaps save time by reading the very last page of this, because the first page touches on the British experience and on the experience of the Farm Security Administration, so if you don't mind, I shall just save time by reading a page.

H.M.Jr: Please.

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"Possibility of establishing a large American corporation or possibly several large corporations to engage in mass production of houses.

"A number of the building materials supply concerns have studied the English experiments and are interested in the possibility of a similar development in this country which might greatly increase the market for their products. One possibility would be to arrange for a number of leading concerns in the building supply field to put up the capital to establish a large building corporation in this country. This might include concerns such as the United States Steel, the Atlas Cement, American Radiator, Weyerhaeuser Lumber, Kennecott Copper, Briggs Plumbing, and others. It would probably be desirable to have several competing concerns in each line participating in the capital for such a corporation, so that it would be understood it was not pledged to use the products from any one of them, but could buy on the best terms available.

"Different procedures might be followed in taking up with these building material concerns the possibilities of their getting together to set up a large scale building corporation to enter this field. One possibility would be to make contact individually with men in each concern and the idea discussed with them at first, and after obtaining their reaction as to the feasibility of the plan, representatives of each concern might be brought together to discuss the idea further with appropriate people in the Government.

"Second, the heads of each concern might be called together, perhaps on the invitation of the Secretary of the Treasury, and the idea explained to them briefly. If these heads agreed on the advisability of organizing a building corporation, each would then designate a person from his concern to discuss the matter further with representatives of the Government agencies concerned, as to the possibilities of action.

"If either procedure were followed it would be necessary to have the entire matter handled on a confidential basis, with no public discussion of the participation of the Federal Government in negotiations, so as to prevent any undesirable repercussions from the established interests in

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the building industry, or others, until the proposed organization actually had an opportunity to get started and under way.

"Finally, if it were found that private capital were unwilling to undertake the job on its own initiative, it might be possible that the Government could aid to some extent in providing the capital for the necessary organization through the Reconstruction Finance Corporation or otherwise. Discussion such as that outlined above would be necessary to determine whether or not such Government aid would be needed in order to get an organization of this kind going."

H.M.Jr: Well, again, it is a most worthwhile idea, but I don't know whatever happened to that committee that Mr. Eccles was on, and he brought down - who was it, the President of the Bankers Trust?

Taylor: Sloane Colt. Well, well, that's - the present F. H. A. Act resulted from that.

H.M.Jr: Well, they had this in the General Electric. No?

Taylor: I think they went through the process of putting that aside and concentrating on the F. H. A. Act itself.

H.M.Jr: I see.

Well, if you don't mind, for my purposes I would like to postpone that, as I say, and just concentrate on this other thing. I am not - that is not saying it is good, bad, or indifferent, but - we may come to that, I don't know. Because I feel, the little - just the smattering I have had of this thing, that the reason we have all been talking about doing that sort of thing is because we have never been willing to face the problems which have grown up in the industry and which have made the costs so high, and because we are not willing to face them, I think we have all been trying to do it - go around and around rather than meet some of these very difficult problems in the industry.

George?

Hans: Dr. Goldenweiser gave a report on the present economic position of the construction industry.

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It is - the group thought it to be important because an industry may be so situated that it wouldn't be at all receptive to any move to increase production. In other words, an investigation of the statistical position. So he reviewed the position. Might do that now, if you'd be interested.

Goldenweiser: Mr. Secretary, I don't know whether you'd want to take the time to discuss background material. I might just say that my general conclusion is that the industry at this stage is in a position where a stimulus from better relationships between its costs and rents would be likely to have results; that the building industry does not always move in the same relationship to other industries.

In the 1920-'21 situation, it was building that pulled us out. (Illustrating from chart.)

H.M.Jr: Which is building?

Goldenweiser: Here. The rise of building pulled us out

Thrice: How do you know?

Goldenweiser: in that period. And during this period we've got a situation where building languished while business was going up; and at this time we haven't got as propitious a situation as we had then, because there isn't the same income, there isn't the same shortage, and there isn't as good a price structure, but there are enough of those circumstances available so that it would look as though building, with some stimulus, would be likely to resume.

H.M.Jr: Well, does your statistical position show that relation of prices to rents - which would come up and which would go down?

Goldenweiser: Well, it isn't on this chart, but we know that the prices are up a whole lot more than rent.

H.M.Jr: I see. So prices either will have to come down or rents go up?

Goldenweiser: That's right.

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H.M.Jr: Huh?

Goldenweiser: That is correct. And of the two it would be more desirable to have prices go down at this stage because rents going up would have a limiting effect on demand.

H.M.Jr: Well then, Dr. Goldenweiser, in this search for certain commodities which are too high - I mean we are - from your standpoint, that is the right angle to attack this thing from?

Goldenweiser: -I think it is the right angle. To find a commodity or group of commodities which constitute a sufficient part of the picture to be an important handicap, and see what can be done about it.

I am sorry that I must add that my own feeling is that rapid progress in the immediate situation so as to help us out of this slump is likely to come only if we do get some large scale undertakings, which you have postponed discussion of. I don't think that you can make enough progress. I don't want to say that positively, but I mean I just have hesitancy. I am very much in favor of having the industry tackled in the way you say.

H.M.Jr: Industry what?

Goldenweiser: To have the whole problem of the industry tackled and see what is wrong with it and what rockets have gone up and which price abuses exist, and see what can be done to eliminate them. I am heart and soul in favor of that, but I am a little doubtful, in my own mind, whether the results that you are going to get out of that are going to be helpful soon enough to help us out of our present slump. I hope so.

H.M.Jr: Well, I think you know my attitude, that I don't think we can do one thing alone. I think we may do a dozen things which in combination may do it. We did four last week.

Goldenweiser: Want to do everything we can.

H.M.Jr: We did four things last week, and maybe we can do a half dozen more. Maybe we can get the old machine going again. But I am not looking for one.

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Goldwasser: No.

W.A.Jr: I think this is one if we can do it, but it takes a lot of things.

Goldwasser: Well, I am in agreement with that, Mr. Secretary.

W.A.Jr: I think it takes a lot of things. This isn't an easy one. This is one of the most difficult things I have ever tackled. I mean the little I have listened so far, I don't know of anything - after all, the President has been trying to get this thing done for five years without any success.

Goldwasser: It is enormously difficult, but it is not insuperable.

W.A.Jr: I mean so far, to date, you've got to admit we have failed - that is, to get private capital to do it.

Now George, what else?

W.A.Jr: Those are all the committees, Mr. Secretary, but Dr. Fisher, in discussion, brought out a development in England which he pointed out made possible the development of these large scale enterprises, but in that discussion he indicated how England had met some of these difficulties we are confronted with, for instance, these rackets, and how they kept prices from going up, and so on, which I thought you might be interested in.

Fisher: In 1924 the English Government projected a large building program, largely a public housing program. In order to keep prices from rising as they had in 1919 to '21, they appointed an Interdepartmental Committee which met with both labor leaders and with the building material dealers and manufacturers and they entered into an agreement that prices would not be raised - of building materials - if the Government went ahead with that program, and that there would be no jurisdictional disputes or strikes for other reasons in the building trades. Since that time they haven't had a strike in the building trades and prices have risen only slightly within the last two or three years.

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When the threat of the price rise comes, this Interdepartmental Committee publishes the facts and hauls the manufacturers and distributors of particular commodities before the Committee and questions them on why prices are rising; and if they feel it necessary, they threaten to lower the tariff on those commodities through the Board of Trade and import the commodities from European countries. That has been done a time or two and it has succeeded in keeping the price level down.

"H.Jr: What do they call this Committee?

Fisher: That is an Interdepartmental Committee on Prices of Building Materials.

H.Jr: Well, isn't that what we are sort of groping for here?

Fisher: Yes sir.

H.Jr: What? Isn't that what we are sort of groping for right here?

Fisher: It seems so to me, yes sir.

H.Jr: And if it worked over there, I think all we could get from them would be most helpful. I mean if there is some one person who is sort of manager of that, I wouldn't hesitate to wire him to come over here, if you know who the fellow is that makes the wheels go around.

Fisher: Well, I think I have it in my office. It would be the Chairman of that Interdepartmental Committee. I have their reports, which are issued every year. I think I can find the name.

H.Jr: Will you?

Fisher: Yes sir.

H.Jr: Because if that is the man, I wouldn't hesitate to ask him to come right over.

Fisher: Of course, it is effective there because the Board of Trade has almost arbitrary control over tariffs.

H.Jr: Well, so has the President, within the limit of fifty per cent.

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W.H.H.:

There are certain restrictions on it which make that power much less effective than it appears on the surface. There have to be public hearings and they have to find a difference in the cost of production such as to make possible a reduction in the tariff, whereas, in most investigations relating to materials on hand they are apt to find that the cost of production is lower abroad, and therefore the evidence would point to an increase in the rates rather than to a lowering of rates. But there still remains some latitude in which he can operate, but not nearly as much as England has.

W.H.H. Jr.:

But we haven't begun to use the powers we have, and apply them to a particular industry. It's never been done.

W.H.H.:

No, never definitely has.

W.H.H. Jr.:

Well, Dr. Fisher points, I think, a picture of exactly what I think we might hope to attain with this group. Now this thing for instance - how are you going to work this thing? Where is the State Department going to come in on this? I mean you're going to refer certain prices to them? How are you going to work this, Mr. Hinrichs?

Hinrichs:

Well, I'd like very much to see a sub-committee of this larger group established consisting of a representative of Treasury, State Department, and the Tariff Commission, and I think the Federal Trade Commission, to review the particular commodity reports and steer the individuals who are working on them. I think that the job of a particular commodity report is one which can be done in a hurry much better by a single individual collating what materials there are in Washington than by a Committee, and that the Committee's function should be that of seeing that each individual produced the information on the different kind of points that are wanted. And the State Department would probably be in a position to furnish some information in connection with those commodities.

W.H.H.:

Where the State Department would come in, Mr. Secretary, would be after the commodity has been studied and it has been decided that it is too high and it has been further pointed out that a

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possibility lies in securing a reduction in price by either a threat of or an actual reduction in duty. The reduction in duty may take two forms, either by Presidential action, such as you suggested, or by incorporation in a trade agreement which is under the aegis of the State Department. And that is where they would come in the picture, if they could help in bringing it about either by promise of or a threat of or actual inclusion in some trade agreement of the particular commodity under consideration.

H.H.Jr: Well, what this thing boils itself down to today - I would say that this really divides this thing into two groups. One is going to study the prices, referred to the individual, and the other group will work on the practices in the industry. Now does that make sense to the rest of you, huh?

W.H.Wt: I think there must be one further aspect of that: For your own information, after both those committees have gone over the preliminary ground, possibly within a week or less, that the matter will be discussed in the general committee and some measure of the possible reduction which may result from the activities of both, be submitted to you so that you will know just what you may expect and when you may expect it, whether the action is required within a month or two or three or six or a year. So that might require a third possible committee.

H.H.Jr: Well, I am more than pleased, if it isn't crowding you gentlemen too much, to meet again Tuesday afternoon. Today is Thursday. Would that be crowding you people too much? I mean, I'm so interested that even if you haven't got a polished report, if you'd have something - just so that I'd be kept informed, and make whatever contribution I can. Crowding a little bit?

W.H.Wt: You set the time, Mr. Secretary. We work to it.

H.H.Jr: All right. That sounds like good spirit. Well, we'll say next Tuesday at three o'clock. Is that a good time in the afternoon for you people, huh? Is that a good time?

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Well now, I've asked Sears Roebuck, who I guess are the - they and ourselves are about the biggest buyers of building supplies in the country, if there is one man who does - who is the buying brains of their building material, and whether they will detach him and loan him to me, and they have agreed to do that - just detach him and let him stay here as long - and if I get him I'll send him to you (Blaisdell). But between that man, who I suppose is the biggest - I imagine, I don't know who buys more, they or Procurement - but between them, if you want to know the price on any particular article you can get it. What? So I mean we are not fooling ourselves as to what the day-to-day prices are.

He would be available to both Committees, wouldn't he?

Oh yes. I feel encouraged. I don't know how you do. At least it is taking shape. And if anybody wants to consult between now and Tuesday, I am available. If you just want to drop in and talk the thing over, I am available. That goes for Saturday and Sunday too, because I am tremendously interested, and I've kept reviewing - as far as I know, I don't think the Administration has ever approached it from this angle before.

And I have still been able, with the help of Mr. Gaston, to fool the newspaper men as to what we are doing. I don't know how much longer we can fool them.

If word gets out and if they believe it - of course the second "if" is very large - that there is any procedure which will result subsequently in a reduction of the cost of housing, you might get a curtailment of housing right now. That is why it would be highly desirable insofar as possible to keep the work of this committee perfectly quiet.

Well, that is what Mr. Fisher and I decided after the last meeting, that we didn't want to let it out. I talked it over with Fisher and asked him to stay behind. We decided it was most important not to, so we don't get the same psychology the automobile buyer has today: That they are waiting for lower prices. So we'll lie like gentlemen.

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Taylor: There is one possibility, Mr. Secretary, breaking - I think instead of two groups it might well break into three. One is prices; two is practices, the third would be organization; because organization of the industry, going all the way down the line, why, it seems to me is worthy of a separate study.

W.A.Jr: That is all right. Organization. That wouldn't come under practices?

Taylor: I don't think it would necessarily.

W.A.Jr: Good deal of overlapping, but still it is sufficient.....

Taylor: There is going to be some overlap all the way through, but it seems to me that is a logical division by itself, because then you can tack on these various other topics under the organization thing at the end rather than under the practice end or the price end. And it is - I think it is a logical terminus for these other activities.

W.A.Jr: Well, what do you people think?

W.A.Jr: I would like to make a plea for that on this basis, Mr. Secretary. There is a feeling here that tentatively surveying the field - that the amount that you may be able to accomplish through these measures in a brief period may be less than we would like to see, and that we would not like to give up the possibility of going forward with other things at the same time which may not yield results until six months or a year from now providing it doesn't interfere with the work which is going forward on prices and on collusive practices. So that that Committee would be in a position to envisage the possibilities that lay in that direction, so you would have a picture of what is possible not only within the next couple months but within the next six months and a year.

W.A.Jr: Well, who is best equipped to take that?

W.A.Jr: Let Dr. Fisher.

W.A.Jr: All right. You've got - don't want to leave you "Committeeless."

W.A.Jr: All right. That will be fine. Now what other suggestions?

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Incidentally, Dr. Fisher, those prices which you gave me - I mean the volume of business - you say Friday, but when do you get those? Do you get them Thursday night?

Fisher: No, we get them Tuesday, as of close of business on Friday.

H.M.Jr: Well now

Fisher: The figures I gave you as yesterday's were as of close of business last Friday night.

H.M.Jr: So there won't be any more until next Tuesday.

Fisher: Next Tuesday.

H.M.Jr: Have you (Foley) got any bright idea?

Foley: (Nods "No.")

H.M.Jr: Are we overlapping with anybody? I mean you attend a lot of these meetings.

Hinrichs: Everybody

White: Probably everybody here is on at least four housing committees.

H.M.Jr: Are we overlapping?

Foley: No, I don't think so.

H.M.Jr: That's why I didn't want to go into

Foley: By limiting here today the way you have I think you are concentrating on a field that none of the rest of them are working in.

White: This is a unique

H.M.Jr: I don't want to overlap. We've all got too much to do. You go to some of these meetings - this got anything to do with underpasses?

Taylor: I think it is unique because you are really trying to find out what is wrong with it.

H.M.Jr: What?

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Taylor: I think it is unique because you are really trying to find out what is wrong with the industry.

R.L.Jr: I think so.

Taylor: All the rest of them are superimposing something on top of what may be underneath it.

W.V.Jr: Has the Bureau of Standards got anything? Do you (Reynolds) know?

Reynolds: I don't think a great deal. They have been making some tests under an appropriation of a hundred and ninety thousand dollars on materials, but they don't go into the basic troubles.

W.V.Jr: Purdue - is it Purdue University that is doing the work - have they got anything?

Reynolds: Purdue?

W.V.Jr: Yes.

Reynolds: Not that I know of.

R.L.Jr: How about that woods products out at Wisconsin? The laboratory

Deer: I don't know.

W.V.Jr: What? Does anybody know?

Waisbell: They have some construction experiments dealing with prefabrication.

R.L.Jr: Well, we don't want a

Waisbell: Wood panels, that kind of thing. There have been a few houses.

Lindow: Either Purdue or Butler, I've forgotten which - that's the Ex-General Counsel of F. H. A., Watson

Fisher: Was there for a time. Not there any more.

Lindow: I thought they were experimenting with prefabrication.

W.V.Jr: Well, at this stage I don't want

- 23 -

Chawner:

They actually built there, Mr. Secretary, a number of types of housing, some of them shop fabricated - possibly ten houses - but they were built under rather artificial conditions. They started out to build a five thousand dollar house and when they found out that the contractors didn't bid five thousand dollars on a house that they thought they ought to get for that amount, there was a lot of finagling. That is at least my impression. Some of the other gentlemen here may not concur in it. But it did occur to me, as I saw what they did, that they tried to make the foot fit the shoe, rather than the other way around.

Lindon:

Well, I raised it only because you asked about Purdue. I don't think they are doing anything else.

H. R. Jr.:

I was just wondering, that's all.

I'll be glad to see you people Tuesday. And if anybody gets anything between now and Tuesday, why, I am on call. And I thank you all for your efforts.

U.S. DEPARTMENT OF LABOR
BUREAU OF LABOR STATISTICS
WASHINGTON

February 24, 1938

MEMORANDUM

To Mr. Lubin
 From A. F. Hinrichs

Re: Prices of building materials questioned for level or movement.

1926 = 100

	(1929)	Low in 1931-34	May 1936	May 1937	Jan. 1938
<u>TILE</u>					
Group I, Standard floor tile...	97.5	66.7	101.0	101.0	101.0
IV, Drain tile	92.6	58.2	89.3	97.3	97.5
VIII, Hollow building block	97.1	57.5	89.9	89.9	90.0
<u>BRICK</u> (examine in interests of general costs)					
Group I, Fire clay straights ..	103.6	84.3	108.4	123.6	123.6
I, Silica standard	104.9	85.4	103.8	125.1	125.1
VIII, Common	97.9	76.4	88.5	91.2	91.2
(See contrast with face brick)					
<u>CEMENT</u>					
Group IV, Portland	91.8	74.6	95.5	95.5	95.5
<u>PLASTER</u>					
Group I, Building plaster	70.8	100.0	125.0	125.0	125.0
VI, Wall board	82.8	69.0	75.9	75.9	75.9
<u>ASPHALT</u>					
Group I, Asphalt	100.0	66.7	100.0	100.0	100.0

-2-

	(1929)	Low in 1931-34	May 1936	May 1937	Jan. 1938
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IRON AND STEEL PRODUCTS

Group I	Structural Steel	98.1	77.8	92.0	114.9	114.9
III	Steel reinforcing bars	101.5	70.3	99.6	125.1	120.1
I	Nails	97.0	69.1	80.0	103.6	103.6
I	Wood screws	118.9	80.7	107.4	135.4	135.2
I	Cast iron pipe	71.4	54.9	88.0	103.2	103.2
I	Terneplate (? importance)	95.2	74.4	85.5	94.0	102.8
VIII	Black steel pipe	100.0	79.5	85.3	96.2	96.2
VIII	Galvanized pipe	100.0	82.0	82.0	94.0	94.0
I	Range boilers 30 gals.	98.7	91.5	83.4	123.4	123.4
II	Radiation	118.1	66.5	93.1	99.8	104.8

LUMBER AND LUMBER PRODUCTS

Group I	Cypress lumber	86.0	68.6	92.8	102.4	102.4
I	" shingles	98.7	55.8	94.4	106.4	106.4
?	Cedar "	110.2	62.4	117.4	133.6	113.7
III	" lumber	92.1	66.2	77.9	107.1	101.2
IV	Lath-Douglas fir	83.0	55.6	97.0	97.0	97.0
V	Yellow pine floor- ing	83.1	56.8	80.8	98.6	94.4
?	Maple hard No.1	98.1	44.9	83.5	98.8	97.0

	(1929)	Low in 1951-54	May 1936	May 1937	Jan. 1938
<u>MILLWORK</u>					
Group III, Doors—white pine ..	101.6	73.0	94.1	121.4	106.8
III, Windowsash—white pine	100.0	82.5	93.7	128.7	110.0
?, Frame: door	98.1	75.0	78.3	106.2	93.2
?, Frame: window	96.2	77.3	79.4	103.0	93.0
<u>SAND AND GRAVEL</u>					
Group I, Sand	92.3	81.9	98.5	102.5	104.2
?, Gravel	96.3	80.5	90.2	94.0	94.7
<u>PAINT AND PAINT MATERIALS</u>					
Group ?, Outside white flat ...	99.3	70.8	92.0	92.0	92.0
?, Roof and barn, red ...	100.0	81.5	94.6	94.6	94.6

Prepared by Mr. Henry C. Murphy with
the assistance of Mr. Sidney Tickton
and Mrs. Marion Wadleigh

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 24, 1935

TO: Secretary Morgenthau
FROM: Mr. Hays
Subject: Reserve requirements of country banks

SUMMARY

The reserve position of country banks is, at the present time, at least as easy as that of reserve city and central reserve city banks. An increase in the differential between reserve requirements at central reserve city banks, reserve city banks and country banks would, from viewpoint of broader theory, weaken our instruments of monetary control. A differential lowering of the reserve requirements of country banks at the present time would, therefore, appear to be unwise, even had the Treasury the power to put it into effect. This is without prejudice to the desirability of a general lowering of reserve requirements.

The Treasury could shift its deposits so as to have a significant monetary effect only by the abandonment of the policy hitherto followed with respect to the War Loan Account. Such an abandonment would involve a complete reorientation of policy and would encounter grave administrative difficulties. It might subject the Treasury to severe criticism with respect to its choice of individual depositaries. In view of these difficulties and the conclusions reached with respect to the reserve position of country banks in general, we recommend that no attempt be made to assist such banks by the transfer of Treasury deposits.

I

Prior to August 16, 1936, member banks located in central reserve cities were required to maintain reserves of 13 percent of their demand deposits, those located in reserve cities 10 percent of their demand deposits, and those located in other

Secretary Morgenthau - 2

places (country banks) 7 percent of their demand deposits. A 3 percent reserve was required for time deposits irrespective of the location of the bank. These requirements had been in effect since June 21, 1917. As a result of the 100 percent increase in reserve requirements, effective in three steps on August 16, 1936, March 1, 1937, and May 1, 1937, respectively, reserve requirements for member banks located in central reserve cities are now 26 percent of demand deposits, for those located in reserve cities 20 percent, and for "country banks" 14 percent, while a 3 percent reserve is required for all time deposits wherever located.

The principal facts with respect to the reserve position of country banks, reserve city banks, and central reserve city banks, respectively, as of December 31, 1937, are set forth in Table I attached. It will be noted from the table that as of that date the excess reserves of country banks were \$335 millions, of reserve city banks \$413 millions, and of central reserve city banks \$464 millions. The excess of total reserves over required reserves as of that date for country banks amounted to 32.7 percent, for reserve city banks 21.3 percent, and for central reserve city banks to 16.2 percent, respectively. These ratios, which are significant primarily from the point of view of potential credit expansion, indicate that the reserve position of country banks as of December 31, 1937, was considerably "easier" in this respect than that of banks in either of the other two classifications.

If the possibility of a contraction of bank credit is also to be given consideration -- as it must be in the contemplation of the individual banker -- the relationship between excess reserves and deposits is from many points of view more important than that between excess and required reserves. On December 31, 1937, excess reserves were 7.2 percent of deposits at country banks, 3.3 percent at reserve city banks, and 4.5 percent at central reserve city banks. It would appear, therefore, that country banks were in a somewhat weaker reserve position from this point of view than banks of the other two categories. This is a very partial view of the situation, however, as is rapidly seen when vault cash and amounts due from banks are added to the excess reserves of each category of banks and amounts due to banks subtracted therefrom. On December 31, 1937,

Secretary Morgenthau - 3

the excess reserves of country banks, as so adjusted, amounted to 15.4 percent of their total deposits, while both reserve city and central reserve city banks showed a deficit in such "adjusted" excess reserves.

A comprehensive consideration of the reserve position of each of the three categories of banks as of December 31, 1937, would thus indicate that country banks were in the most comfortable reserve position of any of the three categories. Their excess reserves, based on existing reserve requirements, would permit a larger expansion in their deposit liability than was the case with either of the other two categories of banks, and in any situation which placed their reserve position under a strain -- such as a general rise in reserve requirements or a general loss of reserves, due to gold exports or open market operations -- they could, through the withdrawal of inter-bank deposits, transfer the major portion of the strain to the central reserve city banks. A summary analysis of the excess reserve position of country banks by Federal Reserve Districts during December 1937 indicates, moreover, that the geographical distribution of excess reserves between country banks was fairly even at that time and that there were no particular points of weakness.

Between December 31, 1937, and February 16, 1938, the most recent date for which data are available, excess reserves of all member banks increased from \$1,212 millions to \$1,360 millions. The week of January 22-28 is the most recent period for which a breakdown of excess reserves between the three categories of banks is available. The daily average of excess reserves for all member banks during this period amounted to \$1,409 millions, as compared with \$1,212 millions on December 31, 1937, while the average excess reserves of country banks amounted to \$560 millions as compared with \$335 millions on December 31, 1937. The reserve position of all three categories of banks has thus improved somewhat since the beginning of the year, and recent developments would therefore seem to furnish no basis for a reversal of the opinions reached in the preceding discussion.

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II

The establishment of differentials in required reserves between various classes of cities dates back to the commencement of the national banking system at the time of the Civil War. Prior to the passage of the Federal Reserve Act, required reserves for national banks in central reserve cities and reserve cities were substantially larger than for "country" banks. Banks in central reserve cities, moreover, were required to keep their reserves in actual cash, while those in reserve cities and, to a larger extent, "country" banks were permitted to carry their reserves in the form of deposits with banks in other cities.

This differential was based entirely upon the older concept of reserves as emergency funds to be relied upon in time of crisis. The larger amount of reserves required to be held in central reserve cities was naturally justified by a consideration of the greater variability of deposits in financial centers and the greater stresses likely to be encountered by banks in such centers incidental to their performance of central banking functions for banks in smaller cities. During more recent years the performance of the central banking functions formerly undertaken by banks in the larger cities has been taken over by the Federal Reserve Banks and the generally accepted concept of the function of reserves in the banking system has tended to shift from that of emergency funds to that of instruments of monetary control.

It is of great importance in this connection to observe that the efficiency of required reserves as instruments of monetary control is materially impaired by the disparity in required reserves between different classes of banks. Mr. Lauchlin Currie, now Assistant Director of the Division of Research and Statistics of the Board of Governors of the Federal Reserve System, recommended, in 1934, in his book, The Supply and Control of Money in the United States, that we should have "... a uniform reserve ratio against all deposits subject to check..." and stated the case for this as follows:

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"...a shift from country to central reserve city banks will involve a net contraction of deposits, on the assumption of constant reserves, while an opposite shift will result in an expansion of deposits.

"...It would be purely accidental if the expansion or contraction of deposits caused by these shifts were to coincide with Federal Reserve policy. Indeed there are grounds for believing that the effect on deposits of these shifts is normally the opposite from that desired by banking policy. In the upswing of the cycle when the reserve administration is normally making for a contraction of deposits (a tight money policy) New York loses deposits on balance to the country; the opposite occurs in the downswing when the reserve administration is usually desirous of pursuing an easy money policy." 1/

As indicated in the cited passage from Mr. Currie, an increase in the differential between reserve requirements for "country" banks and other classes of banks tends, from the broader theoretical point of view, to dull our instruments of monetary control. This, taken in conjunction with our previous conclusion that the present reserve position of "country" banks is at least as easy as that of banks in either of the other two categories, tends to reinforce our conclusion that no differential lowering of the reserve requirements of "country" banks ought to be undertaken at the present time.

III

Table II attached shows the distribution of Treasury bank balances, by types of deposits, annually from December 31, 1932, to December 31, 1937, inclusive. It will be noted that as of December 31, 1937 -- \$1,016 millions out of \$1,070 millions of such deposits, or 95 percent of the total, were held in Federal Reserve banks or

1/ op. cit. pp 75-76.

Secretary Morgenthau - 6

by depositories on War Loan Account. Deposits in the Federal Reserve banks of somewhere around the December 31, 1937, level are necessary for the convenient transaction of the ordinary business of the Treasury, while the deposits in War Loan Account are originated at the initiative of the banks by subscriptions to securities, and are not subject as such to redistribution.

The only deposits available to be shifted for their monetary effect, without a departure from the established Treasury policy of permitting banks subscribing for Government securities to retain the use of the funds so subscribed until needed for transfer to the Federal Reserve banks for actual governmental expenditure, are the \$49 millions of "other" deposits, and of these only the \$15 millions to the credit of the Treasurer of the United States are fully under the control of the Treasury Department. Most of these deposits, including both those to the credit of the Treasurer and those to the credit of other governmental officers, were established at the request of administrative officers in the field and are needed for the convenient transaction of their business. The distribution of these deposits, as of December 31, 1937, by class of bank was as follows:

Distribution of "Other" Treasury Bank
Balances December 31, 1937

(millions of dollars)

	: Credit : of the : Treasurer 1/	: Credit of : other : Government : officers 2/	: Total
Country banks	13	15	28
Reserve city banks	1	16	17
Central reserve city banks	0	3	3
Total	14	34	48 3/4

1/ Treasurer's report basis.

2/ Daily Treasury statement basis.

3/ Total differs from that shown on daily Treasury statement to the extent of items in transit.

Secretary Morgenthau - 7

A consideration of the above data indicates that the only means by which Treasury deposits could be redistributed in such a way as to achieve a significant monetary effect would be by the reversal of our previous practice with respect to the War Loan Account, and by the selection of depositaries to hold idle balances upon the basis of criteria other than subscriptions to Government securities. Such a policy would probably encounter serious administrative difficulties and might subject the Treasury to considerable adverse criticism of its selection of particular depositaries. In view of the general considerations with respect to the reserve position of country banks set forth earlier in this memorandum Treasury action of the type under consideration does not appear advisable.

Table I

Important Factors Bearing Upon the Reserve Position
of Member Banks by Classes of Banks, December 31, 1937

(Millions of Dollars)

	Country banks	Reserve city banks	Central reserve city banks	Total
Demand deposits $\frac{1}{2}$	6,328	7,967	9,133	23,428
Time deposits $\frac{1}{2}$	<u>5,722</u>	<u>4,460</u>	<u>1,200</u>	<u>11,382</u>
Total deposits $\frac{1}{2}$	12,050	12,427	10,333	34,810
Reserve balances	1,361	2,310	3,334	7,005
Required reserves	<u>1,026</u>	<u>1,897</u>	<u>2,870</u>	<u>5,793</u>
Excess reserves	335	413	464	1,212
Vault cash (+)	307	200	82	589
Due from banks (+)	1,648	1,488	348	3,484
Due to banks (-)	<u>435</u>	<u>2,531</u>	<u>3,063</u>	<u>6,029</u>
"Adjusted" excess reserves	1,855	- 430	- 2,169	- 744
U. S. Treasury notes and bills	814	1,694	2,429	4,937
Excess reserves to required reserves	32.7	21.8	16.2	20.9
Excess reserves to deposits	2.8	3.3	4.5	3.5
"Adjusted" excess reserves to deposits	15.4	- 3.5	- 21.0	- 2.1
U. S. Treasury notes and bills to deposits	6.8	13.6	23.5	14.2

Notes: Deposits overstated by the amount of items in process of collection. The distribution of this overstatement between categories of banks is, of course, unknown. Items in process of collection are not included in cash assets.

$\frac{1}{2}$ Excludes deposits by banks.

Source: Member Bank Call Report, December 31, 1937 (preliminary)

Division of Research and Statistics, Treasury Department

Table II

Treasury Bank Deposits - December 31, 1932 - December 31, 1937

(Millions of dollars)

	1932	1933	1934	1935	1936	1937
Deposits in Federal reserve banks	49	104	153	600	275	181
Deposits in special depositaries account of sales of Government securities (War Loan Account)	485	1,007	1,695	871	989	835
Deposits in foreign depositaries and in Philippine treasury	2	4	4	4	5	5
Deposits in national and other bank depositaries:						
To the credit of the Treasurer of the United States	8	7	37	9	20	15
To the credit of other Government officers	23	24	30	67	42	34
Total deposits in national and other bank depositaries	31	31	67	76	62	49
Total deposits	567	1,146	1,919	1,551	1,331	1,070

Source: Daily Treasury Statements.

Division of Research and Statistics, Treasury Department

February 24, 1948.
4:13 p.m.

H.M.Jr: Hello.

1st. O: Secretary Morgenthau?

H.M.Jr: Hello.

1st. O: Secretary Morgenthau?

H.M.Jr: Yes.

1st. O: Secretary of State coming on.

H.M.Jr: Hello.

1st. O: Secretary Hull will be right on.

Secy. Hull: Hello.

H.M.Jr: Cordell?

H: Yes, sir.

H.M.Jr: Marvin McIntyre just called me about this boat to go to some islands in the Pacific.

H: Yes.

H.M.Jr: And he said it's all right with the President, that he talked to you but he said he'd like me to check once more with you.

H: Well, I - as I say I was away when that happened. I think I was out in Iowa.

H.M.Jr: Yes.

H: And I was talking to Marvin over the telephone about something, and I said, "By the way Henry got this round about message from the President, and since this might involve some complication he'd like to have some definite fixed instructions from - in unequivocal manner."

H.M.Jr: Yes.

H: "And I suggest that the President tell him exactly what he wants done, they can talk it out if he wants to since this was the President's order."

H.M.Jr: That's right.

- 2 -

Q: Now, that's all I said to Marvin and I supposed that he would take it up with the President and they'd talk it out with you.

W. J.: Well he called me up, he said it's all right, the President would like to have me do it.

Q: Yes.

W. J.: So I said "Fine." and he said, "But they'd like me to talk once more with you." So I am, to find out whether the State Department approved of it.

Q: Well, of course, what happened. You know the President had these three fellows over there and gave them - gave them his instructions.

W. J.: Yes.

Q: Told them to transmit it to you.

W. J.: Yes. Well -

Q: Now that's all I know, and of course whatever the President wants, why I'm for it just like you are.

W. J.: All right, sir. The boat sails, how's that?

Q: How's that?

W. J.: The boat will sail.

Q: All right. All right, Henry.

W. J.: And we'll all take the consequences.

Q: Yes. Yes, I wasn't in on that, it -

W. J.: Neither was I. I think it was all right, but McIntyre said he was very glad I held it up.

Q: Yes, I see.

W. J.: He said he was very glad, that they're perfectly satisfied that I held it up.

Q: I see. All right then Henry.

W. J.: All right.

Q: Good luck to you on your voyage.

- 3 -

H.M.Jr: Well, I'm not sailing. I wish I was. I think if -
I think I might even get you to go.

H: Well it's a hard choice.

H.M.Jr: All right.

H: Goodbye.

H.M.Jr: Goodbye.

February 24, 1938.
4:22 p.m.

W.H.Jr: Hello.

Operator: Secretary Ickes. Go ahead.

W.H.Jr: Hello.

Secy: Hello, Henry.

Ickes: Harold.

W.H.Jr: Yes.

W.H.Jr: Marvin McIntyre called me, they've been talking about sending this boat.

I: Yes.

W.H.Jr: And he talked to the President, they talked to Cordell Hull, and they asked me to call Cordell Hull, and it seems now that this is what the President wants.

I: Yes.

W.H.Jr: So if it's agreeable to you, I'll tell the Coast Guards to start at once.

I: Yes.

W.H.Jr: If it's agreeable to you.

I: Certainly.

W.H.Jr: All right.

I: The President wants it, doesn't he?

W.H.Jr: That's just what he does.

I: Well, who the hell am I?

W.H.Jr: Well I started - what?

I: Who the hell am I?

W.H.Jr: Well, I believe -

I: I've never vetoed them yet. I sometimes felt like doing it.

H.H.Jr: I believe in doing business with the head of a department.

I: Well, I've been darned glad you do.

H.H.Jr: Yes.

I: I appreciate that.

H.H.Jr: Well, I - I always have you know.

I: I know you have, and so've I.

H.H.Jr: Well, before I give the order - I just got through talking to Cordell, and -

I: Yes.

H.H.Jr: And so if it's all right with you, I'll -

I: Yes. All right.

H.H.Jr: Give it.

I: All right.

H.H.Jr: I told Cordell I wished the President would order me to go on it.

I: Why not send all three of us.

H.H.Jr: I think it would be grand.

I: All right.

H.H.Jr: Goodbye.

I: All right Henry.

H.H.Jr: Goodbye.

I: Goodbye.

February 24, 1938.
4:25 p.m.

H.M.Jr: Hello.

Operator: Admiral Waesche. Go ahead.

H.M.Jr: Hello.

Admiral Waesche: Hello, Mr Secretary.

H.M.Jr: Admiral, I've now got direct word from the President and I've checked with Mr. Hull and Mr. Ickes and the Coast Guard is to sail as per order, for those two islands.

W: What's that? The Coast Guard is.

H.M.Jr: Yes. I want - let her go.

W: Let her go.

H.M.Jr: The President wants it.

W: I see -

H.M.Jr: All been cleared with the President, with Mr. Hull and Mr. Ickes.

W: I see. All right, sir, I'll get a message off right away. They're to land on these two islands, Canton and Enderbury where they're flying the English flag.

H.M.Jr: Well whatever the orders are.

W: Yes, sir. Whatever - whatever Gruening said first.

H.M.Jr: But get it off right away.

W: All right, sir. Thank you.

MEMORANDUM OF THE DAY'S ACTIVITIES

February 24, 1938

To: Secretary Morgenthau
 From: Mr. McGill

1. Tax Bill

The Ways and Means Committee has apparently concluded its consideration of the revenue bill for 1938, the grand finale being a colored photograph taken by Time. You will be glad to know that the last morning was largely spent in the discussion of an amendment designed to relieve the Pond's Extract Company from about \$475,000 of back taxes. The reasons for the amendment were presented in various forms by various members of the Committee, but Mr. Fuller of Arkansas gave his reasons as follows:

"I am not interested in the merits of the amendment although I think it is all right, I am really advocating it because of my friendship for Tom Hardwick and Royall Johnson. Royall Johnson got a Veterans' Hospital for me once and I think I ought to do something for him."

As you probably know the gentlemen mentioned were formerly members of Congress.

Mr. Shoup and I spent the afternoon going over various possible amendments to the tax bill, some of which would considerably increase its yield and others its fairness. We also examined a draft of a message to Congress on the subject of tax exemptions.

hm

November 3, 1957

TAXATION AND THE INTEREST RATE
STRUCTURE

In theory, a capital market is an integrated structure. The relation of its components is supposed to be determined by comparative risk, measured by disparities of the rate of return.

In fact, the rate structure of our market is largely influenced by an extremely complex system of tax exemptions. Of the negotiable, interest-bearing investments in the market, the major fraction is composed of governmental issues, Federal and local, enjoying a greater or less degree of tax exemption:

1. U. S. Government bonds (\$20,000,000,000)
 (a) Tax-exempt to corporations.
2. U. S. notes and bills (\$15,000,000,000)
 (a) Totally tax exempt to individuals and corporations.
3. Local government issues (\$20,000,000,000)
 (a) Totally tax exempt to individuals and corporations.
4. Corporate issues.
 (a) Income fully taxable to corporations and individuals.

TAX EXEMPTION AND THE BOND MARKET

The fact that long governments are tax exempt to institutions and not to individuals has several consequences.

1. A long government is worth more to an institution than it is to an individual.
2. A long government is worth more than the best corporate to an institution.
3. Long governments gravitate out of the hands of individuals into institutions.

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4. Corporate bonds, no matter how good, to find any market at all, must yield more by the corporate tax differential.
5. To a surtaxed individual a corporate bond must yield over 6%, because the highest grade tax exempt bonds yield over 5%.
6. Owing to the differentials between corporation taxes and individual surtaxes, a high grade corporate is worth more than 6% to a financial institution.

The net consequence of this elaborate system of tax exemptions and tax differentials is to create two categories of bonds:

1. Those suitable for institutions find a market in institutions at a very low yield.
2. Those not suitable for institutions must have an extremely high yield to find any market among individual investors.
3. a. This high yield must be combined with a safety equal to that obtainable on the highest grade municipal - a manifest impossibility.

The net result of this combination of tax exemptions, tax differentials, and compartmenting is:

1. Governments and the highest grade corporate bonds gravitate into institutions.
2. Tax-exempt locals gravitate into the hands of surtaxed individuals.
3. There is, and can be, no real demand of magnitude for corporate bonds below the institutional grade.

4. The same reasoning applied to such fixed-income issues as preferred stocks.

We can pause a moment and consider the consequences of these circumstances.

1. Long governments cannot be held by individual investors, since their market is made by an institutional buyer to whom they are tax exempt.
2. Gilt-edge corporates cannot be held by individuals (a) because of the differential between the corporation tax and the individuals surtax and (b) because the net yield to a surtaxed individual is inferior to that obtainable on tax-exempts of equal quality and maturity.

In short, the taxation forces the long governments and gilt-edge corporates into institutions, just as it forces municipals into hands of individuals. Instead of these three types of long-term securities being components of a single market, they are components of two distinct compartmented markets almost without intercommunication. The institutional demand and the individual demand, even within this limited area, is canalized by taxation. Most of that former unity conceived as the gilt-edge market or the pure interest rate is quite unreal in contemporary America. The liaison between these two markets is maintained by the totally tax-exempt five-year Federal note and the high grade local, both of which are tax-exempt to both holders. Even this liaison is interrupted, as we saw on September 15, when in spite of the increase in member bank reserves, individuals took \$100 million of the current note offering away from the banks.

Not only has the tax differential compartmented the gilt-edge market; it has destroyed the second grade and preferred stock market.

The second grade bond and the second grade preferred stock may be defined as one entitled to sell at 5% or higher in a 3 to 4% market. Such a security is not quite of institutional caliber, but it formerly had a real market among individuals. But such a security now yields not to the individual in the higher brackets no more than he can obtain on a first rate tax-exempt; in fact, it does not compete until it sells to yield 8 per cent -- by which time it has lost claim to being second grade. In short, there is an institutional market for gilt-edge corporate fixed income securities; but from the 3½-4% class there is no market for any fixed income security until it sells on an equity basis. The importance of this fact will be discussed later.

It is not necessary to emphasize the important part always played in financing by the second grade fixed-income security. Its elimination has profoundly weakened our whole scheme of capital distribution.

It will be objected that in this discussion, I have assumed an individual tax rate of 50 per cent. Under the 1936 tax act this does not extend below incomes of \$100,000, but combined with state income taxes, it applies to that income bracket. From \$50,000 to \$100,000 one may assume a 50 per cent tax. The reason I have assumed rather high brackets is because of the former role of these individuals in the primary

distribution of new securities. The person with an income of less than \$50,000 is not much of a prospect for an underwriting and distributing house. If we assume he saves 10 per cent of his income, above his insurance, his net annual capacity is only 5 bonds a year; and the cost of effecting an initial distribution to such clients would be pretty high; even assuming they were not stock-minded. There is, of course, a market among trust companies, which can parcel them out among their less surtaxed clients, thus effecting a secondary distribution at almost no cost. It is not, therefore, quite correct to say that there is no market for second grade fixed income new issues; it is more accurate to say that what was once a big market, and an integral although unconscious functioning element of our system of financing, has been greatly shrunken by our system of tax differentials.

If one analyses the new financing of the past two years, he will understand the reasons for its peculiar character.

(1) From 1931 through 1934, there was little formation of capital. The numerous defaults and suspensions of dividends pretty well dried up the sources of individual saving.

(2) In 1935-6 and early 1937, there was a considerable formation of capital, and contrary to general belief, an enormous demand for new issues. This was especially true in 1936 and early 1937. But the demand was not for corporate issues. The public bought investments by the billion -- but they were tax exempt governments and locals. So avid was the demand for fixed income securities that in the fiscal year 1937 (following the tax act of 1937), the public not only took the whole deficit, but bought \$1,600 million from the banks portfolios -- and the data show that a good part of what the public bought was the tax-exempt governments.

There was also a great institutional refinancing market, exchanging gilt-edge corporates for gilter edge corporates. But there was no market at all for second grade corporates. In short, the whole new issue market in 1935-6-7 has been dominated by the fact that the market was acutely tax conscious. Institutions would buy available gilt-edge corporates, but individuals would buy only tax-exempts -- and, indeed, could afford to buy nothing else.

All sorts of other reasons have been advanced -- E.E.C. regulations, a strike of capital, lack of confidence, sun spots, and what not. The reason is perfectly obvious. The first grade securities found an institutional buyer; the below institutional securities were not offered on terms that competed with the tax-exempts.

To illustrate this, let us consider three recent issues -- the Continental Can preferred, the Pure Oil preferred and the Bethlehem Steel bonds. The Continental Can issue was distinctly first grade; in quality it competed with the best tax-exempts -- the five-year note. The issue was small. Even to a person in the 50 per cent bracket, it offered a yield just over 2 per cent. It could compete and did compete in quality and price with its tax-exempt competitors.

The Pure Oil issue was distinctly second grade. To a person in the higher brackets, it offered only 2-1/2 per cent net, which was distinctly not competitive in quality or yield. It was, it is true, brought out at a most untimely moment; but I question if it could have been sold on these terms at any time since the high surtaxes were restored. It might have succeeded on a 7 or 8 per cent basis. The success of the Continental Can issue and the failure of the Pure Oil issue illustrates what I mean by saying that the market for second grade, fixed-income issues is gone. It cannot

compete with tax-exempts.

The Bethlehem Steel issue illustrates the most curious anomaly of the year. It too was unfortunately timed; but the fact remains that as a bond it was priced as an absolutely gilt-edge issue, and it was gilded only on about three edges. It was not a mortgage bond, and, being new, it was unseasoned. As a bond, it was priced on a bank basis, but it was not quite of institutional grade in a year when banks were selling their investments to take on loans. But it was a double barreled issue; convertible. At 3-1/2%, the individual was expected to accept a 1-3/4% yield on a not quite first-grade bond while waiting for a conversion price well above par for a stock paying no dividend, and with an erratic earning record. That is, one barrel was aimed in the general direction of the banks, and the other in the general direction of the individual. Both barrels went high. It was obvious from the trend of bank investments over 12 months that it would not find a market there; and to the individual investor, the yield after taxation was so negligible, as to offer no more than chance to buy Bethlehem Steel Common 20 points above the market. Even at that, the conversion features, subject to the capital gains tax was of most uncertain value.

It is, of course, not very difficult to be wise in retrospect. But it is only by examining typical cases, both successful and unsuccessful, that it is possible to test the thesis of this memorandum.

This thesis is: that our whole structure of fixed income securities is dominated by complicated tax differentials. Some of these are of such recent creation that formulas based on the experience of the 20's are utterly unapplicable. In my opinion, most of the complaints about the new

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issue market are completely wide of the mark. These tax differentials exist; and as long as they exist our whole interest rate structure and every pattern of new financing -- if any -- must take cognizance of them. As far as fixed interest corporate securities is concerned, there is a market for the gilt-edge -- and that is all. The market for second-grade fixed interest corporate securities is gone with the wind of recently created tax differentials. The fact that a few issues were put over in contradiction to this general thesis in no way invalidates the conclusion.

The Continental Can issue was aimed at a specific compartment of the market; it scored a bull's eye. The Pure Oil issue was aimed at no one in particular. It was a failure. The Bethlehem Steel issue was aimed at two different targets -- the institution and the individual; and it hit neither. But together they point a moral and adorn a tale.

There is a gilt edge market in institutions in competition with tax-exempts; there is a gilt edge market among individuals, in competition with tax-exempts; and there is an equity market, that also competes with tax-exempts, on a different basis. But there is no market at all for the second grade fixed income corporate security. It is eliminated under our system of taxation.

Now let's look at the other side of the picture. Stripped of its meretricious convertibility, the Bethlehem issue is finding a market as a high class second grade bond to yield 8% or thereabouts to maturity, which gives a price of about 80. The Pure Oil issue has been taken over by the Guaranty Trust at 60 --- which is hardboiled banking; in this capital market, as a 7% stock it can find buyers in the vicinity of 70. Bethlehem and Pure Oil put one over on the issuers. But how about Continental Can? The

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Continental Can issue was a "success" to the issuers, but in my opinion Continental Can was the sucker. It is paying $4\frac{1}{2}$ per cent for money that it could have obtained from banks at half the price; because it not only has to pay for its money (and that kind of money is obtainable at $2\frac{1}{2}$ per cent), but it has to pay the investors income tax as well. If Continental Can could have made an issue free of income and surtaxes up to 50%, it could have got the money at close to $2\frac{1}{4}$ per cent -- then it would have realized that it was paying $2\frac{1}{4}$ per cent for the money and $2\frac{1}{4}$ per cent for taxes. If it had been put up to them that way, I think they would have preferred a bank loan.

In the same way, what does it cost the Federal Government to borrow at 2 per cent on five-year notes? It costs 2 per cent plus 2 per cent or 3 per cent -- whatever is the bracket of the individual buyer -- and most of the individual buyers of that kind of issues are in the 50 per cent bracket or higher. That is, the Treasury itself paid on its September 15 financing between 4 per cent and 5 per cent -- which is a good steep rate on a note. If the Treasury had come out frankly on September 7 with the announcement that it felt itself obligated to offer $4\frac{1}{2}$ per cent for a five-year note, we should have had a terrific decline in the stock market; and all the economists would have got out their slide rules and demonstrated mathematically why the market went down.

Our first thesis was that the process of compartmenting the gilt edge market by a complicated system of tax exemption had almost utterly destroyed the market for second grade, fixed income corporate securities.

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Our second thesis is that the supply of credit is cheap and plentiful and the supply of capital is costly and scarce. It is scarcely necessary to argue that credit is cheap and plentiful -- any banker will supply the necessary proof. The actual cost of capital in the new issue market, where the appeal is to capital rather than bank credit, is sufficient proof that capital for corporate enterprise is scarce and dear. (a) It is scarce because the high taxes prevent the formation of capital on the scale to which our economy is geared and (b) it is dear because enterprise has to carry the surtax on the investors income -- which means approximately a doubling of the rate.

So what? The supply of credit under our system is virtually unlimited; it can be, has been, and will be manufactured ad lib under a system of irredeemable money, regulated solely by the dogma that the supply must always meet the demand at a "low" rate. The supply of capital is limited first by the profitability of the economy, and second by the taxation on capital in the process of formation.

In my opinion, cheap fiat credit plus high income taxation inevitably not only implies but causes scarce and dear capital. All this year we have looked at a set of credit money rates, seen how low they were, and assumed that they had the same representative significance that they had under entirely different conditions. In the days of intercommunicating markets, and when tax considerations were inconsequential, one could take a given money rate -- say the commercial paper rate or the yield on Atchafalaya General 4's, and like Roy Chapman Andrews reconstructing a dinosaur from a single toe bone, outline the whole rate structure of the market.

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Now we have compartmented markets and compartmented rate structures. The fact that the supply of credit is unlimited and its price correspondingly cheap should not obscure the fact that the supply of capital is small and shrinking, and that its price must not merely cover an interest rate, but cover the tax rate of the investor.

Excerpt from Mr. Oliphant's memo of February 24, 1938
to the Secretary:

REORGANIZATION

Genesee Valley Gas Company, Inc. I plan to attend a meeting in Judge Caffey's Chambers in New York City with representatives of the SEC, the debtor and the trustee for the ~~first~~ lien bondholders, to discuss the proposed plan of reorganization. While in New York I will try to see Mr. Mulbie of the New York Public Service Commission and inform him of developments.

Confidential
Not for Publication
1978

Weekly WPA Employment
Series - Table 1

EMPLOYMENT ON WPA PROJECTS, BY STATE

UNITED STATES AND TERRITORIES

Weeks Ending February 19 and February 12, 1938

(Partly Estimated - Subject to Revision)

State	Number of Persons Employed		Increase (+) or Decrease (-)
	Week Ending February 19	Week Ending February 12	
GRAND TOTAL	2,009,042	1,985,406	+ 23,636
CONTINENTAL UNITED STATES	2,006,541	1,982,907 A/	+ 23,636
Alabama	30,440	29,387	+ 1,053
Arizona	7,525	7,600	- 75
Arkansas	26,941	26,644	+ 297
California	35,621	31,970	+ 3,651
Northern	46,541	43,672	+ 2,869
Southern	39,080	38,298	+ 782
Colorado	24,999	24,552	+ 447
Connecticut	20,443	20,297	+ 146
Delaware	2,562	2,550	+ 12
District of Columbia	6,954	6,899	+ 55
Florida	28,063	28,215	- 152
Georgia	33,140	32,492	+ 648
Idaho	10,931	10,873	+ 58
Illinois	143,943	143,591	+ 352
Indiana	60,399	60,395	+ 4
Iowa	24,117	23,503	+ 1,614
Kansas	33,160	32,570	+ 590
Kentucky	43,327	42,952	+ 375
Louisiana	29,750	29,136	+ 614
Maine	8,138	8,056	+ 82
Maryland	11,258	11,140	+ 118
Massachusetts	83,554	82,343	+ 1,211
Michigan	75,500	72,925	+ 2,575
Minnesota	45,604	45,448	+ 156
Mississippi	25,884	25,276	+ 608
Missouri	62,545	61,976	+ 569
Montana	16,443	16,443	-
Nebraska	25,171	24,842	+ 329
Nevada	2,121	2,536	- 415
New Hampshire	7,371	7,444	- 73
New Jersey	71,592	71,727	- 135
New Mexico	7,811	7,568	+ 243
New York City	142,539	141,900 A/	+ 639
New York (Excl. N.Y.C.)	52,826	52,781	+ 45
North Carolina	28,364	27,857	+ 507
North Dakota	14,700	14,536	+ 164
Ohio	131,762	129,423	+ 2,339
Oklahoma	54,262	54,066	+ 196
Oregon	15,932	15,684	+ 248
Pennsylvania	193,760	193,945	- 179
Rhode Island	12,854	12,894	- 40
South Carolina	27,279	27,277	+ 2
South Dakota	17,373	16,982	+ 391
Tennessee	27,722	27,915	- 193
Texas	69,521	68,247	+ 1,274
Utah	8,508	8,382	+ 126
Vermont	4,928	4,870	+ 58
Virginia	21,466	20,931	+ 535
Washington	39,259	39,380	- 121
West Virginia	35,184	35,184	-
Wisconsin	49,321	48,605	+ 716
Wyoming	3,688	3,654	+ 34
Hawaii	2,501	2,501	-

A/ Revised

WORKS PROGRESS ADMINISTRATION
Division of
Research, Statistics and Records
February 1938
Regraded Unclassified

FEDERAL RESERVE BANK
OF NEW YORK

208

OFFICE CORRESPONDENCE

DATE February 24, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Kneke

BANK OF ENGLAND.

Mr. Bolton called me at 10:18 today. Things were a little quieter in Europe on the whole except that, as the result of the political upset in London, there now seemed to be considerable confusion in Paris resulting in today's weakness of the French franc. The general feeling now seemed to be that the Chautemps government would have to resign this weekend, not being likely to be able to survive the parliamentary debate on the external situation, opening in the French Chamber tomorrow and going through Saturday. It had been bad enough for Chautemps to carry on with a minority government in face of the French internal problem. Now, however, that, as a result of political developments in England, also a new external problem had arisen for France, it began to look as though the situation would be too much for Chautemps. The socialist majority, it appeared, had seized on the dispute in the British Cabinet to try and force the French Government to close ranks with Russia, which would practically mean a Franco-Russian alliance instead of the old pact. Talk of a national union government had not altogether disappeared; its main support had come from the radical socialists and possibly, also to a small extent, from the socialists. However, the position was now quite different and latest developments had brought about a clear cut lineup between the left on the one and the right on the other hand. The question of exchange control, it was to be feared, might again come up but the battle would primarily be fought over the foreign policy to be adopted by France. Chautemps, it looked, would like to

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE February 24, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHL. W. KnakeBANK OF ENGLAND.

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follow the lead of Chamberlain and try and prevent the explosion of political feeling in Europe. The socialists, however, would not have any of that and wanted, like the British labor party, to go to war with the totalitarian states. Meanwhile, they were spreading rumors that Mousolini was going to demand most extravagant terms from the British. That, Bolton thought, remained to be seen; a tremendous lot undoubtedly depended on the success of the English-Italian negotiations, which would probably last at least for two weeks. Mousolini, it now began to be evident, having gambled all the way through, was greatly upset over the way things had gone in Austria.

We then began talking about gold and I referred to the extraordinary figures just published in one of the British financial papers, covering the British export and import of gold coin for the first four or five weeks of this year, which came within 90% of the total for the whole of 1937. This, it seemed to me, was a good indication of the extent to which hoarding of gold was taking place. Bolton confirmed that practically all of the smaller central banks had been supplying the coin market, the Swiss, the Belgians and the Canadians to quite a large extent. Gold coin now stood at a premium of 3 1/2% over bullion value and there was a big trade going on all over Europe. Bolton then mentioned that another shipment of about £1,000,000 of gold was on the way from Russia due to arrive in London in about a week's time. It had been intimated to them, he

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE February 24, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

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said, that this gold would probably be disposed of in London. He knew of no further shipments. I informed him of the Japanese gold shipment of 15,000,000 yen which left Kobe for San Francisco today. Bolton referred to an inquiry which, he said, they had received from one of the smaller South American central banks, whether gold eagles or double eagles, which the latter wanted to deposit with the Bank of England, could at any time be shipped to us and be sold here for full gold value. I explained that, in view of the obligation of the Secretary of the Treasury to maintain all our issues of money at parity, such U. S. gold coin could be redeemed only for face value and strongly suggested the inadvisability of sending such coin here.

Bolton thought it would interest us to know that there was evidence of Americans trying to sell securities in London or to raise money over there. Nothing was being actually done because the market was in no fit condition to absorb substantial sales because of the large extent of stale positions. The contemplated sales were not in the nature of short sales but rather for the purpose of raising capital and London, he thought, was chosen because of the restrictive regulations established in this country. If the sales were effected, it was his impression that the securities would be shipped from here. What the owners would do with the proceeds, he did not know, although he thought they would be used for genuine capital requirements.

LWK:EMC

Regraded Unclassified

PARAPHRASE OF TELEGRAM
SENT

TO: American Embassy, Paris

NO: 118

DATE: February 24, 1938

FOR COCHRAN FROM THE SECRETARY OF THE TREASURY.

You are requested to mail to Mr. Butterworth a copy
of your telegram No. 294.

HULL

EA:DJW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 24, 1938, noon

NO.: 294

RUSH

FROM COCHRAN.

Today at eleven o'clock I saw Marchandean, the Minister of Finance. I made reference to our conversation of February 18 in which he asked whether the American Treasury was disposed to open with France and England conversations under the Tripartite (see my telegram No. 268 of February 18, 6 p.m.).

I informed Marchandean that his inquiry had been communicated to Secretary Morgenthau. I said that Secretary Morgenthau had been away from Washington for a few days, but that upon his return he had authorized me to inform Mr. Marchandean that we are ready at any time to listen but that, in view of the international political atmosphere, it is essential that any consultations and conversations which may take place under the Tripartite should be strictly confidential and of a technical nature. Mr. Marchandean agreed that it is very necessary that the talks be secret, and that we use the methods of contact and communication heretofore utilized in technical monetary discussions. With this in mind, he said, Monick is returning to Paris at the end of the week to report

any

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any progress that he has made in London, although Mr. Marchandean said that in view of the British Cabinet crisis he doubted whether much could have been accomplished. After Monick has made his report the Minister will get in touch with me again.

Yesterday the French control lost a little more than 1,000,000 pounds. The pressure on the franc was even greater this morning. The control had yielded 400,000 pounds by 11:45 a.m., even though the rate had been permitted to move to 154.45. My contact admitted that the cracks in the French financial structure were becoming obvious. Last night the Governor of the Bank of France attended dinner at the Elysees. I understand he gained the impression there that even Marchandean's Government associates and political friends do not accept as serious measures toward reconstructing France's finances the Marchandean proposals which I reported in my telegram of February 23, 4 p.m., No. 289.

BULLITT.

REB

GRAY

London

Dated February 24, 1938

Rec'd 3:35 p. m.

Secretary of State,
Washington.

189, February 24, 7 p. m. (SECTION ONE)
FOR TREASURY FROM BUTTERWORTH.

In the course of his annual address as Chairman
of the National Mutual Life Assurance Society,
Maynard Keynes stated:

"In spite of the unemployment figures and the
depression on the stock exchange I am prepared for
my part to accept the repeated assurances of the
Government and the bankers that no significant
further recession is discernible in the very near
future. Indeed it would be disturbing if it were
otherwise during a period before rearmament
expenditure has reached its peak and after a period
during which we have had no benefit from Government
loan expenditure and have on the contrary been
forced to part with a large volume of liquid
resources to the holders of foreign refugee funds.
(* * *) I sympathize with the authorities in their
appeal

REB

2-#159, From London, Feb. 24, 7 p.m.
(Sec. One)

appeal to the business community not to become unduly slump conscious. What we need is that the roles should be reversed and that they should become more slump conscious. We could sleep more easily in our beds if we felt that they were sleeping less easily in theirs."

In the case of gilt-edged securities Keynes held the British Treasury directly responsible for much of the decline that has occurred during the past year and which a year ago he had claimed did not have to occur. (My 96 of February 25, 1937). He pointed to the sinking funds of public boards and local authorities, the vast repayments then being collected by building societies, the steady growth of deposits in the Post Office and trustee banks and the large sums being placed to reserve out of profits by industrial concerns.

(END SECTION ONE)

JOHNSON

WJC

SMS

LMS

PLAIN

London

Dated February 24, 1938

Rec'd 3:50 p. m.

Secretary of State,
Washington.

159, February 24, 7 p. m. (SECTION TWO)

All these he then said should amount to 400,000,000 pounds not in five years like the intended borrowing by the Government but in one year. So far the Treasury has made hardly any claim on these resources for armament purposes, the special issues until last week amounting to only 11,500,000 pounds. ~~It~~ therefore Keynes concludes that the exchange equalization fund has by its peculiar method of financing gold purchases transferred to foreign holders between 100,000,000 pounds and ^{pounds} 150,000,000 of liquid assets previously held by the domestic market. Instead of selling treasury bills to the market the fund raised some portion of the cash needed to pay the foreign sellers of gold by resale to the Bank of England, a larger portion in effect by issues of funding loan and national defence bonds, and most of the remainder by handing treasury bills to various government departments.

The

LMS 2.No. 159, February 24, 7 p. m., Sec. 2, from London.

The latter, in order to pay for the bills, sold some of their longer-termed securities to the market - 60,000,000 pounds worth, estimates Keynes. The securities thus sold were taken up at a sellers price by people who ~~reluctantly~~ exchanged for them more liquid holdings.

The net effect was that large liquid funds are now held in London by foreigners while domestic holders who in times of changing markets prefer liquidity were only induced by sharp falls in gilt-edged prices to take up less liquid assets. If these methods have according to Keynes directly caused the decline in fixed interest securities of 1936 and early 1937 he believes that it may later be discovered that the recent recovery has been due to a change of the funds technique. (In any case the evidence for this would not be forthcoming for some months.) The pressure on the franc was very great in the forenoon and the French fund must have lost a considerable amount of sterling even though the rate was allowed to go to 154.45. The future rates moved out to $2\frac{1}{4}$ for one month $5\frac{1}{2}$ for three months. Consequently the dollar was bid but in the afternoon the pressure on the franc faded out with the dissipation of rumors from Paris and the dollar market became idle.

End of Message.

JOHNSON

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 24, 1938, 5 p.m.

NO.: 296

FROM COCHRAN,

Franc has fluctuated rather widely. Bourse about even. No significant change in statement of Bank of France for week ended February 12 but gossip already circulating that statement appearing ECONOMY March will reveal that state has borrowed two billion francs on its credit with the bank. Exchange market is nervous with other rumors predicting issue of a national defense loan with exchange guarantee, revaluation of Bank of France gold, cabinet upset and imposition of tax on foreign exchange operations (connected with the required reporting of such operations mentioned final paragraph my 289, February 23, 4 p.m.)

According to my market contacts, the present pressure on the franc comes principally from selling in Paris. They suspect that today the French control worked through new unidentified agents to give the impression that the market was offering sterling.

BULLITT.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 24, 1938, 5 p.m.

NO.: 298

STRICTLY CONFIDENTIAL FOR THE SECRETARY.

This morning I made a courtesy call on Marchandau. Immediately he began discussion of the present financial condition in France and said that I must know as well as he did that he was in extremely serious difficulties in his position as Minister of Finance. He told me that he was defending the franc as well as he could, but that it was entirely possible that a financial collapse would drive the present Government out of office. Therefore he had felt that it was his duty as well as his right to consult with the British and the American Governments under the terms of the Tripartite.

I made no suggestion on the subject, but he himself began to talk about his recent conversations with Cochran (see Embassy's telegrams No. 268 of February 18, No. 278 of February 21, and No. 294 of February 24). The French Government desired if possible, he said, to achieve an agreement for simultaneous stabilization of the franc, pound and dollar, with support for the three currencies from all three countries.

I questioned the Minister of Finance as to whether he had the slightest hope that the British at this time would agree to stabilize their currency. In answer he

said

- 2 -

said that in the conversations which Monick had had with Sir John Simon, the latter had intimated that he would at least discuss the matter. Then I asked the Minister whether he took seriously such an intimation from Simon, and he said that indeed he did not believe it was worth a great deal.

The Minister of Finance said that he realized there were very good and legitimate reasons why neither Great Britain nor the United States might wish to stabilize just now, and that France could perfectly understand this. Marchandau made it abundantly clear that he had no expectation whatsoever that a stabilization agreement would be entered into by either Great Britain or the United States.

The Minister then said that even though it might [not?] be possible to reach an agreement for stabilization of currencies, he hoped that it would be possible to organize a close collaboration between the British, American and French Governments for united action against those who speculated against the French currency. I questioned Marchandau as to whether he believed that at this moment such speculation was serious; he replied that in the United States there was very little such speculation but that in Great Britain there was considerably more. He

felt

- 3 -

felt that there should be concerted common action to break the back of those who were attempting to depress the French franc.

Then I asked the Minister what sort of conversations he had envisaged; he said that he would like to have very rapid conversations on this proposal. If it should turn out that Great Britain and the United States should be interested in a careful examination of the stabilization question, it would obviously take much longer to complete discussions.

Finally the Minister said that he could not mention any three men in the world who had nastier jobs than Chautemps, Delbos and he himself had at the present time. He intimated that he would be as happy to give up his position as Chautemps and Delbos.

However, it does not seem likely that the present Government will fall at once, in spite of the fact that Delbos wants to resign and Chautemps feels that a Ministry with a broader parliamentary base than his present one is needed. The latter has taken the patriotic position that until the French have worked out some other governmental combination he will have to carry on and not make it necessary for France to go through another period of trying to form a Government - which might well come to the point of another appeal to Chautemps himself.

At

- 4 -

At the present time no prominent politician wants the job of forming a Government. This morning I had a talk with Blum, who told me that in view of recent events it was his opinion that it would be impossible for him to form a government. He said he expected to carry out his plan to make a visit to the United States.

Yesterday I had a long talk with Herriot, who expressed to me his objections to becoming Prime Minister of France. The entire policy which he had advocated and supported was in ruins now, he maintained. Herriot said that he felt his policy was the only one which could bring safety to France. However, he also recognized that at the present time it would involve danger of immediate war, since, should he form a government, he would issue orders for the French General Staff to engage immediately in military conversations with the General Staff of the USSR, in an effort to do everything possible to strengthen relations between these two countries. Herriot said that he would also urge the Soviets to support Czechoslovakia in case an attack on the latter should be made by Germany; he added that he believed Czechoslovakia would receive the support of the Soviets. In the event that Rumania should refuse to allow Russian troops to cross their territory in order to support the Czechs, Herriot thought that the Russians would

- 5 -

would cut through Rumanian territory "as through butter". Furthermore, Herriot believed that, in spite of the offensives of the Latvian and Lithuanian Governments, the Soviets would march through those countries against Germany.

The only prominent French politician who is anxious for the portfolio of Minister of Finance is Paul Reynaud. Yesterday I had a talk with him, and he told me that he hoped a national ministry would be formed by either Herriot or Blum, including representatives from all parties from the Communists to the ^{Right} group headed by Louis Marin, and he hoped that in such a ministry he would be Minister of Finance. Reynaud said that his policy would be to revalue the Bank of France's gold stocks, and in this way get enough funds to obviate the necessity of borrowing during the next six to nine months. The franc would be permitted to drop to any level it might go to; it was his belief that to make the franc extremely cheap is the only way to get Frenchmen to purchase francs. Reynaud made an effort to prove that in spite of appearances, for the past few years the French Government has been following a policy of deflation. He expressed the opinion that at the present moment a large inflation is essential.

BULLITT.

EA:LWW

AM

LMS

GRAY

Paris

Dated February 25, 1938

Rec'd 3:28 p. m.

Secretary of State,
Washington.

303, February 25, 5 p. m.

FROM COCHRAN.

Due to the need for francs for end of month and also to fact that big Paris banks are requested to pay into Treasury today funds received on subscriptions to new Treasury loan, money is tight and certain holders of sterling are obliged to sell. Both spot and forward franc have consequently improved and some small purchases of sterling were made around 153.80 by Societe Generale and the Comptoir, presumably for the French control.

Rentes are up and political atmosphere slightly better in spite of week-end parliamentary debates on important question of foreign policy and contentious labor code.

Market editor of the JOURNEE INDUSTRIELLE today writes that present would be propitious time for France and the United States to talk stabilization of currencies with Great Britain.

WILSON

HPD:SMS

JB

GRAY

London

Dated February 25, 1938

Rec'd 3:35 p.m.

Secretary of State,
Washington.

165, February 25, 5 p.m.

FOR THE SECRETARY OF THE TREASURY FROM BUTTERWORTH.

In accordance with the suggestion made in Monday's telephone conversation I took advantage of the first suitable occasion to have a word with Phillips about the President's statement on prices, copies of which I had previously sent to various officials of the British Treasury. Phillips began by saying he thought the issuance of this statement should prove helpful and that he was in general agreement with the outlined aims. He said he fully concurred in the belief that farm and raw material prices were too low and particularly in relation to the prices of manufactured goods even though the latter had somewhat declined in the last few months. In his view it was highly desirable to have a further increase in farm and raw material prices. Phillips went on to say that he differed however from the views expressed in the statement in that he had never thought that farm and raw material prices were too high last spring; they merely "threatened

-2- 165, February 25, 5 p.m., from London.

"threatened to be too high" and in this connection he referred to his talks with me reported in the penultimate paragraph my 137, March 12, 1937, third paragraph my 222, April 16, 1937 and second paragraph my 265, May 4, 1937. He added that in his view farm and raw material prices were at a more satisfactory level and in better relationship to the prices of manufactured goods a year ago than today.

Phillips also said that what the statement did not contain and doubtless could not contain was a discussion of the relations of prevailing wage rates to prices of manufactured goods; that although important changes had occurred since 1929, particularly technicological changes, it was nevertheless uncertain whether the increase in the wage bill could be thus absorbed. For his part he said he simply did not know. Phillips also expressed sincere interest in the methods to be employed in fostering the rise of certain prices while holding others steady.

The city has become somewhat sobered by its second thoughts on the implications arising out of "the Eden crisis" (for first thoughts see my 155, February 23, 8 p.m.). It has become increasingly aware that the Prime Minister for better or for worse has taken a course of action which will have repercussions in the internal as well as the external

-5- 165, February 25, 5 p.m., from London.

external political realm. As regards the internal political situation indications are now reaching the city that the events of this week, if an election had to be held now, would probably cost the parties to the National Government more votes than they are in a position to lose. As regards the external political situation while Eden's departure and the debunking of the League are still considered by the city as bull points the course of diplomatic events is anxiously awaited to reveal whether Chamberlain's optimism and "businesslike methods" will justify themselves by results.

Dealings were small on the foreign exchange market and rates were steady except towards the close the franc was again offered.

JOHNSON

CSB

February 25, 1936

To: The Secretary

From: Mr. Magill

1. Federal taxes of Mr. Nowak and the Nowak Milling Corporation of Hammond, Indiana

You handed me a clipping on Wednesday from the Chicago papers in which Mr. Nowak stated he was going out of business because of the taxes he had to pay. The individual income tax returns filed by Mr. Nowak show a tax of \$361 for 1934; \$368 for 1935. His corporation paid \$315 in 1934 and showed a deficit in 1935. The 1936 returns are in Chicago. In 1934, Mr. Nowak's corporation paid \$1917 of state taxes and in 1935 \$5403.43. Apparently the bulk of these taxes was paid to the State of Indiana and its local subdivisions. Thus, if any taxes caused Mr. Nowak to quit business, it must have been state and local taxes, and not Federal taxes.

2. Tax exemptions

You may be interested in looking over the draft of a possible message on tax exemptions which is attached. Please regard it merely as a preliminary draft, since a good deal of work remains to be done on it. For example, there are various types of tax exemptions which were not mentioned in the draft, but which probably should be indicated in the proposed message.

3. Processing taxes

Senator Fope called me with respect to cotton processing taxes which he is interested in advocating. He has been working with a man in the Department of Agriculture, who it seems advised the Senator that the Treasury was unwilling to give him certain information which he desired. I find that there was a good deal of uncertainty as to precisely what the Senator or his representative wished, whether a draft of a processing tax bill or merely statistical information. I told the Senator that our official views were contained in a letter to Congressman Marvin Jones, which you signed some months ago; and that if he would write me what additional information he wished, we could give him a prompt reply. I was careful not to give him any word approval of his processing tax proposals.

4. Mr. Arundell of the Board of Tax Appeals

In number of published opinions during the past five years Arundell stands right at the top among the members of the Board. In other words, he appears to be one of the most industrious members. Attorneys in the Appeals Division of the General Counsel's office say that he is a good tax lawyer and is very industrious. They feel that

- 2 -

he belongs to the group of Board members which is apt to be favorable to the taxpayers' contentions, particularly in those cases in which the General Counsel is contending that the form of the transaction should be disregarded and an additional tax collected on the basis of what the Bureau believes is the substance of the case. Similarly, in cases in which the Bureau is charging tax avoidance or evasion the attorneys in the Bureau feel that Arundell is apt to lean toward the taxpayers' contentions that no fraud or avoidance was involved. In the Mellon case, Arundell was one of the majority of the Board which decided various issues in favor of Mr. Mellon.

I have not discussed Arundell recently with lawyers outside of the Treasury. I imagine their point of view would be precisely the opposite of that of the Treasury attorneys. If you would like a further and more detailed report, I will be glad to give it to you next week.

Rm

Second draft

In a series of cases culminating in the Pollock decision more than 40 years ago, the Supreme Court established the doctrine that the interest on state and municipal bonds and the salaries of state and municipal officials are not subject to the general Federal income tax. Similarly, the interest on Federal bonds and the salaries of Federal officials are not subject to state taxation, although the Federal Government can and does tax such income.

The Sixteenth Amendment to the Constitution of the United States, finally approved in 1913, was proposed and adopted in order to lay at rest any question of the power of the Congress to tax incomes. The Amendment in terms gave the Congress the power "to lay and collect taxes on incomes, from whatever source derived." Literally, this broad language is sufficient to embrace all interest, including interest on state and local bonds; and all salaries, including salaries of state and local officials. Nevertheless, it has been persistently asserted that the exemptions considered to exist prior to the Sixteenth Amendment are still in existence despite the plain language of the Amendment. Consequently, the power there granted has never been fully exercised. The income tax acts themselves exclude from tax the interest on state and municipal bonds. There is no statutory exemption of official salaries, but subsequent court decisions have granted exemptions in some cases out of the great number which have been brought. Various limitations on the exemption have been expressed by the Supreme Court, and several Justices have strongly urged that it should be eliminated entirely.

- 2 -

These expressed and implied exemptions tend to defeat the equity of the Federal and state taxing systems, by establishing a privileged class of recipients of income, which is not subject to the burdens of taxation borne by other citizens similarly situated. At the present time, approximately \$1,154,000,000 in interest, and \$1,000,000,000 in salaries are wholly or partially exempt from income taxation. Likewise, the taxes borne by the mass of citizens are increased to the extent that the privileged group escapes. The progressive surtax rates can hardly be made to operate fairly or effectively, so long as tax-exempt bonds provide a ready means of escape from all income taxation.

I, therefore, recommend to the Congress that effective action be promptly taken either by statute or by constitutional amendment, to terminate these exemptions for the future. The legislation or amendment should confer the same powers on the states, with respect to the taxation of Federal bonds and Federal salaries, as is granted to the Federal Government with respect to state and local bonds and salaries.

I suggest also that the Congress provide by law that, from and after the effective date of the proposed enactment, the United States shall not issue any obligations which shall be exempt in any degree from taxation by the United States.

February 25, 1939.
9:00 a.m.

H.H.Jr: Hello.

Operator: Dr. Gruening.

H.H.Jr: Hello.

Ernest Gruening: Yes.

H.H.Jr: Morgenthau.

G: Good morning, Dr. Secretary.

H.H.Jr: How are you?

G: Fine.

H.H.Jr: Are we all fixed up?

G: I think so.

H.H.Jr: Well, they said you called me yesterday.

G: Well, I called you last night, because I had word that the thing had been fixed up, but Mr. Gibbons didn't know anything about it, and my man was telephoning - was on the telephone from Hawaii, quite frantically, at seven dollars a minute or some such cost, but I didn't want to talk to him until I could tell him something specific.

H.H.Jr: No, well I didn't have a chance to - with Gibbons. I cleared directly with Admiral Woesche.

G: Well that was very nice of you old man.

H.H.Jr: When I told McIntyre - I don't know, before four thirty that I had given the orders for the ship to sail.

G: Well, you see I - I - so many times somebody says it cleared and I wanted to get it officially from your department.

H.H.Jr: I don't - where you with McIntyre when he talked.

G: No, I was in my office.

H.H.Jr: Oh! Because he called me twice, and I - the second time he called I said I hoped he hadn't changed his mind.

- 2 -

Q:

No.

H.A.Jr:

And I - from my standpoint I'm glad it's happened, because I think from now on that the White House, if they want something like that, will ask me direct. On the other hand, I realize that for twenty four hours it put you in an embarrassing position, but I think in the long run it's good it happened.

Q:

Well the thing is, of course, I can't tell them how to run things over there, I merely got my instructions.

H.A.Jr:

I understand.

Q:

You see to carry them out as best as I could.

H.A.Jr:

Well, as I say, it was embarrassing to you for twenty four hours, but I think in the long run it's good.

Q:

All right. Well, thank you very much. I think it will be a very useful cruise.

H.A.Jr:

I hope so. Goodbye.

Q:

Goodbye.

February 25, 1938.
10:23 a.m.

Mortimer
Fox: Good morning Mr. Secretary.

H.H.Jr: How are you?

F: Pretty good, how are you?

H.H.Jr: Mr. Fox.

F: Yes.

H.H.Jr: I think my boys got in touch with you in regard to a study that you're making on -

F: That's right.

H.H.Jr: Tariffs, as it affects housing?

F: That's right, I was with Harry White this morning.

H.H.Jr: Oh, grand. Well I just want to tell you that I'm tremendously interested in it, and anything that you can give us on it will be greatly appreciated by both the President and myself.

F: Well, we'll do all we can. This was started some months ago to see what relationship there was between the tariff and prices.

H.H.Jr: Yes.

F: And I had the boys go over to the Housing Division to find out what are the essential materials.

H.H.Jr: Fine.

F: So that this study - it's very near completion. I understand it can be finished within a week and if pressure need be applied sooner than that.

H.H.Jr: Well by all means put on the pressure.

F: All right, Mr. Secretary. We'll do that.

H.H.Jr: You understand that we're very fearful of it getting out.

F: Oh absolutely. In fact I told Harry - I called over our chief of Economics Division, and told Harry that he was perfectly free in telling him, and I

- 2 -

instructed this man, Mr. - Dr. Pecay not to say
anything to anyone else around here.

H.M.Jr: Grand. Well -

E: And - you see, the other advantage we have, we have
specialists in these various fields, whose life work
it is to know all about those fields.

H.M.Jr: Well, isn't - isn't it grand that you got that head
start.

E: Yes.

H.M.Jr: Well, put the pressure on the boys.

E: All right, Mr. Secretary, we'll do that.

H.M.Jr: Thank you.

E: Yes.

February 25, 1938

10:30 a.m.

Present:

Ambassador of China
Mr. Taylor
Mr. Lochhead

HM, Jr.: Mr. Ambassador, I saw the President this morning.

Ambassador: Yes.

HM, Jr.: And we talked about your problem.

Ambassador: Yes.

HM, Jr.: And I am pleased to be able to report to you that beginning the first of March we will be very glad to renew the offer to buy another 50,000,000 ounces of silver.

Ambassador: That's very kind of you, indeed.

HM, Jr.: And on the same basis as before: 10,000,000 ounces each two weeks, at the price of that day. That will be on the first and fifteenth.

Ambassador: Yes, the first and fifteenth.

Well, I want to express once more the appreciation of our Government. I handed to you just a copy of the message I received that very day in which Dr. Kung wishes me to convey to you and through you to your Government

HM, Jr.: Fine.

Ambassador: our deep appreciation. I certainly will report this at once to Dr. Kung.

HM, Jr.: Sometime, if you had a little information -- I mean, I am so much in the dark as to

-2-

Ambassador: Yes.

HM, Jr: some of the progress you are making on the military front.

Ambassador: Yes.

HM, Jr: I read a lot and one despatch says this and another says that. I don't know how much comes through you, but I am naturally interested.

(Miss Chauncey excused from taking any more notes.)

oOo-oOo

February 25, 1938

Called on Senator Glass at his hotel and explained to him that I had talked with the President this morning about sending up a message on bank holding companies and explained that the delay was entirely mine because I did not have an opportunity to study the situation fully; that the President said for his (Senator Glass') confidential information he was leaving on March 20th and would like to have the matter cleaned up before then.

Glass said he was not going to be able to get away until the 12th or 17th on account of Appropriations hearings; that he was being crowded by McAdoo who wanted to have hearings on his two bills which Glass considered very bad. Glass said he would like me to suggest to the President that the matter go over entirely to the next session because he would have trouble with Senator Thomas of Oklahoma, and Goldsborough on monetary bills.

I asked what he thought of the idea about having a message just before this session of Congress adjourned, suggesting a Joint Committee of Congress to study the matter. He said he did not think very well of it.

I promised to talk to the President Monday and report back to him.

CONFIDENTIAL 532

LONDON, February 25, 1938.

No. 3959

SUBJECT: Conversations with Officials of the British Treasury regarding the American Treasury's Policy of "De-sterilizing" Gold.

STRICTLY CONFIDENTIAL

The Honorable

The Secretary of State,

Washington, D. C.

Sir:

I have the honor to refer to the Department's No. 68, February 15, 6 p.m., and, in compliance therewith, to enclose an account of the conversations which Mr. Butterworth had with officials of the British Treasury on the subject of the American Treasury's "de-sterilization" of gold policy.

Respectfully yours,

Herschel V. Johnson,
Chargé d'Affaires ad interim.

Enclosure:
Memorandum of
Conversations.

WWB/HM

Regraded Unclassified

MEMORANDUM

After receiving the Secretary of the Treasury's instructions at about 9 o'clock on the evening of February 11, 1938, I immediately called up Sir Frederick Phillips at his house to ensure, inasmuch as the next day was a Saturday, that he would go to the British Treasury and meet with me there. He readily agreed to do so.

Consequently I saw him at 11 a.m. February ~~12~~ 13 and explained the changes in the sterilization of gold policy which the American Treasury contemplated. I also passed on to him the explanatory information which Mr. Morgenthau had given me on the telephone to the effect that considering the importance of the psychological factor in this recession we were desirous of letting the world know as soon as possible that we intend to loosen some of the deflationary brakes applied during past months, that the proposed measure was one which the Administration could take without awaiting an enabling act on the part of Congress, and that it was hoped that it would prove helpful particularly in strengthening commodity prices. I also stated that the Secretary of the Treasury was anxious to make an announcement of this change as soon as possible, preferably over the weekend, and that I was instructed to say that we would be glad to have his reaction to this proposed measure and, if possible, his co-operation. He might wish to consider whether it was possible or desirable for the British Treasury to take some similar action, or at any rate to give a public indication of approval of the contemplated American action.

Phillips

-3-

Phillips was obviously attracted by the idea but explained that this being a Saturday he was without a Chancellor of the Exchequer and a Bank of England, and he went on to mention that the Bank of England was still charged in theory, and to some extent in practice, with the regulation of credit in the United Kingdom. He obviously had no definite ideas as to what parallel action, if any, could be taken here and for both these reasons he said he wished to postpone giving an answer until Monday.

I tried to ascertain what chance there was, in his opinion, of the British authorities going beyond making an approving statement, and I suggested that if it was merely a question of making such a statement in the House of Commons on Monday afternoon, the Secretary of the Treasury would probably wish to go ahead and make his announcement from Washington over the weekend; on the other hand, if he thought there was a substantial chance of parallel action being taken here, I felt sure Mr. Morgenthau would want to synchronize the timing and, therefore, would be willing to postpone the announcement until arrangements could be conveniently completed here. To this Phillips said -- and he asked me to convey it to Mr. Morgenthau in these words -- that he did not like to say that there was not a substantial chance of action; but he could not in the circumstances promise that if the American announcement was delayed, he would be able to give a favorable reply on Monday. Nevertheless, he hoped that no action would be taken over the weekend. He and I left it at that -- that he would communicate with me as early as possible on Monday afternoon,

afternoon, and that pending the receipt of his reply no announcement would be made in Washington unless I got in touch with him again and advised him in a contrary sense.

In the course of our discussion, Phillips did a certain amount of thinking out loud. In the first place, he said, he realized that this action would tend to make the dollar weak, but added that it would not be at all a bad thing for it to be weak against such currencies as the franc. He also stated that this measure might be called removing one of the deflationary brakes but it might likewise be termed reviving inflationary apprehensions and he went on to mention that the cost of living was again becoming a political issue in this country, and even though any action they might take would have no direct connection with the cost of living, it might be so interpreted politically. To this, I asked whether the rate of increase in unemployment was not also becoming an even more important political issue and whether the depression psychology was not growing. Phillips said that this was indeed true. He also took occasion to say, and, incidentally, he used the personal pronoun, "I have taken recently the only step I could to bolster psychology and implement the Van Zeeland report by removing some of the obstacles to foreign lending." But he went on to add that, unlike conditions in America, in Europe to-day the international political situation was overshadowing all other considerations: that all markets of every kind in this country were quiet due mainly to the shadow cast by the European and Far Eastern political happenings.

The above was reported to the Secretary of the Treasury when he telephoned at 2 p.m. on February 12, 1928.

arrange for a Parliamentary answer to that effect, and to make it clear that the action of the American Treasury was fully in line with the general policy pursued under past and present conditions here of maintaining a properly expanded credit base and that this still remained the policy of the British Government.

Waley and Phillips also took occasion to say that the trend of the discussion at the meeting revealed that there were two queries in the minds of most of the participants: one was a general query as to how far monetary factors alone could influence the restoration of confidence and improve business sentiment; the other, a specific one, was why this method was adopted which, in the last analysis, depended for its practical effect upon an abnormal movement of gold into the United States rather than the reduction of the recently raised reserve requirements.

I later informed Waley by telephone that Mr. Morgenthau had authorized me to say that a statement in the House of Commons along the lines suggested would be very acceptable.

W. W. Butterworth

LONDON, February 25, 1938.

No. 3959

SUBJECT: Conversations with Officials of the British Treasury regarding the American Treasury's Policy of "De-sterilizing" Gold.

STRICTLY CONFIDENTIAL

The Honorable

The Secretary of State,
Washington, D. C.

Sir:

1/ I have the honor to refer to the Department's No. 66, February 15, 6 p.m., and, in compliance therewith, to enclose an account of the conversations which Mr. Butterworth had with officials of the British Treasury on the subject of the American Treasury's "de-sterilization" of gold policy.

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Consequently I saw him at 11 A.M. February 12 and explained the changes in the sterilization of gold policy which the American Treasury contemplated. I also passed on to him the explanatory information which Mr. Morgenthau had given me on the telephone to the effect that considering the importance of the psychological factor in this recession we were desirous of letting the world know as soon as possible that we intend to loosen some of the deflationary brakes applied during past months, that the proposed measure was one which the Administration could take without awaiting an enabling act on the part of Congress, and that it was hoped that it would prove helpful particularly in strengthening commodity prices. I also stated that the Secretary of the Treasury was anxious to make an announcement of this change as soon as possible, preferably over the weekend, and that I was instructed to say that we would be glad to have his reaction to this proposed measure and, if possible, his co-operation. He might wish to consider whether it was possible or desirable for the British Treasury to take some similar action, or at any rate to give a public indication of approval of the contemplated American action.

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The above was reported to the Secretary of the Treasury when he telephoned at 2 p.m. on February 12, 1936.

At 4 p.m., on February 14, the Secretary of the Treasury telephoned and I then reported that I had just talked with Phillips and Waley, who, in giving me the Chancellor of the Exchequer's reply, had said that a meeting had been held that morning to discuss the whole problem; that the situations in the United States and Great Britain were, in the opinion of the participants at the meeting, not comparable; that the only two deflationary forces which had operated in Great Britain were the gold scare and Chamberlain's first National Defence Contribution tax, both of which had been obliterated by subsequent events. The Chancellor of the Exchequer had, therefore, stated that he could not think of any active steps of a new and striking character which could usefully be taken in this country to act as a parallel to our proposal, and that any action he might take would of necessity be going further than merely removing anything in the nature of a brake on business progress, such as real or supposed deflationary tendencies. In this connection, mention was also made of the recent modification of the restrictions on foreign lending and of the fact that the addition of gold to the Bank of England is not the normal or most convenient method of expanding the credit base here. Such expansion would in general be made against securities purchased by the Bank of England and in fact the credit base was very high at the present time through such operations.

I was informed, however, that Sir John Simon was very ready to make public his sympathy with Mr. Morgenthau's aims, and that he offered, if it be thought helpful, to

arrange

-5-

arrange for a Parliamentary answer to that effect, and to make it clear that the action of the American Treasury was fully in line with the general policy pursued under past and present conditions here of maintaining a properly expanded credit base and that this still remained the policy of the British Government.

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W. W. Butterworth

RECEIVED
FEB 25 1938
TREASURY DEPARTMENT
WASHINGTON, D. C.

LONDON, February 25, 1938.

Regraded Unclassified

QUADRUPLICATE

LONDON, February 25, 1938.

No. 3959

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STRICTLY CONFIDENTIAL

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343

MEMORANDUM

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Consequently I saw him at 11 a.m. February 12 and explained the changes in the sterilization of gold policy which the American Treasury contemplated. I also passed on to him the explanatory information which Mr. Morgenthau had given me on the telephone to the effect that considering the importance of the psychological factor in this recession we were desirous of letting the world know as soon as possible that we intend to loosen some of the deflationary brakes applied during past months, that the proposed measure was one which the Administration could take without awaiting an enabling act on the part of Congress, and that it was hoped that it would prove helpful particularly in strengthening commodity prices. I also stated that the Secretary of the Treasury was anxious to make an announcement of this change as soon as possible, preferably over the weekend, and that I was instructed to say that we would be glad to have his reaction to this proposed measure and, if possible, his co-operation. He might wish to consider whether it was possible or desirable for the British Treasury to take some similar action, or at any rate to give a public indication of approval of the contemplated American action.

Phillips

Phillips was obviously attracted by the idea but explained that this being a Saturday he was without a Chancellor of the Exchequer and a Bank of England, and he went on to mention that the Bank of England was still charged in theory, and to some extent in practice, with the regulation of credit in the United Kingdom. He obviously had no definite ideas as to what parallel action, if any, could be taken here and for both these reasons he said he wished to postpone giving an answer until Monday.

I tried to ascertain what chance there was, in his opinion, of the British authorities going beyond making an approving statement, and I suggested that if it was merely a question of making such a statement in the House of Commons on Monday afternoon, the Secretary of the Treasury would probably wish to go ahead and make his announcement from Washington over the weekend; on the other hand, if he thought there was a substantial chance of parallel action being taken here, I felt sure Mr. Morgenthau would want to synchronize the timing and, therefore, would be willing to postpone the announcement until arrangements could be conveniently completed here. To this Phillips said -- and he asked me to convey it to Mr. Morgenthau in these words -- that he did not like to say that there was not a substantial chance of action; but he could not in the circumstances promise that if the American announcement was delayed, he would be able to give a favorable reply on Monday. Nevertheless, he hoped that no action would be taken over the weekend. He and I left it at that -- that he would communicate with me as early as possible on Monday afternoon.

-3-

afternoon, and that pending the receipt of his reply no announcement would be made in Washington unless I got in touch with him again and advised him in a contrary sense.

In the course of our discussion, Phillips did a certain amount of thinking out loud. In the first place, he said, he realized that this action would tend to make the dollar weak, but added that it would not be at all a bad thing for it to be weak against such currencies as the franc. He also stated that this measure might be called removing one of the deflationary brakes but it might likewise be termed reviving inflationary apprehensions and he went on to mention that the cost of living was again becoming a political issue in this country, and even though any action they might take would have no direct connection with the cost of living, it might be so interpreted politically. To this, I asked whether the rate of increase in unemployment was not also becoming an even more important political issue and whether the depression psychology was not growing. Phillips said that this was indeed true. He also took occasion to say, and, incidentally, he used the personal pronoun, "I have taken recently the only step I could to bolster psychology and implement the Van Zeeland report by removing some of the obstacles to foreign lending." But he went on to add that, unlike conditions in America, in Europe to-day the international political situation was overshadowing all other considerations: that all markets of every kind in this country were quiet due mainly to the shadow cast by the European and Far Eastern political happenings.

The above was reported to the Secretary of the Treasury when he telephoned at 2 p.m. on February 12, 1935.

At 4 p.m., on February 14, the Secretary of the Treasury telephoned and I then reported that I had just talked with Phillips and Waley, who, in giving me the Chancellor of the Exchequer's reply, had said that a meeting had been held that morning to discuss the whole problem; that the situations in the United States and Great Britain were, in the opinion of the participants at the meeting, not comparable; that the only two deflationary forces which had operated in Great Britain were the gold scare and Chamberlain's first National Defence Contribution tax, both of which had been obliterated by subsequent events. The Chancellor of the Exchequer had, therefore, stated that he could not think of any active steps of a new and striking character which could usefully be taken in this country to act as a parallel to our proposal, and that any action he might take would of necessity be going further than merely removing anything in the nature of a brake on business progress, such as real or supposed deflationary tendencies. In this connection, mention was also made of the recent modification of the restrictions on foreign lending and of the fact that the addition of gold to the Bank of England is not the normal or most convenient method of expanding the credit base here. Such expansion would in general be made against securities purchased by the Bank of England and in fact the credit base was very high at the present time through such operations.

I was informed, however, that Sir John Simon was very ready to make public his sympathy with Mr. Morgenthau's aims, and that he offered, if it be thought helpful, to arrange

arrange for a Parliamentary answer to that effect, and to make it clear that the action of the American Treasury was fully in line with the general policy pursued under past and present conditions here of maintaining a properly expanded credit base and that this still remained the policy of the British Government.

Waley and Phillips also took occasion to say that the trend of the discussion at the meeting revealed that there were two queries in the minds of most of the participants: one was a general query as to how far monetary factors alone could influence the restoration of confidence and improve business sentiment; the other, a specific one, was why this method was adopted which, in the last analysis, depended for its practical effect upon an abnormal movement of gold into the United States rather than the reduction of the recently raised reserve requirements.

I later informed Waley by telephone that Mr. Morgenthau had authorized me to say that a statement in the House of Commons along the lines suggested would be very acceptable.

H. W. Butterworth

RECEIVED

COMMERCIAL

COMMERCIAL

COMMERCIAL

LONDON, February 25, 1938.

Regraded Unclassified

LONDON, February 25, 1938.

No. 3989

SUBJECT: Conversations with Officials of the British Treasury regarding the American Treasury's Policy of "De-sterilizing" Gold.

STRICTLY CONFIDENTIAL

The Honorable

The Secretary of State,
Washington, D. C.

Sir:

I have the honor to refer to the Department's No. 88, February 15, 6 p.m., and, in compliance therewith, to enclose an account of the conversations which Mr. Butterworth had with officials of the British Treasury on the subject of the American Treasury's "de-sterilization" of gold policy.

Respectfully yours,

Herschel V. Johnson,
Chargé d'Affaires ad interim.

Enclosure:
Memorandum of
Conversations.

MEMORANDUM

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Consequently I saw him at 11 A.M. February 12 and explained the changes in the sterilization of gold policy which the American Treasury contemplated. I also passed on to him the explanatory information which Mr. Morgenthau had given me on the telephone to the effect that considering the importance of the psychological factor in this recession we were desirous of letting the world know as soon as possible that we intend to loosen some of the deflationary brakes applied during past months, that the proposed measure was one which the Administration could take without awaiting an enabling act on the part of Congress, and that it was hoped that it would prove helpful particularly in strengthening commodity prices. I also stated that the Secretary of the Treasury was anxious to make an announcement of this change as soon as possible, preferably over the weekend, and that I was instructed to say that we would be glad to have his reaction to this proposed measure and, if possible, his co-operation. He might wish to consider whether it was possible or desirable for the British Treasury to take some similar action, or at any rate to give a public indication of approval of the contemplated American action.

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-2-

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W. S. Butterworth

RECEIVED

1936 FEB 25

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RECEIVED

LONDON, February 25, 1936.

Regraded Unclassified

TREASURY BONDS CALLABLE OR MATURING AFTER 1947

Rate (%)	Date Callable or Maturing	YEAR		Amount Outstanding	YIELD	
		Callable	Maturing		To Call	To Mat.
4% 1944-54	December 15	1944	1954	\$1,037 M	1.92	3.00
3-3/4% 1946-56	March 15	1946	1956	489	2.16	2.92
3-1/8% 1946-49	June 15	1946	1949	819	2.23	2.43
3% 1946-48	June 15	1946	1948	1,036	2.20	2.33
4-1/4% 1947-52	October 15	1947	1952	759	2.21	2.78
2-3/4% 1948-51	March 15	1948	1951	1,223	2.45	2.51
3-1/8% 1949-52	December 15	1949	1952	491	2.48	2.49
2-1/2% 1949-53	December 15	1949	1953	1,786	2.47	2.48
2-3/4% 1951-54	June 15	1951	1954	1,627	2.59	2.62
3% 1951-55	Sept. 15	1951	1955	755	2.58	2.66
2-7/8% 1955-60	March 15	1955	1960	2,611	2.69	2.72
2-3/4% 1956-59	Sept. 15	1956	1959	982	2.64	2.65
				<u>\$13,615 M</u>		

Estimate of Cash Position
February - June, 1938
(In millions of dollars)

	<u>1938</u> <u>February</u>	<u>March</u>	<u>April</u>	<u>May</u>	<u>June</u>	<u>Total</u>
Balance at beginning of period	926	950	1,079	817	932	926
Receipts:						
General revenue	360	972	315	394	804	2,845
Unemployment Trust Fund	95	32	28	71	44	270
U. S. Savings bonds	50	40	30	25	25	170
Silver certificates	25	10	5	--	--	40
Gold (net)	24	--	--	--	--	24
Sale of securities - Special Accounts..	3	--	--	--	--	3
Treasury bills	--	200 (June)	--	200 (Sept.)	--	400
 Total available	 1,483	 2,204	 1,457	 1,507	 1,805	 4,678
Expenditures:						
General	300	350	360	330	300	1,640
Emergency	170	190	190	190	190	930
Interest on public debt	18	155	70	10	175	428
Special transactions	10	--	--	30	--	40
Debt redemptions	35	430	20	15	230	730
 Total	 533	 1,125	 640	 575	 995	 3,768
 Balance at end of period	 950	 1,079	 817	 932	 910	 910
Refunding Operations:						
Treasury bills:						
Regular	200	350	400	400	600	1,950
Special	--	400	--	--	200	600
Treasury notes	--	455	--	--	618	1,073
 Total	 200	 1,205	 400	 400	 1,418	 3,623

ACCOUNTS AND DEPOSITS
February 25, 1938

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TELEGRAM SENT

JR

GR/Y

February 25, 1938

2 p.m.

EMBASSY,

LONDON.

85.

For Butterworth from Secretary of the Treasury.

Mail latest report **interdepartmental** committee appointed to survey the prices of building material. Last report received dated November, 1933. Please also advise constitution of the committee and how made up.

HULL
(HF)

EL:MD

Rec. am. 2/27 Feb 1938

February 25, 1938

My dear Mr. President:

I am transmitting herewith preliminary report covering the first two weeks of February on United States trade with China and Japan.

Respectfully,

The President,
The White House.

February 25, 1938

My dear Mr. Secretary:

I am transmitting herewith preliminary report covering the first two weeks of February on United States trade with China and Japan.

Sincerely yours,

The Honorable

The Secretary of State.

February 25, 1938

My dear Mr. Secretary:

I am transmitting herewith preliminary report covering the first two weeks of February on United States trade with China and Japan.

Sincerely yours,

The Honorable

The Secretary of War.

Prepared by Mr. Harry D. White,
Assistant Director of the Division
of Research and Statistics.
Listed by Miss Vebie M. Northrop
Mr. Harry E. Nespe

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IRY DEPARTMENT

OFFICE COMMUNICATION

DATE February 24, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Current United States trade with Japan and China
(Preliminary data)

(1) United States exports to Japan during the first two weeks of February 1938 were about 6 percent lower than during the first two weeks of January 1938, and about 12 percent lower than during the first two weeks of December 1937.

United States exports to Japan

	<u>1st week</u>	<u>2nd week</u>	<u>Total - 1st 2 weeks</u>
February 1938	Nil	\$6,112,000	\$6,112,000
January 1938	\$2,726,000	3,759,000	6,485,000
December 1937	1,694,000	5,218,000	6,912,000
November 1937	1,180,000	4,813,000	5,993,000

(2) The following items show large increases in our exports to Japan during the first two weeks of February 1938, as compared with the first two weeks of January 1938.

	<u>First two weeks of</u>		
	<u>February 1938</u>	<u>January 1938</u>	<u>December 1937</u>
Industrial machinery	\$985,000	\$851,000	\$607,000
Vehicles, parts & accessories	624,000	230,000	480,000
Scrap iron and steel	441,000	45,000	411,000
Pig iron	314,000	110,000	Nil
Fertilizer & fertilizer materials	248,000	Nil	134,000
Tobacco & manufactures	289,000	Nil	257,000

Secretary Morgenthau - 2

The following items show sharp decreases in our exports to Japan during the first two weeks of February 1938, as compared with the first two weeks of January 1938.

	First two weeks of		
	February 1938	January 1938	December 1937
Raw cotton	\$1,116,000	\$1,533,000	\$ 287,000
Petroleum products	547,000	1,958,000	1,408,000
Copper	214,000	430,000	234,000
Paper base stocks	201,000	382,000	1,314,000

(3) Of the total of \$6,112,000 of exports to Japan during the first two weeks of February 1938, the following items account for almost all.

Raw cotton	\$1,116,000	
Industrial machinery	985,000	
Vehicles, parts & accessories	624,000	
Petroleum products	547,000	
Scrap iron & steel	441,000	
Pig iron	314,000	
Tobacco & manufactures	289,000	
Fertilizers	248,000	
Copper	214,000	
Paper base stocks	201,000	
Total	4,979,000	81%
All other	1,133,000	19%
Grand total	\$6,112,000	

(4) United States imports from Japan decreased about 38 percent during the first two weeks of February 1938, as compared with our imports during the first two weeks of January 1938.

United States imports from Japan

	1st week	2nd week	Total - 1st 2 weeks
February 1938	\$1,553,000	\$2,327,000	\$3,880,000
January 1938	2,033,000	4,185,000	6,218,000
December 1937	2,159,000	3,406,000	5,565,000
November 1937	3,239,000	3,654,000	6,893,000

Secretary Morgenthau - 3

(5) The imports of raw silk from Japan showed the principal decrease; imports other than raw silk declined over \$1,000,000, but individual items maintained about their same relative positions.

Imports during the first two weeks of	Raw silk	Total imports other than raw silk	Total
February 1938	\$2,468,000	\$1,412,000	\$3,880,000
January 1938	3,780,000	2,438,000	6,218,000
December 1937	2,937,000	2,628,000	5,565,000
November 1937	3,916,000	2,977,000	6,893,000

(6) Of the total of \$3,880,000 of our imports from Japan during the first two weeks of February 1938, the following items account for almost all.

Raw silk	\$2,468,000	
Cotton manufactures	323,000	
China & porcelain ware	92,000	
Hats & hat materials	87,000	
Menthol	54,000	
Pyrethrum flowers	52,000	
Total	3,076,000	79%
All other	804,000	21%
Grand total	\$3,880,000	

United States trade with China during the first two weeks of February 1938.

(7) United States exports to China and Manchuria during the first two weeks of February were about 26 percent lower than during the first two weeks of January 1938. Exports to North China and Manchuria declined 50 percent and exports to Shanghai, South China and Hong Kong declined 13 percent.

United States exports to

First two weeks of	North China and Manchuria	Shanghai, South China and Hong Kong	Total
February 1938	\$ 557,000	\$1,842,000	\$2,399,000
January 1938	1,116,000	2,114,000	3,230,000
December 1937	1,323,000	1,808,000	3,131,000
Whole month of February 1937		\$5,262,000	

Secretary Morgenthau - 4

(8) Leading export items to China:

(a) To North China and Manchuria:

	First two weeks of February 1938	January 1938
Iron & steel & manufactures	\$205,000	\$ 654,000
Automobile parts & accessories	87,000	106,000
Copper	62,000	54,000
Industrial machinery	57,000	83,000
Wood & manufactures	55,000	4,000
All other	91,000	215,000
Total	\$557,000	\$1,116,000

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

	First two weeks of February 1938	January 1938
Automobile parts & accessories (including aircraft)	\$ 613,000	\$ 756,000
Firearms & ammunition	381,000	420,000
Printed matter	144,000	2,000
Petroleum products	127,000	130,000
Tobacco & manufactures	96,000	16,000
Tin plate, taggers tin & ternplate	64,000	32,000
All other	417,000	758,000
Total	\$1,842,000	\$2,114,000

(9) United States imports from China and Manchuria declined about 53 percent in the first two weeks of February 1938, as compared with the first two weeks of January 1938. Imports from North China declined 67 percent and imports from Shanghai, South China and Hong Kong declined 47 percent.

United States imports from

First two weeks of	North China and Manchuria	Shanghai, South China and Hong Kong	Total
February 1938	\$207,000	\$ 826,000	\$1,033,000
January 1938	629,000	1,559,000	2,188,000
December 1937	541,000	1,905,000	2,446,000
		\$11,804,000	
Whole month of February 1937			

Secretary Morgenthau - 5

(10) Leading imports from China:

(a) From North China and Manchuria:

	First two weeks of	
	<u>February 1938</u>	<u>January 1938</u>
Textile materials & manufactures	\$109,000	\$139,000
Perilla oil	39,000	41,000
Animal products, inedible	27,000	211,000
Sausage casings	23,000	4,000
All other	<u>9,000</u>	<u>234,000</u>
Total	\$207,000	\$629,000

(b) From Shanghai, South China and Hong Kong:

	First two weeks of	
	<u>February 1938</u>	<u>January 1938</u>
Tin, ore, bars, etc.	\$172,000	\$ 134,000
Tung (wood) oil	138,000	429,000
Flax, etc.	108,000	270,000
Bristles	84,000	110,000
Vegetables, edible	73,000	122,000
All other	<u>251,000</u>	<u>494,000</u>
Total	\$826,000	\$1,559,000

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 25, 1938.

TO Secretary Morgenthau
FROM Mr. Taylor

I had a talk today with Harry White and George Haas on the subject of Housing Study and I believe that we are going to be able to show by charts the various elements of cost which can be affected by particular actions as well as the extent of the "racket" item in the cost of a house. It will be interesting to see how large this latter item will appear when it is broken down.

I lunched with Warren Pierson of the Export-Import Bank and he informed me that he had finally been able to arrange a funding agreement with the Germans by which they will retire on a regular basis the indebtedness they incurred in connection with the purchase of wheat through the Farm Board. He has been working on this matter for quite a while and it is my impression that the arrangement which he finally negotiated was made possible on account of the occurrences of the last two weeks which did not make it appear desirable for our German friends to default on this particular item. He is sending me a memorandum which I will turn over to you giving the details of the negotiations and of the settlement which he reached.

Pierson also informed me that at the request of the Secretary of State the President has formed an Inter-departmental Committee which is going to work out a method of broadcasting American propaganda in Latin America to counteract the very heavy output of Fascist, Nazi and Communist information which is being poured into the ears of our southern neighbors.

- 2 -

The Committee hasn't made too much progress as yet, but Pierson is hopeful that something useful will emerge.

Jesse Jones called me from Miami Beach at lunch time to tell me, among other things, that the President was going to designate wool as a commodity on which the Commodity Credit Corporation should offer loan facilities; that Wallace had originally been opposed to the program but had now changed his mind and that on the basis of the suggested loan price it was advisable to do so. He also informed me that he felt that the general undertone of business and the sentiment of the country appeared to be considerably better. I would interpret this to mean that some of the "big shots" who infest Miami Beach are feeling a little better about things.

When I talked to Marriner Eccles about the Open Market Committee meeting I got the impression that he was a great deal calmer than the last time I had seen him. ^{before} Adding all these things together, I would say that the general tone has improved materially during the past week. I am afraid that the French situation may develop along lines which can be at least momentarily disturbing, but developments over this weekend ought to do much to clarify this situation.

W.E.J.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE *Jul 25, 1938*

TO Secretary Morgenthau
FROM Herman Oliphant

For your information

I spent several hours yesterday afternoon in a conference in the chambers of Federal District Judge Caffey in New York on the Genesee case. There were present Roy Smith of SEC; Mr. Kline, representing the Bank of Manhattan, trustee for the bondholders; and Mr. Landis, representing the debtor corporation.

Mr. Smith outlined the plan of reorganization which we had worked out. Mr. Kline followed by outlining a modification of this plan, enlarging the benefits that would go to the bondholders. Judge Caffey indicated that he would not approve either plan without an audit and valuation of the debtor corporation, which would take a good deal of time with a likelihood of the need for an historical audit by the State Public Service Commission of one of the subsidiaries, which would take six months or a year. The discussion developed agreement that these delays could be avoided by distributing the bonds of the Pavilion Company, held by the Genesee Company, direct to the bondholders of the Genesee Company and by retaining the Genesee Company as a conduit for whatever stock might be issued to cover values in excess of the interest of the Genesee bondholders.

SEC had wanted to wipe out all holding companies, but, after considerable discussion and in order to avoid delay, Mr. Smith said he would recommend the retention of the Genesee Company for the limited purpose indicated above.

On this basis, Mr. Landis, for the debtor, undertook to prepare and submit a plan for reorganization and promised to have it to us within a very few days.

February 25, 1938

I showed the attached clipping to the President
and he was very much interested.

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Prices Appear More Stable With Tendency to Strengthen

Many Merchants Feel Immediate Future Movement of
Dry Goods Prices Will Be Upward—Early Depart-
ment Store Reports for January Show Further
Liquidation of Inventories

Although activity in the dry goods markets this week has been below a seasonal level there has been some thawing of the resistance and hesitancy among buyers during recent weeks. A more stable price situation in several quarters of the market has been one of the causes for the slightly better movement of merchandise. Merchants who have been waiting for the general price structure of the dry goods market to level off, although still hesitant about placing commitments too far ahead, are beginning to make inquiries for merchandise. Too, in some sections of the market there have been some advances effected. Although these increases have not stimulated business and in some instances have met with resistance, several capable merchants feel that the immediate future trend will be upward rather than downward. Several buyers of finished goods have been delaying purchases because of the late winter. There is also danger in this course, according to sellers, who claim that finished goods inventories are not at a point where the trade can be certain of immediate delivery later in the spot market season.

Weighting Presents Problem

It is expected that the question of just how weighted silks should be labeled will be the one discussed at longest length next Friday at the Federal Trade Commission's conference on silk labeling rules. While one trade group believes that all weighted fabrics should be conspicuously labeled as weighted, but that the giving of percentages would serve only to confuse the consumer, another group is expected to sponsor rules making the giving of percentages mandatory. The commission itself and some consumer groups, notably those made up of club women, are also said to believe that percentages of weighting should be included in labels. There is a general feeling on the part of a number of silk manufacturers, however, that the construction of the cloth and of the garments made therefrom is a little more important today than is a weighting percentage which may mean much or little according to the type of cloth weighted and the use to which that cloth is put.

Department Store Stocks Lower

Further inventory reductions with the department stores during the month of January is shown in the first Federal Reserve Bank report-out for that month, covering business results in Boston stores. Inventories as a whole are shown to be down 5.2 per cent, compared with the same month in 1937. Sales results of the same store, as reported before, were off 3.1 per cent. In textile departments of these stores, the month's results were generally unsatisfactory in comparison with the year before. Men's clothing did register a slight gain in sales of 0.3 per cent, but stocks were 17.9 per cent higher. Men's furnishings sales were off 1.1 per cent, with stocks down 4.1 per cent. In women's, misses and juniors' ready-to-wear, coat sales were down 4.7 per cent and stocks off 7.9 per cent; dress sales were lower by 14.9 per cent, and stocks down 18.5 per cent. In women's accessories, hosiery sales were down 1.1 per cent and stocks off 9.5 per cent. In home furnishings, floor covering sales were off 19.1 per cent and stocks down 15 per cent. Sales of domestics, however, gained as much as 17 per cent, the best of any department, while stocks were off 18.1 per cent. In place goods departments, the silk and velvet business was down 17.4 per cent, and stocks lower by 12.3 per cent. Woolen dress goods sales also were lower by 7.4 per cent and stocks down 7.4 per cent.

France Delays Its Choice 'Between Soviet and Britain

BY EDGAR ANSEL MOWRER.

SPECIAL RADIO

To The Chicago Daily News Foreign Service.
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Paris, Feb. 28.—The full-dress debate on French foreign policy, which ended with 439 votes for the cabinet and 2 against, with about 100 abstentions, was not a real victory for the partisans of an independent democratic French policy, but it certainly was not a defeat.

France will not follow Great Britain in the policy of depreciating the League of Nations or of stooping to the dictatorships. It maintains a stand against foreign intervention in Spain and further German attempts on Austrian sovereignty, and will fight to defend Czechoslovakia.

But at the same time France will follow Britain—almost any Britain, whether that of Neville Chamberlain or of Anthony Eden. It will not attempt to obstruct the British conversations with Italy, or even with Germany, and may actually take part in the former interchanges.

British Envoy Pledges Amity.

There was a chance that a French majority might have been found to deepen the friendship with the Soviets and the Czechs. The British ambassador, Sir Eric Phipps, took the unusual step of leaving his seat in the diplomatic gallery of the chamber of deputies and carrying to Premier Camille Chautemps and Foreign Minister Yvon Delbos renewed assurance of British friendship.

The French realize perfectly well that the time may come when they will have to choose between following a Britain determined to allow Hitler and Mussolini a free hand in carving up Central Europe and the Mediterranean basin, and agree-

ing with Soviet Russia to oppose them.

But so long as it is possible that choice will be avoided. It was, to say the least, a warning to the dictators to note how, under real pressure, the warring factions in the chamber proceeded to coalesce and give the Chautemps cabinet a record majority.

Blum Stresses Situation.

Even former Premier Pierre Etienne Flandin, head of the pro-Italian school, who still hopes to be sent to Rome as ambassador, did not dare to vote against the Chautemps-Delbos line, especially after the intervention of Leon Blum, former Socialist premier, who recalled to Flandin the facts of the situation.

Chautemps nearly lost his majority when he forbade Socialist and Communist public meetings Saturday night in honor of the German Communist, Ernst Thaelmann. This seemed too much like taking orders from Berlin. But he repurchased support by authorizing the same meeting for tomorrow night.

Nonetheless, the Chautemps cabinet is threatened. The Senate refuses to accept, unmodified, the labor statute which Chautemps has more or less guaranteed, and he threatens to leave if the Senate does not yield. This would unquestionably provoke a vast popular movement against the undemocratically elected Senate.

This correspondent has the impression that France is moving toward a national concentration cabinet, but the process is slow.

Spain Needs War Material; Premier Appeals to People

BY RICHARD MOWRELL

SPECIAL RADIO

As The Chicago Daily News Foreign Service
Correspondent, 1936, The Chicago Daily News, Inc.
Barcelona, Feb. 28.—With the fall

of Teruel and the resignation of Capt. Anthony Eden as Britain's foreign minister, two things have become abundantly clear to the Spanish government. The first is that unless the republican army is adequately supported by substantial quantities of artillery and planes, it can only remain on the defensive and allow Rebel Generalissimo Franco to strike when and where he pleases.

The second is that with the British still trying to buy off Premier Mussolini, the chances of loyalist Spain's eventually getting a fair deal internationally are virtually nil, and resistance to Franco and fascist domination of Spain are up to the Spaniards alone.

This view was expressed by the loyalist premier, Dr. Juan Negrin, in a broadcast Saturday night to "all Spaniards." The speech was primarily an appeal to the rear guard to knuckle down and provide the army with war materials it needs.

"Produce More," He Urges.

The enemy's vast superiority of heavy artillery and airplanes sup-

plied by Germany and Italy—no Gen. Franco's troops—won Teruel back for the rebels, Dr. Negrin said. The margin of inequality in arms must be diminished, he continued, and the workers in the rear can do this.

"Our entire problem consists in producing more," he said. "To do this longer working hours and more raw materials are necessary."

Dr. Negrin said in effect that loyalist Spain has a fine army which must have more co-operation from the rear if it is to win the war and apparently the government intends to see that this co-operation is forthcoming.

"The government assumes the responsibility of supplying the army with armaments which it needs to wage and win the war," he said.

International developments are being followed with considerable misgivings. There is an uneasy feeling that whatever deal Prime Minister Neville Chamberlain and Premier Mussolini may agree to will be, as usual, at the expense of loyalist Spain.

Well-informed Spaniards here think that for the next few weeks at least Mussolini will make seemingly important concessions to Chamberlain, such as the withdrawing of Italian troops from Spain. Such a move would, in Spanish eyes, be impressive, but beside the point in view of the masses of war materials and the number of military technicians now at disposal of Gen. Franco.

Spaniards do not think highly of the fighting qualities of the Italian troops in Spain and their great numbers on Spanish soil are of less concern to them than the almost overwhelming quantities of arms with which the rebels are provided.

It is feared, furthermore, that a compensation for withdrawing his troops from Spain if Duce will ask Chamberlain for the complete, airtight application of the hitherto openly violated nonintervention agreement, extending to the hermetical sealing of the French frontier. This would mean a real blockade of Loyalist Spain, dependent abroad for much of the raw materials it needs to make arms which nonintervention has prevented it from importing.

Expect Ships to Bring Arms.

It is feared that Prime Minister Chamberlain would fall for an offer of this kind on the part of Duce, and it is feared that he could persuade the French to close their Pyrenees frontier to all trade. For awhile at least the withdrawal en masse of Mussolini's troops from Spain would look like a great success for Chamberlain. But few people here think that ships coming to take the Italians away would come empty—they would come loaded with more arms for Franco.

It is well known here that the deepest wish of Franco and his allies is to make the blockade of Loyalist Spain complete. To be effective, commerce over the Pyrenees frontier must cease altogether. Intelligent Spaniards here cannot help but wonder, in view of past experience, if the French can be duped again by acquiescing to complete smothering of Loyalist Spain in exchange for impressive but basically unimportant withdrawal of Italian armies from Spain.

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 26, 1938, 4 p.m.

NO.: 308

FROM COCHRAN. STRICTLY CONFIDENTIAL.

I had a talk with Paris Morgan partner this afternoon. He said that the London partner in Lazard Freres, Sir Robert Kindersley, yesterday morning had called on Marchandau, Minister of Finance. The Minister, during the conversation, raised the question without making a direct request as to whether a credit for the French Government could be arranged by Lazard and associated London bankers. Marchandau told Kindersley that short term borrowing abroad was not aiding France, and that any new credit should be preferably for three years, ~~and~~ or at any rate for a minimum of one and one-half years. It is reported that Kindersley said he did not see any opportunity for such an operation at present.

The Paris Morgan partner spent last week in London. There he discussed with his London firm of Morgan Grenfel the question of some eventual aid to France. Morgan Grenfel usually works in cooperation with Lazard and Rothschild in financing for the French Government. It was my friend's opinion that it would be entirely impossible to get a new short term credit for France from London. As for a medium term credit of three or five years minimum or a longer term loan, that would only be undertaken with great reluctance, and then only if it should be requested

- 2 -

by the British Government. In his opinion 15 or 20 million pounds would be the maximum for such a loan.

My friend said he believed that a medium or preferably long term loan from sources in Great Britain or the United States, governmental or otherwise, is essential before French finances and currency can definitely be righted, and that eventually circumstances will warrant such assistance. However, he does not believe that any move in this direction should be made until a ^{further} move has been made by France toward correcting the internal political, economic and social situation, and until some influential leader in the Government or otherwise has had the courage to make clear the actual seriousness of the French situation and to demand that such necessary but unpleasant remedies as hard work and public debt conversion be undertaken. The confidence essential for repatriation of capital is lacking under the present Government. It will be difficult and expensive for the Government to borrow so long as capital does not move back into the country. In addition, it is practically impossible for private industry to get the funds necessary to improve its plant and increase production. Paris banks report that franc deposits are low, and American and other firms doing business here - including French concerns - have abroad so much of their reserves and so little of their working capital available in this country that the banks' limited resources are constantly being

called

- 3 -

called on for loans.

END OF MESSAGE.

BULLITT.

EA: LNW

45

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: February 28, 1938, 5 p.m.

NO.: 311

FROM COCHRAN.

Turnover very light on featureless exchange market. No evidence of intervention by French control. With end of month settlement past and funds easier there was a little investment in forward francs with resultant improvement therein. Market is marking time pending tonight's parliamentary action on the labor code. It was not particularly influenced by week-end debate on foreign trade and Government's victory on vote of confidence.

This evening at 5 p.m. Monick called on me, saying that Marchandeu, Minister of Finance, had instructed him to keep me informed of London developments. Last week he told me he had been to see British Treasury officials, and had informed them that the United States had been approached by France, and that the United States had indicated they would be receptive to conversations under the Tripartite. Monick said he had not made any progress beyond this, since the Cabinet crisis and political problems were receiving British official attention.

On the first of March Monick returns to London, and he hopes that during the next few days he will be able to advance

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advance discussions with the British. About the tenth of March he will come back to Paris to report to Marchandau, and he said at that time he would get in touch with me again.

WILSON.

EA:LWW

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: February 28, 1938, 7 p.m.

NO.: 168

FOR TREASURY FROM BUTTERWORTH.

One. I received Cochran's No. 294 of February 24, noon. I therefore called on Waley of the British Treasury and told him that the French Minister of Finance, Marchandau, had been informed as follows:

"We are ready at any time to listen but that it is essential particularly considering the international political atmosphere that any consultations and conversations that take place within the framework of the Tripartite Agreement should be strictly confidential and technical."

I was told by Waley that no further progress had been made with the discussions with Monick. The latter had merely notified the British Treasury on Friday that he was going back to Paris for the weekend to confer with Minister Marchandau. I was told by Waley that he would keep me informed of future developments in the matter.

Two. He took this occasion to mention the presence here of Bay Selahaddin Cam, Governor of the Central Bank of Turkey, and CamMuammer Eris, Managing Director

REB

2-#168, From London, Feb. 28, 7 p.m.

Director of the I.S. Bank, and said that thus far they had strictly adhered to their own statement of purpose and attempted to do no more in London than "make and improve on their contacts". He referred again to the difficulties facing the Anglo-Turkish payments agreement (Paragraph two, my 687, November 2, 7 p.m.) and said that what would really help the Turks would be for Great Britain to increase its purchasing of Turkish tobacco but thus far the Turkish authorities had not been able to discover a suitable means of achieving their aim.

Three. Waley also referred to the visit of Signor D' Agostino, Director General of the Italian Ministry for Foreign Trade, who is here discussing the status of the Anglo-Italian payments agreement. By implication Waley gave a denial to the rumors (A) that Italian acceptance credits in London are larger today than a year ago and (B) that the Italians are at the present time attempting to raise a loan in London.

Four. Both Waley, and Bewley whom I saw later, inquired about the Hungarian debt offer which has been briefly reported in the London press and I agreed to obtain

REB

3-#168, From London, Feb. 28, 7p.m.

obtain authoritative information regarding it. They were obviously very much interested.

Five. Bewley sails on the QUEEN MARY arriving New York March 21. Some time ago Phillips mentioned the possibility of withdrawing Trentham and sending Bewley back for a year until "some one else could be found". I gather that Phillips formed his own judgment of Trentham during his Washington visit and has been anxious to find a place for him out of the policy and in the establishments (id est budgetary) work of the Treasury. The prospect of further tripartite conversations brought the matter to a head. (END GRAY)

JOHNSON

PL



DEPARTMENT OF STATE
WASHINGTON

February 28, 1938.

My dear Mr. Secretary:

I forward, for your very confidential information, a copy of the memorandum given on February 26 to the British Embassy in reply to earlier memoranda of theirs having to do with Mr. Van Zeeland's proposals.

Sincerely yours,

Enclosure:

Memorandum of
February 26, 1938,
to the British Embassy.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

Mr. Taylor 281
Mr. Haas
Mr. White

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See Also Report
2-28

MEMORANDUM

Reference is made to the memoranda presented by the British Embassy of January 18 and February 14, 1938, in regard to the question of the most suitable and most feasible procedure for carrying forward the work which Mr. Van Zeeland has undertaken and reported upon. Realizing, as stated by the British Prime Minister in the House of Commons on February 1, that primary responsibility for the next move lies with the British and French Governments, this Government is appreciative of the courtesy of the British Government in consulting it.

In all the circumstances, this Government is inclined to believe that, of the alternative methods mentioned by the British Government, that which has recommended itself to the British Government is the most feasible. It is therefore prepared to renew interchange of views with Mr. Van Zeeland when and as he may resume his task.

In

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In indicating its willingness to continue discussion of Mr. Van Zeeland's proposals, this Government does not wish to be understood as believing that effective action in the international economic field must, of necessity, await the perfection of the plans which he suggests or require concurrence with all of his recommendations. Without wishing in any way to minimize the importance of complete disposition and settlement of the many and tangled issues to which Mr. Van Zeeland refers, and without wishing, at this time, to discuss the practicability or the detailed application of the various measures which he proposes, this Government is of the opinion that broad and feasible methods already exist for making substantial progress, on an increasing scale, in bringing about improvement in international economic and monetary relationships.

These measures, the efficacy of which appears to this Government to be fully confirmed by recent experience, relate to bilateral negotiation of trade agreements and treaties based on the unconditional most-favored-nation

- 3 -

principle, and to the institution of the type of procedures made effective in the tripartite monetary arrangements. This Government believes that it is within the power of choice and decision of every Government, really intent upon directing its national policy toward the aims of reducing trade restrictions, restoring monetary equilibrium and freedom of exchanges, and promoting international confidence, to avail itself of these methods.

Naturally, the speed, direction, and procedure with which different governments may be able to act will vary with each different set of national circumstances. But if the important trading nations of the world would do all that they can to carry forward, by means of bilateral negotiations, mutual reduction of trade restrictions, offering the extension of the benefits to all other countries willing likewise to apply the unconditional most-favored-nation principle, an effective world program would thereby be constituted. This would require that countries forgo the control of their commerce along restrictive bilateral lines, and forgo both the granting and the seeking of special temporary advantages, which

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hinder the general establishment of non-discriminatory treatment, indispensable to the conclusion of agreements holding promise of general advantage. Where and as such practices are being employed in commercial policy, they would have to be modified, if a world program is to be brought into existence.

Likewise in the monetary field and in the field of the exchanges, it is possible that direct discussions between governments, such as preceded the formulation of the tripartite monetary arrangements and have marked the continued operation of these arrangements, may speedily yield equally satisfactory results.

This Government recognizes that the policies described above may have to be supplemented by other measures along the lines of some of Mr. Van Zeeland's proposals. This Government is convinced, however, that vigorous action on the part of a large number of nations by means of the methods set forth in this memorandum would not only constitute the basis for substantial progress toward improvement of economic relations, but would also obviate or

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greatly reduce many of the difficulties which appear to stand in the way of the formulation and execution of such measures.

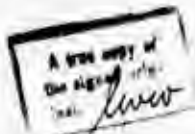
In any further effort which Mr. Van Zeeland will make, it would be this Government's hope that attention would be turned to the possibilities of early achievement through the employment of these methods and through the recognition of the principles which underlie them, and that in Mr. Van Zeeland's discussions with other governments these matters will receive appropriate attention.

In regard to the observation made in the memorandum of February 14, suggesting the possibility, if Mr. Van Zeeland finds that other countries are willing to participate, that there might be designated a representative with whom a representative of the British Government and eventually representatives of other governments could establish personal contact, this Government wishes to defer decision until the matter is further clarified.

Department of State,

Washington,

February 26, 1938.



Monday
February 28, 1938
9:20 a.m.

HMJr: Hello.

John
Garner: Hello, Henry.

HMJr: How are you?

G: Oh, I'm all right.

HMJr: Good. Mr. Vice President, I was thinking about that Andrew Smyth.

G: Yes.

HMJr: And, you know, this job that I have in mind, I think that he's a man with manufacturing experience.

G: Yes.

HMJr: And I'd be more than pleased to have him come up and we have funds - we could pay his expenses up and back.

G: Yes.

HMJr: But I wonder - I mean, I don't want to do anything - I mean - if he and I can decide that that isn't what he wants I don't want to do anything which would slight him or hurt his feelings.

G: Yes. Well, whatever you say about it, Henry, it's up to you now. I've just - I've given you all the information I have.

HMJr: All right. Well, you see - I think I told you originally it would be Procurement and the Bureau of the Mint.

G: What?

HMJr: The things that he'd have to supervise are - is the Procurement...

G: Yes.

HMJr: ...and the Bureau of Engraving, and they both take a man who has got manufacturing experience.

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G: Well, I don't know that he has any manufacturing experience, now.

HMJr: Because they're both big factories.

G: I don't know about manufacturing. You know we don't manufacture much in our country.

HMJr: Yes. You see, I suppose the Bureau of Engraving...

G: But he's got really good 'horse sense'....

HMJr: Yes.

G: ...and - Now, my experience is that when you've got a man who has got plenty of energy, industry....

HMJr: Yes.

G: ...and desirability and plenty of good 'horse Sense' he can fill any office in Washington. Couldn't you fill the office of Assistant in Charge of Printing and Engraving?

HMJr: Have I?

G: Yes, couldn't you?

HMJr: Who, me?

G: Yes, you.

HMJr: Not very well.

G: Well, the 'hell' you couldn't.

HMJr: No.

G: Well, by God I could. I'd fill any office they've got that doesn't take a technical form.

HMJr: Yes. Well - -

G: Any office.

HMJr: Well, if he - if he would like to come up I'd like to see him, but, with the understanding that we'd look each other over.

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G: Well, do just as you like about that, Henry.
I'll wire him any time or anything you say to do
I'll do.

HMJr: Well, wire him and we'll pay his railroad fare up
and back so that he won't.....

G: All right then, and he's to come up there and look -
so you can look him over.

HMJr: That's right.

G: All right.

HMJr: Thank you very much.

G: All right. Goodbye.

Monday
February 28, 1938
9:30 a.m.

HMJr: Hello.

Sumner
Welles: Hello.

HMJr: Sumner?

W: Hello, good morning to you.

HMJr: How are you?

W: Fine

HMJr: Sumner, today is the last day of the month and unless there is some reason that you have we would normally renew the agreements with Mexico and Canada.

W: No, we have no reason to the contrary whatever.

HMJr: All right. Well, then I'll sign them.

W: Right. I wanted to tell you also that I am starting at three o'clock this afternoon....

HMJr: Yes.

W: ...the first of my series of conferences with the Mexican Ambassador on all of the twelve or thirteen problems that we have to go over with them.

HMJr: I see.

W: That includes, of course, eventually the recommendations as to financial policy.

HMJr: Yes.

W: And I asked Feis to let your people know on Saturday...

HMJr: Yes.

W: ...that the Mexican Government is sending up an expert of their Treasury Department to start conversations with your people.

HMJr: Yes.

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W: And he is due to arrive today.

HMJr: I see.

W: But I thought, before going into the matter in any detail with you I'd better have a survey with the Ambassador.

HMJr: O.K.

W: And I think by the middle of the week I'll probably clear enough ground to be able to have some opportunity of talking profitably with you.

HMJr: Thank you. Well, then I'll wait until I hear from you.

W: All right. Thank you very much.

HMJr: Goodbye.

W: Goodbye.

GROUP MEETING

February 23, 1938.
9:30 a.m.

Present: Mr. Magill
Mr. Taylor
Mr. Oliphant
Mr. Gaston
Mr. Bell
Mr. Lochhead
Mr. McKeynolds
Mr. Upham
Mr. Viner
Mr. Haas
Mr. Gibbons

H.L.Jr: Where's Taylor? Oh. That was Sumner Welles. He said he has no objection on Mexico. Handle it.

Hello, Jake.

and he says on Mexico he will not be ready until the middle of the week. He wants to get started first himself.

Taylor: Good.

H.L.Jr: And so there will be nothing on that. And the fine fellow hasn't got here yet anyway.

You (Viner) been sick?

Viner: Any, no.

H.L.Jr: What?

Viner: No, no.

H.L.Jr: Cold?

Viner: No, never.

H.L.Jr: Well, maybe a couple days' vacation here will sort of build you up.

Viner: I'm built up.

Taylor: He looks baggy, doesn't he?

H.L.Jr: I don't think he looks as well as when he left. Little yellow.

-2-

Viner: What're you trying to do? Trying to undermine my confidence, my assurance?

Magill: Looks grieved from where I sit.

Viner: I've been looking at the tax report.

Magill: How did you get a copy? It isn't out yet.

H.L.Jr: Ros?

Magill: I don't know that this needs to be brought up here. I got word from Mr. Shoup this morning that he had been asked to appear before this Senate Committee on unemployment, to give them the answer to fourteen questions with respect to the tax system, which fourteen questions seemed to cover the entire field like a blanket. Mr. Gaston advised him to call them up and tell them that they were evidently wanting an outside expert, since they addressed Mr. Shoup at Columbia, and since he was no longer an outside expert, why, presumably they would want to get an outsider.

Viner: Call me?

Magill: I didn't think of you. Or Viner.

H.L.Jr: You qualify as outside and an expert?

Viner: I can certainly qualify as an outsider.

Magill: I don't know whether they'll come back at us or not and want one of the family to come up there and tell them about taxes.

H.L.Jr: Well, is Upham busy?

Magill: Working on banking, I understand.

H.L.Jr: I see. Well, let's see if this

Magill: Let's see what happens.

H.L.Jr: Yes.

Upham: Well, as a matter of fact, they didn't know Shoup was in the Treasury, and when it was pointed out to them - I think they would have recalled that letter if it

-3-

hadn't already gone out.

Magill: Good.

H.A.Jr: What else?

Magill: That's all, I think. I'll have that tax-exempt memorandum any time you want it.

H.A.Jr: Well, incidentally, if you get a copy of today's Wall Street Journal, right-hand column they've got a whole

Magill: I read that.

H.A.Jr: I read the headlines, but haven't read it yet. I don't know yet whether I'm having lunch with the President, but if you could

Magill: You can have it immediately if you wish it.

H.A.Jr: I couldn't handle it right now anyway, but ...
11 o'clock, George, can you report on business?

George: Yes, sir.

H.A.Jr: Taylor and Mr. Viner invited.

I have here a suggestion from Mr. Oliphant of a sort of reorganization of his - what do you call it, bureau?

Oliphant: Division.

H.A.Jr: Division. And what I thought I'd like to do is this, sort of - these meetings here are kind of like a faculty meeting in college; if the meetings are going to be any good, I think we ought to discuss everything. Now, I don't come in contact directly with your (Oliphant) people - very rarely. I come in contact with you. And you've got a pool there to serve these Assistant Secretaries and Under Secretaries. They see them, I don't. What I'd like to suggest is this: that you and McReynolds contact the Under Secretary and the two Assistant Secretaries and talk this thing over with them and see if this thing is set up - the set-up is such that they'll be satisfied.

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Oliphant: That would be very helpful.

H.M.Jr: And because I practically never see these people - there is no reason why I should.

Oliphant: That will be very helpful.

H.M.Jr: Because after all, if we're going to have these meetings - either they're a meeting of the college or they're not; and what I have always tried to do here is to use this for this purpose, and then - as a result of which we have as good a group working together as anywhere in the Government.

And after you people have met and talked the thing over, whenever you're ready - there will be one, two, three, four, five of you - why, I'd be glad to meet with you. I mean that's Magill and Gibbons and Taylor and McReynolds, because those are the people that have to see these people. I don't know - Bell, are you serviced by ...

coll: Oh yes, I'm serviced, but then I couldn't be of much help on it.

H.M.Jr: All right.

Archie?

Lathhead: Well, we're serviced on the gold and silver, of course. That comes up through Mr. Taylor.

H.M.Jr: Well then, this would take care of it, wouldn't it? All right. So after you people have talked it over, then talk to me, see? But I mean is this new set-up, for instance, for Customs and Coast Guard and Narcotics - is it the way Steve would like it? And this whole thing on the fiscal

Oliphant: That will be very helpful - to have a chance to sit down.

H.M.Jr: I think it's terribly important.

Oliphant: Very helpful.

H.M.Jr: Because I just begin to realize how important the Treasury is when I see all the divisions in the

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General Counsel's office. That will be fine.

I think that if you two - if Oliphant could see this memorandum on this question of tax-exempts

McGill: Yes. I think you saw one of the - you saw some of the preliminary drafts.

Oliphant: I saw a draft that Gaston made. And in the meantime I've got worked up a memorandum on how it would affect the bond end of our shop and also how it would affect the tax end of it.

H.A.Jr: Then if the two of you - and if you can't do it by noon, I'd rather wait.

McGill: Well, I think

H.A.Jr: Are you going on the Hill this morning?

McGill: No.

H.A.Jr: Well, maybe the two of you could get together.

McGill: Oh yes, we can.

H.A.Jr: Because it's like all of these things; I say nothing descends on you in Washington over night, you always get warnings. And here is one in the Wall Street Journal.

McGill: There was a similar account in Kintner's column the other day.

H.A.Jr: This might be a good vehicle for the President to send a message on, and then to restate his position on the tax bill problem before it goes up to the Senate.

Oliphant: This is today's Wall Street Journal?

H.A.Jr: But I mean with this it might give him an opportunity to restate his position. I might just want to make it Isn't the Attorney General's office interested in this?

Oliphant: Oh yes, and they've been drafting on it and working on it.

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H.M.Jr: Well, I think you better see around town what's what.

Magill: I think so too.

Oliphant: Would you like for me to contact Whitaker's office?

H.M.Jr: Well, the two of you, because Magill's been working on it, and the two of you get together. And whenever you're ready But I would like - from a legal standpoint kind of make this Number One - on the legal thing. I mean what I'd like is either the President or myself to send - well, I can't send a message, but a formal statement.

Oliphant: There are several bills for constitutional amendments up. Of course you'll probably be asked for an opinion. You could write a letter expressing your opinion on one or more of those proposals.

Magill: I think the message is probably indicated if you're really going to try to get action.

Oliphant: I think so.

Magill: And there does seem to be a ground-swell in favor of it.

H.M.Jr: Well, may I say again, from a legal-fiscal standpoint, I consider it about as important as anything.

Magill: I think it is.

Oliphant: Well, I've had very little time on it, because I just learned about it late last week, and there's a lot of work to do on it so far as it affects bonds.

H.M.Jr: Well, if you two gentlemen would get together, why, then, as soon as you're ready, let me know.

Oliphant: A few days' time would be ...

H.M.Jr: Huh?

Oliphant: A few days' time.

H.M.Jr: Well, all right. It has to be a good job.

Oliphant: Yes, it has to be.

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H.A.Jr: Because, if I'm not mistaken, the Corcoran-Cohen crowd have been in on this also.

Oliphant: Have they?

H.A.Jr: I think so.

Oliphant: I didn't know that.

Magill: Well, they were several months ago. Have they revived recently?

H.A.Jr: Do they ever subside?

Magill: I don't know.

Gaston: They have inspired one or more of these bills that are up there.

Magill: Well, they were very much interested in it a few months ago.

H.A.Jr: Make a note, Mrs. Klotz, that this is something I'm interested in - tax-exempts.

Magill: Well, suppose I give Mr. Oliphant this morning this latest draft of this thing, and we'll get hold of Justice.

H.A.Jr: All right.

Does that take care of you two gentlemen?

Oliphant: Well, I had one thing more.

H.A.Jr: Please.

Oliphant: We have done a lot of work on the problem of possible legislation which would enable the legitimate use of wire-tapping in appropriate cases, which, on the one hand, would seem to me to avoid the objection that the Supreme Court has in mind in that kind of situation, and on the other hand, would be feasible from the standpoint of people like Irey. Now I can report that we have something worked out.

H.A.Jr: In a case like that - is it ethical, for instance,

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if you have something like that, to go to a man like Justice Stone and discuss it with him, get his personal reaction?

Oliphant: I'd like to turn that over in my mind.

H. J. Jr: Huh?

Oliphant: I'd want to turn it over in my mind.

H. J. Jr: I just wondered, because

Oliphant: Now, on that we haven't contacted Justice at all.

H. J. Jr: Well, I think we should.

Oliphant: What?

H. J. Jr: I think we should.

Oliphant: I wanted first to see that it satisfied Trey, and

H. J. Jr: Well, when you're ready let me know.

Oliphant: Well, I'm reporting now. I think it's - it's been a hard problem, but I think we've cracked that nut.

H. J. Jr: Anything else now?

Oliphant: No.

H. J. Jr: Herbert?

Boston: No, I haven't anything.

Gibbons: You didn't sign that letter on the Norfolk Collector of Customs, but the President signed the commission and sent it up, and the letter is coming back to you to be signed. You know, that's the case that this Norman Hamilton, the Congressman, came in here about.

H. J. Jr: The man named Truxton.

Gibbons: You asked me to go over and see McIntyre. I took all the papers and went over to talk to him. Mac says, "Leave them here." He talked to the President; President went ahead and signed the commission.

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H. J. Jr: Yes.

Gibbons: Your letter wasn't signed.

H. J. Jr: That makes us both right. He said he signed it. I said I didn't sign my letter. He got a little argumentative. He didn't think it was worth arguing about. I insisted I hadn't signed it.

Gibbons: Mac just took it in to him. It's back here now for your signature. The thing has gone up to the ~~mail~~. You'll sign that letter and send it back to the White House for those files.

H. J. Jr: I'll give it personally to the President, sign it personally in front of him.

Mac: I gave it to Nell (Chauncey) Saturday to bring to you, with the notation of what it was.

H. J. Jr: All right.

Gibbons: Did you get a telegram from Al Conn this morning submitting his resignation?

Mac: (Nods no)

Gibbons: Well, Bryan's - McAdoo has recommended his appointment. I talked to Al on Saturday and told him to send you a telegram. "Now, if you don't, this thing will go up on the Hill." And he's going to work for the Twentieth Century Fox. So I'll call him as soon as I get through here. Promised to have a telegram to you this morning.

H. J. Jr: Do you want him to resign?

Gibbons: Well, the other fellow has been checked up and McAdoo has talked to the President, and the President wants to send his appointment up. Forster called this morning and said that the President wanted to send up his nomination tomorrow - Bryan.

Gaston: Al started today writing a column in the Los Angeles Examiner, so I think he better resign.

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Gibbons: In other words, McAdoo has submitted another name.

A.M.Jr: All right.

Gibbons: And it's been approved, and there's nothing we can do in the thing. I'd like to see him stay in there. But he submitted two names first, then he withdrew them, because he knew they wouldn't check up - that is, McAdoo did.

A.M.Jr: Well, I'm going to think about it anyway.

Gibbons: Uh-huh.

A.M.Jr: But +

Gibbons: On the Hawaiian Island report - I've got that. But I think if we're going to continue to do work out there on this aviation stuff, the Coast Guard - apparently that criticism was considerably haywire, but yet I can see some constructive ideas in it. Now, they didn't - according to Weesone, when they started out they had no set itinerary, see, and they didn't know how far they should go. Of course, they went to some British island and we heard from the State Department about it. Went down there. Gruening was on this ship, and the thing that - the report that I got in my mind was not complete, so I'm going back to them, going back to Coast Guard.

A.M.Jr: Well, don't let that report get out of the Treasury until I see it.

Gibbons: Oh no, it will come to you, but I mean I'm not satisfied that the

A.M.Jr: All right.

Gibbons: There's a report on my luncheon with Admiral Linds.

A.M.Jr: All right, thanks.

Gibbons: The Chicago papers had an article running for two weeks which I didn't know anything about - Anslinger didn't bring it to my attention - saying that the conditions in Narcotics were terrible. Just came to

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me yesterday through a man who is visiting from Chicago, and otherwise I wouldn't have known anything about it.

Viner: What paper?

Gaston: The Herald Examiner.

Viner: Oh, I don't see that. That's a Hearst paper.

Gaston: Yes.

H.M.Jr: Well, are they terrible?

Gibbons: I don't know. I'm asking for a report. But this fellow doesn't - I called Mr. Schwarz, of Mr. Gaston's office, this morning, and he said Anslinger had talked to him. So along the lines you've just been talking - discussing with Mr. Oliphant here, we've got to get these organizations functioning properly. I'm over in Narcotics; everybody else apparently knows about it. A private citizen from Chicago comes to me.

H.M.Jr: I should think, after five years, Steve, you'd get it so the stuff would come to you. I mean who's keeping it from you?

Gibbons: I don't know. This fellow is not functioning.

H.M.Jr: Who?

Gibbons: Anslinger. He doesn't see me. I've seen him once in six months.

H.M.Jr: You don't know anything about it.

Gibbons: The whole thing's haywire.

H.M.Jr: I should think after five years, between your office and Anslinger's, it would function. I've seen Anslinger just once in six months. Since I'm back from Hawaii, I've seen him once, I think, maybe twice.

Gibbons: Well, I don't know whether it was because of Graves or Irey - that he talks to him and I don't hear anything about it.

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- H.A.Jr: Well, Harold Graves isn't in the thing any more.
- Gibbons: I know he isn't. But I'm going to find out, and I just want you to know that I'm going to probably get some action on it.
- H.A.Jr: You've got all the authority you need.
- Gibbons: Yes. Just mentioning it.
- H.A.Jr: Jake, if right after this meeting - the thing we're on, which I'd like you to concentrate on if you would, is this question of prices - building. Now, we're getting along very nicely, and we find that Tariff Commission is just about to complete a report after two months' study of prices in relation to housing. They've got Federal Trade on it and they've got a special group from State Department. We're going to meet tomorrow afternoon at three.
- Viner: There's been a housing conference in Chicago, of which I know only what I have seen in the newspapers; but from the newspaper account, apparently some very good papers were given there, and I think somebody here ought to try to get a record of the proceedings there. It was a national conference of some sort.
- H.A.Jr: Well, up to now, Jake, no one has attacked this thing from the standpoint of the prices or practices - that I've been in on.
- Viner: But there was a lot of inside information - men in the trade who were sharing their woes - and lots of material came out, judging from the short newspaper account.
- H.A.Jr: Well, we've got some awful good men on this, and we've finally tied everything together; but we're concentrating just on two things, and that's prices and the practices in the industry - trade practices. But I wish you would get in on it.
- Viner: Glad to.
- Gibbons: I see Fisher is going abroad for some sort of investigation.

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H.A.Jr: "ho?

Gaston: Dr. Fisher, of F.H.A.

H.A.Jr: I didn't see that.

Gaston: Had it in the paper.

H.A.Jr: Will you do that?

Viner: Yes, be glad to.

H.A.Jr: George?

Viner: I bring you greetings from Lewis Douglas, who expressly told me to tell you that he's - he admires you and he sympathizes with your plight; and wanted me to tell you that he sends you his best wishes.

H.A.Jr: Fine. Maybe the Canadian climate is having a good effect on him.

Viner: Oh, he was very mild and This was in the committee meeting at New York. Had nothing to do with the

H.A.Jr: I wish him success in Canada.

Lotz: You're enthusiastic.

H.A.Jr: All right, anything else?

George?

H.A.Jr: On this price problem, I talked it over with some of the boys. We were tentatively planning on having a meeting at three o'clock preliminary to the one in your office - sort of get the ends together as best we can - which you had some objections ...

H.A.Jr: No.

H.A.Jr: Now, I have several items here which you requested.

H.A.Jr: Why don't you wait until 11 o'clock.

If and when this gentleman comes from Sears-Roebuck, I want to turn him over to you right away.

Wayne?

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Taylor: I haven't got anything special.

H.S.Jr: Now, you two fellows (Taylor and Bell), unless there's something I don't know, at four o'clock I'm going to tell the newspapermen that we're not going to ask for any new money on the 15th. Give them that tidbit.

Bell: All right with me. Except the Treasury bill program.

H.S.Jr: Yes. Huh?

Bell: All right.

I have that analysis - have had it for some time, as a matter of fact - on the farm bill. Would you like to take it home some time?

H.S.Jr: It's quite long?

Bell: Farm bill, you know, is 130 pages.

H.S.Jr: I'll take it - you carry it in your pocket and I'll take it by word of mouth.

Bell: Some time.

H.S.Jr: Have you read it?

Bell: Yes, hurriedly. I know it in a general way.

H.S.Jr: All right, I'll see you soon.

Archie?

Archie: Nothing.

H.S.Jr: Who's the boy that tends to the silver depositing?

Bell: We have deposited about 20 million dollars in silver certificates.

H.S.Jr: Since when?

Bell: Since about ten days ago. We have really deposited a good many more than that, because we have redemption of anywhere from three to four million dollars a day.

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But we have reduced the free silver by a net of 26 million, which includes, of course, about ten million dollars acquisition.

H.A.Jr: I see.

Bell: So we're really getting it down.

H.A.Jr: Fine.

Bell: I think we'll get another ten million dollars first of this week.

H.A.Jr: You mean in or out?

Bell: I mean in the System.

H.A.Jr: Fine.

Opus: (Nods nothing)

H.A.Jr: Mac?

Mac: Since we came in here, Senator Barkley's office telephoned. I've been trying for the last ten days to get him to agree to this. He says if you approve those regulations as proposed he would feel called upon to introduce legislation trying to fix the limitation of labels on those two different types of whiskey, bourbon and rye. He isn't satisfied with them.

H.A.Jr: Later, Mac. I told Taylor coming down this morning, walking down, that I'm going to sign those things today.

Mac: He says if you sign them - that's now I happened to get an answer; I told his office on Saturday that the Secretary of the Treasury couldn't wait indefinitely for the Senator to give us an answer.

H.A.Jr: And what's his answer?

Mac: And if he didn't give us an answer today, I suspected we'd have to go ahead; that was just my own opinion.

H.A.Jr: Now, what's the answer?

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McA: The answer is, he sees no improvement in the present situation, in the proposed regulations, and if they are adopted he'll have to introduce an amendment in the Senate undertaking to fix the labelling limitation on bourbon and rye.

H.S.Jr: As a matter of courtesy, should I call him up and tell him I'm going to sign them?

McA: Well, I don't know. I think so. I think that would be the

H.S.Jr: (On phone) Senator Barkley, please, of Kentucky.

McA: Can't do any harm. I don't want him to say, "Well" - and so I have to tell what's-his-name also?

McA: You mean Guffey? I haven't heard anything more from Guffey. Guffey's on the fence, you see. He's got both sides in his district.

Taylor: Well, he had to do that anyhow, didn't he?

H.S.Jr: What?

Taylor: Introduce legislation.

H.S.Jr: Barkley.

Taylor: Yes.

McA: Of course, he won't get any place.

Taylor: No, but I think he would have to do that.

McA: But the other fellows - McCormack and his gang that were down here and have called me a half dozen times - wish the thing were released. They're perfectly happy with it. Barkley's the only one that's been riding it.

H.S.Jr: Is the Congressman from Arkansas happy too?

McA: I haven't heard from him.

H.S.Jr: (On phone) Hello. - Well, when he comes in I want to talk to him please.

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He's at the White House. I'll talk to him first, Mac.

Mac: All right.

Gaston: Congressman from Arkansas is not happy. He's been telling newspapermen, specifically Mack Johnson, that the Treasury insists on holding the Alcohol Administration in the Treasury and not letting the President appoint the Commission, and that the Federal Alcohol Administration in the Treasury is favorable to the whiskey trust and antagonistic to the little distillers.

Taylor: Who's that?

Gaston: Fuller.

H.A.Jr: O.K. Herbert, you stay behind.

Feb. 28, 1938

My dear Mr. President:

In accordance with your request of February 10, 1938, I am enclosing a proposed reply, for your signature, to the letter of Mr. J. M. Keynes, dated February 1, 1938.

Mr. Keynes' letter is returned herewith.

Sincerely,

(Regd) H. Morganthau

The President,
The White House.

Enclosures

Return to Room 200

HW:ls
2/12/38

Kept a letter for
Presidents signature

7/92

Feb 25, 1938

Dear Mr. Keynes:

I am in receipt of your letter of February 1, 1938, which I enjoyed reading. It was very pleasant and encouraging to know that you are in agreement with so much of the Administration's economic program. This confirmation coming from so eminent an economist is indeed welcome.

Your analysis of the present business situation is very interesting. The emphasis you put upon the need for stimulating housing construction is well placed, and I hope that our efforts will be successful in removing the barriers to the revival of this industry.

The course of democracy and world peace is of deep concern to me. Domestic prosperity, you will agree, is one of the most effective contributions the United States can make to their maintenance. You will likewise appreciate, I am sure, that prosperity in the United States will be more potent in attaining the ends we are all interested in if other democracies strive persistently for similar objectives.

I remember your previous visit very well and I hope we may have the opportunity to meet again.

Sincerely,

Mr. J. M. Keynes,
King's College,
Cambridge,
England.

KRM:ND:ls
2/24/38

Regraded Unclassified

COPY

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Private and personal

King's College,
Cambridge.

February 1, 1938

Dear Mr. President,

You received me so kindly when I visited you some three years ago that I make bold to send you some bird's eye impressions which I have formed as to the business position in the United States. You will appreciate that I write from a distance, that I have not re-visited the United States since you saw me, and that I have access to few more sources of information than those publicly available. But sometimes in some respects there may be advantages in these limitations! At any rate, those things which I think I see, I see very clearly.

1. I should agree that the present recession is partly due to an "error of optimism" which led to an over-estimation of future demand, when orders were being placed in the first half of this year. If this were all, there would not be too much to worry about. It would only need time to effect a readjustment; - though, even so, the recovery would only be up to the point required to take care of the revised estimate of current demand, which might fall appreciably short of the prosperity reached last spring.

2. But I am quite sure that this is not all. There is a much more troublesome underlying influence. The recovery was mainly due to the following factors:-

- (1) the solution of the credit and insolvency problems, and the establishment of easy short-term money;

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- (ii) the creation of an adequate system of relief for the unemployed;
- (iii) public works and other investments aided by Government funds or guarantees;
- (iv) investment in the instrumental goods required to supply the increased demand for consumption goods;
- (v) ~~the~~ momentum of the recovery thus initiated.

Now of these (i) was a prior condition of recovery, since it is no use creating a demand for credit, if there is no supply. But an increased supply will not by itself generate an adequate demand. The influence of (ii) evaporates as employment improves, so that there is a dead point beyond which this factor cannot carry the economic system. Recourse to (iii) has been greatly curtailed in the past year. (iv) and (v) are functions of the forward movement and cease - indeed (v) is reversed - as soon as the position fails to improve further. The benefit from the momentum of recovery as such is at the same time the most important and the most dangerous factor in the upward movement. It requires for its continuance, not merely the maintenance of recovery, but always further recovery. Thus it always flatters the early stages and steps from under just when support is most needed. It was largely, I think, a failure to allow for this which caused the "error of optimism" last year.

Unless, therefore, the above factors were supplemented by others in due course, the present slump could have been predicted with absolute certainty. It is true that the existing policies will

- 3 -

prevent the slump from proceeding to such a disastrous degree as last time. But they will not by themselves - at any rate, not without a large scale recourse to (iii) - maintain prosperity at a reasonable level.

3. Now one had hoped that the needed supplementary factors would be organised in time. It was obvious what these were - namely increased investment in durable goods such as housing, public utilities and transport. One was optimistic about this because in the United States at the present time the opportunities, indeed the necessity, for such developments were unexampled. Can your Administration escape criticism for the failure of these factors to mature?

Take housing. When I was with you three and a half years ago the necessity for effective new measures was evident. I remember vividly my conversations with Riefler at that time. But what happened? Next to nothing. The handling of the housing problem has been really wicked. I hope that the new measures recently take will be more successful. I have not the knowledge to say. But they will take time, and I would urge the great importance of expediting and yet further aiding them. Housing is by far the best aid to recovery because of the large and continuing scale of potential demand; because of the wide geographical distribution of this demand; and because the sources of its finance are largely independent of the Stock Exchanges. I should advise putting most of your eggs in this basket, caring about this more than about anything, and making absolutely sure that they are being hatched without delay. In this country we partly depended for many years on direct subsidies. There

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are few more proper objects for such than working class houses. If a direct subsidy is required to get a move on (we gave our subsidies through the local authorities), it should be given without delay or hesitation.

Next utilities. There seems to be a deadlock. Neither your policy nor anyone else's is able to take effect. I think that the litigation by the utilities is senseless and ill-advised. But a great deal of what is alleged against the wickedness of holding companies as such is surely wide of the mark. It does not draw the right line of division between what should be kept and what discarded. It arises too much out of what is dead and gone. The real criminals have cleared out long ago. I should doubt if the controls existing to-day are of much personal value to anyone. No one had suggested a procedure by which the eggs can be unscrambled. Why not tackle the problem by insisting that the voting power should belong to the real owners of the equity, and leave the existing organizations undisturbed, so long as the voting power is so rearranged (e.g., by bringing in preferred stockholders) that it cannot be controlled by the holders of a minority of the equity?

Is it not for you to decide either to make real peace or to be much more drastic the other way? Personally I think there is a great deal to be said for the ownership of all the utilities by publicly owned boards. But if public opinion is not yet ripe for this, what is the object of chasing the utilities round the lot every other week? If I was in your place, I should buy out the

- 5 -

utilities at fair prices in every district where the situation was ripe for doing so, and announce that the ultimate ideal was to make this policy nation-wide. But elsewhere I would make peace on liberal terms, guaranteeing fair earnings on new investments and a fair basis of valuation in the event of the public taking them over hereafter. The process of evolution will take at least a generation. Meanwhile a policy of competing plants with losses all round is a ramshackle notion.

Finally the railroads. The position there seems to be exactly what it was three or four years ago. They remain, as they were then, potential sources of substantial demand for new capital expenditure. Whether hereafter they are publicly owned or remain in private hands, it is a matter of national importance that they should be made solvent. Nationalise them if the time is ripe. If not, take pity on the overwhelming problems of the present managements. And here too let the dead bury their dead. (To an Englishman, you Americans, like the Irish, are so terribly historically minded!)

I am afraid I am going beyond my province. But the upshot is this. A convincing policy, whatever its details may be, for promoting large-scale investment under the above heads is an urgent necessity. These things take time. Far too much precious time has passed.

4. I must not encumber this letter with technical suggestions for reviving the capital market. This is important. But not so important as the revival of sources of demand. If demand and confidence reappear, the problems of the capital market will not seem so difficult as they do to-day. Moreover it is a highly technical problem.

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5. Business men have a different set of delusions from politicians; and need, therefore, different handling. They are, however, much milder than politicians, at the same time allured and terrified by the glare of publicity, easily persuaded to be 'patriots', perplexed, bemused, indeed terrified, yet only too anxious to take a cheerful view, vain perhaps but very unsure of themselves, pathetically responsive to a kind word. You could do anything you liked with them, if you would treat them (even the big ones), not as wolves and tigers, but as domestic animals by nature, even though they have been badly brought up and not trained as you would wish. It is a mistake to think that they are more immoral than politicians. If you worked them into the surly, obstinate, terrified mood, of which domestic animals, wrongly handled, are so capable, the nation's burdens will not get carried to market; and in the end public opinion will veer their way. Perhaps you will rejoin that I have got quite a wrong idea of what all the back-chat amounts to. Nevertheless I record accurately how it strikes observers here.

5. Forgive the candour of these remarks. They come from an enthusiastic well-wisher of you and your policies. I accept the view that durable investment must come increasingly under state direction. I sympathise with Mr. Wallace's agricultural policies. I believe that the S.E.C. is doing splendid work. I regard the growth of collective bargaining as essential. I approve minimum wage and hours regulation. I was altogether on your side the other day, when you deprecated a policy of general wage reductions as useless in

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present circumstances. But I am terrified lest progressive causes in all the democratic countries should suffer injury, because you have taken too lightly the risk to their prestige which would result from a failure measured in terms of immediate prosperity. There need be no failure. But the maintenance of prosperity in the modern world is extremely difficult; and it is so easy to lose precious time.

I am
Mr. President

Yours with great respect and
faithfulness,

(sgd) J. M. Keynes

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Febr. 28, 1938

TO Secretary Morgenthau

FROM Mr. Haas *MA*

In response to your request for information on soil conservation payments made during the present fiscal year, by months, we have obtained the following information from Mr. Stedman's office of the Agricultural Adjustment Administration:

Total conservation payments made
during 1938 fiscal year:

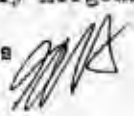
Million dollars

July	11
August	5
September	5
October	5
November	5
December	5
January	<u>18</u>
Total	55

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE Febr, 28, 1938.

TO Secretary Morgenthau
FROM Mr. Haas 

In response to your request, we have learned from the Agricultural Adjustment Administration that the following approximate amounts will be paid out as conservation payments to farmers during the next four months:

(million dollars)

February	35
March	85
April	90
May	70
June	50
	<hr/>
	330

February 28, 1938.

When I saw the President Sunday, February 27th, he said to me, "Don't you think that business is getting better?" I said that it shows very slight signs of improvement and that it is like the first dandelion in the spring - a cold blast of wind may kill it. Much to my surprise, the President said, "That is why I am keeping quiet and not saying anything".

To-day at lunch, as I got up to go, the President said, "If business does not get any worse for the next month, it will get better". I said, "I agree with you on that". The President said, "I think it will get better in time for the next election" and, I said, "Let's hope so" and laughed.

I found the President in a much better humor. I left with him a copy of Haas' most recent business review. I also gave him a map of China prepared by the Chinese Embassy, showing the four trade routes. The President was fascinated and said that this was the most interesting thing he has seen in a long time. I said, "Can't we get people to go over these trade routes and find out really what is going on?" He said, "I will see Sumner Welles and tell him to do it."



ASSISTANT SECRETARY

TREASURY DEPARTMENT

Washington.

February 28, 1939.

MEMORANDUM FOR THE SECRETARY:

As per your request, I had luncheon with Admiral Land, the Chairman of the Maritime Commission, and Admiral Woesche on Friday at which the problem of training future personnel for the Maritime Commission was discussed.

Admiral Land stated very frankly that personally he was very much in favor of having the Coast Guard train this personnel; that the Navy did not want the job, and if we could suggest any way by which it could be written into the law, he would give it his hearty support. He reminded us, however, that at the present moment the Maritime Commission has pending before the Congress what it considers two very important amendments to the law, and he was very frank in stating that the members of the Commission were very chary in suggesting anything that might interfere with the successful enactment of these amendments into law. He also stated that he felt the Commission has sufficient authority, as the law now stands, to select the Coast Guard or any other body to train personnel, especially for Government-subsidized, American-owned ships, but that due to the very honorable attitude of a great number of the Members of the House of Representatives to the wishes of the Maritime labor unions, the Commission was very loath to take the initiative in anything that might incur the enmity of these Members of Congress. He was very frank in his attitude regarding some of the demands of the Seamen's Union and reminded both Admiral Woesche and me that the graduates of nautical schools controlled by the various State governments have to secure the approval of these Unions before they could secure berths on ships of the various lines receiving subsidies from the Government.

However, despite the Maritime Commission's attitude, both Admiral Woesche and I, as well as Mr. McKeaynolds, feel that if the Coast Guard is charged with the responsibility of training seamen for the merchant marine such authority and responsibility should be definitely fixed by law.

Stephen B. Gibbons

MEMORANDUM OF THE DAY'S ACTIVITIES

February 28, 1938

To: The Secretary

From: Mr. Magill

1. Tax bill

Governor McNutt called this morning under Mr. Oliphant's chaperonage to point out the existence of various problems in connection with the collection of Federal income taxes from American residents in the Philippines. McNutt thinks we ought to abandon the attempt to collect back taxes and interest for years in the 20's and even prior thereto, since he thinks there was a tacit understanding that such taxes would not be collected. He is going to give us a copy of his files on the subject in order that a departmental committee may look into the question on its merits.

Representatives of the personal finance companies and Senator Thorndick called with respect to the amendments to the tax bill which were advocated on their behalf last week. Both parties will present additional information for our consideration.

RM

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: February 28, 1938

TO Secretary Morgenthau

FROM M. A. Harris

March Financing

Listed below are several possibilities which may be offered in exchange for the maturing 3% Treasury notes:

<u>Issue</u>	<u>Current Market Basis</u>	<u>Indicated Premium</u>
(1) 1 3/8% Treasury notes 3/15/43 (5 yrs.)	1.25	19/32nds
1 1/2% " " " "	1.25	1 point 7/32nds
(2) 2 1/2% Treasury bonds 3/15/47 (9 yrs.)	2.30 *	1 point 20/32nds *
(3) 2 1/2% Treasury bonds 3/15/48 (10 yrs.)	2.37 **	1 1/8 points

* The yield basis is the one indicated by the chart. However, if a straight 9-year bond is offered it should sell at a much higher premium, probably as much as 2 1/4 points. An example of this is the basis on which the 2 1/2s of 1945 are selling in relationship to the 2 3/4s of 1945/47. The 2 3/4s are currently selling on a yield basis of 2.10% and the 2 1/2s on a yield basis of 2.01%, which is about 0.10% out of line with the market. The 2 1/2s would have to decline about 21/32nds to yield 2.10%.

** There is an outstanding issue callable March 15, 1948, the 2 3/4s of 1948/51. This issue is selling at a price of 102.18 to yield 2.46%. If a straight 10-year bond was offered, the market basis should be considered less and I have taken 2.37% as the basis, basing this opinion on the relationship of the 2 1/2s of 1945 to the rest of the market.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: February 28, 1938

TO: Secretary Morgenthau

FROM: M. A. Harris

A short weekly review of the
government security market

During the past week prices of Treasury bonds advanced each day until Saturday, when they eased 1 and 2/32nds. Net gains for the week ranged from 6 to 13/32nds, with many issues reaching new highs for the year, as well as the average price for those issues due or callable after 8 years, which advanced about 1/3 of a point. Treasury notes also made sizeable gains but demand was confined to the longer maturities, particularly the 2% of September 1942 and the 1 3/4% of December 1942, which advanced 9/32nds and 7/32nds, respectively. The other issues maturing after 1939 closed the week 3 to 5/32nds higher while the shorter issues were generally 1/32nd higher. The "rights" are currently quoted 101.7 bid, 101.9 offered. As only about 3/32nds represent interest from now until maturity, the current price means a 1 1/8 points premium that the market is placing on the "exchange privilege."

During the week there was a large number of potential buyers but due to rising prices and the scarcity of offering in the market, turnover was relatively light. However, a number of large blocks of bonds were reported taken by insurance companies and out-of-town banks. New York City banks confined their purchases mainly to the note market. Dealers increased their holdings for the first time in several weeks, adding about 27 million bonds and 17 million notes to their portfolios.

Dealers' Portfolios

Total holding of government securities by dealers advanced last week for the first time in about a month. Increases in holdings of bonds and of notes maturing after 1 year accounted for practically all of the rise.

(in millions of dollars)

	Holdings Feb. 19th	Holdings Feb. 26th	Change
Treasury bonds	8.2	34.9	+ 26.7
Treasury notes (maturing within 1 yr.)	47.9	42.2	- 5.7
" " " " 1-5 yrs.)	15.9	34.5	+ 18.6
Treasury bills	8.8	3.7	- 5.1
H.O.L.C. bonds	2.4	3.0	+ 0.6
F.F.M.C. bonds	1.6	0.8	- 0.8
	<u>84.8</u>	<u>119.1</u>	<u>+ 34.3</u>

Note: The above figures were obtained from the Federal Reserve Bank of New York.

Treasury Accounts

No purchases were made during the past week and the only sale was \$1,000,000- 2 7/8% Treasury bonds of 1955/60 for the account of the Civil Service Retirement and Disability Fund. This account still has the following bonds to be sold:

\$ 5,884,000	3 1/4%	Treasury bonds	1943/45
2,621,650	3 1/4%	" "	1944/46
1,910,700	2 7/8%	" "	1955/60
4,378,700	2 3/4%	" "	1945/47
<u>\$14,695,050</u>			

Funds available for investment (Feb. 26, 1938)

Postal Savings System	\$ 5,033,000 *
Federal Deposit Insurance Corp.	<u>21,460,000 *</u>
	\$26,493,000

* Desired to be kept uninvested.

System Account

During the past calendar week the only trades of importance made by the Federal Reserve System were the sales of \$8,800,000 long bonds and the replacement purchases of a like per amount of short bonds as follows:

Sales -

\$ 4,300,000	2 7/8%	Treasury bonds	1955/60
2,500,000	2 3/4%	"	" 1951/54
1,000,000	2 3/4%	"	" 1956/59
1,000,000	2 1/2%	"	" 1949/53
<u>\$ 8,800,000</u>			

Purchases -

\$ 4,500,000	3 3/8%	Treasury bonds	1943/47
2,000,000	3 1/4%	"	" 1944/46
1,000,000	3 1/4%	"	" 1943/45
500,000	3 3/8%	"	" 1940/43
800,000	4%	"	" 1944/54
<u>\$ 8,800,000</u>			

The explanation for these trades, as stated in the daily letter of the Federal Reserve Bank of New York to the Board of Governors of the Federal Reserve System, was "The exchange of bonds shortens maturities somewhat, tends toward a more even distribution of maturities in System Account holdings, and at the same time supplied market with the longer term issues for which there was demand".

The System made no further sales from their holding of about 90 million 3% Treasury notes due March 15, 1938.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 28, 1938

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

As the beginning of March approaches, a more general expectation of an impending rise in business activity is discernible in financial reviews and trade journals. Whether this is due largely to seasonal influences, or is based on factors of a more permanent nature, is not entirely clear, since an increase of about 5 per cent in industrial production from January to March is to be expected on seasonal grounds.

Our belief that fundamental conditions favor a greater than seasonal rise in business activity during the spring is based on the following reasoning: (1) At current low levels of activity in many industries, a small upturn would be sufficient to cover the normal seasonal rise; (2) despite generally unfavorable business conditions during February, the seasonally adjusted index of industrial production apparently will show a slight increase; (3) our analysis of basic demand in relation to production indicates that a substantial increase in the output of important industries will be required to bring production up to the current level of demand; (4) a relatively well-maintained volume of retail sales, while replenishment of merchants' stocks has been generally postponed, suggests that inventory replacement may contribute this spring to a higher level of business than called for by normal seasonal requirements.

The steel outlook

While steel ingot production increased during February, the output for the month showed slightly less than the normal seasonal gain over January. New orders during the month were held back by uncertainty over the maintenance of finished steel prices.

The outlook for March appears much more promising. The recent reaffirmation of steel prices for the second quarter has brought a notable increase in inquiries for steel, and is expected to result in heavier ordering during the next few weeks. The recent improvement in business sentiment, confirmed by rising stock and commodity prices, should contribute further to the volume of steel orders during March. Some observers are forecasting an operating rate above 40 per cent by the end of the month, while steel operations currently are running at 30.4 per cent.

Secretary Morgenthau - 2

An average rate of only 33 per cent during March would be sufficient to maintain operations, on a seasonally adjusted basis, at the February level. Any further improvement during April would represent a contra-seasonal gain, since steel production normally declines slightly in that month.

The automobile industry is expected soon to provide an important source of new orders. The outlook for that industry appears to be gradually improving. Used car sales during February reported for the Eastern territory showed a contra-seasonal increase, and new car sales during the month made substantial gains over the January level. The seasonally-adjusted index of automobile production for February will show a rise of about 10 points over the low of 65 established in January, and a greater than seasonal increase in output also appears likely during March.

Farm implement manufacturers, having allowed their inventories to run very low, according to reports, are also expected to come into the market for steel in the near future. With farm incomes still at relatively favorable levels, the demand for farm equipment has held up surprisingly well. Sales by the International Harvester Company during January amounted to \$12,585,000, as compared with \$13,540,000 during the excellent month of January last year, which was by far the highest January on their records back to 1925.

The textile situation

A curtailment of operations in the textile industry has been under way for eight months, this being the first major industry to adjust its operations to the reduced level of new orders last summer. It now appears ready to expand operations, since (1) inventories in retailers' hands are apparently at low levels, following the heavy retail sales of the past several months; (2) buyers are becoming more sensitive to favorable price developments; (3) the enactment of the farm bill provides increased assurance of a rising price trend for cotton and cotton goods during the current year.

The present sensitiveness of textile buyers to favorable price developments, which appears to foreshadow a general buying movement, is illustrated by the immediate response of cloth sales to the President's price statement a week ago. In print cloths, for example, the volume of sales jumped to 40,000,000 yards, about double the week's production. This buying movement has enabled mills to reduce their warehouse stocks, and has tended to stabilize the cloth market.

Secretary Morgenthau - 3

In the wholesale dry goods markets, more buyers and a better attendance at the various displays are reported than is generally enjoyed at this time of the year. The relatively favorable agricultural situation is reflected in the fact that buyers from the agricultural districts continue to place the largest orders, and that mail orders are showing definite improvement. Salesmen for wholesale concerns report that retail stocks have in many cases been reduced to the point where sales are restricted by a shortage of items called for.

Renewed talk of a 2-cent processing tax to finance the farm program has had some influence in stimulating buying recently. It is felt in some quarters that with the current low inventories in retail channels, a processing tax effective several months hence, without the imposition of a tax on floor stocks, would bring a wave of activity in the textile markets this spring similar to that in the summer of 1933. This would, of course, be at the expense of business next fall. Since the textile industry provides employment for more workers than any other single industry, and accounts for nearly one-fifth of the total weight in the F.R.S. index of industrial production, such a development would temporarily have a stimulating effect on business activity and employment.

Retail sales

The movement of goods into consumption, as indicated by department store sales, continues at a much higher level than would be suggested by the depression in industry. The peak of the recovery movement, reached in February of last year, was only 70 per cent, in dollar value, above the current level of department store sales.

In Chart 1, attached, we show an adjusted index of department store sales by months (including an estimate for February based on sales through February 19) broken down by Federal Reserve districts. While sales in dollar values have declined slightly during February, being 1 per cent below the December figure, a substantial drop in prices indicates that sales in physical volume have tended to increase.

The price situation

The commodity price outlook has recently been improved by three developments of major importance: (1) An improvement in fundamental conditions for a number of commodities brought about by reductions or prospective reductions in supply, as in the case of cotton, rubber, tin, and cocoa, or by a revival in demand, as

Secretary Morgenthau - 4

in the case of copper and silk; (2) a change in public sentiment toward prices brought about by the President's price statement, which is characterized by one writer as one of the most reassuring and confidence-breeding events that has occurred recently, and by moves of the Administration directed toward an expansion of credit; (3) recent political developments abroad, which are taken as foreshadowing a peaceful settlement of European difficulties that may lead to some expansion of international trade.

In response to these developments, commodity prices in the United States and abroad (See Chart 2) turned upward at the end of February, following a declining trend during the five weeks previous. It will be noted on the chart that prices in the United States (represented by Moody's index) have recently been more stable than British prices (represented by Reuter's index, which is closely comparable). On the decline last fall, prices in this country fell more sharply than in England.

The levelling out of prices during the past three months, while business activity was declining, provides strong evidence of a base having been established for a general price rise. Such a rise could come about either through (1) an increase in industrial or speculative demand, (2) correction of over-supply conditions for individual commodities, or (3) inflationary monetary tendencies. The current price upturn represents a response largely to the first two factors.

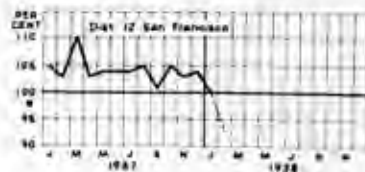
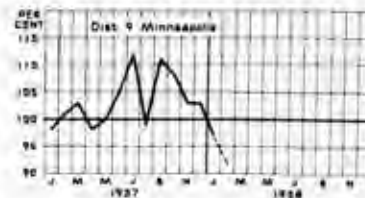
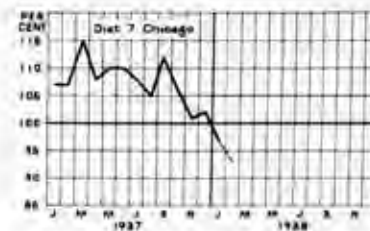
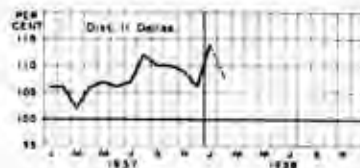
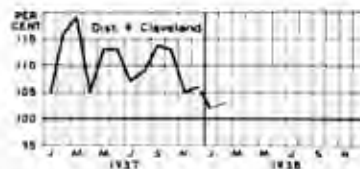
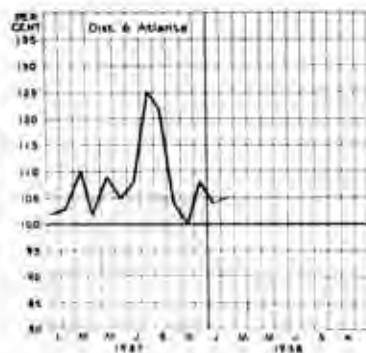
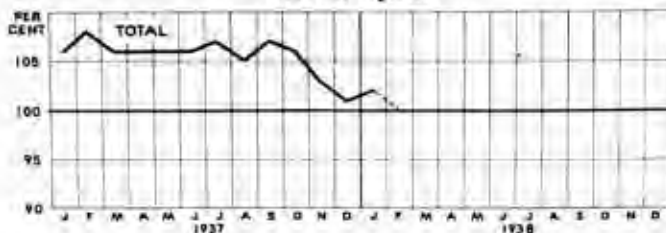
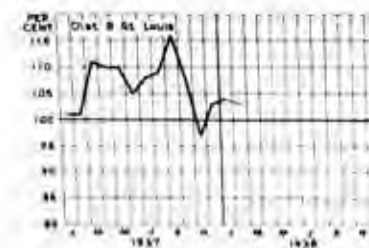
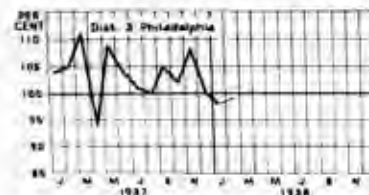
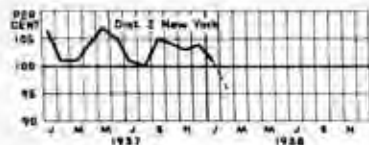
Responding to the general improvement in business sentiment, and contributing in some degree to increased optimism, the prices of industrial stocks rose during February to approximately their November and January highs. The stabilized level of stock prices over the past four months, despite the downtrend in industrial production and corporation earnings, suggests that the unfavorable factors in the business outlook have for some time been discounted.

DEPARTMENT STORE SALES

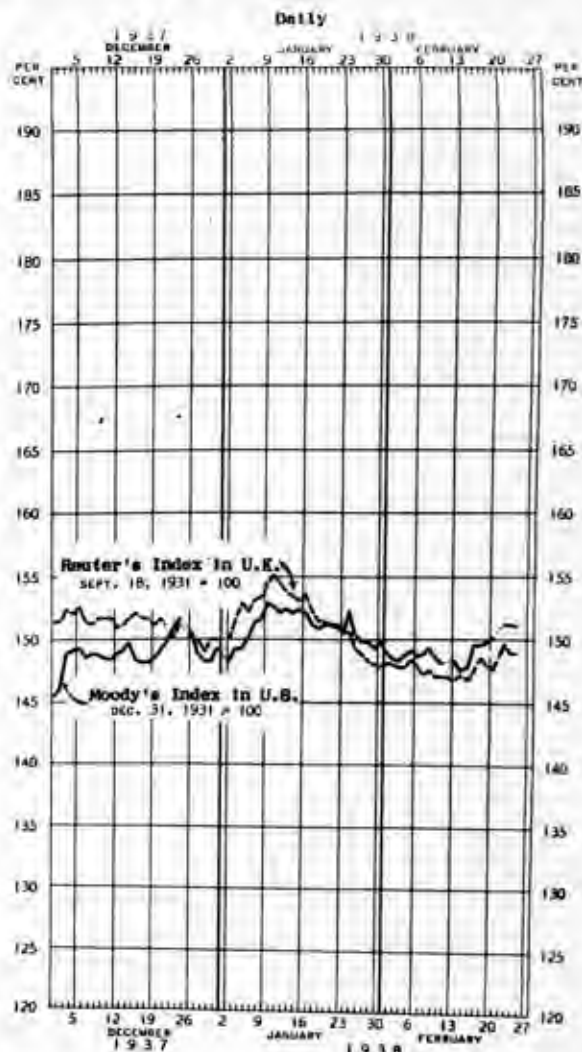
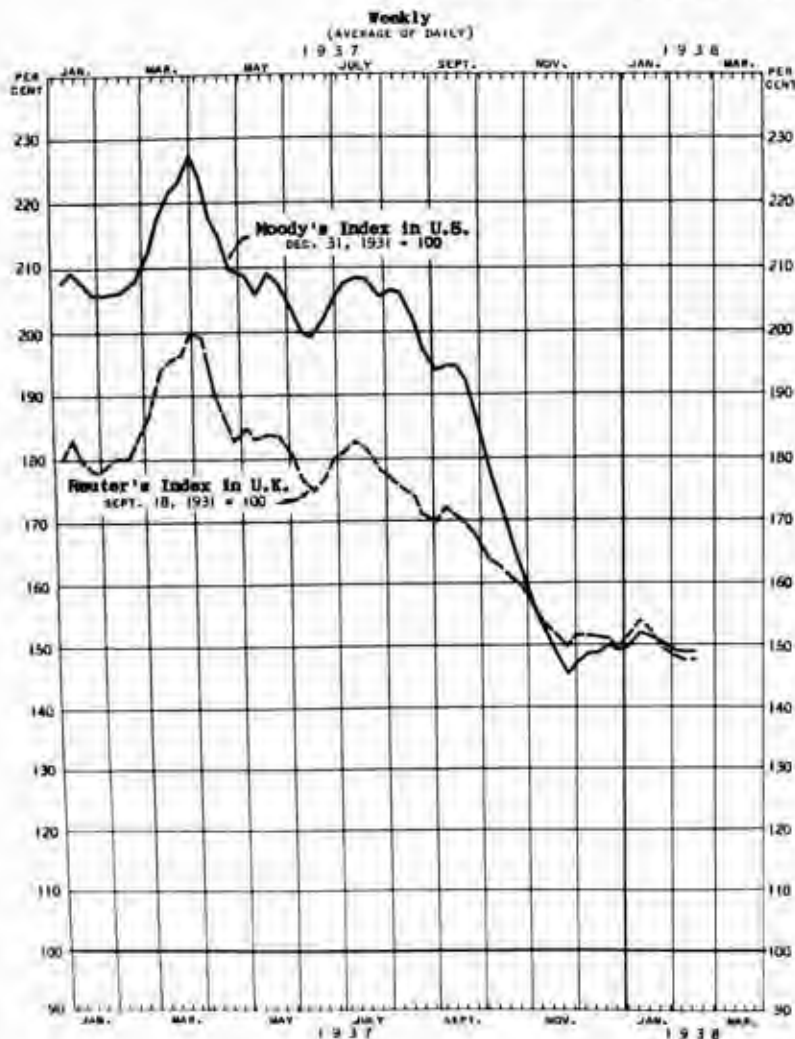
By Federal Reserve Districts



MONTHLY INDEX OF SALES
1936=100, Adjusted



COMMODITY PRICE INDEXES IN U.S. AND U.K.



Prepared by: Mr. White, Mr. Glasser,
Mr. Murphy, Mr. Daggit,
and Mr. Haas

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE February 28, 1938

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Opportunity for next monetary step?

The fortunate coincidence of:

1. Forthcoming announcement with respect to financing of March maturities,
2. Possibility of presidential statement regarding prices of building commodities,
3. Lapse of a few weeks since announcement of general price policy and the previous gold move,

creates a splendid opportunity to take the next logical monetary step toward reversing the deflationary trend. This step consists of announcing, simultaneously with the contemplated presidential statement respecting building costs, that gold in the Inactive Account will be used to pay off maturing notes.

A. Advantages

1. The gold move taken last month was a "trial balloon." As such, its reception has been eminently satisfactory. It has tended to improve business sentiment, and to raise commodity prices. Many commentators, however, claim that the amounts involved are too small to be a significant factor in checking the recession, and that the move is likely to be completely ineffective because the banking system will not be stimulated to increase lending. This reasoning is getting the upper hand, now that the first effect on sentiment is wearing off. Another move is necessary at this time to carry forward the advantage gained by the first move.

Desterilization of a large sum of gold during March and expectation of further decreases during following months will provide a logical and effective second move. The step cannot help but make the banks somewhat more eager to increase their earning assets.

2. The announcement would strengthen the expectation of a rising price level because it would be further evidence that the Administration is going to take aggressive steps to reverse

Secretary Morgenthau - 2

the present deflationary trend. It will be evidence that the Administration has embarked upon a program rather than the adoption of unrelated and sporadic measures.

3. "Timing" is very important. Now appears to be an excellent time. Business opinion appears to be in an expectant mood. It may not take much to considerably strengthen the expectation of an upturn in prices and hence in business. Another good move, taken together with the promise of effective action designed to increase home construction, may do the trick. In any case, the prospects of an upturn are too poor and the consequences of a failure too great to justify overlooking any possible stimulant to business - particularly stimulants that are costless and have merit.

4. The announcement of desterilization would fit in admirably with the contemplated presidential statement with respect to the reduction in the prices of building costs. Both together would constitute a perfect execution of the price policy the President announced last week. The Administration would be striking on two fronts at the same time. By attempting to reduce some of the specific prices in the price structure and at the same time by taking a step designed to raise the general price level, the President would be moving toward both objectives announced in his price policy.

5. The removal of earning assets (Treasury bills and notes) from the portfolios of banks and investors cannot help but be some stimulus to the investment of funds in industry and commerce.

6. The move will be consistent with your desire to maintain a fiscal policy as conservative as conditions permit. Such a policy includes economy in carrying charges of government debt, if feasible.

7. The effect on the price of government securities of increased borrowing for relief will be offset and hence tends toward stabilizing government bond prices.

B. Disadvantages

1. Banks and investors may complain at the reduction in safe earning assets.

2. The Federal Reserve Board may feel that the danger of inflation would be increased.

Secretary Morgenthau - 3

C. Desterilizing gold does not interfere with our ability to export gold.

Desterilizing gold does not reduce the gold holdings of the United States. When gold in the Inactive Account is spent the Federal Reserve Board gets the gold (in form of gold certificates or gold certificate credit).

Should substantial exports of gold take place after the Inactive Account is used up, the exports of gold must come from one or both of two sources:

1. From the \$2 billion Stabilization Fund which was created for that very purpose.

Gold released for export from this fund will not affect the monetary base any more than were the exported gold taken from the Inactive Account.

2. From the gold certificate holdings of the Federal Reserve Board.

Gold taken for export from the gold certificate holdings of the Federal Reserve System does reduce excess reserves, but:

If at the time of the outflow it is desirable to offset the effects of this reduction in excess reserves, the Federal Reserve Board could engage in open market operations to take care of small gold outflows, or reduce the reserve requirements to take care of large gold outflows.

There need be no fear of inadequate powers to prevent deflation in the future arising from possible outflows of gold. Excess reserves depleted by gold outflows can be replenished by:

- (a) Gold in the Stabilization Fund;
- (b) By action of the Federal Reserve Board to reduce reserve requirements;
- (c) Open market operations by the Federal Reserve Board can add more to the excess reserves;
- (d) Issuance of silver certificates against silver in the General Fund.

REB

*Copy to the
President
3-1-38.*

GRAY

London

Dated February 28, 1938

Rec'd 3:33 p. m.

Secretary of State,
Washington.

107, February 28, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

With reference to your inquiry (No. 85, February 25, 2 p. m.) regarding inter-departmental committee on prices of building materials a 1934 report which is similar to that of 1933 is the latest published. No further reports have appeared due to a change in procedure by which publicity is now used as a method of pressure.

The committee which is appointed jointly by the Minister of Health and President of the Board of Trade has representatives from the following groups: two of the builders, two of the building trade unionists, two of local governments, two of building material manufacturers, one each of building loan societies and the cooperative movement with three government experts representing the Board of Trade, Ministry of Health and Department of Health for Scotland. The independent chairman is Sir Isador Salmon, M. P. of the restaurant

KEB

2-#167, From London, Feb.28,6p.m.
restaurant and hotel chain of Lyons and Company.

The committee's terms of reference may be found on page one of the 1933 and previous reports.

By means of monthly returns from local government surveyors prices are watched. In cases of increases or complaints a representative of the committee approaches the manufacturers association concerned informally. Nearly all building material manufacturing lines are organized in manufacturers associations, these being effective price rings. If the explanation of the price increase is not satisfactory the manufacturers association is asked to meet the committee. The committee has no powers except of persuasion and publicity. By using the threat of publicity only since 1934 instead of reporting all cases studied, the committee's influence has proved more effective. The secretary of the committee informs me in strictest confidence that an experiment is now being tried of suggesting to the import duties advisory committee an investigation with a view to the lowering of protective duty, that committee being vested with full powers of scrutiny of accounts, et cetera.

A

REB

S-#167, From London, Feb. 28, 6p.m.

A full report of the work of the committee together with wages agreements entered into in conjunction with the building materials agreement follows as soon as possible by mail.

JOHNSON

CSB

Monday
February 28, 1938
3:28 p.m.

Sen Joe
Guffey: Henry?

HMJr: Hello.

G: This is Joe Guffey, Henry.

HMJr: How are you?

G: All right. - A little disappointed in the message I've got. I've been away for three or four days working for the Administration and Mr. Barkley has been out in Kentucky working for them....

HMJr: Yes.

G: And I'm advised by Mr. McReynolds...

HMJr: Yes.

G: ...that you are going to promulgate some regulations announced in a press conference this afternoon.

HMJr: That's right.

G: ...to become effective the first.

HMJr: That's right.

G: What's your haste about it, Henry?

HMJr: Well, you gentlemen have had this thing about - I think, three weeks, and there's nothing that you've pointed out which is the matter with it and I'm on the spot on the thing and I figured that at the end of three weeks if you couldn't find something really the matter with it why I guessed it was pretty good.

G: Well, I'll let-Senator Barkley's with me....

HMJr: You see?

Sen Alben
Barkley: Hello.

HMJr: Hello, Alben.

-2-

B: Henry.

HMJr: Yes, sir.

B: What the - what your friend Alexander has done, really, on the vital part of this thing - this Canadian whisky - has been simply to juggle some words that mean the same thing they meant before. There isn't a particle of difference in the effect so far as the consumer is concerned - to notify him what he's given - than there was on those which we took up with you before. I have McReynolds brought sample bottles over here with the - with the labels on them as they would be; and of course I - he left them with me and I consulted with some real whisky people...

HMJr: Yes.

B: ...who knew about it and I've got a memorandum about it and I called McReynolds this morning and told him that I didn't see that there's any practical difference...

HMJr: Yes.

B: ...so far as the controverted proposition is concerned. Some of the labels are just like they have now, and there's no question to be made about that.

HMJr: Yes.

B: But on this Canadian whisky, all that these labels do is simply to continue the situation in more language but it doesn't really change it.

HMJr: Well,...

B: Now, the - it seems to me that there ought to be regulations and labels that would properly advise the consumer ^{it is} he's buying; that's all that we're interested ^(what) in. And this doesn't do it.

HMJr: Alben, I don't whether it's either three or four weeks now that I have held this thing up and I think....

B: Well, I appreciate that, but....

-3-

HMJr: And I....

B: But they've changed them down there three or four times in the last year or two...

HMJr: I know....

B: - that they always have to repeal it.

HMJr: I wouldn't have done it for anybody else but you or Joe.

B: Well, I appreciate the compliment, but...

HMJr: But, it really is getting most embarrassing and - and I haven't got any suggestion to change it. Now those - and I'd have to throw it back and have hearings and all that and....

B: Well, I - I would like - I've got the memorandum that I had to be prepared that I got last week. But I went down to Kentucky...

HMJr: Yes.

B: You know I've got a - I've got to maintain the dignity and the prestige and the solidarity of this Administration...

HMJr: Yes.

B: ...by getting myself reelected.

HMJr: Well, I don't know of anything that's more important.

B: You understand that. So I had to leave town last week.

HMJr: I said I don't know of anything that's more important.

B: And so, it probably is because of that. I've had to make these weekend trips because that's the only way I can get home.

HMJr: Yes.

B: I would like it if you could let me present it to you, I'll do it tomorrow....

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HMJr: Yes.

B: ...in concrete form the objection that I have to these - the part of these regulations and these labels that I think is vital.

HMJr: But you understand I've signed it?

B: You have signed it?

HMJr: I signed it at three o'clock.

B: You did?

HMJr: Yes.

B: Oh 'hell'. Well, all I've got to do then is to try to take it up in the Finance Committee and get the thing amended and fight it out on the floor of the Senate.

HMJr: Well, I'm - I - I've waited for one month now....

B: Well, all right, if you've already done it, why - wait just a minute, Joe wants to talk to you again.

HMJr: Yes.

Guffey: Henry.

HMJr: Yes, sir.

Guffey: I think Barkley's entitled to more consideration than Alexander, a Republican in your department.

HMJr: Yes.

G: And I am going to join him in this matter.

HMJr: All right.

Monday
February 28, 1938
3:27 p.m.

HMJr: Hello, Guy?

Guy T.

Halvering: Yes.

HMJr: What's on your mind? Could we do it on the phone?

H: Well, (laughs) - I don't know whether Mr. McReynolds told you, but Mr. Russell has resigned down here...

HMJr: Well, Magill told me.

H: ...and I wanted to bring over a recommendation. I'd like to get this man in tomorrow if I could.

HMJr: Who is it?

H: Kirk of Cleveland.

HMJr: Who?

H: Kirk of Cleveland.

HMJr: Kirk?

H: Yes.

HMJr: Oh, I thought they were going to put this fellow in from New York.

H: Greenbaum?

HMJr: Yes.

H: No, I talked to him about it; I didn't talk to him about the appointment exactly, I talked to him about whether he'd like it or not. He - he's got his children in school up there and he's leased his house and everything...

HMJr: Well, you be in Mac's office at four-fifteen and I'll see you.

H: All right.

HMJr: Be there at four-fifteen.

H: Yes, all right.