TELEPHONE CONVERSATION WITH MR. WOOD OF C. F.

CHILDS COMPANY, NEW YORK.

Mr. Wood of C. F. Childs Company called me this morning on the telephone to give me some idea as to the information he had obtained in the last two days over the telephone from various branches and customers throughout the country on the forthcoming Treasury financing.

He said that the New York banks were about evenly divided as between a 2-1/2% straight ten-year bond and an additional amount of an outstanding issue. Outside of New York they seem to be in favor of a straight ten-year 2-1/2% bond with a fixed maturity date and no call provision. He said that one bank had suggested a 2-1/2% 1947-49 bond, which he thought had a great deal of merit and should receive some consideration from the standpoint of the Treasury. He did not think that there was any doubt that such a bond would be considered by most purchasers as an eleven-year bond.

There were suggestions that we issue either a five-year bond or put out an additional amount of an outstanding note issue, and there were other suggestions that the Treasury might offer an option between a bond and a note. However, he was of the opinion that the 2-1/2% ten-year bond was very much in favor.

DWB

Regraded Unclassified

LUNCHEON CONFERENCE WITH THE SECRETARY OF THE TREASURY ON MARCH 3, 1938, REGARDING THE MARCH 15TH FINANCING.

Those present besides the Secretary were Dudley Mills, Robert Repp of the Discount Corporation, Dr. Burgess, Mr. Taylor and Mr. Bell.

The Secretary asked these gentlemen what they had to suggest as to the March 15th financing. They were agreed that the Secretary could practically write his own ticket in this market and said that we could put out an additional amount of an outstanding issue, such as the 3% of 1948-51, or we could put out a note issue, or we could put out a straight ten-year 2-1/2% bond, or a combination of notes and bonds. The Secretary told them that he had reasons why he did not want to put out an additional amount of an outstanding issue of the Government bonds or notes, and that there was not any need to discuss this possibility. After an explanation of the reasons, largely political, they agreed that he should not adopt this suggestion.

There was then quite a bit of discussion as to the effect that a 2-1/2% ten-year bond would have on the market. Mr. Mills thought that the market would rather stay put, while Mr. Repp thought that it would have a tendency to pull the market up. He also thought that there would be some switching, in that the banks would sell 2-1/2% bonds of 1945, take the premium and then buy the new issue at a much smaller premium.

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The Secretary then asked them that supposing the Treasury offered nothing but a five-year note. He said he could see no reason for this and the question would be immediately raised as to just why the Treasury is offering this short term security when it could issue one for twice that term. He said the question would be whether the Treasury did not have some information, such as to the possibility of something happening in the foreign field or a change in the monetary policy. It would, in their opinion, have a decided effect on the whole market. From their own personal standpoint the note would be all right because it would give them a new short term security to deal in, but from a national standpoint they were definitely of the opinion that the Treasury should be the leader in stepping out into the longer field and that possibly commercial capital would fall in line.

They were then asked as to what they thought about providing a call privilege in the new financing, such as issuing a 2-1/2% 1947-50 bond. They were opposed to this for many reasons. First, we already have had a 2-1/2% 1949-53 bond which has sold as low as 96, and there is still a bad taste in everybody's mouth about this issue. The second is that such a call period would be too short, the amount involved is too small, and for these reasons the banks would not know how to price them. They were definitely in favor of eliminating the call provision on a low coupon bond.

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They concluded by saying that if the Treasury had definitely eliminated the idea of issuing an additional amount of an outstanding security, they believed that the best bet would be a 2-1/2% straight ten-year bond.

DWB

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: March 3, 1938

TO Secretary Morgenthau

FROM M. A. Harris

Issue	Market Basis	Indicated Premium
~~1 3/8% TN 3/15/43 (5 years)~~	~~1.17~~	~~1 point~~
	1.20	27/32nds
2 1/2% TB 3/15/48 (10 years)	2.37	1 point 5/32nds
	2.40	28/32nds
2 1/2% TB 9/15/48 (10 1/2 years)	2.40	29/32nds
2 1/2% TB 1947/50 (9-12 years)	2.26	1 point 30/32nds
	2.32	1 point 15/32nds

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MEMORANDUM OF THE DAY'S ACTIVITIES

March 3, 1938

To: The Secretary

From: Mr. Magill

1. Proposed tax message

I have a draft of the tax-exempt message which has been prepared by Mr. Gaston and approved by Mr. Oliphant and myself. Mr. Haas is making a final check of the economic aspects.

Mr. Gaston is also preparing the draft message on the pending tax bill, using drafts prepared by Messrs. Shoup, Tarleau, Zucker, and Upham. I have had several discussions with Mr. Gaston and he tells me he ought to have a good finished draft sometime tomorrow.

2. Tax bill

The House commenced consideration of the bill this afternoon. I am informed that Mr. Vinson's speech was good and very well received. Pursuant to our conference, I have given Mr. Vinson orally, but not in writing, a general estimate of the yield of the tax bill for the next fiscal year as computed by Mr. Haas' division.

Governor McNutt talked to me further about his proposed exemption for Americans resident in the Philippines.

Mr. Harry Eaton expects to discuss the tax bill at some length in his next letter. He told me that he thought the bill was better than business had any reason to expect a few months ago, and that it was preferable in its present form to the possible alternatives. He felt that if we present the whole situation reasonably and frankly before the Finance Committee, there is a strong likelihood that the bill will go through in much the present form.

RWM

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THE SECRETARY OF THE TREASURY
WASHINGTON

MAR 3 1938

MEMORANDUM FOR THE PRESIDENT:

Subject: Acceleration of the program of the United States Housing Authority.

There appears to be no necessity for the letter addressed to Mr. Straus which has been prepared for your signature. The Authority should proceed as rapidly as the law permits with the development of its program without being prompted by the President. The letter has apparently been prepared for publicity purposes.

There seems to be little doubt that the law permits the Administrator of the United States Housing Authority to make tentative earmarkings of funds and, subject to the approval of the President, to enter into contracts on the basis of the total program (a maximum of $50,000,000 in any one State) provided he does not expend funds faster than the law allows. The question arises, however, as to whether the 10 per centum restrictive clause should be interpreted to mean that actual expenditures within any one State in any fiscal year must be limited to 10 per centum of the total funds available for such fiscal year.

A draft of letter has been prepared for your signature requesting Mr. Straus to have the General Counsel of the United States Housing Authority prepare a memorandum on this subject and submit it to you with a draft of a letter requesting the opinion of the Attorney General.

H Morgenthau Jr

Regraded Unclassified

THE WHITE HOUSE
WASHINGTON

My dear Mr. Straus:

I have your letter of February 18, 1938, regarding the proposed acceleration of the program of the United States Housing Authority. While I am in agreement with your objectives, it is not clear to me why the letter drafted for my signature is necessary. There seems to be little doubt that the law permits you to make tentative earmarking of funds and enter into contracts subject to my approval on the basis of the total program (a maximum of $50,000,000 in any one State) provided you do not expend funds faster than the law allows.

There seems to be some question as to whether the 10 per centum restrictive clause should be interpreted to mean that actual expenditures within any one State in any fiscal year must be limited to 10 per centum of the total funds available for such fiscal year.

I would suggest that you have the General Counsel of the United States Housing Authority prepare a memorandum on this subject and submit it to me with a draft of a letter requesting the opinion of the Attorney General.

Sincerely yours,

Honorable Nathan Straus,
Administrator,
United States Housing Authority.

Regraded Unclassified

My dear Mr. Straus:

I have your letter of February 18, 1938, regarding the proposed acceleration of the program of the United States Housing Authority. While I am in agreement with your objectives, it is not clear to me why the letter drafted for my signature is necessary. There seems to be little doubt that the law permits you to make tentative earmarking of funds and enter into contracts subject to my approval on the basis of the total program (a maximum of $50,000,000 in any one State) provided you do not expend funds faster than the law allows.

There seems to be some question as to whether the 10 per centum restrictive clause should be interpreted to mean that actual expenditures within any one State in any fiscal year must be limited to 10 per centum of the total funds available for such fiscal year.

I would suggest that you have the General Counsel of the United States Housing Authority prepare a memorandum on this subject and submit it to me with a draft of a letter requesting the opinion of the Attorney General.

Sincerely yours,

Honorable Nathan Straus,
Administrator,
United States Housing Authority.

rcp/mab/dcd 3/2/38

FB JMN · DCB

Regraded Unclassified

THE WHITE HOUSE
WASHINGTON

My dear Mr. Straus:

It is my desire that action be taken to stimulate the construction industry and to aid in meeting our housing problem. This necessitates extensive housing construction by public as well as private agencies, with the public program serving the low-income group which private enterprise cannot reach.

I have decided that the best method by which we may accelerate the schedule for public housing construction under the United States Housing Act of 1937 would be to proceed now with the full program of $500,000,000 authorized by that Act. Of this amount, the maximum to be spent in any one state is limited to ten per cent. If earmarkings and contracts for all the states and for each state are based upon the full amount of this authorization, there will be an increase at the earliest possible date in the volume of the building program. This will stimulate direct and indirect employment, and speed the provision of decent housing for the one-third of our population which is ill-housed.

Of course, you are not to commit yourself to spend funds faster than the law allows. No part of the last $200,000,000 should actually be spent before July 1, 1939. By making earmarkings and loan contracts now on the basis of the full program, you will be able fully to achieve the objective of getting $300,000,000 into actual circulation by July 1, 1939, and a total of $500,000,000 into actual circulation within the three years set forth by Congress. This plan will also promote the economical and effective planning of housing projects in the various cities by enabling them to formulate their housing plans in the light of the whole three year program.

Please take steps to follow this procedure for accelerating the public housing program. I believe that this will result in increasing the volume of building at a time when such action is vitally necessary.

Sincerely yours,

Honorable Nathan Straus,
Administrator,
United States Housing Authority.

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DEPARTMENT OF THE INTERIOR

UNITED STATES HOUSING AUTHORITY

WASHINGTON

February 18, 1938.

My dear President Roosevelt:

For some weeks, in accordance with your request, we have been canvassing available methods for expanding the volume of the building program under the United States Housing Act of 1937. We have discovered what seems to be a sound and feasible plan for accomplishing this objective, and we are submitting it to you for your consideration.

Under the provisions of the United States Housing Act, we are authorized to lend to the localities for housing purposes an amount not to exceed $300,000,000 before July 1, 1939, and an additional amount not to exceed $200,000,000 after July 1, 1939. This contemplates a total expenditure for housing purposes of $500,000,000 over a three year period ending in the middle of 1940.

Up to the present time, as a matter of administrative procedure, we have made our tentative earmarkings of funds for the localities on the basis of the $300,000,000 which is the amount that we may actually spend in the form of loans before July 1, 1939. Likewise, our tentative earmarkings for any one state have been restricted to $30,000,000, pursuant to the ten per cent limitation imposed by the Act. If we continued to follow this procedure, we could enter contracts of loan amounting to only $300,000,000 before July 1, 1939. Since eighteen months to two years are required between the first tentative earmarking for a housing project and the final expenditures necessary for its completion, it is clear that, with contracts of loan amounting to only $300,000,000 before July 1, 1939, we would not to able to spend anywhere near that amount within that time. And under such a schedule, the maximum expenditure over a three year period could not even approach the $500,000,000 allowed by Congress, as a substantial part of the money for the construction of the projects would not be spent until the fourth or fifth years.

The above administrative procedure was adopted solely as a temporary measure with a view to avoiding undue haste. However, on the basis of the requests which we are now receiving from the local housing authorities, and the enthusiastic support which they are obtaining from their cities, I am now convinced that it would be wise to proceed with the full program authorized by the United States Housing Act. This will substantially increase the volume of the building program.

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For this reason, we are now proposing to alter our procedure to the extent of making earmarkings and loan contracts before July 1, 1939, based upon the whole $500,000,000. This plan would not commit us to spend funds faster than the law allows, for no part of the last $200,000,000 would actually be spent before July 1, 1939. On the contrary, this plan offers the only method of fully achieving the objective of getting $300,000,000 into actual circulation by July 1, 1939, and $500,000,000 into actual circulation within the three years set forth by Congress.

This change will largely increase the volume of building next Fall and tremendously increase it throughout the year 1939. It will also promote a far more economical and effective planning of housing projects in the various cities by enabling them to formulate their plans and projects upon the whole $500,000,000 three year program.

For the foregoing reasons, it seems highly desirable to enter into loan contracts now covering the full amount authorized by the United States Housing Act, and in the event that you approve this course, I shall take immediate steps to follow it.

Respectfully yours,

Nathan Straus

NATHAN STRAUS,
Administrator.

The President,

The White House.

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THE WHITE HOUSE
WASHINGTON

231

February 28, 1938.

MEMORANDUM FOR

✓THE SECRETARY OF THE TREASURY
THE ACTING DIRECTOR OF THE BUDGET

FOR REPORT

F. D. R.

A similar memorandum has been sent to the Acting Director of the Budget.

Regraded Unclassified

Thursday
March 3, 1938
3:43 p.m.

HMJr: Hello.

T.O.: Mr. Crane.

HMJr: Hello. Hello.

Jay Crane: Hello.

HMJr: Jay Crane?

C: Yes, sir.

HMJr: How are you?

C: How are you?

HMJr: Fine.

C: Say, Mr. Secretary - the manager of our Mexican business is up here...

HMJr: Yes.

C: And he's going to Washington tomorrow...

HMJr: Yes.

C: ...with the head of our foreign producing department to talk to Mr. Welles.

HMJr: Yes.

C: Armstrong is in Venezuela.

HMJr: Yes.

C: And I wondered whether when they're in Washington tomorrow - do you want them to stop in?

HMJr: Well, I would normally, but unfortunately in the morning the President is going to Church and he expects the Cabinet to go with him.

C: Yes.

HMJr: In the afternoon we have Cabinet.

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C: Oh, I see.

HMJr: So we pray in the morning and we play in the afternoon.

C: (Laughs)

HMJr: And, besides that I've got a few odds and ends.

C: Well, I'll tell you then, he....

HMJr: Unless - if you - if there's something very special.

C: No, I don't think so.

HMJr: What?

C: I don't think so. You probably have seen in the paper what's happened.

HMJr: I saw you lost your case before the Supreme Court.

C: Well, nothing much has happened beyond that.

HMJr: Yes.

C: They're rather expecting any time that the Government may step in and put a man in.

HMJr: I see.

C: But I think he's delivering some sort of a memorandum to Welles.

HMJr: Well, I'll get that from Welles then.

C: Oh, I see.

HMJr: But if you think there's something specially from the Treasury angle why I'll see him, but....

C: No, I don't think - I don't think so.

HMJr: But I mean it'd be rather difficult tomorrow.

C: No, I don't that's necessary.

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HMJr: All right. Now, let me ask you one.

C: Sure.

HMJr: Is there any particular spot in the World which - where things look any better since I've seen you?

C: No, I don't - I shouldn't think so. Things seem to be a little quieter perhaps in France, but I don't think fundamentally they're any better.

HMJr: I see.

C: And - I think in some parts of the World it looks as though they're perhaps getting a little worse.

HMJr: Well, where?

C: Oh, I think the Argentine looks a little worse since the time I saw you.

HMJr: Do they?

C: Of course they've got a - it's a pretty strong country and they've got a lot to go on.

HMJr: Yes.

C: Both the Argentine and Brazil - I think maybe things look a little worse.

HMJr: Yes.

C: We're having a terrible time in Brazil.

HMJr: Are you?

C: Yes. We're not getting any exchange at all there.

HMJr: I didn't know that.

C: But...

HMJr: Well, I'll tell you what I think I'll do. I - as soon as I get a breathing spell I'll call you up next week and ask you if you'll come down and see me.

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C: Sure, I'll be glad to.

HMJr: How's that?

C: That's fine.

HMJr: Because I'd like to check up with you.

C: Yes. All right.

HMJr: How did you like what we did on gold sterilization?

C: I thought that was fine.

HMJr: You liked that?

C: Yes.

HMJr: Uh huh.

C: Yes. I think that's a step in the right direction unquestionably, and a conservative step too.

HMJr: Good.

C: Yes, I thought that was all right.

HMJr: Well, you explain to these gentlemen. - If you say to me there's something special about the Treasury I'll make time, but if there's nothing special I'm going to ask to be excused.

C: Yes. No, that's all right; there isn't anything special. I just thought that if they - as long as they were going to be there...

HMJr: Right.

C: ...if you did have the time why...

HMJr: But next week I'll get in touch with you and I'm going to ask you if you'll drop down.

C: O. K.

HMJr: Thank you.

C: Goodbye.

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Thursday
March 3, 1938
4:05 pm

HMJr: Hello.

T.O.: The Vice President.

HMJr: Hello.

John Garner: Yes, Henry, how are you?

HMJr: Oh, I'm alive. How are you?

G: Oh, I'm just barely breathing. Say, Smythe will be here in the morning. When do you want him to talk to you?

HMJr: Well, what time does he get in?

G: He'll be in here at seven-thirty.

HMJr: I see. Well, we all got to go to Church tomorrow.

G: Yes, we've got to go to Church at ten-thirty.

HMJr: Yes.

G: I'm just asking you a question.

HMJr: How about - how about nine-fifteen?

G: Nine-fifteen.

HMJr: At the Treasury.

G: Well, I'll have him to be there at nine-fifteen if he's living.

HMJr: Well, that goes for me too.

G: Do you want me to come up there with him?

HMJr: No.

G: Huh?

HMJr: No.

G: Well, then I'll just send him up there in my car.

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HMJr: Yes. I mean....

G: And let him tell the doorman who it is and then he'll let him come in and talk to you.

HMJr: That's right.

G: God bless you, Henry.

HMJr: I thank you.

G: I'll see you tomorrow.

HMJr: Thank you.

G: All right.

HMJr: Goodbye.

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REB

GRAY

Paris

Dated March 3, 1938

Rec'd 2:20 p. m.

Secretary of State,

Washington.

328, March 3, 4 p. m.

FROM COCHRAN.

Paris exchange trading extremely thin and dull as operators continue to await result of protracted parliamentary struggle over labor bill. Franc varied little and no evidence of intervention by French control since small business in New York yesterday evening. Statement of Bank of France as of February 24 showed no gold loss and no new advances to the state. Treasury's account was down to 22½ million francs. Big Paris banks are requested to pay into Treasury today all funds received to date on subscriptions to current Treasury loan. This follows a similar (*) of a week ago indicating government need for cash. Such banks are endeavoring to pass on part of their subscriptions, offering to give their own commissions to smaller banks that will purchase from them. Gossip continues that new national defense loan will be launched shortly.

WILSON

CSB

(*) Apparent omission

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GR

PLAIN

London

Dated March 3, 1938

Rec'd 3:22 p.m.

Secretary of State,

Washington.

178, March 3, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

Issuance of White Paper on defense discloses that fighting services will require in the fiscal year beginning April 1, pounds 343250000, of which pounds 90000000 is to be met under the terms of the Defense Loan Act, (my 59, February 12, 1937). Corresponding estimates for current year were pounds 278250000, of which pounds 80000000 was to have been met out of loan, but thus far only pounds 16450000 has been brought into the accounts. But the extent of actual defense spending in the current year is wholly irrelevant to the budgetary prospect. As THE FINANCIAL TIMES rightly points out "the Defense Ministry may not in actual fact be able to spend in 1937-38 as much as they estimated, but if less is actually spent this year then more will be charged next year so that there is no real contribution to surplus from that source. In other words it is the long-term aspect of rearmament finance which is important rather than the short-term aspect of the amount which may happen

to

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to be charged in a given fiscal year." Incidentally White Paper frankly states "that even on the assumption that 1939, as now seems probable, will be the peak year of defense expenditure, the total expenditure over the five financial years 1937-41 will exceed the sum of pounds 1500000000 mentioned in last year's White Paper".

It is clear that estimated national expenditure during the next financial year will be not less than the pounds 68000000 more than this year and that the total figure will be about pounds 931000000 apart from pounds 00000000 covered by defense loan.

2 In answer to a question in the House of Commons this afternoon, the Chancellor of the Exchequer stated that no British loan to the Italian Government was contemplated; none had been asked for and he had no reason to expect that one would be asked for. At the same time, when asked for an assurance that no guarantee at the expense of the British taxpayer would be given for the promotion of additional imports into Italy, Simon said that the export credit guarantees were given for the benefit of United Kingdom exporters and not for the benefit of foreign importers; in the case of Italy as in the case of any other country applications would continue as at present to be dealt with by the Export Credit

Advisory

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Advisory Committee solely on business grounds with a view to assisting United Kingdom export trade.

3 It is noteworthy that this week's Bank of England return shows bankers' deposits up by some ten million pounds and holdings of Government securities in the banking department up by seven million pounds. In this connection it might be mentioned that by Monday next one hundred million pounds of Treasury bills will have been repaid since the first of the year and the excess of current revenue over expenditure will have amounted to one hundred and fifty million pounds; credit is always easy at this time of year. It is also of interest to recall that in the course of Simons' reply of February 14 on the resterilization policy, he mentioned that the most convenient method of expanding the credit base here was against securities purchased by the Bank of England and that "the credit base was very high at the present time through such operations." It remains to be seen what this move presages and to what extent the banks will be forced into the gilt-edged market. They hold Government securities to the extent about 30% as compared with the pre-war level of 15%. To increase the banks' holdings of cash may not necessarily force them into the gilt-edge market; it was quite a different proposition for the banks

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-4- #178, March 3, 6 p.m., from London.

banks to buy gilt-edge in 1932-33 when they were standing at depreciated levels, than at today's premiums.

4 Foreign exchanges unusually inactive

JOHNSON

HPD

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THE UNDER SECRETARY OF STATE
WASHINGTON

March 4, 1938.

Dear Henry:

The British Ambassador came to see me yesterday and I am sending you for your information a copy of my memorandum of my conversation with him. I call your attention particularly to pages four and five of this memorandum. I told the Ambassador that I would communicate the suggestion set forth to you at once and I shall appreciate having from you the reply which you would like me to make to the British Government in response to the suggestion conveyed by Sir Ronald Lindsay.

Believe me

Yours very sincerely,

Enclosure:
Memorandum of conversation.

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

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COPY

DEPARTMENT OF STATE

Memorandum of Conversation

Date: March 3, 1938.

STRICTLY CONFIDENTIAL

Participants: The British Ambassador, Sir Ronald Lindsay; the Under Secretary.

The British Ambassador called to see me this morning and left with me for purposes of information copies of confidential instructions that had been sent by Mr. Eden to Sir Robert Craigie, the British Ambassador in Tokyo, under dates of February 4 and February 15. These instructions had to do in part with the possibility of good offices being extended in the Chinese-Japanese hostilities by Great Britain and by the United States and made it evident that the suggestions made in this regard by the Japanese Ambassador in London were not supported by the Japanese Government. The Ambassador asked if I would return these documents to him, which I said I would be glad to do after I had an oppor-

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tunity of showing them to the Secretary of State and to one or two other officials in the Department.

The Ambassador then said that his Government wished us to be advised that the Prime Minister had determined to push actively for an understanding with Germany and to this effect had instructed Sir Nevile Henderson, the British Ambassador in Berlin, to seek immediately an interview with Hitler for the purpose of ascertaining what the German position might specifically be with regard to two matters: first, the precise extent and nature of Germany's colonial ambitions and, second, the precise extent and nature of Germany's attitude with regard to a permanent Central European appeasement. The Ambassador emphasized that Sir Nevile Henderson was not instructed to make any commitment on the part of the British Government but was merely to undertake an exploratory conversation for the purpose of obtaining information with regard to the German point of view. The Ambassador said that his instructions further told him to assure us that all developments with regard to these conversations would be reported to us so that we might be closely informed of what was going on. I told the Ambassador that we had received a cable from Mr. Kennedy reporting the conversation which the latter had had with Lord Halifax yesterday, in which Lord Halifax had said

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that the Prime Minister was sending an emissary to Germany to see Hitler. The Ambassador said that his own instructions were very clear and made it evident that the conversations were to be handled through the British Ambassador in Berlin but that he thought it possible that the British Foreign Office might be sending an official to accompany the British Ambassador to the conversations which he was to have with Hitler.

The Ambassador said that he had another matter of interest to report to me which was that in the pouch he had received from London last night there had been a copy of a cable sent by Lord Perth, the British Ambassador in Rome, to the British Foreign Office on or about February 21 or 22, immediately after the resignation of Mr. Eden. In this telegram Lord Perth had reported his very strong belief that unless the British Government moved quickly, the Italian Government might throw itself completely into the arms of Germany for fear of the results of German expansionist moves in Austria and in Eastern Europe and that, in that event, any possibility of reaching an agreement between England and Italy would be minimized. I said to the Ambassador that it had been assumed in many quarters that the understanding between Italy and Germany had been very much closer during the past two months than it had been

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prior to that time. The Ambassador replied that on this point he was not sufficiently informed to offer any suggestions, but that from the text of Lord Perth's telegram it would certainly seem that as of that date no such complete identification of German and Italian policy and interests has been made effective as to prevent separate ngotiations between Italy and Great Britain on the one hand and Germany and Great Britain on the other.

The Ambassador then said that he was further instructed to inform this Government that the British Government, and in particular the British Treasury, had been greatly gratified by the results of Sir Frederick Phillips' visit to the United States last autumn and by the particularly courteous and friendly reception which he had been given by the United States Treasury Department. He said that the British Government felt that this visit, the contacts established with the Treasury Department in Washington and the quiet and informal way in which the visit had been managed had been productive of the greatest benefit, and the British Government consequently hoped that the United States Treasury Department might consider it desirable to send a representative of the United States Treasury Department to London in the same manner in order that similar informal and confidential conversations could be had between such

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representative and the officials of the British Treasury. If the United States Treasury Department agreed to such a step, the British Government hoped that the visit might take place in the month of October of this year since the Ambassador said that during the summer months the officials of the British Treasury were either engaged, to the exclusion of other work, with the financial measures which had to be passed by the Parliament during the summer session or else were away on their regular summer vacation. I asked the Ambassador particularly whether there wqs any specific matter or problem which the British Government had in mind to discuss with such a representative of our Treasury Department should the visit be undertaken. The Ambassador said that there was no specific matter under contemplation, and that they felt that a visit with no specific purpose but of a broad and general scope undertaken in the same way as the visit made to the United States Treasury Department by Sir Frederick Phillips would be most helpful. I told the Ambassador that I would be glad to communicate this message to the Secretary of the Treasury, and that I would let the Ambassador know what reply the Secretary of the Treasury might desire to make.

In conclusion the Ambassador spoke to me with regard to the Mexican oil problem. He said that he was informed by cable that his Government had instructed the British Minister in Mexico City to make very strong representations

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to the Mexican Foreign Office to the effect that a very great amount of British capital had been invested in Mexico in the oil fields and that such investment had been profitable to the Mexican people; that the British Government protested against any action which might be taken by the Mexican Government in the nature of embargoing the properties of these British companies or of operating them except under the companies' direct management; and finally that the British Government hoped that the Mexican Government would undertake a reconsideration of the decision of the Mexican Supreme Court so that the present difficulty might be solved. There was no suggestion or intimation made by the Ambassador that joint or parallel action by this Government was requested. The Ambassador merely inquired whether I would tell him what instructions this Government had sent in the matter. I replied to the Ambassador that no instructions had been sent and that for the moment none were in contemplation, that I had not yet seen the decision of the Supreme Court and that I had not yet conferred with representatives of the American companies interested. Until that time, I said, it was impossible to determine whether any representations would be made by this Government. I said, however, that I was sure of one thing and that was that if the Mexican Government in this whole controversy had been operating strictly in accordance with the terms of existing legislation and if the decision of the Mexican Supreme

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Court had been rendered in accordance with the terms of the Constitution of Mexico and in accordance with the terms of Mexican legislation, there was nothing that would inflame Mexican public opinion more and make any equitable solution of the present difficulty more difficult than an attempt on the part of foreign governments to bring any kind of pressure to bear on the Mexican Government. I said that such representations as that would be immediately seized upon by the ultra-nationalistic element within Mexico as a means of making the position of the Mexican Government more intransigent than it had been up to the present time. I remarked to the Ambassador that I had also, in my conversations with the representatives of our own oil interests, been given to understand that it was highly unlikely that the Mexican Government itself could undertake profitably to operate these oil interests, that if they did undertake such a step they would inevitably have to pay wages very much lower than those which had been paid by the companies before the present controversy had arisen, and that as regards marketing the oil produced from these properties abroad, under present conditions in the world market the Government could not sell at figures nearly so high as those to which the various companies could sell. I added that these facts were not unknown, in my opinion, to the Mexican Government, and

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that I consequently trusted that some fair solution might yet be found.

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PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 4, 1938, 5 p.m.

NO.: 335

FROM COCHRAN.

I learned at five o'clock that the French control in late trading yesterday evening had lost most of the small amount of sterling which had been gained earlier in the day. The exchange market today is dull, being still influenced by the labor struggle in Parliament. The control today broke about even on small interventions.

Bank of France sold some dollars and bought belgas today presumably to help clear up maturing French railway notes on Belgian market. National City Bank and Lazard were both buyers of dollars against sterling today. Considerable curiosity in European markets as to who has been acquiring gold from the United States.

Chamber last night passed bill for setting up "Caisse" for national defense and measure has gone to the Senate.

WILSON.

EA:LWW

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Friday
March 4, 1938
9:28 a.m.

HMJr: Hello.

R. B. Burgess: Hello, Henry.

HMJr: Randolph, I thought I'd call you rather than Harrison because I was a little bit bothered, see?

B: Yes.

HMJr: And perfectly frankly I gathered - I didn't want to ask questions in front of anybody else - that you only told the boys to stop selling thoses rights after lunch yesterday.

B: No, I told them just the minute I got out of the meeting I called them in.

HMJr: Oh - Well, even then I think it's water over the dam but I think it's unfortunate that they did business on the day we were having all those meetings.

B: Well...

HMJr: Because you must have sold about ten million yesterday.

B: No, we sold some the day before.

HMJr: Before?

B: Yes.

HMJr: Well, the reason I got ten was at the meeting yesterday you said you....

B: Well, I....

HMJr: ....eighty-five and then at two o'clock you said you...

B: I was thinking - I was talking new issues the day before and I lost track of...

HMJr: Well, I didn't - it just bothered me a little bit and I didn't know how - and I thought I'd go directly to you...

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B: Yes.

HMJr: ...rather than go over your head.

B: Well, those were all done in the morning before - pretty well completed before we had any meetings with you.

HMJr: Uh huh. Well -

B: And of course quite independently. I - we hadn't given any instructions beyond which

HMJr: Well, I - I just - it's finished, but I think it would have been better if they hadn't sold any yesterday.

B: As a matter of fact on the - on the new ones one would wait.

HMJr: Pardon me?

B: (Laughs) If one were trying to be smart he'd wait.

HMJr: Yes.

B: On the basis of the new one.

HMJr: But you did give the order before lunch?

B: No, I didn't give any orders from Washington at all.

HMJr: I mean, to stop selling.

B: Oh yes, yes.

HMJr: I mean, the order to stop selling went out before lunch?

B: The minute I came out of that meeting...

HMJr: Oh, fine.

B: ... I called up Madison.

HMJr: Fine. All right. Well, I'm glad I talked to you rather than anybody else.

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B: Yes.

HMJr: I didn't want to mention.... - I'm not making a big thing of it but it bothered me a little bit.

B: Oh well, we've got to keep our - we've got to keep these things absolutely clean, of course, Henry.

HMJr: And, as I say, I didn't want to say anything in front of anybody else.

B: Well, I'm glad you mentioned it, Henry, -

HMJr: All right.

B: And it's a thing we've got to watch very carefully...

HMJr: That's right. Well, I knew you....

B: And I think perhaps in the future we ought to - ought to have directions on a day of that sort not to....

HMJr: Well, I think even a day or two be - I think once I begin to work on this thing with the Open Market Committee...

B: Yes.

HMJr: I think you ought to freeze your position until...

B: Of course, one difficulty is that then you lose your power to deal with the market. Now those rights have been going up much too fast.

HMJr: I know, but on the other hand - on other issues you've always suggested and I've always followed, on ten days before - two weeks before an issue the Treasury's never done anything.

B: Yes, the Treasury has held that.

HMJr: No.

B: Well, of course, that was partly because you didn't want to be accused of bringing the market....

HMJr: True. But I think you're open to possibly the same criticism.

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B: Yes. Well, I think it's something we're always pretty careful in.

HMJr: Thank you.

B: I'll give some thought to it... - and...

HMJr: Yes. As I say, I'm not making a big thing of it but it's getting down so close that it's a question of hours and how much and all that and I - I just don't like to have to call you up at all.

B: Yes. Yes.

HMJr: See? So another time let's settle it before we go into any meeting.

B: I think that's a good idea. Let's talk it all over carefully before hand...

HMJr: Right.

B: ...and see just what we're going to do.

HMJr: Thank you.

B: All right, Henry.

HMJr: Goodbye.

B: Goodbye.

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GROUP MEETING

March 4, 1938.
9:30 A. M.

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

H.M.Jr: Do I get a statement from you (Magill) on tax exempts to take to the Cabinet - five minutes to two?

Magill: Five minutes to ten if you want it.

H.M.Jr: Give it to Mrs. Klotz so I'll be sure and get it.

Magill: You'll get it.

H.M.Jr: The debate wasn't too hot?

Magill: I haven't anything else. I think it might be a good idea for Upham to go up there and dissolve some of these accounts you see in the paper about going to recommit the bill.

H.M.Jr: Dissolve? Is that what you said?

Magill: I notice stories in the paper to the effect that a motion is going to be made to recommit the bill - to strike out the undistributed profits.

Upham: Don't you believe that.

Magill: I think they might make the motion.

Upham: That's the story - not going to do anything about a newspaper story today.

Magill: I didn't say I was going to do anything about the way the tax was. I don't wish to write a letter to Eugene Meyer. I wish to see what the facts were.

H.M.Jr: Anything else?

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Magill: No.

H.M.Jr: Herman?

Oliphant: I planned to be in New York tomorrow.

H.M.Jr: Going up with McReynolds - same dinner?

Gaston: And I ----

H.M.Jr: You too?

Gaston: I hope so.

H.M.Jr: All right, as far as I'm concerned.

Oliphant: Bernstein, Huntington Cairns, and Foley will be here.

H.M.Jr: Who?

Oliphant: Bernstein, Huntington Cairns, and Foley.

H.M.Jr: Now, you want to take up - the reason I've been trying to reach you this morning, I had been counting on going to church. Do you want to take up now your office reorganization?

Oliphant: I'd like to except Steve isn't here. You want to wait until he's here?

H.M.Jr: I can wait.

Oliphant: We have that temporary arrangement and it's working - flowing along ---

H.M.Jr: Is it flowing O. K.?

Oliphant: Oh yes.

H.M.Jr: I tried to reach you - that is what I wanted to talk about.

Oliphant: The work is flowing.

H.M.Jr: Work's flowing. Now how about my friend - though I don't know him - never met him - never ---

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Oliphant: He's all right. He said that their offer of compromise was withdrawn.

H.M.Jr: Withdrawn?

Oliphant: Withdrawn. That is the one fall I didn't think we should accept. Then his general plea was for the Treasury to join in recommending a parole.

H.M.Jr: A parole?

Oliphant: Mr. Helvering has discussed that with Mr. Wenchel, and Wenchel discussed it with me. I talked to Guy this morning. We are not inclined to do that because we felt we crossed that bridge, and think it's a matter which ought to be prosecuted. He was sentenced to eighteen months and served only six of them.

H.M.Jr: Well, I certainly don't ---

Oliphant: I got no special information.

H.M.Jr: You did not?

Oliphant: No.

H.M.Jr: Well, I certainly don't think we could recommend a parole without first discussing it with the President.

Oliphant: No, indeed.

H.M.Jr: Did he talk at all about bank holding companies?

Oliphant: No, he didn't mention it. He said he hoped he wouldn't have to ask for executive clemency because he didn't want to bother the President.

H.M.Jr: The Comptroller made a rather amazing statement here -- I was asking about it because the President told me - this is all confidential - I asked about it, but the President said it was no longer - so I asked the Comptroller, and the Comptroller said he questioned that; that in McAdoo's office here is his headquarters, and then he told me the story, which I am not familiar with, - that a man by the name of Hardwick had been sent to jail in connection with some bank

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in Southern California, and there was a little bit of influence exerted to get executive clemency, and ever since then (name inaudible) sort of traded on that.

Oliphant: Yes, that clicks with this. He was obviously trying to club me with his reference to executive clemency.

H.M.Jr: Did he impress you?

Oliphant: I didn't act too impressed.

H.M.Jr: Anything else?

Oliphant: Well, I had a visit with Morris Long Cooke yesterday. Maybe Taylor will tell you about that.

H.M.Jr: (Points to Mr. Gaston.)

Gaston: Mr. Sandy Kline, of the United Press, gave me some information about the mysterious man who is in Room 296, which I think you will be interested in. His name is Mr. L. R. Walker and he is Superintendent of Plumbing and Heating Division of the Sears Roebuck Company, formerly Superintendent of Building Materials, Sears Roebuck Company. He joined Sears Roebuck Company as Assistant Sales Manager on March 4, 1931; he is fifty-three years old, having been born in St. Joseph, Missouri, in 1886.

H.M.Jr: What's he now doing?

Gaston: He's working with the Interdepartmental Committee.

H.M.Jr: Well, I'm glad to know who Mr. Walker is. In other words, Sandy Kline has a pipe business.

Gaston: Walter Carry, of the Newark News, asked me about Mr. Kelly. He said that friends of Kelly in Newark had said Kelly had been requested to resign as Collector of Internal Revenue. He wanted to know if I could confirm that.

Gibbons: Washington Post ---

Gaston: That is all.

H.M.Jr: Will you take that up a little later.

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Gaston: I've nothing else.

H.M.Jr: (Points to Mr. Taylor.)

Taylor: Nothing.

H.M.Jr: (Points to Mr. Haas.)

Haas: (Hands Secretary black covered loose-leaf notebook.)

H.M.Jr: I was very much interested, George - I had a few minutes with Walker yesterday. He said he sent out bids for same type houses to sixty contractors, to different cities. He is getting bids on the same house from sixty different contractors in twenty different cities. The other statement I would guard very carefully is, he is willing to - say, if we continue the way we started - he would reduce material by fifteen per cent. That is possible - not assured. He is sure, exclusive of labor - not doing the thing by hourly wage - he would go far enough to reduce this thing fifteen per cent, which would be very good. I'd guard that very closely. When we get these - what?

Gaston: That is swell.

H.M.Jr: It makes the difference between a six thousand dollar house and a fifty-one hundred dollar house without even going into the racket of it - and that is just the difference. A thousand dollars off a house today would just put her on.

Haas: I'm getting some material together on that gypsum.

H.M.Jr: Anything else?

Haas: That is all.

Bell: Mr. Woods, of C. F. Childs, is coming in to see me at eleven-fifteen. You wouldn't like to see him would you?

H.M.Jr: I am booked pretty solid. Mrs. Klotz, make a note of it, and if I can I'll shake his hand - see the man. I'd like to know when Mitchell comes over from Nassau.

Bell: It isn't important that you do - he's a pretty good man.

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H.M.Jr: I don't know how long these services will last - don't know how long it will take to bless us.

Bell: That is all.

H.M.Jr: (Points to Mr. Upham.)

Upham: Nothing.

H.M.Jr: (Points to Mr. Lochhead.)

Lochhead: Nothing.

Gibbons: If I'm not here I'll be at Herbert's and Oliphant's Inner Circle.

H.M.Jr: What's going on in New York anyway? Why don't you name it. Everybody's so mysterious - Mac gave me a long story that he's going up there to investigate customs. This was a customs investigation, and everything, and I fell for it.

McReynolds: That is the only reason I'm going.

Gaston: The public relations up there is my reason for going.

H.M.Jr: Oliphant didn't tell me what it was. Steve, I'm glad I've got an open, frank man in this 9:30. Oliphant is going up on this Genesee Valley case and Mac is going up on customs, and you come right out with it.

Gaston: Jim Bryan has to see a printer in New York.

Oliphant: I'm meeting a printer in New York.

H.M.Jr: I'm glad - it's easy to see who isn't going. Well, listen, all I want to say - you take Herman Oliphant up to those six o'clock dinners and he always disappears. How many times have you taken him up there - how many times - at least two or three times you have taken him up and about six o'clock he disappears.

Oliphant: Six o'clock in the morning?

H.M.Jr: At night. How many times have you said you would

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go to that dinner and didn't go?

Oliphant: Twice.

McReynolds: How many times has Herman said he was going to some dinner here in Washington and didn't go?

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

Bell: We can have the reports rendered on these investigations after you come back - customs.

Gibbons: Especially McReynolds. He told me there was something about the customs up there.

H.M.Jr: Mac's fine - really - he doesn't say a word.

Klotz: He's smart.

H.M.Jr: Good old honest Steve Gibbons - always tells the truth.

Gibbons: Speaking of investigations, I heard you discussing California a while ago. First man McAdoo - this is interesting gossip - first man McAdoo recommended to succeed Al Cohn, the investigation shows that he just escaped going to jail two or three times. He took an automobile and the automobile was stolen, and it was found in his possession. He said, "I bought it from John Jones," but he couldn't show a bill of sale. "How much did you pay for it?" "Six hundred dollars." He showed a bill for six hundred dollars worth of work done on it.

He bought a piece of property for a lady - broker said he paid $120,000.00 for it, and investigation disclosed he only paid $80,000.00.

H.M.Jr: Was she a lady?

All right, gentlemen.

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

DEPARTMENT OF STATE
WASHINGTON

March 4, 1938

In reply refer to
EA

Confidential.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses for his information a confidential memorandum of a conversation between the British Ambassador and the Under Secretary February 28, 1938, regarding Hungary's proposal to settle its indebtedness to the United States.

May file
copy to Taylor
done 3/7

Enclosure:
Memorandum of
conversation,
February 28, 1938.

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DEPARTMENT OF STATE

Memorandum of Conversation

CONFIDENTIAL

DATE: February 28, 1938.

SUBJECT: Hungary's proposal to settle debt to the United States.

PARTICIPANTS: The British Ambassador, Sir Ronald Lindsay, the Under Secretary.

COPIES TO:

The British Ambassador called to see me this afternoon. He inquired with considerable interest with regard to the newspaper reports concerning the offer by the Government of Hungary to settle its debt to the United States. I told the Ambassador that as the publications given to the press by the Hungarian Legation showed, the Hungarian debt was in a class separate from the bulk of the so-called war debts inasmuch as it represented a post-war debt incurred for relief purposes, specifically for the purchase of flour in the United States. I said that the matter was now receiving the consideration of the Executive branch of the Government and that, of course, should the President desire to do so, he could at some appropriate opportunity

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submit the proposal made by Hungary to the Congress of the United States. The Ambassador inquired what the feeling of the Congress might be with regard to the proposal. I replied that I was not in a position to give him any accurate information but that I thought he could take it for granted that the attitude of certain of the leaders in Congress was not one which was favorable to the proposal and that, as he could assume, was not because of any intrinsic opposition to the proposal itself but because of the fact that it might be considered as a precedent in dealing with other debt situations. I said, however, that as the Ambassador had undoubtedly noticed, press comment appearing during the past two or three days had taken a reasonable and, to my mind, a practical point of view with regard to the issues involved, and that I would consider it altogether premature to attempt to gauge at this time what the final opinion of the Congress might be should the President decide to submit the proposal to the Congress for its decision.

The Ambassador said that he had been rather struck on his last visit to London with the change of attitude demonstrated in high official circles of his own Government with regard to the debt question. He said that on his prior visits to London during the last four years of his Embassy here he had always found an utter unwillingness

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on the part of the British Government to discuss the possibility of debt negotiations but that on his recent visit, from Mr. Chamberlain down, he had found a very active interest in the matter and an apparent desire to undertake negotiations.

U:SW:MW

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau March 4, 1938

FROM Herman Oliphant

For your information -

Mayor LaGuardia saw me today bringing with him Mr. Paul Campbell from the Department of Justice. He proposed that the post office matter be disposed of as follows:

1. That the Attorney General bring a suit in equity to enforce the contract for the sale of this property to New York City.

2. In this suit it would be stipulated and agreed between the Federal Government and New York City as follows:

(a) That the Treasury advertise the building for sale to the highest bidder with a view to its removal. LaGuardia stated to me that the City would put in a bid.

(b) That the Federal Government lease the land to the City for the duration of the litigation for a nominal consideration with the privilege to the City to landscape the land and with a duty on it to take care of it and to protect the Government from any claims in connection therewith.

(c) That the present rights of the parties to this litigation are to be preserved intact while it is pending.

After LaGuardia left, the matter was discussed by members of my staff with Admiral Peoples and Mr. Lee Martin of his staff, and was later discussed with Mr. Campbell of the Department of Justice. Our conclusion is that the foregoing is entirely satisfactory provided there is added to the third branch of the stipulation a waiver of any breach, real or supposed, on the part of the Federal Government giving the City a right to reenter.

I have told Greenbaum to so advise LaGuardia.

HO

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Friday
March 4, 1938
12:03 p.m.

HMJr: Hello.

W. Randolph Burgess: Oh, hello, Henry.

HMJr: I wondered what the gossip was.

B: Well, I haven't got very much. There's a very active market on rights. They're quoted well up. But it seems to be very general - the source of the demand for them.

HMJr: Yes.

B: Both Devine and Discount - Devine's short of rights and Discount is about even.

HMJr: I see.

B: So none of them are taking any advantages, -

HMJr: I see.

B: ...of anything they know. Well, they - they don't - the market doesn't know whether to expect their new straight bond or some more of an - the outstanding.

HMJr: I see.

B: I think that most expectancy perhaps would be of about a ten-year two and a half, something like that.

HMJr: Well, I'll talk to you again when the market closes.

B: All right.

HMJr: How do you feel about it?

B: Well, I think - my mind is running toward that.

HMJr: Towards which?

B: A ten year two and a half.

HMJr: I see.

B: My only worry about it is it's a little bit rich.

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HMJr: That's mine, too. Would it take - would it stand eleven years?

B: Well, I don't know. That's - that's kind of doubtful. You might do a ten-twelve year of forty-eight fifty.

HMJr: Yes.

B: But I'd like to think about that some more.

HMJr: Yes, I think it's - I think....

B: You could do Devine's forty-seven fifty of course.

HMJr: Yes. Well, I think it's a little rich also.

B: Yes. Of course the difficulty is it's such a very small issue....

HMJr: Yes.

B: ...that to have an optional call day looks sort of silly.

HMJr: Yes.

B: Although it's an advantage at a very low coupon - to be able to keep it out a couple of years more if you should want to.

HMJr: That's right. Well, I'll call you back after market.

B: All right. Fine.

HMJr: Goodbye.

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Friday
March 4, 1938
12:10 p.m.

HMJr: Hello.

Walter Cummings: Good morning.

HMJr: Hello, Walter.

C: How are you today?

HMJr: I'm fine.

C: Well, I'm glad you called me up.

HMJr: What does it look like today?

C: Well, Henry, of course, what I'm anxious to do is to have you keep it under ten years.

HMJr: Under ten years?

C: Yes.

HMJr: Why?

C: Well, because it fits in better.

HMJr: For who?

C: For everybody. For you, because you've got future financing to do and it's just about where we should land. I said nine years yesterday. The banks of course, as you know, and everybody want a bond - a ten-year - the ten years are sort of a dividing line and....

HMJr: Yes.

C: ...and if they have to make it ten years why in a few months why we've got to buy another ten year. It would just go better - with a two and a half per cent bond for nine or ten years it would just go fine. It would suit everybody - you have some new financing to do in June undoubtedly - or down the line somewhere and we've just got it up in fine shape if we do it that way.

HMJr: Well, as a matter of fact, in ten years it looks as though it were too rich.

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C: Oh, I don't think so, Henry, I don't think so. Your bonds.....the conditions is in fine shape now and I'd hate to have it upset. They'll go to a premium but that's all right; it doesn't cost the Treasury anything.

HMJr: All right, Walter. Well, I got what you want anyway.

C: Yes. You can keep it ten years or under..

HMJr: All right, Walter.

C: ... it much under ten, but....

HMJr: Thank you.

C: ...don't make it over ten years if you can help it, because...

HMJr: All right. Thank you.

C: Thank you, Henry. Goodbye.

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Friday
March 4, 1938
4:45 p.m.

HMJr: Hello.

T.O.: Dr. Burgess. Go ahead.

W. R. Burgess: Hello

HMJr: Burgess.

B: Oh, hello, Henry.

HMJr: Good evening.

B: Yes, sir.

HMJr: What does it look like tonight?

B: Well, I've - we've got an idea here we've been working on.

HMJr: Please.

B: The ten year is a little bit rich.

HMJr: I see.

B: The thought is that way.

HMJr: Yes.

B: It also collides with the forty-eight fifty-one, that is it brings the maturities right on the same month...

HMJr: Yes.

B: ...March, forty-eight.

HMJr: Yes.

B: Our present thought is to make it ten and a half.

HMJr: Ten and a half?

B: Which would be September forty-eight - which has the double advantage of making it a little less rich and of getting out into a free date so it doesn't interfere with the forty-eight fifty-one.

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HMJr: I see.

B: Now we think that would be worth about a hundred and one, with plenty of premium in case anything happens it's enough to ride through very comfortably. This market's been very good today. There's been some buying of bonds, - one or two insurance companies I think that have been expecting a cash issue have been looking around and picking up something so the market's behaved very well; it's not up much except a thirty-second here and there and the notes are off a thirty-second here and there. But it's a nice steady market.

HMJr: Well, I told the boys to work on a ten and a half year.

B: Well, that shows great minds work together, doesn't it?

HMJr: And we figured it at between twenty-four thirty-seconds and one point to three thirty-seconds.

B: Well I think that's a touch low. The fact that it's a definite maturity...

HMJr: Yes.

B: ...means that it will be favored as compared with those around.

HMJr: Well, I told them when I went over to Cabinet at two o'clock to work on a ten and a half year.

B: Yes.

HMJr: And they have.

B: Yes.

HMJr: And - what did you figure it at?

B: Well, we figured it - I had the Discount boys figure it...

HMJr: Yes.

B: Our man figured it between twenty-six thirty - between par twenty-six and one sixth.

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HMJr: I see.

B: And the Discount boys figured it between par thirty and 101.12.

HMJr: Uh huh.

B: A little bit higher.

HMJr: A little bit higher.

B: But it's right around - it averages around a point premium.

HMJr: Uh huh. You couldn't quite stretch eleven years?

B: You probably could but I think it's a little bit chancy. There are a lot of people who are rather prejudiced against going out beyond ten years.

HMJr: Well, I - I personally told the boys to figure a ten and half.

B: Yes.

HMJr: I told them that at two.

B: The market would say that's a ten year bond.

HMJr: Yes, I see.

B: Anything in forty-eight they'd say was ten years.

HMJr: Well, Walter Cummings said, 'For God's sake don't go beyond a ten-year.'

B: Yes. Well, he'd think that was a ten-year.

HMJr: See?

B: That wouldn't bother him a bit.

HMJr: Uh huh.

B: I talked with three of the best of the bank fellows...

HMJr: Yes.

B: ...who are most careful and I talked to the five dealers.

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HMJr: Let's see, that would put it into September, wouldn't it?

B: That's September, yes.

HMJr: Yes.

B: That's a free date.

HMJr: Yes.

B: That's the way it looks to me today.

HMJr: Well, we can take a look at it again tomorrow morning.

B: All right, sir. That's fine. I think that would be a very satisfactory issue; not quite as good as putting out some more of the forty-eight fifty-ones but it's pretty good.

HMJr: You die hard.

B: (Laughs) I know it. (Laughs)

HMJr: All right. I'll talk to you in the morning.

B: (Laughs) All right, sir.

HMJr: Thank you.

B: Goodbye.

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Friday
March 4, 1938
4:50 p.m.

HMJr: Hello.

T.O.: Go ahead.

HMJr: Hello.

Nathan Straus: Hello, Henry.

HMJr: Yes.

S: Oh, I'm glad you called me.

HMJr: Yes.

S: Henry, I'd like to see you some time when you have a few minutes to give me advice on something that's puzzling me and I'm a little worried about.

HMJr: What's it about?

S: Patronage.

HMJr: Oh, I see. Well, are you going to be here over the weekend?

S: I'm leaving in time to go up to the Inner Circle dinner, probably at one o'clock tomorrow. But I could easily take a two o'clock or a three o'clock train if it makes - if it helps me see you.

HMJr: Well, of course I've got the whole Government financing to decide tomorrow morning.

S: Oh well now wait a minute, this is not going to run away. Will you make it Monday or Tuesday?

HMJr: Well, let's do it then. I'll give you a ring Monday.

S: All right. Sometime or other when you can sit down with me for a half an hour and give me your dope on this.

HMJr: Well, then I think if it's not going to run away we'd better let it go over until Monday.

S: Fine. Will you call me then?

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HMJr: I'll call you.

S: Swell. Thanks.

HMJr: Goodbye.

S: Goodbye.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

TO Secretary Morgenthau

DATE March 4, 1938

FROM M. A. Harris

Issue	Premium (a)
2 1/2% Treas. bond 3/15/48 (10 years)	28/32nds to 1 point 10/32nds
2 1/2% " " 9/15/48 (10 1/2 years)	24/32nds to 1 point 3/32nds
2 1/2% " " 3/15/49 (11 years)	21/32nds to 31/32nds
2 1/2% " " 3/15/47-50 (9 - 12 years)	1 point 20/32nds to 2 points
2 1/2% " " 3/15/48-50 (10- 12 years) (b)	22/32nds to 28/32nds

(a) I have given two prices on each bond. The first one given is an extremely conservative estimate and the latter price is probably nearer correct, certainly after the issue has been out a few days.

(b) This issue would be very risky as the yield basis in 1950 is about 2.50 percent or more.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 27,1938

TO Miss Chauncey

FROM Miss Humphries

Attached are the various drafts requested, leading up to the President's message of April 25th:

3/4/38 memo Mr. Magill to the Secretary, with draft message
3/10/38 letter R. H. Jackson to President- and draft
3/19/38 note that Mr. Magill gave copy of 3/4/38 draft to President
3/28/38 letter to President and draft (substitutes for certain pages)
Ben Cohen draft - recd. in Legal Division 4/5/38
4/7/38 Ben Cohen memo - re: Tax-Exempts (recd. in H.O's office 4/7)
4/7/38 letter to President, signed by Mr. Magill
4/25/38 mimeograph message from President to Congress

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COPY

March 4, 1938

To: The Secretary

From: Mr. Magill

Attached hereto is the proposed draft message on tax exemptions. The message was prepared by Mr. Gaston from material submitted by Mr. Shoup and myself. It has been reviewed by Messrs. Taylor, Oliphant and Haas; and their corrections have been embodied in the final draft. Mr. Oliphant discussed the proposal to send such a message with the Attorney General and obtained his approval.

Mr. Taylor and Mr. Haas agree that the long run advantages to both State and Federal Governments far outweight the disadvantages of the proposed message. Each of them points out that the effect of the message and any resulting legislation will be to create uncertainty in the tax-exempt market, a possible increase in the cost of financing for municipalities or possibly stagnation of this part of the market. Mr. Taylor believes that these difficulties can be cared for in other ways. I am attaching their complete memoranda for your own information.

Attachments.

Note: Mr. Magill carried this memo to the Secretary
3/4/38 A. M.

Regraded Unclassified

extra 3/4/38

Proposed Message on Tax Exemptions

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.

The Sixteenth Amendment to the Constitution of the United States, finally approved in 1913, was proposed and adopted in order to put to rest any question of the power of the Congress to tax incomes without apportionment among the several States. 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

(Mr. Magill prepared) and carried original to White House 3/19/38

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salaries, but court decisions have granted exemptions in some cases out of the great number which have been litigated. On the other hand, various limitations on the exemption have been expressed by the Supreme Court, and several Justices have strongly urged that it should be eliminated entirely.

Such exemptions, whether expressed or implied, tend to defeat the equity of the Federal and State taxing systems, by establishing a class of recipients of income, which is not subject to the burdens of taxation borne by other citizens similarly situated.

The development of Federal and State taxation in recent years and the increased volume of wholly or partially tax-exempt securities have transformed what was once an inequity of relatively slight importance into a most serious defect in both Federal and State systems. In the Federal system, the income tax has been the major single source of revenue for more than twenty years. About two-thirds of the States also make use of the progressive-rate income tax. The progressive sur-tax rates can hardly be made to operate fairly or effectively so long as tax-exempt securities provide a ready means of escape from income taxation.

The subject of tax-exemptions for bond interest has been so thoroughly discussed that it need not be elaborated here. I shall merely use one illustration to show how

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widespread its effects may be. An investor whose surtax net income is $50,000 is taxed at 31 percent on the last $6,000 of this income, under the Federal tax. In the present state of the investment market, he can get about 3 percent interest if he invests in moderately long-term highest grade bonds of private corporations. Since the income from such bonds is fully taxable, this investor receives, after tax, about 2 percent on his investment. By purchasing a State bond of the highest grade, with the same maturity date, he can obtain a yield of 2.5 percent, against which no Federal income tax is due. This illustration shows that, even for those who are only moderately wealthy, the saving by Federal tax exemption more than counterbalances the low yield of the tax-exempt bond, and therefore tends to make ineffective the progressive tax rates. At higher income levels the tendency is of course even more pronounced. A fair and effective progressive income tax and a huge, perpetual reservoir of tax-exempt bonds cannot exist side by side.

Not only are the ends of tax justice impaired; tax-exempt bonds also have serious economic implications. They absorb money, much of which might otherwise be available for many kinds of business investment. These more hazardous types of investment, often so beneficial to society at large in the long run, are thereby curtailed. Those who can best

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afford to take those chances - the wealthy investors - are precisely those who instead are most attracted to tax-exempt bonds.

The exemption of governmental salaries likewise tends to defeat the aims of a progressive-rate tax system. This exemption is of particular importance to the States, since many of their income taxes strike more heavily and with a sharper graduation of rates, than the Federal tax, in the lower income brackets where governmental salaries usually fall.

Exemption of salaries has the further disadvantage that it produces an apparently endless stream of litigation in attempts to discover whether a given case falls within the tax-exempt area as defined by the Supreme Court.

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.

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Such exemptions, whether expressed or implied, tend to defeat the equity of the Federal and State taxing systems, by establishing a class of recipients of income, which is not subject to the burdens of taxation borne by other citizens similarly situated.

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March 4, 1938

To: The Secretary

From: Mr. Magill

Attached is a draft of a message regarding the pending tax bill. The draft was prepared by Mr. Gaston on the basis of memoranda submitted by Messrs. Shoup, Tarleau, Upham and Zucker. The present draft has been checked only by Mr. Gaston and myself. I should like to submit it to Messrs. Taylor, Oliphant and Upham if time permits.

RM

Attachment.

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The revenue bill submitted by the Committee on Ways and Means on March 2 is another notable step in the improvement of the Federal tax system. The important principles of tax justice that were made a part of the system by the Revenue Act of 1936 are here refined in the light of the experience under that Act. At the same time, the tax structure is in several places simplified, and some of the undesirable excise taxes are repealed. Careful study of the economic effects of the tax system has made it possible to lessen the dampening effect on business enterprise that must always, to some degree, attach to any tax system. Individual tax rates have not been increased, nor has the total tax burden on corporate enterprise been made heavier. All this has been achieved without materially decreasing the revenue that would otherwise be obtained under existing conditions. Obviously, the resulting program not only is a technical achievement of a high order, but also expresses a far-sighted policy based on fundamental canons of taxation.

The most important changes proposed by the bill are in the taxes on corporations and the tax on capital gains. The Revenue Act of 1936 introduced a new principle in the taxation of corporate income in the form of a surtax on that portion of the net profits of a corporation which was not currently distributed in dividends to stockholders. The purpose of this tax was to correct an inequity in our tax system which constituted a very serious loophole of escape from

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the surtaxes on individual incomes which are based on the principle of capacity to pay.

The principle of the undistributed profits tax has been the subject of so much misrepresentation that it is appropriate here to state concisely the real question at issue. That question is this: To what extent shall corporate earnings be allowed to escape the individual surtax rates that apply to all other forms of income — to partnership and proprietorship profits, to interest from bonds, to salaries, wages, and fees? Sheltered behind the corporate veil, the corporation profits may accumulate, free of individual surtax. Sometimes they are ultimately brought to account, when they are finally declared out as dividends or when the stockholder, selling his shares, obtains a capital gain — but meanwhile the Government has had to obtain money from other sources instead. Sometimes these corporation profits escape entirely, as when the stockholder keeps his shares until his death. The estate tax is no answer to this problem, for the estate tax applies also to the savings from salaries, individual businesses, and other incomes. The capital stock and excess profits taxes are no answer, for they do not distinguish between income that is retained and income that is paid out. We are driven back to the income tax and must find there a way to compensate for this tax-postponement or tax-escape privilege inherent in the corporate form.

It is not a question of discouraging or encouraging business as such — it is simply a question of eliminating an unfair tax

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differential that favors corporate profits over other income. When corporate profits do not pay their fair share, the missing amounts must be made up by added taxes on other sources. "Relief" to one taxpayer spells "burden" to another. "Encouraging" corporate business means "discouraging" unincorporated business and other forms of income. Framing a tax system is a process of weighing the advantages in one place against the disadvantages in another. It will not do to run away from the problem by simply demanding encouragement, relief, and even total escape at some one point and letting the matter rest there.

The corporate form does not, however, act as a shield against the personal surtax if the corporation is small and the stockholder's income from other sources is small. Consequently there is logic in the Committee's refinement whereby small corporations — those with incomes under $25,000 — are exempted from any form of the undistributed profits tax. These corporations will be able, under this bill, to retain all or a substantial part of their earnings and pay less tax than under existing law.

Moreover, it is never advisable to push so far in cutting off tax escape as to create an undue number of hardship cases. Some such cases will always be found under any tax law, but in the bill the Committee has amply cared for practically all these instances by making the burden widespread and light rather than by putting on added pressure and then attempting to eliminate hardships by a long

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series of complicated exceptions. Even so, the Committee has added some notable relief features.

For corporations having more than $25,000 income and subject to taxation under the general rule in the bill, not only are hardship cases minimized, but any complaints that might otherwise attach to the economic repercussions of the undistributed profits tax are deprived of force. A few hundred closely-held corporations with more than $75,000 net income are subject to somewhat more pressure, but here a number of provisions relieve the pressure in the particularly difficult cases.

The bill as reported by the Committee on Ways and Means thus accords with the experience of the Treasury Department in the operation of the existing law. It was discovered that two types of corporations generally have found it expedient to retain and not to distribute a large portion of their net earnings. One type is the closely held corporation whose few stockholders find a tax saving in causing the corporation to retain a large part or all of its profits, subjecting itself to a high surtax, which nevertheless is materially less than the controlling stockholders would have to pay on the same income distributed to them as individuals. The other and more numerous type is the small corporation which balances the cost and difficulty of getting new capital from the outside against the undistributed profits surtax and finds it an economy to pay the tax.

This points, it seems to me, to a defect in our machinery for providing capital to relatively small though profitable business.

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Other than tax remedies should certainly be sought, but tax relief can, and I think should, be supplied.

It is clear to me that considerations of tax equity justify the complete exemption of the small corporations from the application of any undistributed profits tax. It is equally clear to me that the principle should be retained as to larger corporations generally and that a special rule should apply to those large corporations whose stock is closely held, permitting the few principal stockholders to direct dividend policy so as to accomplish reduction of their individual income taxes. Such a provision of law is an absolute requisite if we are to apply with reasonable fairness the principle of taxation according to capacity to pay, which is an integral part of our system.

The taxation of capital gains has, like the undistributed profits tax, suffered in public discussion by a tendency for the disputants to take an all-or-none stand. The severest critics would have us believe that no substantial relief is possible short of outright repeal or cutting capital gains loose from the personal income tax structure and subjecting them to a low,flat rate. Actually, the treatment of capital gains and losses is a very complex problem in income taxation that must be examined in detail and discussed in detail. Thus the Committee bill gives substantial relief to the taxpayer and increases the liquidity of the capital market by a series of changes that (1) affect the brackets governing the amount of gain or loss to

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be taken into account, (2) fix a maximum tax rate applicable to the gains after they have been reduced by the bracket percentages, (3) allow a carry-over of losses of one year to reduce gains of a subsequent year, (4) improve the definition of a capital asset.

The careful thought that such refinements reflect, compared with the casualness of the other suggestions noted above, is evident. We may be some distance yet from the one best treatment of capital gains and losses, but whatever it may prove to be, it will scarcely be as simple as those other suggestions would lead us to believe.

We may summarize the discussion of the undistributed profits tax principle and of capital gains and losses by asking what would happen if the former principle were entirely abandoned and the gains were exempted, or taxed at a low flat rate. The answer is obvious. Everyone would be given a powerful inducement to make his income come to him in the form of capital gains rather than in other forms. One way would be to invest in the kind of corporations that would pay out little or nothing in cash dividends. The stockholder could then realize this accumulated income at such times as he chose by selling for a capital gain, or by inducing the corporation to distribute earnings in the form of non-taxable dividends in stock. With no undistributed profits tax to counteract a withholding tendency that would be immeasurably strengthened by the favoritism shown to capital gains, the Government would be faced with a serious loss in revenue and with the bitter complaints of those taxpayers who did

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not have the opportunities to transmute their incomes into the capital-gains form. It is simply impossible to see how such a tax system could be justified on the basis of equity. Furthermore, the unfair encouragement that would be given to hazardous and sometimes reckless speculation compared with sober cash-dividends and interest-paying investment is an economic consequence of great importance.

I trust that the Senate will bear these considerations in mind in its deliberations on the pending revenue bill. The problem is one of a fair distribution of the tax burden in the public interest. The productivity of the tax structure must be preserved. Relief can not be afforded to one class of taxpayers without burdening another class, and if the relief is not equitable an inequitable burden is imposed. Our whole revenue structure will be imperilled if we permit gross exceptions to the principle of capacity to pay. Gross exceptions will be created if the principle of the undistributed profits tax is abandoned or a too lenient system of taxation of income from capital gains is adopted.

—oOo—

Regraded Unclassified

MEMORANDUM OF THE DAY'S ACTIVITIES

March 4, 1938

To: The Secretary

From: Mr. Magill

1. Tax bill

The Commissioner came over this morning to suggest that instead of repealing the excise tax on furs and sporting goods it would be better to reduce the tax on tires and tubes and to increase the tax on cosmetics. I told the Commissioner that it was too late in the day for us to modify our recommendations in these particulars. My statement to the subcommittee regarding the excise taxes was based on an extensive report made by Deputy Commissioner Bliss, and on recommendations made to me by Mr. Haas, using the Bliss report. The taxes on furs and sporting goods were listed as undesirable on account of specified administrative difficulties. The Commissioner said that he appreciated that nothing could now be done, but that he wanted me to personally have his present views.

Senator Harrison called to ask whether provisions for processing taxes had been agreed upon by the Treasury. I told him that they had not; that Senator Pope had asked for information from us, but we had not participated in drafting or recommended a processing tax bill. The Senator said he thought we would have to have processing taxes in order to pay for the agricultural bill, and that he would like to have the amendments inserted in the House. I told him there was a good deal of sentiment expressed in the Ways and Means Committee against processing taxes. He said he might call Mr. Doughton on the subject.

The Senator also inquired regarding amendments proposed by Chairman Douglas of the SEC to eliminate the taxation of gain on transfers of public utility properties required by SEC orders. I told the Senator I thought he ought to have the official recommendations of the SEC; that members of my staff had considered the amendments informally; and that they were very difficult to formulate. The Senator said he was having a conference with Mr. Shields, a New York banker, and would advise me further.

2. Proposed tax message

After I gave the draft of the tax bill message to Mrs. Klotz, I asked Mr. Upham to read it over. He gave me the attached comments.

hm

Regraded Unclassified

March 4, 1938

Mr. Magill:

I have read the draft of statement prepared for the possible use of the President in connection with the Revenue Act of 1938.

It seems to me a well-reasoned and logical presentation of the point of view reflected in the proposed Act. It has no particular fire or evangelistic fervor, and for that reason, suits me as a document prepared in the Treasury. I would think it pretty unconvincing, however, to those persons who regard encouragement of business activity as of primary importance at this time. It is an excellent presentation of the philosophy behind the bill, but that philosophy is difficult to state in terms of colorful advocacy.

I think the President ought to consider the possible effect upon the Finance Committee and the Senate of his openly taking sides with the House at this stage of the progress of the bill. They may be more antagonized than influenced. It may be, moreover, that Senate aquiesence may be secured without any statement. If we feel that a statement of this character is necessary to turn the tide and that this will do it, fine. What do you think of suggesting that the Vice President be consulted as to that?

Upm

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAR 4 1938

TO Secretary Morgenthau

FROM Herman Oliphant

Information

Mr. Cairns has examined the draft of proposed by-laws for the National Gallery of Art, of which you are a Trustee ex officio. The by-laws were prepared by William M. Robinson, legal representative of the A. W. Mellon Educational and Charitable Trust. Mr. Cairns' examination disclosed that the by-laws, in large part, are without authority of law and are otherwise unsatisfactory. At a conference yesterday afternoon, his criticisms and suggestions were laid before Mr. Robinson, who confessed to be considerably disturbed by them. Mr. Robinson has referred the legal questions Mr. Cairns raised to his law office in Pittsburgh for an opinion, and now intends to postpone the meeting of the Trustees called for next Wednesday pending receipt of the opinion. He is inclined to believe that Mr. Cairns' analysis of the Act creating the National Gallery of Art reveals that it is fatally defective, and his present intention is to request clarifying legislation from Congress.

Mr. Cairns has offered to cooperate to the fullest possible extent with Mr. Robinson, who expressed himself as extremely grateful for the careful attention Mr. Cairns gave to the matter.

Regraded Unclassified

Feb 7, 1938

To: The Secretary

From: Mr. Magill

Attached hereto is the proposed draft message on tax exemptions. The message was prepared by Mr. Gaston from material submitted by Mr. Shoup and myself. It has been reviewed by Messrs. Taylor, Oliphant and Haas; and their corrections have been embodied in the final draft. Mr. Oliphant discussed the proposal to send such a message with the Attorney General and obtained his approval.

Mr. Taylor and Mr. Haas agree that the long run advantages to both State and Federal Governments far outweigh the disadvantages of the proposed message. Each of them points out that the effect of the message and any resulting legislation will be to create uncertainty in the tax-exempt market, a possible increase in the cost of financing for municipalities or possibly stagnation of this part of the market. Mr. Taylor believes that these difficulties can be cared for in other ways. I am attaching their complete memoranda for your own information.

Rm

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Proposed Message on Tax Exemptions

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.

The Sixteenth Amendment to the Constitution of the United States, finally approved in 1913, was proposed and adopted in order to put to rest any question of the power of the Congress to tax incomes without apportionment among the several States. 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 court decisions have granted exemptions in some cases out of the great number which have been litigated. On the other hand, various limitations on the exemption have been expressed by the Supreme Court, and several Justices have strongly urged that it should be eliminated entirely.

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Such exemptions, whether expressed or implied, tend to defeat the equity of the Federal and State taxing systems, by establishing a class of recipients of income, which is not subject to the burdens of taxation borne by other citizens similarly situated.

The development of Federal and State taxation in recent years and the increased volume of wholly or partially tax-exempt securities have transformed what was once an inequity of relatively slight importance into a most serious defect in both Federal and State systems. In the Federal system, the income tax has been the major single source of revenue for more than twenty years. About two-thirds of the States also make use of the progressive-rate income tax. The progressive surtax rates can hardly be made to operate fairly or effectively so long as tax-exempt securities provide a ready means of escape from income taxation.

The subject of tax-exemptions for bond interest has been so thoroughly discussed that it need not be elaborated here. I shall merely use one illustration to show how widespread its effects may be. An investor whose surtax net income is $50,000 is taxed at 31 percent on the last $6,000 of this income, under the Federal tax. In the present state of the investment market, he can get about 3 percent interest if he invests in moderately long-term highest grade bonds of private corporations. Since the income from such bonds is fully taxable, this investor receives, after tax, about 2 percent on his investment. By purchasing a State bond of the highest grade, with the same maturity date, he can obtain a yield of 2.5 percent, against which no Federal

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income tax is due. This illustration shows that, even for those who are only moderately wealthy, the saving by Federal tax exemption more than counterbalances the low yield of the tax-exempt bond, and therefore tends to make ineffective the progressive tax rates. At higher income levels the tendency is of course even more pronounced. A fair and effective progressive income tax and a huge, perpetual reservoir of tax-exempt bonds cannot exist side by side.

Not only are the ends of tax justice impaired; tax-exempt bonds also have serious economic implications. They absorb money, much of which might otherwise be available for many kinds of business investment. These more hazardous types of investment, often so beneficial to society at large in the long run, are thereby curtailed. Those who can best afford to take those chances - the wealthy investors - are precisely those who instead are most attracted to tax-exempt bonds.

The exemption of governmental salaries likewise tends to defeat the aims of a progressive-rate tax system. This exemption is of particular importance to the States, since many of their income taxes strike more heavily and with a sharper graduation of rates, than the Federal tax, in the lower income brackets where governmental salaries usually fall.

Exemption of salaries has the further disadvantage that it produces an apparently endless stream of litigation in attempts to discover whether a given case falls within the tax-exempt area as defined by the Supreme Court.

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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.

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March 4, 1938

To: The Secretary

From: Mr. Magill

Mr. Bell has just given me a summary of additional expenditures for the fiscal years 1938 and 1939 which appear to be in prospect as a result of congressional action since the budget was submitted. A copy of his statement is attached. In the light of these figures would it be well to discuss with the President whether or not provisions for additional revenue should be inserted in the pending tax bill.

We have the necessary information to enable us to suggest possible additional sources of revenue.

RM

Attachment.

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CHANGES IN BUDGET ESTIMATES
(In millions of dollars)

	1938	1939
Receipts as per Budget	$6,320	$5,919
Expenditures as per Budget	7,408	6,869
Deficit as per Budget (net)	1,088	950
Estimated Changes-		
Loss in revenue (new tax law)	-	33
Additional expenditures:		
Relief	150	800
Farm Bill	-	50
National Defense	-	35
Good Roads	-	60
Miscellaneous	-	172
Deficit (net)	$1,238	$2,100

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RE MARCH 15 FINANCING

March 5, 1938.
10:20 a.m.

Present: Mr. Taylor
Mr. Bell
Mr. Lochhead
Mr. Haas
Mr. Harris
Mr. Murphy
Mrs Klotz
Mr. Upham

H.M.Jr: What does it look like?

Harris: The market is unchanged from the close last night, so ...

H.M.Jr: Unchanged.

Start with Burgess? That's a good way to start.

(On phone) Burgess, New York.

Taylor: Mr. Murphy produced - ordinarily he specializes in about eleven dollar words; this time he stepped up to about sixteen.

H.M.Jr: Meaning?

Taylor: (Showing slip of paper) That was the word.

H.M.Jr: (On phone) Tell Mr. Upham to come in.

Klotz: Can't see that far away.

Haas: Is profanity the word?

Taylor: No.

H.M.Jr: (On phone) Hello, Randolph. (Conversation with Burgess follows:)

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Saturday
March 5, 1938
10:27 a.m.

HMJr: Hello.

T.O.: Dr. Burgess. Go ahead.

W. R. Burgess: Hello.

HMJr: Hello, Randolph.

B: Good morning, Henry.

HMJr: Well, what does he look like this morning?

B: Well, I - I feel the same as last night...

HMJr: How did you feel last night?

B: ...That ten and a half year...

HMJr: Uh huh.

B: ...two and a half per cent bond is the right thing to do.

HMJr: Uh huh.

B: The Discount boys....

HMJr: Incidentally, was that my name for them or yours, because I like it?

B: The 'Discount boys'?

HMJr: Yes.

B: (Laughs) I don't know.

HMJr: All right. The first cousins of the hall room boys.

B: I think that's probably yours. - (Laughs) It's a good name, anyway.

HMJr: Yes.

B: Well they thought about it over night and they have a little preference for the ten year but they think the other will go.

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HMJr: Yes.

B: And I have a preference for the ten and a half, I think, for two reasons. The first is that it won't trim up the Christmas Tree quite as bright as the other, the other is a little too rich.

HMJr: Yes.

B: And the second is that I think it's just sound financing to have a little difference in your datings between the forty-eight fifty-one and this one; that is to put this in September or the others in March, is a little sounder procedure.

HMJr: Yes.

B: And I think we'll have an elephant on the traction for the market because, as I say, this is a little different date from our forty-eight fifty-one so we're diversifying our maturities a little more.

HMJr: Uh huh.

B: So I think that will practically offset the fact that it's six months longer.

HMJr: How about stretching it to eleven?

B: I think that would rather be stretching it a little much.

HMJr: Yes.

B: I think it would probably go but it's taking a little of a chance because there are a lot of these fellows who say, 'We're looking for something in ten years,' and if it's eleven why they - you just go over a kind of a little bump in the reasoning; there's a little barrier there.

HMJr: I tell you, if you haven't done it, I wonder if between now and eleven you can talk to a couple of fellows for me, whose advice I'd like to get on this, see?

B: Yes, who are they?

HMJr: Well, /One is Devine.

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B: Devine, yes I've talked to him.

HMJr: The other fellow is - I can't remember the name - but is the bond man at the National City.

B: Kane, Leo Kane?

HMJr: Leo Kane.

B: Yes.

HMJr: And the other fellow is this Tompkins at the Bankers.

B: Tompkins, yes.

HMJr: See?

B: All right.

HMJr: I think, if you check with those three - because Tompkins has impressed me as knowing his business.

B: Well, he does sometimes; he's an irratic fellow...

HMJr: Well.

B: ...you can never trust his judgment. He may not be in but I'll get him if I can.

HMJr: How about - well, if he's - well, wait -

B: I doubt if he'll be in at all today but I'll try these three anyway.

HMJr: Well, if he's - what about - / how do you feel about Leo Kane?

B: Oh, I - I'd just as soon talk to him; I don't think he'd suggest anything of very great value.

HMJr: Uh huh.

B: But, I haven't talked with him, as a matter of fact...

HMJr: You have not?

B: No. I'd just as soon call....

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HMJr: Have you talked to Tompkins?

B: No, I haven't, I haven't talked to either.

HMJr: Well, why not talk to those two and Devine and then...

B: Yes.

HMJr: ...call me back after you've talked to them.

B: All right.

HMJr: Or I'll say we won't talk again until eleven.

B: Yes.

HMJr: See?

B: All right.

HMJr: How's that?

B: I'll get in touch with them right away then.

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H.M.Jr: He may not think his judgment is good, but after all somebody is paying those fellows a fat salary, huh? Is that right?

Bell: That's right.

H.M.Jr: And I think both Tompkins and Leo Kane - I've always thought they're pretty sound fellows.

George, what do you think today?

Haas: I don't like stretching it.

H.M.Jr: Don't like stretching it beginning where?

Haas: I mean make it 11, for example, because I think you tap a - you increase your risk.

H.M.Jr: About 10½?

Haas: 10½. Of course, I don't like that, but I'd like that much better than trying to stretch it the other way. It's in an area where it's very difficult to price, and I think you're going to have a nice premium on it when it comes out.

H.M.Jr: At 10½?

Hats: (Nods yes)

H.M.Jr: Even at 10½? Oh, I think 10½ is sweet enough.

Haas: It's too sweet.

H.M.Jr: 10½?

Haas: Yes.

Bell: Why do you hesitate about 11?

Haas: You've got a hole in your market there between - we've got data to show that banks are selling bonds when they get out of that area, and you get out into a different market; and it is very difficult to price even this issue and be accurate about it, because you don't have any bench mark. You have this sort of thing, Danny, (illustrating by chart) this jump.

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H.M.Jr: What jump? Let me see the jump.

Murphy: In this chart, which was made at the last minute - rather unneat appearance - the outstanding issues are represented by black lines; the length of line indicates the option, the period; the height of the line, its yield. The coupon rate and the actual yield are written.

H.M.Jr: You stand behind me.

Murphy: The issue under discussion is represented by this cross, and you will note there is a wide gap in the market, there is no issue outstanding which has a yield between 2.18 and 2.43; that's 25 yield points in which we're going blind. And it means that it is very hard to price the issue conservatively. It would be easier to price it up in this range. Be easier to price in this range. At this point it is very hard to do it.

Bell: But you're satisfied it won't yield more than 2.43, is that right?

Murphy: Yes, we have taken 2.35 as our most probable yield. I'll show you how the comparisons look here. Here are all of the issues that are relevant coming in between in this wide gap, 2.18 to 2.43, and it was our guess that it would sell at about a 2.35 yield, at which price it would sell at 101 12.

H.M.Jr: What's that, the 10 or 10½?

Murphy: That's 10½.

H.M.Jr: What's the matter with 11? What's the matter with that?

Murphy: Too good. We think that's too much of a premium - a point and a half; that is, that this premium is too much. And my own feeling - of course, I don't know ....

H.M.Jr: We want your opinion.

Murphy: ... is that we would be much better off if we pushed back to where we could avail ourselves of this roof here. We figured a 7½-9½, and figured that it could go

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at 2¼ at a point premium. The market, perhaps irrationally, sets up a tremendous resistance when we get out towards 1949, and by backing up just a little you save quite a bit of interest. You save a quarter of a point interest. Of course, that has the additional advantage from our point of view that this type of bond is very likely to stay in the banks. If the banks buy this longer one, they'll try to get out. From the technical point of view, that will create a secondary distribution problem, as is pretty well indicated by what they did in the last six months of 1937. During that period all member banks increased their holdings of bonds due December 31, 1949, and prior, by 156 millions, but decreased their holdings of bonds due after 1949 by 240 millions. Now, of course, that's an arbitrary division point, and it is the only one we have. Of course, we don't have the data on particular issues. But it shows somewhere around 1950 a strong disinclination to hold the securities, whereas before that there is a considerable inclination to place the thing.

As I like to think of it, there is a sort of precipice in the market, in which a 2½ issue is at the bottom of the precipice, a 2¾ issue would be at the top of the precipice. With a 2½ issue, we have climbed about three quarters of the way up the precipice without much push - that is, increasing the maturity - and I don't like to be on a precipice from the standpoint of economy.

H.M.Jr: Well, we are, though.

Murphy: I think so.

Bell: On the other hand, these fellows with whom we have talked indicated, or at least it is their opinion, that these banks will sell the '45s, which are now at a high premium, about 103 plus, and go into this bond with a smaller premium; they'll take the profit on the other bond and then amortize this premium over the 12-year period. So you have this intensive desire there to buy this bond by the banks.

H.M.Jr: Well, take a fellow like Walter Cummings, Chicago, fourth or fifth biggest bank in the country. He said, "Anything, but nothing beyond a 10-year." See?

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But Burgess says a 10½-year is a 10-year.

Murphy: Isn't Burgess's objective to take the bonds out of the banks?

H.M.Jr: I don't think so. I don't think so. I don't think so. I think if the fellow had to do it .... The only thing you might criticize Burgess for is, I think he'd like to satisfy the dealers, make them happy, and after all he's got to see them every day, he's that much closer. I mean I think if he'd lean anywhere he'd lean towards seeing that the dealers are kept happy. But the criticism I ran into yesterday, I thought, was a very good one. Mr. Wagner said, "How do you expect the banks to keep the bonds when everyweek they read the Federal Reserve is selling their long ones, even going to the length of calling us up and asking us have we got any long bonds for sale." So he said, "If they keep that up much longer, you'll really see the banks begin to sell. If the Federal Reserve won't keep their own bonds, why, how can you expect the banks to?" He said, "You've got to look to leadership somewhere."

The other thing, about the 2½ - I thought from the standpoint of the Federal Government - I really think if we can get ten years or even longer at 2½, that that is a pretty good indication of where the Federal Government likes to see interest rates. I think when we begin to take two and a quarter and shove it down - I think it's going to be awful low. You read in the paper that savings banks complain about Postal Savings, Home Owners loans, Baby Bonds; it's getting harder and harder for them to do business. I'd want to hesitate before I go into a two and a quarter basis.

Murphy: Of course, the market hasn't hesitated in putting the bonds on that yield basis.

H.M.Jr: That's perfectly true. But we'll get the benefit of this indirectly through our bills, as they shove the thing down.

Murphy: Of course, it would raise the question whether ...

H.M.Jr: What?

Murphy: We would raise the question as to whether extending the maturity ....

(Upham comes in)

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H.M.Jr: Steady?

Murphy: ... whether extending the maturity is a real benefit to the Treasury, or whether it is merely a way by which the Treasury reduces a premium which it finds embarrassing without benefit to itself.

H.M.Jr: Well, when you borrow money for 10 years or 10½ years at 2½ percent, as against 8 years - I mean it costs you less - same coupon.

Murphy: Well, that depends upon what money costs 8 years from now.

H.M.Jr: Well, it's always true.

Murphy: My point is merely this. Suppose we could extend the 10½ to 11½. It doesn't follow for certain that that is a benefit to the Treasury, to extend it out another year. There may be disadvantages that more than offset any presumptive benefit.

H.M.Jr: What do you figure a 10½ year, 2½?

Harris: Well, I think Murphy's priced it a little high, according to my estimate. I think the psychological effect of going beyond 10 years will tend to not give it such a quick rise, and I think that it will open around a point premium. And I don't look for it to go immediately any higher than a point and 3 or 4 32ds, and I don't think under any circumstances it will sell less than 24 32ds.

H.M.Jr: Where would you price a 2½?

Harris: I haven't looked at a 2½ at all. I thought since we decided against notes we might as well go as far as we could.

Murphy: I think this is a very important point. President Harrison, in arguing against the note, said - you know, he was thinking of selling the '45s. He said, "Those will have a good market in the banks anyway - the '45s." In making that argument, he was not contemplating a bond as long as a '48 or '49. Now, I don't say he wouldn't be in favor of one. But that particular argument which he made was only applicable

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to a bond, a maturity something like our 2½.

H.M.Jr: (On phone) Could you locate Governor Harrison? - Where is he? - Here in Washington? - Oh, for heaven's sake, I didn't know that. Get him on the phone, will you?

He's here in Washington.

Harris: We have those '48-'51s in March selling on a 2.43 basis. The 10½, which would fall in September six months beyond the first call date on the '48-'51s, would have to sell on a 2.35 basis, which is 8 below the '48-'51s. That may be possible when you think of the '45s and '43-'45s.

H.M.Jr: (On phone) Hello. (Conversation with Governor Harrison follows:)

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Saturday
March 5, 1938
10:42 a.m.

HMJr: Hello.

T.O.: Governor Harrison. Go ahead.

HMJr: Hello.

George Harrison: Hello.

HMJr: I didn't know you were in Washington.

H: Yes, I am, Henry.

HMJr: I'd have called you earlier.

H: Well, that's quite all right. But I was - I wasn't feeling very spry and I'm just through eating...

HMJr: Yes.

H: I had a few things to do anyway and I've just had a good rest.

HMJr: Well, we're trying to make up our minds on this bond issue.

H: You'll have to pretty soon.

HMJr: Yes. Have you been in touch with the market?

H: Well, I've talked to Burgess each day...

HMJr: Yes. Have you talked to him today?

H: Yes, I - I just was talking to him now.

HMJr: Well, what's your - what's your thought?

H: Well, you know how I feel - I - on this monetary theory I'm not all sold on it at all; I think you can make a good argument but I think you can completely ignore it on account of the size of the issue.

HMJr: Yes.

H: And my preference - as I told you the other day, would be for a bond and it would be for a fixed date.

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HMJr: A fixed date?

H: Yes. But I don't think that's awfully important if for any reason you have a preference for the call date.

HMJr: No. Well, the way it looks this morning - I guess Burgess told you - was ten and a half years.

H: Yes. Well, I think there's some advantage in that.

HMJr: You do?

H: For two reasons. If you make it the flat ten - ten year you bump into that call date on your two and three quarter issue - forty-eight fifty-one and that just adds to your problem on that date.

HMJr: Yes.

H: Forthermore, the straight ten year at two and a half is a little rich, you run it up to a hundred and one and a quarter or maybe even a half; whereas if you pick the ten and a half year according to the market, and I think Burgess is right, it would go to a hundred and one plus we'll say.

HMJr: Yes.

H: Or just a little over, which is a plenty.

HMJr: Yes.

H: And it looks to me as though they're acceptable. I don't think anybody will talk about its being over a ten year issue because it's in forty-eight and that's the principal thing. It's doesn't make any difference whether it's March or September so far as that's concerned. And I think I would take a chance on that, myself.

HMJr: Would it be taking any chance?

H: No, I don't. That's not taking any chance. No, I think it will go and go well.

HMJr: What about an eleven year?

H: Well, that'll run it on the short side of a hundred and one and some way or other even though it's only six months difference perhaps

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you lose the advantage of calling it a ten year bond as against an eleven year bond.

HMJr: Yes. Is that important?

H: Well, it is to some of these banking fellows, you know, who get all these ten issues - which don't amount to much in my mind but do in their minds. I think it's on the close side - closer side than the ten and a half which would go about a hundred and one. I think you ought to fix it so that it would go - I think your - your objective should fix it at a price and a date which would make about that one point premium, - don't you?

HMJr: Yes. I don't - what I'm trying to do is to - I don't like to give these fellows too much and of course they've run this thing up yesterday too high...

H: Yeah.

HMJr: ... and we don't like it, but...

H: Yes, - one of the reasons for that unfortunately is that for reasons which I think we are all right about we kept out of the market on these rights.

HMJr: Yes. But...

H: When we stopped offering the speculative fellows got in and ran up the rights.

HMJr: True, but I - as I told Burgess, I didn't feel comfortable that they sold on Thursday.

H: Well, they're very - you wouldn't have felt near as uncomfortable as I would have. (Laughs)

HMJr: Well, they did sell on Thursday.

H: Well, I know, but we didn't - that was all right because those - that was just running business and the minute we knew anything - as soon as the meeting was over they were stopped.

HMJr: Oh, I understand that.

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H: Yes.

HMJr: I understand that.

H: I think our skirts are perfectly clear on that.

HMJr: Oh, I'm not raising it.

H: Yes.

HMJr: I had a satisfactory talk with Burgess about it.

H: Yes.

HMJr: But...

H: But you know how strongly I feel about doing anything there's any slightest question about.

HMJr: Oh yes. Well, I'm not - as I said to him another time - I want to talk to you; I don't think you'd even want to do it as late as Thursday.

H: Yes. Well, maybe that's so. And I think we ought to have a talk about the principle of that question of rights anyway.

HMJr: Yes.

H: And its relation between you and us and the fairness to the market and the fairness to you.

HMJr: Yes.

H: I think we ought to do that sometime when there's something not pending at all but just to talk on the question of principle.

HMJr: The other thing I'd like to - here about - is that this feeling in New York that so long as the Federal is selling all of its long bonds and going out and asking institutions if they have any shorts to sell - that the impression is getting around that - well, a long bond isn't a very good investment.

H: Well, I hadn't heard any of that impression myself.

HMJr: Well, I got it from Parkinson and he didn't tell me it was confidential.

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H: Uh huh.

HMJr: He said, 'When the Federal Reserve calls us up and asks us - have we got any shorts - that, they want to swap with us...'

H: Uh huh.

HMJr: He said, 'You can't help but be bewildered - we've got to look somewhere for leadership and if the Federal can sit and sell at a loss why should a banking institution or anybody else keep them'.

H: Yes. Well, he needs to be educated a little then.

HMJr: Well... - Or somebody needs to be educated. (Laughs)

H: No. I think he does. (Laughs)

HMJr: Yes. Well, I'm just dropping that. I want to talk to you...

H: Yes. Well, I'm glad you mention it.

HMJr: Yes, because he said once it gets so that the Federal calls up and asks you if you've got any shorts he said it doesn't make a good impression.

H: Uh huh.

HMJr: But - as a matter of fact, you're for a ten and a half?

H: Ten and a half, that's right. And just a plain sixteenth; no call date.

HMJr: All right. There's nothing the matter with you other than that you're a little tired?

H: No, that's all.

HMJr: Well...

H: No a thing - I'm all right. I'm going back to New York this afternoon or tomorrow morning.

HMJr: Well, take care of yourself.

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H: Yes, I'm all right. I had a bad - something slipped in my leg here on Monday, it was, and knocked me for a loop. That was - and I think it was more a manifestation of just being nervously tired out than anything else and that's the reason I've stayed over to take it easy for couple of days.

HMJr: You're very sensible.

H: Yes.

HMJr: Remember me to Mrs. Grayson.

H: All right, I will. She and Cary - little Cary - have been down in South Carolina touring all week touring around just for the change and they'll be back this weekend sometime.

HMJr: All right, George.

H: Goodbye.

HMJr: Goodbye.

H: Goodbye, Henry.

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Haas: We think you're perfectly safe.

H.M.Jr: What?

Haas: We think you're perfectly safe. No question about that.

H.M.Jr: I don't think so.

Harris: Little less than they're expecting.

H.M.Jr: Go ahead, George.

Haas: Just a question of objective in the financing, what we are discussing. And then we think that the 10½, because of circumstances of the market and difficulty in pricing, might well be priced too high, too rich a premium. Our only suggestion when you run into that sort of situation in the market is to back up, and when you back up your market you have more bench marks and your pricing is better. And incidentally, that sort of bond fits into our monetary theories a little better. But - I mean that's our whole case. As far as your risks, if you want to sell it, we don't think there is any risk. The risk is the other way; might be too rich.

H.M.Jr: That's your only fear - might be too rich.

Murphy: Really two aspects to our case: monetary aspect, economy aspect. We think the 2¼ is better from the monetary point of view and is a little cheaper for the Treasury. Would you agree with that?

Haas: Yes.

H.M.Jr: Well, that's your thing. You've had your day in court. Now give somebody else a chance.

Harris?

Harris: Well, I like the 10½. I don't think you can do 11 and feel very safe. I think it would go. But I prefer 10½. And I think it will give them a premium a little less than they have placed on the rights. That's what I'd like to see.

H.M.Jr: I think that's true. No doubts about its going?

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Harris: None in the world.

H.M.Jr: Danny?

Bell: Well, I don't think there is any doubt about it going. I'd like to see the 11 for the same reason that Harris would like to see the 10½, with respect to the rights. I think they have run these rights up a little too far. This would be a slight hint to the boys that "hereafter you can't expect as much gravy as you've been getting in the past." For that reason, I'd like to see 11. I'd like to feel a little more comfortable about it, however.

(Hearty laughter)

H.M.Jr: So, therefore?

Bell: I come back to the 10½.

Lochhead: I think Dan would agree on that that as long as we have decided on a bond, if we just took the straight figures from the market, from the Treasury standpoint the 11 would be perfectly safe. But after all, it is a question of compromising; you know, the other fellows - they like to talk 9 to 10. These things must always be a compromise, and after all we have to play not too rough with the boys up there.

Bell: I think 10½ is a slight hint to the boys.

Harris: We have a June note maturing next June, already taking a premium of 24 32ds. Those next September are selling at 16 32ds premium, and those next December at 8 32ds premium.

H.M.Jr: Well, somebody ought to make a speech: "Monetary-Fiscal Policies of Mr. Roosevelt."

Wayne?

Taylor: I have nothing to add to what I think Mr. Bell and Mr. Lochhead said.

Bell: What he "thinks" - didn't we make it plain?

Taylor: No, I just heard the end of it.

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H.M.Jr: Cyril?

Upham: Well, from what I've heard, I should be in favor of the 10½ instead of the 11.

H.M.Jr: Mrs. Klotz?

Klotz: That's all right with me - 10½.

H.M.Jr: Suppose, in order to save time, you'd start somebody writing a letter for the President on the 10½, then come back. Use what's-his-name's phone. Start somebody writing it, unless it's already written.

Bell: I think it will be up here in five minutes. (Leaves)

H.M.Jr: I'm seeing the President at 11:30.

Klotz: That was swell. Dan has a swell sense of humor.

H.M.Jr: Combined index ....

Haas: Didn't change it any.

H.M.Jr: What?

Haas: Still down one tenth. Dot doesn't weigh very much.

H.M.Jr: Can't even weigh a tenth, huh?

What is the significance of the miscellaneous carloadings going up that way?

Haas: Going down, aren't they?

H.M.Jr: All other carloadings is up.

Haas: Miscellaneous are more indicative of distribution which fluctuates with the business cycle - wholesale distribution. On the other ones, it may be a movement of agricultural commodities or something of that sort. They're not as indicative.

H.M.Jr: But the thing - all the papers say carloadings are off 24,000; but total carloadings are up this week over last week - total.

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Haas: Better than having the total down. But I'd feel better if the miscellaneous went higher.

H.M.Jr: But it still is one tenth off, huh?

"ho haven't I asked? You (Lochhead)? Did I ask you?

Lochhead: Yes; that is, I spoke.

Bell: Mr. Taylor agreed with him.

Lochhead: He agreed with me, so ....

H.M.Jr: I didn't think that he talked.

Lochhead: Shows how much attention he pays to what I say.

Klotz: Agree with him before he talks. Oh, I love it.

H.M.Jr: (To Taylor, who has just taken a call from the White House) What's going on across the street?

Taylor: This was just this guy's name.

H.M.Jr: (On phone) Get Mr. Burgess in New York, please.

Gee, George Harrison sounds blue, doesn't he?

Taylor: Well, it's ....

Klotz: He slipped.

Taylor: Well, I think Cary Grayson's death is very responsible for that.

H.M.Jr: Did you notice Professor Douglas, Professor Hansen on the Hill yesterday, talking about prices - building?

Haas: Yes. Comment on Hansen. I didn't get very much out of it. Just two words I saw: "more intensive" rather than "extensive."

(Bell returns with letter)

H.M.Jr: Only one letter?

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Bell: That's all you wanted.

H.M.Jr: I didn't know whether you had two prices.

Bell: Well, we had three letters written.

H.M.Jr: You did have? You just didn't have one letter written up, did you?

Bell: No, we had 10 and 10½ and 11.

H.M.Jr: (On phone) Hello. (Conversation with Burgess follows:)

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Saturday
March 5, 1938
10:55 a.m.

HMJr: Hello.

W.R. Burgess: Oh, hello, Henry.

HMJr: Our opinion here is rapidly crystallizing.

B: Is it?

HMJr: Yes.

B: (Laughs) Tell me what you're crystallizing on.

HMJr: Well, I'm going to make you talk first if you don't mind.

B: Well, I wasn't able to get to either Kane or Tompkins, they weren't in this morning.

HMJr: Yes.

B: I had a long talk with Devine.

HMJr: Yes.

B: Devine still leans a little to his forty-seven fifty.

HMJr: Yeah.

B: But he - he says either that or a ten and a half year at two and a half if you want a straight maturity.

HMJr: Uh huh.

B: He thinks that either one would be worth about a hundred and one and a quarter.

HMJr: A hundred and one and a quarter.

B: He said either one would go very nicely. He thinks a forty-eight fifty is a little bit thin.

HMJr: Uh huh.

B: He thinks a forty-nine - a straight forty-nine is a little bit thin.

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HMJr: Which way are you leaning?

B: I like the straight ten and half year - September, 1940.

HMJr: O. K. Sold.

B: Sold - sold for a song, huh?

HMJr: Right.

B: - thirty pieces of silver.

HMJr: - get the President to sign it...

B: Yes.

HMJr: So we'll make it ten and a half two and a - two and a half.

B: I think that's the best thing to do.

HMJr: I think so. It's plenty sweet...

B: Very good, Mr. Secretary, I congratulate you on your decision.

HMJr: Yes. I thank you....

B: I hope I'll be able to do the same thing about next Tuesday.

HMJr: This -, remember, this time we're together.

B: (Laughs) That's right.

HMJr: All right, Mr. Vice President.

B: (Laughs)

HMJr: All right. Thank you very much and we'll - Bell will get busy and the rest is up - we're thinking of closing it Tuesday night?

B: We usually give them three days. I don't know - you can close it Tuesday if you want to.

HMJr: What do you - what do you think...

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B: If you had to sell them - I think Wednesday is a little better, then you can announce it Tuesday morning or Monday afternoon, you know, that you are going to close on Wednesday and that gives them...

HMJr: Yes.

B: ...three days. Mechanically it's very easy to handle this time you know.

HMJr: All right. Well....

B: It keeps time on the other hand.

HMJr: Right. Well, thanks very much.

B: Very good. You're entirely welcome.

HMJr: Goodbye.

B: Goodbye.

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H.M.Jr: That's that. All I've got to do is take this over to the President, don't I?

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THE SECRETARY OF THE TREASURY
WASHINGTON

March 5, 1938

CONFIDENTIAL

Dear Mr. President:

On March 15, 1938, about $455,000,000 of Treasury notes will mature, and to provide for that maturity, I propose, subject to your approval, under authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, to offer for subscription a series of 2-1/2 percent 10-1/2-year bonds. The bonds will be dated March 15, 1938, and will mature September 15, 1948. They will be offered only in exchange for the maturing notes, and cash subscriptions will not be invited.

The authorizing act provides that bonds may be issued only with the approval of the President. Accordingly, I trust that the proposed issue will meet with your approval. It is my intention to make public announcement of the offering on Monday, March 7.

Faithfully yours,

Henry Morgenthau Jr.
Secretary of the Treasury.

The President,

The White House.

APPROVED:

Franklin D. Roosevelt

Regraded Unclassified

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Regraded Unclassified

UNITED STATES DEPARTMENT OF AGRICULTURE
FARM SECURITY ADMINISTRATION

SUMMARY OF RURAL REHABILITATION SUPERVISORS PROGRESS REPORTS
DECEMBER 31, 1937

	Number of Standard Rural Rehabilitation Client Families Reported					Total No. Persons in Client Families	Ave. Size Client Family	No. Eligible Families Not on Program	Maximum No. Clients Supervisor Can Care For		Ave. No. of Acres Cultivated by Clients		No. Co. Supv. Able to Give Fom Service				
													For Clients		For Non-Clients		% Increase Fom Need
	Total	White	Negro	Indian	Other				Farm Sup. Ent.	Home Sup. Ent.	Under Accep.	Close 1937 Over Year	Yes	No	Yes	No	
U. S. TOTAL	291,661	202,893	25,706	798	2,174	1,190,826	5.18	360,226	115	140	80.0	102.0	1,314	188	299	1,398	-00.6
REGION I.	9,697	9,320	88	2	90	48,469	5.0	21,797	133	149	41.2	50.6	46	22	2	68	3.7
Connecticut	236	234	2	–	–	1,047	4.4	500	137	125	67.0	78.5	1	1	–	2	5.0
Delaware	60	54	3	–	3	301	5.0	–	100	100	61.0	64.0	1	–	–	1	–
Maine	2,517	2,317	–	–	–	13,416	5.3	1,580	150	187	41.6	47.6	7	3	–	10	9.6
Maryland	313	287	26	–	–	1,473	4.7	375	92	142	42.7	51.0	2	1	–	3	-25.0
Massachusetts	258	258	–	–	–	1,138	4.4	285	150	187	19.0	20.0	1	1	–	2	-50.0
New Hampshire	617	617	–	–	–	2,755	4.5	2,285	144	172	15.2	18.4	5	–	–	5	15.6
New Jersey	804	790	23	–	1	3,680	4.6	1,600	113	100	21.5	27.7	2	4	–	6	60.0
New York	1,890	1,875	12	2	–	8,640	4.6	4,950	124	119	54.0	98.0	8	7	–	15	5.0
Pennsylvania	2,066	1,991	17	–	58	11,157	5.4	8,902	127	170	44.4	57.2	17	1	2	18	– 1.4
Rhode Island	171	170	1	–	–	789	4.6	150	123	125	12.0	10.0	–	1	–	1	75.0
Vermont	766	737	1	–	28	4,078	5.3	1,000	167	207	43.5	57.5	2	3	–	5	6.0
REGION II	17,101	17,051	32	17	1	75,952	4.4	29,198	104	151	50.8	73.0	104	26	10	120	– 5.2
Michigan	4,435	4,402	26	6	–	21,051	4.7	12,148	95	94	44.1	61.0	40	5	4	44	-23.7
Minnesota	6,113	6,110	–	2	1	29,109	4.7	5,910	124	203	87.5	105.4	34	4	5	33	10.9
Wisconsin	6,472	6,459	6	7	–	25,792	4.0	11,140	100	169	46.1	90.4	30	14	1	43	1.1
REGION III	31,284	31,261	344	3	6	146,264	4.6	62,179	147	201	50.1	80.9	224	13	56	151	-11.2
Illinois	4,165	4,157	8	–	–	19,389	4.7	11,398	127	156	82.9	110.9	28	2	3	27	– .8
Indiana	5,384	5,360	22	1	1	24,525	4.6	7,110	142	150	55.8	83.5	30	2	2	30	-21.4
Iowa	3,575	3,565	6	–	4	16,155	4.6	12,546	150	238	70.9	105.7	31	1	5	27	3.6
Missouri	10,314	10,182	131	1	–	48,487	4.7	20,045	150	225	42.8	64.6	80	5	40	54	-17.2
Ohio	8,146	7,997	147	1	1	37,708	4.6	11,080	155	179	55.7	77.0	46	3	6	43	– 9.3
REGION IV	31,587	27,177	4,309	103	4	176,566	5.6	51,121	112	116	22.7	34.9	130	39	10	160	-11.2
Kentucky	7,003	6,791	212	–	–	37,479	5.4	14,347	160	171	35.9	49.8	28	10	3	33	-12.2
North Carolina	7,602	5,158	2,313	33	–	46,027	6.1	10,034	106	116	18.2	27.5	50	2	8	44	-14.2
Tennessee	6,106	5,717	319	–	–	30,337	4.8	11,340	123	123	22.5	38.8	36	3	5	34	– 4.4
Virginia	5,660	4,227	1,420	10	3	33,371	5.9	9,800	157	156	19.2	34.4	27	9	–	36	-21.7
West Virginia	5,206	5,246	30	–	1	29,352	5.6	4,900	117	112	19.5	27.1	16	15	–	33	– .5
REGION V	33,100	22,532	10,567	1	–	174,154	5.2	41,641	77	108	26.2	31.7	254	22	50	224	8.9
Alabama	11,362	6,790	4,572	–	–	63,631	5.6	16,084	77	107	21.2	37.5	65	–	26	39	2.2
Florida	5,256	4,354	900	1	–	23,001	4.4	4,546	74	81	25.5	42.6	39	4	4	38	25.4
Georgia	9,794	7,690	2,104	–	–	57,012	5.9	13,866	82	115	30.9	29.9	115	8	23	100	– 2.6
South Carolina	6,686	3,698	2,988	–	–	29,910	4.5	7,205	69	85	23.2	32.5	36	10	2	44	10.0
REGION VI	20,280	20,646	5,705	32	6	141,343	5.4	46,512	137	141	18.6	29.8	163	12	34	141	15.4
Arkansas	9,245	8,404	839	1	1	49,812	5.4	19,266	135	141	21.5	34.3	64	8	23	47	3.6
Louisiana	6,899	4,180	2,714	–	5	36,136	5.3	7,422	129	128	15.6	26.7	36	4	8	32	– 7.7
Mississippi	10,145	8,042	2,152	31	–	55,395	5.4	19,824	146	149	17.8	26.7	63	2	3	62	43.4
REGION VII	19,090	15,012	42	139	6	95,309	4.8	32,462	114	142	188.1	230.0	173	22	10	176	15.5
Kansas	4,752	4,691	40	21	–	23,106	4.9	6,294	118	128	124.8	144.6	33	2	1	34	– 7.9
Nebraska	7,348	7,308	2	32	6	34,284	4.7	8,139	109	142	204.1	284.2	51	8	4	55	17.4
North Dakota	3,489	3,477	–	12	–	17,964	5.1	8,630	115	99	222.7	269.3	39	8	6	41	26.0
South Dakota	4,498	4,336	–	74	–	20,245	4.6	9,619	116	169	174.7	195.3	50	4	8	46	21.3
REGION VIII	30,771	25,158	4,815	190	608	180,550	6.1	40,392	140	134	60.6	57.6	161	5	51	112	– 0.2
Oklahoma	10,931	10,099	663	179	10	53,219	5.8	15,802	146	146	49.2	64.4	51	2	18	45	-14.7
Texas	19,840	15,059	3,952	11	798	122,737	6.2	24,590	80	111	82.2	51.1	100	3	33	70	– 4.3
REGION IX	7,490	7,298	94	12	86	35,352	4.7	11,178	142	170	36.0	77.4	40	6	6	40	-10.3
Arizona	1,021	980	41	2	28	5,122	5.0	1,222	138	133	25.1	55.0	6	1	2	5	-15.7
California	2,644	2,568	32	6	38	10,913	4.1	7,435	139	205	30.6	42.4	13	3	–	16	-11.9
Nevada	335	333	–	1	1	1,633	4.9	175	123	122	71.7	84.0	3	1	2	2	-28.7
Utah	3,490	3,467	1	3	19	17,684	5.1	2,346	149	163	45.6	50.1	18	1	3	17	– 3.1
REGION X	5,932	5,600	8	226	98	28,357	4.8	8,591	96	108	136.3	171.3	46	11	7	50	– 5.2
Colorado	2,760	2,569	9	–	85	12,867	4.7	1,998	39	95	107.5	162.7	30	4	1	33	-48.3
Montana	1,255	1,231	1	221	2	7,888	5.1	4,185	91	127	160.9	209.2	13	3	4	12	87.2
Wyoming	1,817	1,800	1	5	11	7,634	4.7	2,370	86	86	93.2	112.5	12	4	2	14	-13.1
REGION XI	7,128	7,077	9	42	6	32,580	4.6	6,333	142	198	45.1	57.9	50	4	13	41	– 7.6
Idaho	2,711	2,685	1	23	2	13,171	4.9	2,300	160	216	64.0	85.7	17	1	5	13	14.2
Oregon	1,914	1,911	–	1	2	8,504	4.4	3,135	143	120	46.9	58.6	16	–	7	9	-29.4
Washington	2,503	2,481	8	18	2	10,885	4.3	2,695	117	181	24.6	32.4	17	3	1	19	-10.2
REGION XII	10,883	9,761	28	31	1,063	54,430	5.0	6,868	111	112	178.0	191.7	72	4	28	48	– 7.3
Colorado	1,268	1,259	5	–	54	5,849	4.6	705	80	85	202.4	219.6	12	–	7	5	– 8.2
Kansas	1,254	1,240	9	–	–	6,343	5.1	586	123	115	356.6	378.3	14	–	6	8	10.0
New Mexico	4,910	3,673	4	30	1,003	25,560	5.2	1,833	112	109	70.2	82.4	24	3	10	17	-22.8
Oklahoma	693	261	–	–	2	1,278	4.5	125	100	100	220.7	203.7	2	–	–	2	5.0
Texas	2,158	3,123	10	1	4	15,420	4.9	3,919	117	125	161.1	158.0	20	1	5	16	– 1.2
Totals for Regionally Divided States																	
Colorado	4,028	3,878	11	–	139	18,736	4.7	2,791	77	98	149.1	181.7	32	5	8	29	-35.3
Kansas	8,006	5,938	49	21	–	29,449	4.9	6,878	118	124	191.0	210.0	42	7	7	42	– 2.2
Oklahoma	11,234	10,380	663	179	12	65,097	5.8	15,927	142	141	37.2	74.6	63	3	18	48	-14.0
Texas	22,988	18,212	3,962	12	802	136,157	6.0	28,285	93	116	56.0	73.4	120	4	38	86	– 3.8

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	CHANGE IN NET WORTH OF STANDARD RURAL REHABILITATION CLIENTS						NUMBER OF CLIENTS WHO HAVE INCREASED THEIR NET WORTH	NUMBER OF CLIENTS WHO HAVE NOT INCREASED THEIR NET WORTH	TOTAL AMOUNT LOANED TO STANDARD REHABILITATION CLIENTS REPORTED
	BEFORE ACCEPTANCE ON AN PROGRAM		AT THE CLOSE OF 1937 CROP YEAR		INCREASE OR DECREASE				
	TOTAL FOR ALL CLIENTS	AVE. PER CLIENT	TOTAL FOR ALL CLIENTS	AVE. PER CLIENT	TOTAL FOR ALL CLIENTS	AVE. PER CLIENT			
U. S. TOTAL	$130,058,000	$ 389.01	$195,075,000	$ 842.07	$58,417,000	$ 252.16	109,884	61,777	$157,470,009
REGION I	15,945,000	1,044.49	18,458,000	1,209.67	2,513,000	230.18	5,927	3,770	7,902,023
CONNECTICUT	709,000	3,004.24	778,000	3,296.61	69,000	292.37	163	58	224,001
DELAWARE	31,000	516.67	56,000	933.33	25,000	416.66	55	3	40,770
MAINE	4,295,000	1,706.40	4,920,000	1,954.71	625,000	248.31	1,474	1,043	2,045,383
MARYLAND	545,000	1,741.21	629,000	2,086.26	106,000	345.05	206	207	211,435
MASSACHUSETTS	482,000	1,868.22	524,000	2,031.01	42,000	162.79	187	71	239,308
NEW HAMPSHIRE	808,000	1,309.56	909,000	1,473.26	101,000	163.70	386	231	529,182
NEW JERSEY	1,214,000	1,309.95	1,478,000	1,594.31	264,000	284.36	466	386	768,048
NEW YORK	3,226,000	1,700.69	3,830,000	2,018.40	604,000	318.91	1,235	636	1,588,395
PENNSYLVANIA	2,698,000	1,304.94	3,121,000	1,510.65	423,000	205.71	1,107	778	1,103,647
RHODE ISLAND	422,000	2,467.84	517,000	3,023.39	95,000	555.55	122	49	136,398
VERMONT	1,517,000	1,900.42	1,872,000	2,162.77	155,000	302.35	306	280	620,975
REGION II	14,380,000	840.89	19,294,000	1,128.04	4,914,000	287.35	13,092	4,000	13,239,392
MICHIGAN	4,901,000	1,104.62	6,042,000	1,379.52	1,102,000	251.71	3,336	930	2,387,049
MINNESOTA	3,862,000	839.75	5,855,000	961.23	1,993,000	321.62	5,033	1,100	5,915,788
WISCONSIN	5,517,000	852.44	7,246,000	1,119.59	1,729,000	267.15	4,722	1,919	4,745,558
REGION III	20,021,000	830.90	28,002,000	866.79	7,981,000	232.89	25,325	6,259	17,040,337
ILLINOIS	2,420,000	397.64	3,471,000	833.27	981,000	235.53	3,411	754	3,300,329
INDIANA	3,757,000	697.60	4,995,000	927.75	1,238,000	229.95	4,270	1,114	2,526,092
IOWA	2,904,000	817.37	3,908,000	1,116.99	1,080,000	304.62	3,182	448	2,645,771
MISSOURI	4,657,000	471.88	6,997,000	679.40	2,330,000	206.52	7,621	2,423	6,018,350
OHIO	6,003,000	756.93	8,746,000	1,049.10	2,743,000	312.17	8,691	1,458	3,429,810
REGION IV	23,300,000	608.50	33,661,000	1,066.29	8,301,000	262.79	23,733	7,834	12,626,631
KENTUCKY	7,684,000	1,098.67	9,235,000	1,361.38	1,041,000	262.89	5,255	1,748	2,358,302
NORTH CAROLINA	3,477,000	457.38	5,259,000	691.79	1,782,000	234.41	5,747	1,835	2,068,087
TENNESSEE	3,145,000	321.04	4,649,000	770.21	1,504,000	249.17	3,677	2,159	2,363,606
VIRGINIA	3,157,000	387.77	4,473,000	790.28	1,316,000	232.51	4,598	1,062	2,822,755
WEST VIRGINIA	7,907,000	1,495.69	9,765,000	1,847.33	1,858,000	351.50	4,256	1,030	1,999,870
REGION V	1,926,000	58.19	18,867,000	569.58	16,941,000	451.39	20,042	5,038	16,764,038
ALABAMA	34,000	3.08	4,113,000	862.00	4,079,000	330.97	10,533	829	3,020,056
FLORIDA	1,324,000	251.86	7,904,000	1,503.14	6,580,000	1,251.28	3,961	1,297	1,903,054
GEORGIA	343,000	35.00	2,440,000	250.00	2,100,000	215.00	8,369	1,425	4,793,602
SOUTH CAROLINA	225,000	33.03	2,401,000	352.14	2,176,000	325.51	5,179	1,507	7,048,426
REGION VI	4,572,000	173.41	10,952,000	392.64	5,780,000	219.23	22,707	3,062	9,439,843
ARKANSAS	1,370,000	148.19	5,551,000	384.10	2,181,000	235.91	7,852	1,392	3,138,050
LOUISIANA	1,465,000	213.09	2,879,000	418.74	1,414,000	205.67	5,945	804	3,224,296
MISSISSIPPI	1,737,000	169.55	3,972,000	387.82	2,235,000	218.27	8,859	1,866	3,091,517
REGION VII	9,339,000	466.97	9,524,000	476.22	185,000	9.25	9,453	10,540	18,404,246
KANSAS	2,547,000	535.08	2,567,000	540.19	20,000	4.21	2,509	2,103	3,801,755
NEBRASKA	2,596,000	533.29	2,471,000	336.28	-125,000	- 17.01	2,858	4,490	6,865,969
NORTH DAKOTA	2,769,000	705.04	2,426,000	695.33	-343,000	- 98.31	1,291	3,209	2,298,057
SOUTH DAKOTA	1,427,000	323.58	2,060,000	467.12	633,000	143.54	2,795	1,668	4,736,671
REGION VIII	7,504,000	243.87	13,430,000	436.43	5,926,000	192.56	21,211	9,260	13,709,007
OKLAHOMA	2,438,000	221.71	4,893,000	445.01	2,465,000	225.10	8,064	2,297	3,130,702
TEXAS	5,070,000	256.10	8,537,000	430.79	3,461,000	174.63	12,547	7,273	8,502,995
REGION IX	13,071,000	1,745.13	15,966,000	2,131.91	2,897,000	386.78	5,343	2,147	7,638,236
ARIZONA	2,095,000	2,051.91	2,436,000	2,385.90	341,000	333.99	801	220	807,000
CALIFORNIA	3,903,000	1,470.17	4,867,000	1,840.77	964,000	364.60	1,781	662	2,421,427
NEVADA	1,089,000	3,250.75	1,330,000	3,970.15	241,000	719.40	231	54	408,869
UTAH	5,084,000	1,714.61	7,335,000	2,101.72	1,331,000	387.11	2,400	1,010	3,110,900
REGION X	6,028,000	1,010.18	6,496,000	1,095.08	468,000	76.90	3,373	2,357	7,163,000
COLORADO	2,255,000	817.03	2,450,000	887.68	195,000	70.65	1,843	1,117	[illegible]
MONTANA	1,708,000	1,094.65	1,852,000	1,062.13	- 86,000	-22.50	444	608	[illegible]
WYOMING	2,071,000	1,280.77	2,394,000	1,480.52	323,000	199.75	1,086	531	2,321,041
REGION XI	11,794,000	1,654.40	14,241,000	1,997.90	2,447,000	343.30	5,314	1,814	6,478,776
IDAHO	3,068,000	1,463.67	5,176,000	1,909.26	2,108,000	445.59	2,202	309	2,283,449
OREGON	3,111,000	1,525.39	3,686,000	1,925.81	575,000	361.48	1,456	458	1,345,749
WASHINGTON	4,715,000	1,983.74	5,379,000	2,149.02	664,000	265.28	1,656	647	2,849,578
REGION XII	6,696,000	615.46	8,762,000	805.11	2,064,000	189.65	5,352	4,521	8,470,787
COLORADO	446,000	351.74	683,000	536.64	237,000	186.90	730	586	1,169,977
KANSAS	1,087,000	866.68	576,000	459.33	- 511,000	-407.50	328	928	1,295,001
NEW MEXICO	3,601,000	743.58	4,933,000	1,004.68	1,282,000	261.10	2,975	1,885	6,400,469
OKLAHOMA	187,000	606.11	126,000	445.23	- 71,000	-250.88	60	229	250,730
TEXAS	1,317,000	413.72	2,444,000	771.46	1,127,000	355.74	2,260	809	2,275,870
TOTALS FOR REGIONALLY DIVIDED STATES									
COLORADO	2,701,000	970.56	3,133,000	777.81	432,000	107.25	2,573	1,638	4,253,404
KANSAS	3,634,000	605.06	3,149,000	523.31	- 491,000	- 81.75	2,917	3,080	5,155,038
OKLAHOMA	2,625,000	230.67	5,019,000	446.77	2,394,000	213.10	6,134	2,340	5,375,452
TEXAS	6,309,000	576.10	10,981,000	477.68	4,588,000	199.58	14,818	4,172	10,888,665

Regraded Unclassified

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	Estimated number of clients who will repay their loans in full: In one year	In two years	In three years	In four years	In more than 4 years	Estimated no. clients who will need supervision after repaying	Average acreage of feed and forage crops per client: Before acceptance on the RR program	Close 1937 crop year	Amount of RAA benefit payments to RR clients	No. of home animals owned by RR clients: Before acceptance on RR program: Total	Ave. per client	Close 1937 crop year: Total	Ave. per client	No. who have number to tractor power
U. S. TOTAL	14,102	26,303	43,771	52,456	75,170	64,328	30.46	31.70	$7,680,422	264,377	1.14	312,390	2.21	5,786
REGION I														
CONNECTICUT	459	862	1,566	2,384	3,900	3,306	28.52	36.17	207,862	11,201	1.16	15,905	1.64	800
DELAWARE	-	2	25	22	11	27	15.58	16.46	5,000	231	.98	255	1.08	17
MAINE	8	46	66	58	82	85	12.58	19.38	1,570	65	1.42	172	2.87	-
MARYLAND	87	257	389	740	971	581	28.07	32.41	87,968	3,077	1.22	4,308	1.71	19
MASSACHUSETTS	10	18	41	60	113	55	26.20	35.27	10,066	505	1.81	802	2.58	7
NEW HAMPSHIRE	13	22	69	80	44	56	14.81	16.65	1,239	184	.71	322	.88	7
NEW JERSEY	52	82	87	132	206	179	30.17	65.23	8,992	306	.71	806	1.10	12
NEW YORK	59	138	179	165	204	216	22.12	48.39	5,097	489	.54	679	.84	80
PENNSYLVANIA	88	95	276	331	1,027	702	26.23	29.70	40,590	2,357	1.25	3,177	1.68	86
RHODE ISLAND	108	165	324	502	831	679	27.83	37.16	29,398	2,508	1.28	4,106	1.09	83
VERMONT	9	19	30	43	80	65	8.07	11.56	1,300	94	.55	113	.66	9
	44	45	107	239	272	306	42.56	47.27	16,587	1,204	1.37	1,484	1.91	16
REGION II														
MICHIGAN	582	988	2,207	3,951	7,445	6,021	30.09	45.22	439,083	22,082	1.35	43,338	2.74	588
MINNESOTA	174	284	709	1,228	1,792	1,829	25.80	39.30	80,115	5,295	1.19	11,680	2.62	110
WISCONSIN	146	356	821	1,473	3,195	2,106	40.71	57.28	270,017	12,351	1.09	19,724	3.18	455
	242	348	677	1,252	2,458	2,318	24.46	37.60	109,451	5,382	.84	12,008	1.65	118
REGION III														
ILLINOIS	1,465	2,957	5,523	8,119	13,415	10,903	29.70	47.75	578,709	48,527	1.54	90,602	2.87	1,916
INDIANA	185	555	1,200	1,108	1,017	1,436	36.28	51.49	85,564	6,787	1.03	13,045	3.13	472
IOWA	178	427	707	1,508	2,276	1,861	27.90	47.76	57,566	5,921	1.46	15,198	2.82	352
MISSOURI	83	254	632	1,089	1,471	1,425	43.50	63.86	138,305	7,401	2.07	12,247	3.42	295
OHIO	316	673	1,404	2,598	4,951	3,660	23.30	40.90	108,898	13,226	1.28	28,885	2.80	648
	715	1,048	1,490	1,818	2,700	2,762	27.73	43.44	95,369	12,170	1.50	21,232	2.61	648
REGION IV														
KENTUCKY	1,332	2,970	5,604	6,721	9,855	8,330	13.18	21.50	617,734	19,295	.61	45,740	1.45	98
NORTH CAROLINA	489	757	1,364	1,550	2,053	1,250	24.48	30.87	306,187	8,792	1.26	13,880	1.95	22
TENNESSEE	340	602	1,152	1,465	2,684	1,282	7.64	13.48	132,784	3,083	.41	7,400	.97	9
VIRGINIA	320	561	1,050	1,232	1,538	1,295	9.63	15.39	98,636	2,133	.35	8,449	1.40	21
WEST VIRGINIA	244	505	1,054	1,156	1,674	2,190	10.77	16.31	44,478	2,265	.40	8,232	1.47	7
	239	445	954	1,298	1,888	2,354	13.60	19.26	45,640	3,022	.57	7,078	1.49	33
REGION V														
ALABAMA	1,804	3,789	6,487	7,109	10,164	7,340	9.44	16.21	584,473	11,016	.33	30,120	1.13	19
FLORIDA	320	633	1,792	2,442	4,231	1,466	8.72	16.43	237,693	4,099	.36	13,805	1.21	-
GEORGIA	619	786	1,348	1,344	2,282	1,104	17.02	6.96	98,870	4,219	.30	4,659	.89	19
SOUTH CAROLINA	590	1,277	2,030	1,911	2,394	2,345	8.23	19.42	527,067	1,543	.16	11,947	1.22	-
	405	851	1,501	1,412	1,267	2,025	6.63	18.70	152,645	1,157	.16	7,640	1.17	-
REGION VI														
ARKANSAS	1,794	4,071	6,405	6,731	6,610	5,315	7.51	14.90	544,356	10,164	.38	41,757	1.58	22
LOUISIANA	635	1,423	2,406	2,085	2,623	2,111	8.37	18.24	220,878	4,113	.44	13,859	1.71	3
MISSISSIPPI	509	1,060	1,557	2,008	1,444	968	8.60	11.57	163,969	3,455	.30	11,412	1.66	16
	649	1,588	2,443	2,548	2,542	2,239	7.35	13.92	159,489	2,478	.24	14,492	1.41	8
REGION VII														
IOWA	1,143	2,353	3,641	4,834	7,000	3,989	30.52	44.15	1,951,092	52,765	2.64	75,922	3.80	1,121
KANSAS	424	863	908	1,204	1,550	1,707	34.96	34.39	297,764	11,912	2.51	15,209	3.20	418
NEBRASKA	442	1,052	1,434	1,820	2,871	1,661	12.39	23.03	474,153	17,661	2.40	27,947	3.80	366
NORTH DAKOTA	108	341	521	840	1,427	258	30.12	57.20	589,420	12,798	3.66	15,170	4.35	130
SOUTH DAKOTA	109	277	678	1,184	2,012	1,518	46.30	60.89	689,760	12,454	2.37	17,587	3.09	193
REGION VIII														
OKLAHOMA	3,682	5,004	6,899	5,622	5,876	7,708	15.54	28.32	702,180	28,888	.87	60,800	2.22	309
TEXAS	672	2,026	2,988	2,542	2,007	3,739	23.21	40.65	323,191	10,543	.96	27,463	2.76	119
	1,990	2,000	3,946	3,078	3,779	3,967	11.30	21.61	378,989	10,168	.83	41,143	2.09	100
REGION IX														
ARIZONA	450	609	1,099	1,792	2,063	2,030	17.71	28.42	132,640	9,284	1.24	13,757	1.04	858
CALIFORNIA	88	142	219	254	198	311	10.48	15.20	10,550	1,415	1.30	1,860	1.68	118
NEVADA	204	247	439	510	1,002	522	12.28	21.40	28,704	1,034	.39	2,221	.84	78
UTAH	21	37	51	79	113	140	55.50	72.74	6,325	918	2.73	1,025	3.27	7
	137	163	398	940	1,640	1,063	19.52	29.15	89,001	5,919	1.66	8,962	2.46	157
REGION X														
COLORADO	391	767	1,095	1,247	2,020	1,979	39.09	58.88	467,016	17,571	2.00	23,557	3.07	238
MONTANA	257	491	628	607	741	824	31.09	50.23	100,271	5,456	1.98	8,889	3.25	125
WYOMING	46	120	167	267	509	551	35.95	70.88	135,987	7,524	4.04	8,790	3.85	98
	91	130	280	372	580	604	32.81	99.48	140,479	4,501	2.04	8,078	3.78	118
REGION XI														
IDAHO	477	523	1,005	1,914	2,908	2,731	30.56	30.65	187,172	9,900	1.80	16,072	2.34	216
OREGON	231	339	419	533	1,129	976	24.87	37.84	92,243	5,323	1.06	8,927	3.29	101
WASHINGTON	123	202	291	465	777	560	28.79	39.35	58,348	2,602	1.26	4,178	2.15	41
	72	168	295	696	1,007	700	9.61	16.05	38,614	1,976	.79	3,617	1.45	76
REGION XII														
COLORADO	1,060	1,390	2,253	2,072	3,334	3,030	31.74	47.77	1,115,566	84,818	2.28	28,398	3.28	458
KANSAS	147	193	245	239	291	478	28.57	45.82	85,429	3,909	3.15	5,942	4.09	84
NEW MEXICO	51	302	328	295	344	446	72.22	73.88	292,840	2,008	1.65	2,002	1.80	35
OKLAHOMA	402	530	835	923	1,848	1,215	17.17	31.00	206,450	10,860	2.22	16,451	3.35	127
TEXAS	15	73	103	58	37	70	30.64	47.76	70,082	305	2.49	478	1.66	15
	441	352	746	512	764	527	30.31	64.23	433,847	7,154	2.38	13,516	4.27	138
TOTALS FOR REGIONALLY DIVIDED STATES														
COLORADO	404	684	873	846	1,032	1,902	44.65	46.89	278,000	9,452	2.35	14,881	3.62	309
KANSAS	505	885	1,236	1,499	1,944	2,151	34.76	42.73	597,584	12,080	6.38	17,211	2.67	516
OKLAHOMA	894	2,089	3,056	2,007	2,134	3,009	23.36	40.63	363,191	11,218	1.00	57,938	2.49	144
TEXAS	2,431	3,580	4,602	3,585	4,343	4,794	15.18	27.48	602,598	23,537	1.02	84,859	2.38	345

Regraded Unclassified

	Number of standard 4H clients who have increased their ownership of subsistence livestock									No. of quarts of fruits and vegetables canned by clients			
	Milk cows			Hogs			Poultry			Before acceptance in 4H program		During 1937 crop year	
	No. that did not own prior to 4H	No. that do not now own	No. that have increased ownership	No. that did not own prior to 4H	No. that do not now own	No. that have increased ownership	No. that did not own prior to 4H	No. that do not now own	No. that have increased ownership	Total	Avg. per person	Total	Avg. per person
U. S. TOTAL	77,406	15,072	141,716	102,448	22,689	132,437	48,375	12,258	147,097	25,810,712	21.6	63,336,087	52.0
REGION I	2,206	1,023	4,791	3,827	1,904	4,003	2,095	856	4,807	1,423,056	29.4	2,187,611	45.1
CONNECTICUT	25	10	37	125	95	36	28	12	133	16,235	15.5	19,803	19.0
DELAWARE	12	5	31	11	3	32	5	0	31	3,418	18.0	12,040	40.0
MAINE	285	89	1,320	701	296	1,345	462	200	1,330	328,862	24.5	450,097	33.5
MARYLAND	98	46	89	101	30	159	43	16	233	28,602	19.4	42,390	29.8
MASSACHUSETTS	62	34	104	107	50	65	51	28	132	23,880	20.8	48,385	42.5
NEW HAMPSHIRE	220	96	389	375	217	256	241	113	371	114,004	41.4	229,027	91.8
NEW JERSEY	379	156	98	395	330	114	242	63	327	99,513	27.1	162,487	44.3
NEW YORK	433	146	1,068	831	443	692	439	163	701	316,869	36.7	411,408	47.6
PENNSYLVANIA	502	140	1,094	718	229	971	283	118	1,141	263,468	32.6	504,110	53.4
RHODE ISLAND	80	66	33	119	81	46	54	25	112	16,569	21.0	18,984	24.0
VERMONT	92	33	408	344	125	293	237	103	295	109,976	27.0	172,838	42.4
REGION II	4,815	374	12,158	7,041	2,211	11,957	4,434	1,196	9,088	1,917,698	25.2	3,604,914	47.5
MICHIGAN	1,217	173	3,248	2,091	684	2,502	1,143	354	2,347	530,314	23.2	951,515	45.2
MINNESOTA	1,012	33	4,471	2,450	772	3,442	1,725	460	3,346	847,924	29.1	1,622,328	55.0
WISCONSIN	1,586	108	4,439	2,500	755	6,013	1,565	382	3,375	539,458	21.0	1,030,971	40.0
REGION III	7,886	787	23,297	11,926	2,371	25,360	5,308	991	21,533	5,045,861	34.5	9,783,392	66.0
ILLINOIS	1,102	90	3,088	1,718	285	3,037	698	125	2,837	445,341	23.0	1,182,241	61.0
INDIANA	1,332	139	3,754	1,890	375	3,934	1,067	191	3,775	1,025,892	41.8	1,895,418	89.2
IOWA	706	9	2,918	1,236	118	2,988	678	22	2,821	849,369	40.2	1,082,082	63.9
MISSOURI	2,500	165	8,066	4,357	1,021	7,114	1,430	201	6,609	1,439,510	29.7	3,592,575	72.5
OHIO	2,156	354	5,471	2,737	772	5,298	1,495	452	5,291	1,485,769	39.4	2,340,126	62.1
REGION IV	7,681	1,587	13,554	9,128	2,194	17,131	2,784	784	19,587	5,208,270	29.5	10,960,326	62.1
KENTUCKY	1,033	164	3,802	2,301	886	3,549	425	141	3,848	1,615,680	43.5	2,624,399	70.1
NORTH CAROLINA	2,602	610	2,677	2,344	360	4,503	633	208	5,444	733,254	15.0	1,893,630	38.8
TENNESSEE	1,569	420	1,982	2,132	864	2,446	470	196	3,352	717,449	23.6	1,872,099	61.7
VIRGINIA	1,546	279	2,235	1,808	179	3,097	802	119	3,885	817,915	24.5	2,075,058	62.2
WEST VIRGINIA	911	120	3,258	1,242	302	2,976	446	102	3,248	1,324,072	45.1	2,494,940	55.0
REGION V	17,105	4,570	14,287	16,619	4,782	14,136	9,007	1,116	15,007	1,408,071	8.1	4,392,643	25.2
ALABAMA	5,090	2,342	3,751	4,538	1,765	2,567	2,381	471	2,166	574,938	9.0	1,916,453	30.1
FLORIDA	2,087	1,159	1,540	2,448	1,707	923	1,155	310	1,216	329,856	10.0	577,527	25.1
GEORGIA	5,251	461	5,507	6,279	1,025	6,175	4,547	280	6,733	285,992	5.0	989,246	17.2
SOUTH CAROLINA	3,178	608	3,189	3,354	285	4,471	924	47	4,888	317,287	10.6	909,417	30.4
REGION VI	11,800	1,077	17,220	12,383	2,607	17,695	4,484	218	20,812	1,741,838	12.3	8,531,466	60.4
ARKANSAS	4,012	614	6,125	5,347	1,463	5,763	1,769	46	7,112	904,333	18.2	4,990,521	100.4
LOUISIANA	3,415	950	4,446	2,644	520	4,463	1,143	64	5,320	300,413	8.3	1,301,809	30.5
MISSISSIPPI	4,373	413	6,649	4,392	624	7,449	1,572	108	8,380	537,092	9.7	2,140,132	38.6
REGION VII	3,488	320	13,707	8,275	4,427	8,665	2,832	672	11,494	1,610,091	17.6	2,569,617	28.9
KANSAS	681	81	3,187	2,272	1,097	1,952	515	238	2,787	326,394	14.1	670,225	29.0
NEBRASKA	1,525	112	5,188	2,068	1,851	3,080	1,318	178	4,242	867,578	25.3	1,155,101	33.7
NORTH DAKOTA	334	75	1,902	971	703	1,327	253	186	1,957	272,075	15.1	406,676	22.6
SOUTH DAKOTA	948	52	3,490	2,064	776	2,326	746	150	2,608	217,044	10.7	337,615	16.7
REGION VIII	13,820	2,384	22,725	17,626	4,915	20,531	9,430	4,433	25,256	2,909,012	15.8	13,160,072	70.5
OKLAHOMA	4,635	167	8,830	6,196	1,269	8,025	2,400	400	8,942	1,055,633	16.5	4,170,904	65.4
TEXAS	9,185	2,217	13,895	11,430	3,646	12,506	7,039	4,033	16,314	1,953,379	15.1	8,989,068	79.2
REGION IX	2,624	977	4,099	3,646	2,257	3,716	2,608	700	4,752	1,198,789	33.4	1,963,091	55.8
ARIZONA	306	126	595	675	541	410	271	108	693	124,125	24.2	237,161	46.3
CALIFORNIA	1,461	645	1,546	1,676	1,210	1,049	1,185	295	1,582	247,680	22.7	550,330	50.4
NEVADA	78	16	173	102	46	205	61	12	204	86,622	53.0	106,574	65.3
UTAH	779	190	2,385	1,193	470	2,004	1,091	356	2,273	730,362	40.9	1,019,826	66.9
REGION X	1,316	223	3,792	2,741	1,377	2,506	1,059	310	3,057	789,253	27.8	1,277,374	45.0
COLORADO	701	63	1,966	1,275	385	1,528	474	55	2,017	240,033	18.8	518,957	40.3
MONTANA	256	78	684	782	557	408	256	143	675	190,357	24.2	264,298	33.6
WYOMING	359	87	900	744	435	515	329	112	965	357,863	40.9	494,119	64.7
REGION XI	2,033	387	5,131	3,890	1,827	4,271	2,040	549	4,339	1,641,461	31.4	2,309,743	85.1
IDAHO	714	54	2,218	1,039	251	2,009	724	143	2,041	800,022	60.7	1,143,380	86.8
OREGON	313	77	1,282	954	517	947	592	167	904	463,400	54.5	702,712	95.2
WASHINGTON	804	256	1,630	1,285	559	1,265	702	237	1,394	378,039	34.8	833,671	76.8
REGION XII	3,082	468	8,495	5,038	2,107	5,355	2,218	381	8,785	855,094	15.7	2,135,086	39.2
COLORADO	349	33	629	524	174	728	174	20	848	81,403	13.9	226,195	38.7
KANSAS	135	30	639	526	420	515	126	35	549	68,425	10.5	106,152	16.7
NEW MEXICO	1,664	320	2,639	2,433	955	2,502	1,055	223	2,742	398,059	15.5	1,151,597	45.1
OKLAHOMA	40	12	120	140	140	35	28	15	100	25,360	20.0	47,120	36.9
TEXAS	944	68	3,068	1,415	418	1,777	835	88	2,346	282,848	18.5	603,072	39.2
TOTALS FOR REGIONALLY DIVIDED STATES													
COLORADO	950	116	2,797	1,799	559	2,253	648	75	2,965	321,408	17.2	745,152	39.8
KANSAS	816	111	3,826	2,798	1,517	2,267	641	273	3,436	392,819	13.3	776,377	26.4
OKLAHOMA	4,675	179	8,950	6,336	1,409	8,060	2,428	415	9,042	1,081,193	16.8	4,218,104	64.8
TEXAS	10,129	2,305	15,482	12,845	4,064	14,283	7,874	4,121	18,840	2,199,027	15.5	9,788,000	69.4

Regraded Unclassified

	No. of pounds of meat produced for home consumption by WR clients				No. of pounds of milk produced for home consumption by WR clients				Number of eggs produced for home consumption by WR clients			
	Before acceptance on WR program		During 1957 crop year		Before acceptance on WR program		During 1957 crop year		Before acceptance on WR program		During 1957 crop year	
	Total	Ave. per person	Total	Ave. per person	Total	Ave. per person	Total	Ave. per person	Total	Ave. per person	Total	Ave. per person
U. S. TOTAL	42,142,462	35.2	81,012,660	67.7	281,084,962	235.0	487,866,089	408.0	16,878,898	13.9	30,849,330	25.3
REGION I	2,215,919	47.2	3,309,735	69.3	20,670,051	439.5	27,718,688	571.9	878,889	18.1	1,193,763	23.4
CONNECTICUT	30,788	36.0	43,924	42.0	348,651	333.0	373,779	357.0	10,222	15.5	20,927	30.0
DELAWARE	12,040	40.0	18,080	60.0	109,564	364.0	166,754	554.0	2,408	9.0	5,418	18.0
MAINE	707,735	52.7	980,458	69.3	8,330,571	635.8	11,238,797	858.9	261,148	19.5	329,653	24.6
MARYLAND	77,898	32.9	84,548	37.3	303,300	275.6	884,525	464.7	29,976	16.3	36,729	24.9
MASSACHUSETTS	25,175	22.1	44,726	39.3	103,340	90.7	122,558	107.7	21,658	19.0	24,958	21.8
NEW HAMPSHIRE	71,611	28.0	806,712	73.0	994,315	357.3	1,942,320	703.0	41,638	15.1	71,472	25.9
NEW JERSEY	104,967	28.8	173,692	47.3	1,383,848	371.7	1,999,220	544.9	74,404	20.3	109,527	29.9
NEW YORK	371,281	43.0	507,980	58.7	1,178,272	136.4	1,774,346	205.4	141,626	16.4	179,075	20.7
PENNSYLVANIA	732,281	65.8	1,091,419	98.4	4,987,698	447.0	6,480,570	579.1	227,003	20.4	270,063	24.2
RHODE ISLAND	5,523	7.0	6,312	8.0	431,588	577.0	459,987	583.0	16,835	13.0	15,780	20.0
VERMONT	167,602	41.1	262,698	64.4	2,079,308	510.1	2,472,837	606.9	58,700	13.0	70,366	17.3
REGION II	3,640,738	47.9	4,755,204	61.9	20,260,926	266.8	36,051,372	474.6	1,105,622	14.6	1,838,401	24.4
MICHIGAN	646,278	30.7	1,250,377	59.7	6,784,483	322.6	11,835,091	563.7	280,201	12.4	489,390	21.3
MINNESOTA	1,618,420	62.3	3,301,348	119.2	4,392,959	216.0	10,440,154	357.9	470,954	16.4	770,085	26.4
WISCONSIN	1,170,040	45.7	2,196,271	85.4	7,085,354	273.1	13,766,127	534.8	358,467	14.3	618,996	23.8
REGION III	6,109,710	41.8	10,758,624	73.5	32,529,057	222.4	58,769,527	367.6	2,274,540	15.6	3,257,220	22.3
ILLINOIS	518,971	26.7	1,108,377	57.2	3,884,539	200.3	8,026,620	414.0	289,998	15.0	588,308	27.8
INDIANA	1,163,985	47.5	1,699,445	69.3	3,903,074	159.1	8,896,181	381.2	386,959	15.8	577,634	23.5
IOWA	750,087	46.4	1,354,411	83.8	656,629	40.7	737,027	45.6	360,040	22.3	439,608	27.2
MISSOURI	1,814,777	37.4	3,601,334	74.3	9,570,959	197.4	17,470,793	360.3	647,062	13.3	912,875	18.8
OHIO	1,861,890	40.4	2,990,057	79.2	14,513,856	384.9	20,638,706	547.3	590,481	15.7	780,807	20.9
REGION IV	8,835,639	30.8	16,190,757	91.7	46,346,499	273.8	78,049,488	442.0	1,864,640	10.6	3,125,954	17.7
KENTUCKY	2,442,731	65.8	3,682,434	99.2	15,077,362	406.1	21,525,532	580.0	662,319	17.8	928,980	25.0
NORTH CAROLINA	1,904,981	41.4	4,172,754	90.7	12,564,795	273.0	22,230,193	482.3	408,416	8.8	798,862	17.4
TENNESSEE	1,076,447	35.0	2,328,726	76.8	8,994,374	296.2	14,572,419	480.4	234,626	7.7	460,063	15.2
VIRGINIA	1,397,431	47.9	3,465,248	103.8	1,805,365	46.1	3,596,189	107.8	222,510	8.8	453,755	13.4
WEST VIRGINIA	1,214,245	65.2	2,541,605	80.6	10,296,303	350.8	16,143,155	549.9	333,968	11.4	483,894	16.5
REGION V	3,478,612	20.0	7,450,113	42.8	20,263,475	102.3	58,975,077	338.6	1,846,102	10.6	3,154,878	18.1
ALABAMA	1,377,865	21.7	1,546,617	30.6	11,477,723	180.4	18,078,777	284.1	538,709	13.2	1,070,534	16.8
FLORIDA	804,595	26.3	758,545	33.0	3,378,161	146.2	6,718,208	292.1	290,708	17.3	575,124	29.4
GEORGIA	902,510	15.7	2,845,595	49.4	8,170,038	141.8	19,659,801	341.2	374,011	6.5	901,209	15.6
SOUTH CAROLINA	593,634	19.8	1,899,356	63.5	5,239,548	175.2	14,516,701	485.3	237,665	7.9	518,009	17.3
REGION VI	2,214,322	15.7	5,929,906	41.9	29,775,652	210.7	73,497,651	520.0	1,490,317	10.6	3,217,445	23.5
ARKANSAS	540,681	11.0	1,380,737	34.7	10,960,254	220.0	28,807,666	578.3	530,621	10.6	1,318,527	26.5
LOUISIANA	409,894	13.8	1,234,705	34.2	6,218,889	172.1	13,921,125	385.2	363,449	10.1	722,769	20.3
MISSISSIPPI	1,100,947	21.0	3,113,464	58.2	12,596,509	227.4	30,766,858	555.4	595,247	10.7	1,266,149	22.9
REGION VII	5,231,209	34.7	7,705,449	80.6	16,589,721	173.5	23,375,741	244.5	1,911,058	20.0	2,322,473	24.4
KANSAS	638,399	37.2	1,320,870	57.2	6,212,884	268.9	8,765,132	379.3	414,064	17.9	609,345	26.3
NEBRASKA	2,009,958	60.4	3,272,292	85.4	6,632,373	193.5	9,791,240	285.6	694,242	20.2	918,109	26.8
NORTH DAKOTA	1,973,228	78.4	1,647,056	91.7	2,888,790	160.7	3,408,319	189.6	455,812	25.4	491,089	27.3
SOUTH DAKOTA	909,632	67.9	1,465,231	72.4	857,734	42.4	1,418,045	69.8	347,735	17.2	510,980	25.3
REGION VIII	8,003,065	19.3	11,276,403	60.4	85,929,712	192.6	84,013,038	650.3	2,413,119	12.0	7,501,044	40.2
OKLAHOMA	1,663,015	26.4	3,093,029	81.0	15,577,898	244.1	33,801,320	587.9	840,055	10.0	1,534,229	24.0
TEXAS	6,920,050	15.6	7,383,374	60.2	20,351,814	165.8	50,321,512	410.0	1,778,056	14.4	5,966,815	48.6
REGION IX	1,354,225	38.1	2,344,127	65.9	22,516,259	633.3	9,920,841	279.0	797,867	22.4	1,145,004	32.2
ARIZONA	119,724	23.4	294,570	57.3	984,427	192.2	1,901,607	371.3	78,086	24.3	126,893	25.1
CALIFORNIA	289,518	34.8	678,792	82.2	2,281,384	209.1	4,633,122	462.9	224,572	20.6	356,819	32.7
NEVADA	159,350	97.8	184,550	113.0	529,406	324.2	562,667	338.8	50,151	30.8	83,640	40.8
UTAH	785,621	43.9	1,186,115	66.3	18,721,142	1046.8	2,003,245	145.6	440,106	24.6	583,650	33.2
REGION X	1,316,604	46.4	2,309,735	81.4	4,340,555	152.9	6,065,045	213.7	512,974	18.1	1,120,380	39.5
COLORADO	503,501	30.1	1,051,307	81.8	1,331,618	104.9	2,069,300	160.6	191,080	14.9	616,282	47.9
MONTANA	366,359	46.6	537,348	68.3	1,766,277	224.8	2,248,089	285.8	108,551	13.8	144,754	18.4
WYOMING	446,547	58.5	721,180	94.5	1,230,663	159.9	1,748,558	229.8	212,743	27.9	359,114	47.0
REGION XI	1,760,651	54.1	3,135,709	96.3	4,365,858	134.7	6,919,281	212.5	518,142	15.9	1,034,789	31.8
IDAHO	1,041,498	79.2	1,642,833	124.7	435,115	33.0	706,150	53.6	143,686	10.9	428,698	32.5
OREGON	435,880	51.3	729,304	85.8	2,745,368	322.8	4,078,271	479.3	172,782	20.3	228,552	26.8
WASHINGTON	283,273	25.9	763,366	70.1	1,206,377	110.8	2,136,860	196.3	99,674	18.2	352,539	32.4
REGION XII	2,161,368	40.1	3,852,794	70.8	17,454,007	320.7	29,508,440	542.1	859,403	15.8	1,672,919	30.7
COLORADO	382,461	62.0	741,014	120.7	1,893,842	323.8	3,450,096	591.4	103,998	16.1	263,375	45.0
KANSAS	339,365	35.7	487,706	73.7	2,725,941	434.3	4,234,884	667.7	118,479	18.4	187,172	29.5
NEW MEXICO	832,038	53.4	1,369,014	81.4	3,420,285	133.0	6,434,794	251.9	315,196	12.2	307,224	22.2
OKLAHOMA	117,800	92.2	137,800	107.8	862,400	574.8	1,034,100	800.2	32,340	28.4	33,510	41.6
TEXAS	495,478	32.1	937,760	60.8	8,521,669	502.8	14,340,796	930.3	100,480	18.2	401,638	39.0
TOTALS FOR REGIONALLY DIVIDED STATES												
COLORADO	883,962	48.2	1,792,321	95.7	3,245,458	173.2	5,520,584	295.1	297,078	15.9	879,907	47.0
KANSAS	1,211,063	41.2	1,798,070	60.7	8,988,625	304.8	13,000,016	441.0	590,548	18.0	793,517	26.9
OKLAHOMA	1,800,813	27.7	4,030,829	61.9	16,440,298	252.6	34,723,424	533.4	874,395	10.4	1,567,739	24.4
TEXAS	8,415,528	17.9	8,921,194	60.2	28,873,443	209.0	64,847,308	469.1	2,000,488	14.9	6,366,458	47.5

Regraded Unclassified

	Annual value of products produced for home consumption by IR clients				Improvement in tenure status of clients resulting from the IR program					No. of IR clients participating in coops.	
	During 1957 crop year		Increase since acceptance on IR program								
	Total	Ave. per client	Total	Ave. per client	No. of clients who have improved	No. changed from verbal to written leases	No. obtaining long renewable leases	No. changed from share-croppers to tenants	Number obtaining better farms	Before acceptance on IR program	During 1957 crop year
U. S. TOTAL	$58,841,507	$254.00	$28,217,360	$121.88	89,335	28,088	67,137	65,480	66,266	21,378	69,221
REGION I	2,174,172	224.23	704,581	78.65	2,117	400	702	564	620	1,087	1,731
Connecticut	55,455	234.98	7,788	33.00	31	10	7	14	14	140	194
Delaware	18,360	300.00	10,440	174.00	16	4	3	2	88	–	–
Maine	506,737	237.08	102,801	76.52	445	67	98	110	84	82	360
Maryland	51,390	164.19	9,934	31.74	187	61	38	21	44	99	158
Massachusetts	32,170	134.60	11,260	48.44	13	2	4	6	2	80	39
New Hampshire	239,832	365.41	119,210	103.21	106	41	41	12	43	4	68
New Jersey	227,021	282.36	78,000	97.18	316	42	110	18	88	49	106
New York	380,786	195.76	150,333	79.58	476	123	171	156	187	671	506
Pennsylvania	340,841	164.98	102,971	49.84	349	191	162	280	181	82	82
Rhode Island	45,857	267.00	11,457	67.00	18	5	21	18	3	–	–
Vermont	197,105	257.32	70,477	92.01	76	20	34	10	36	57	154
REGION II	3,278,192	191.58	1,307,133	76.44	8,070	3,706	3,355	3,411	3,139	3,869	6,923
Michigan	1,026,756	231.48	440,703	99.38	1,239	1,064	874	6	822	306	925
Minnesota	1,192,335	192.32	372,524	60.20	3,122	1,327	1,241	1,334	1,026	2,300	3,738
Wisconsin	1,057,101	168.33	403,566	76.26	3,618	1,117	1,211	1,187	1,291	1,057	2,263
REGION III	7,002,498	223.29	2,864,555	90.70	18,881	7,812	7,039	7,379	7,640	2,932	8,650
Illinois	4,368,021	327.08	815,436	195.78	2,664	543	884	1,265	1,072	619	1,542
Indiana	1,186,908	194.44	270,249	50.19	3,181	2,443	1,720	1,568	1,506	261	1,104
Iowa	852,639	238.38	276,782	77.42	2,394	561	898	878	1,081	631	1,377
Missouri	2,277,458	220.81	945,386	91.68	5,870	1,721	3,616	2,024	2,214	440	2,127
Ohio	1,309,272	183.28	556,522	68.32	4,772	2,444	2,021	1,038	1,067	981	2,410
REGION IV	11,068,932	350.48	4,750,511	150.39	16,296	13,975	7,504	7,039	6,315	2,541	7,843
Kentucky	2,556,754	365.09	945,537	135.06	2,159	1,336	1,271	803	789	807	1,899
North Carolina	3,166,920	419.22	1,207,345	159.82	5,936	5,713	3,128	2,110	2,115	369	1,271
Tennessee	1,578,601	261.53	771,522	127.67	3,551	3,491	2,008	2,234	2,048	140	940
Virginia	1,700,497	300.44	928,314	164.01	3,270	2,396	1,383	1,743	1,153	556	1,709
West Virginia	2,046,150	387.80	897,193	169.75	1,382	1,019	808	279	410	579	2,024
REGION V	9,607,500	296.26	6,423,333	194.06	24,670	21,691	10,669	15,357	15,073	2,463	11,145
Alabama	3,042,744	267.40	2,129,330	187.32	8,782	7,304	3,254	4,465	5,054	1,518	5,288
Florida	1,970,111	370.40	1,109,815	226.30	2,360	2,182	1,151	973	777	72	1,159
Georgia	2,404,427	245.50	1,687,017	172.25	8,495	7,902	5,024	4,487	6,039	748	3,568
South Carolina	2,181,308	326.25	1,416,101	212.10	4,830	4,413	2,240	3,452	3,203	190	1,130
REGION VI	5,876,914	260.89	3,998,237	147.48	19,970	18,440	11,527	12,977	12,439	1,345	12,431
Arkansas	2,745,675	293.05	1,649,446	175.41	7,038	7,027	3,636	4,181	4,767	154	5,938
Louisiana	1,540,044	224.01	813,959	118.39	5,233	4,501	3,465	2,721	1,067	283	1,472
Mississippi	2,620,195	255.75	1,424,832	139.09	7,705	6,858	4,706	5,975	5,705	908	5,023
REGION VII	3,981,310	199.42	1,057,000	51.06	11,087	5,314	4,502	2,900	3,745	2,274	5,152
Kansas	603,322	187.99	284,209	50.83	1,982	602	605	403	861	295	845
Nebraska	1,082,313	130.13	332,569	45.28	4,610	2,367	1,030	1,394	1,549	335	2,194
North Dakota	1,171,825	335.06	144,988	41.56	1,643	893	551	254	351	659	1,007
South Dakota	900,750	204.25	295,211	66.94	2,872	1,392	1,586	739	984	485	1,010
REGION VIII	7,674,185	340.39	4,451,674	144.67	22,881	18,192	8,985	10,781	11,775	1,040	8,422
Oklahoma	3,411,984	361.56	1,903,970	164.73	7,975	8,313	3,631	3,576	3,772	736	2,562
Texas	4,262,121	215.04	2,047,704	133.59	14,906	12,312	5,154	7,200	8,003	913	5,860
REGION IX	1,840,036	240.67	238,014	85.28	3,345	1,401	1,068	1,329	1,087	520	2,048
Arizona	300,200	302.90	110,185	113.80	408	139	154	143	61	31	158
California	551,339	291.52	260,427	98.50	1,295	443	603	666	425	175	531
Nevada	113,410	338.34	27,485	82.04	116	24	45	37	31	20	104
Utah	866,027	240.15	234,347	67.20	1,526	795	772	461	490	294	1,150
REGION X	1,041,594	175.64	432,857	72.97	2,982	1,485	1,680	726	980	511	1,631
Colorado	446,311	161.71	167,397	60.65	1,662	502	856	405	522	239	715
Montana	318,728	204.97	120,715	77.68	600	294	410	139	334	203	417
Wyoming	276,555	171.21	144,745	89.71	700	389	414	182	327	179	499
REGION XI	1,999,932	236.40	603,404	86.67	3,781	1,055	1,382	1,312	1,508	1,029	2,044
Idaho	777,999	286.98	265,440	97.91	1,525	381	656	754	552	504	1,429
Oregon	480,188	250.68	171,283	89.49	734	194	246	281	501	195	410
Washington	441,747	176.49	166,771	66.62	1,504	300	438	305	428	330	805
REGION XII	2,541,123	233.49	1,030,816	90.13	9,429	3,862	2,667	1,731	2,015	1,273	2,008
Colorado	215,930	170.30	98,129	77.39	656	385	277	186	340	68	190
Kansas	561,265	288.09	118,119	94.19	402	150	146	86	114	196	265
New Mexico	1,226,863	389.87	522,178	106.35	2,066	1,829	1,259	660	759	190	600
Oklahoma	14,980	52.98	7,830	27.87	175	150	85	45	43	30	29
Texas	722,065	227.92	290,060	91.24	2,137	1,389	950	754	748	608	1,479
TOTALS FOR REGIONALLY DIVIDED STATES											
Colorado	662,261	164.41	265,526	65.92	2,340	1,187	1,133	591	822	294	990
Kansas	1,254,587	208.29	402,408	67.00	2,364	821	841	559	975	481	1,110
Oklahoma	3,436,964	305.98	1,811,800	161.28	8,170	8,463	3,910	3,621	3,617	756	2,591
Texas	4,984,186	210.82	2,936,764	127.75	17,043	14,158	6,104	7,958	8,796	1,721	5,539

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	NUMBER OF RR CLIENT CHILDREN INCREASING SCHOOL ATTENDANCE	SUPERVISORS ESTIMATE OF PROGRESS OF RR CLIENTS TO BE DUE TO (PERCENT)		
		SUPERVISION	FINANCING	OTHER
U. S. TOTAL	159,342	45	44	11
REGION I	1,220	38	52	10
CONNECTICUT	125	55	43	2
DELAWARE	-	15	80	5
MAINE	667	38	51	11
MARYLAND	25	25	62	13
MASSACHUSETTS	-	45	53	3
NEW HAMPSHIRE	27	45	53	2
NEW JERSEY	27	37	52	11
NEW YORK	27	39	53	8
PENNSYLVANIA	302	38	49	13
RHODE ISLAND	-	30	50	20
VERMONT	-	46	42	10
REGION II	5,220	44	45	11
MICHIGAN	1,612	50	37	13
MINNESOTA	1,714	38	54	8
WISCONSIN	1,806	43	48	9
REGION III	13,721	43	45	12
ILLINOIS	2,007	53	35	12
INDIANA	2,043	30	54	16
IOWA	626	57	34	9
MISSOURI	6,622	41	48	11
OHIO	2,421	44	44	12
REGION IV	22,814	48	41	11
KENTUCKY	3,586	40	49	11
NORTH CAROLINA	6,007	50	36	14
TENNESSEE	4,229	47	40	13
VIRGINIA	4,635	51	41	8
WEST VIRGINIA	2,363	48	39	13
REGION V	37,975	53	41	6
ALABAMA	12,726	58	41	1
FLORIDA	4,800	54	41	5
GEORGIA	11,522	51	41	8
SOUTH CAROLINA	9,127	54	39	7
REGION VI	28,514	48	41	11
ARKANSAS	11,230	48	39	12
LOUISIANA	4,934	48	40	12
MISSISSIPPI	12,350	48	44	8
REGION VII	6,573	40	50	10
KANSAS	1,297	37	52	11
NEBRASKA	2,579	46	45	9
NORTH DAKOTA	1,186	35	53	12
SOUTH DAKOTA	1,511	38	51	11
REGION VIII	31,184	50	39	11
OKLAHOMA	9,541	47	39	14
TEXAS	21,643	51	39	10
REGION IX	1,241	39	47	14
ARIZONA	253	34	54	12
CALIFORNIA	393	42	44	14
NEVADA	129	38	50	12
UTAH	466	40	44	16
REGION X	1,837	37	51	12
COLORADO	579	38	46	16
MONTANA	371	39	52	9
WYOMING	587	32	56	12
REGION XI	1,560	33	55	12
IDAHO	746	38	52	10
OREGON	218	35	51	14
WASHINGTON	596	26	60	14
REGION XII	7,383	42	44	14
COLORADO	1,137	44	44	12
KANSAS	153	44	38	18
NEW MEXICO	2,787	41	49	10
OKLAHOMA	95	38	62	-
TEXAS	3,211	43	39	18
TOTALS FOR REGIONALLY DIVIDED STATES				
COLORADO	2,016	40	46	14
KANSAS	1,450	39	48	13
OKLAHOMA	9,636	46	39	15
TEXAS	24,854	50	39	11

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TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

WASHINGTON

COMMISSIONER OF
ACCOUNTS AND DEPOSITS

MAR 1938

TO: THE SECRETARY

This is in further reference to the situation regarding the payment of unemployment compensation, based upon information received from the Treasury officers who are acting as consulting accountants to the Social Security Board.

Since the middle of February no additional requests have been made for the services of Treasury accountants. The states which have requested such services, are:

Alabama	Maine	North Carolina
Arizona	Maryland	Oregon
California	Massachusetts	Pennsylvania
Connecticut	Minnesota	Tennessee
District of Columbia	New York	

The states which have not requested the services of Treasury accountants, still are:

Louisiana	Texas	Virginia
New Hampshire	Utah	West Virginia
Rhode Island	Vermont	

From present indications it does not appear that the eight states which have thus far refused assistance will make request for the services of the Treasury accountants. These states, however, appear to be in good shape with the exception of Louisiana and Virginia, which could undoubtedly use assistance to good advantage.

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Some recent improvement has been reported in the case of Louisiana.

In some of the states where the Treasury Officers are working as consulting accountants, rather bad conditions of organization and procedure have existed from the beginning. In the states of Maryland, North Carolina, and Minnesota, conditions were of sufficiently serious nature to warrant the Bureau of Unemployment Compensation of the Social Security Board calling the members of the state boards into conference in Washington, as the basis for the execution of written agreements in which the state boards have undertaken to carry out certain specified corrective measures. The Treasury accountants in those three states were instrumental in having this action taken by the Social Security Board.

The information given herein regarding the status of work (i.e. number of claims filed, approved, denied, in process, and paid) is to February 26, 1938, unless otherwise stated.

ALABAMA

The Treasury accountant reports that the situation is not particularly bad nor on the other hand is it good. Every effort is being made to release checks as promptly and as rapidly as possible and this in a measure has been accomplished. Much of the difficulty arises from confusion because of poor organization and lack of proper instructions. This has a bearing particularly upon the work of determining benefits which is reported as unsatisfactory and likely to result in delayed payments and public criticism. Thus far, however, there appears to have been no serious newspaper or other public

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criticism. The total number of claims filed was 82,000, of which 54,000 had been allowed and 6,500 denied, making a total of 60,500 claims disposed of (nearly 75%). There had been 50,700 checks amounting to $347,000 issued against 67,000 pay orders received. The Treasury accountant states that his services are not being used to any great extent but there appears to be an inclination now on the part of the stage agency to do so.

ARIZONA

While the volume of work is small the progress made in determining benefits can not be called entirely satisfactory. There have been 9,065 claims filed, of which 5,943 were approved and 1,346 denied leaving 1,776 claims still to be disposed of. Inquiries respecting these claims have greatly increased although the only newspaper criticism thus far has been of a political nature. The progress of payments on claims which have been allowed is satisfactory. There still exists urgent need of reorganization of the agency to place it upon a sound and satisfactory basis for permanent operation. Although the State Commission has asked the Social Security Board to be allowed to employ the Treasury accountant temporarily so that he might set up an effective organization, the request has not so far met with approval.

CALIFORNIA

The situation is still far from satisfactory, particularly with respect to issuing benefit checks. While the facilities of the agency are generally satisfactory and there are written procedures, the quality

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of supervision is poor and procedures have not been followed. Definite efforts are being made to simplify and correct the procedure situation and results are in evidence. As of February 28th the total number of claims filed are 193,601 and of these only 60,087 have been approved and 37,672 denied, making 97,759 disposed of (approximately 50%). The situation is further complicated by the fact it is estimated 75% of the denied claims will have to be re-determined. Only 19,360 checks amounting to $195,463.17 have been issued against 141,765 compensable claims due for payment. It is therefore apparent that there will be serious delays in paying benefits. There has been no serious public criticism reported thus far although the Treasury accountant feels there will be.

CONNECTICUT

The status of work appears to be fairly satisfactory although based on the Agency's estimates there were in the neighborhood of 140,000 checks overdue at the opening of business February 28th. The Agency plans to correct this condition by issuing to each claimant during the week ending March 5th, a single check for all back payments due. The Agency has qualified supervisory help but is somewhat handicapped because of increased volume of work without means to expand the supervision properly. Recent approval has been obtained by the Agency to increase its staff to meet this problem. As of February 28th a total of 117,400 claims have been filed, of which 78,700 were approved and 13,000 denied, making a total of 91,700 claims disposed of. There have been 88,259 checks, amounting to $938,852.51, issued.

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DISTRICT OF COLUMBIA

The situation is not good in respect to the determination of benefits for claims filed. Out of a total of 21,412 claims filed up to February 25th, only 2,782 had been approved and 9,631 were denied, leaving 8,999 claims pending determination of benefits. Of the claims denied, 4,172 were for lack of proper wage records. This is due not so much to the absence of wage records as to arrears in postings. Three shifts of bookkeepers are being used to bring this work current. The work of issuing checks is current, 3,150 checks amounting to $28,156.50 having been issued. One of the major problems of the Agency is lack of proper organization and supervision. There is also definite need for the formulation of proper processing procedure. Special assistance in these matters is being given by the Treasury accountant.

LOUISIANA

This state has resolutely refused to request the services of the Treasury accountant although the representative of the Social Security Board has attempted to convince the State Agency of the value of such assistance. The Treasury accountant who had been sent to Louisiana to procure what information he could and be available in anticipation of a request, has now returned to his official station in Baltimore, Maryland. The situation in Louisiana, however, has shown some improvement. The total number of claims filed is 28,049, of which 17,363 were approved and 5,186 denied, making a total of 22,549 claims disposed of. There had been 11,024 checks amounting to $69,485 issued against 23,483 pay orders received.

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MAINE

The status of work in this state appears to be generally satisfactory although there is some lag in the issuance of checks. Against 70,000 pay orders received, 33,187 checks amounting to $284,756.87 have been issued. An additional work shift, weekend work, and step-up of production through careful supervision are measures being taken to correct this situation.

MARYLAND

There has been little improvement over the conditions previously reported in this state although the State Board in conference with the Bureau of Unemployment Compensation (Social Security Board) in Washington, committed itself in writing to take prompt action in correcting certain bad conditions of organization, etc. The Treasury accountant reports that although only two weeks have elapsed since that conference, he is convinced the Board will continue to neglect definite steps toward accomplishment of the agreement unless there is encouragement from outside influences. The Treasury accountant states that the ever changing claim procedure is a product of "trial and error" process. A better quality of specialized personnel will be required to operate the office and the State Board has agreed to eliminate unsatisfactory employees. The processing of benefit payments will unquestionably result in serious difficulties unless the organization emerges from the present experience with a full realization of the need of organization and procedure. The Treasury accountant

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has accomplished much in the face of these conditions for the status of the work to appear as favorable as it does. Out of a total of 91,815 claims filed, 68,493 have been approved and 16,714 denied, making a total of 85,207 claims disposed of. It is estimated, however, that a substantial number of the claims denied may eventually have to be allowed as experience has shown many errors in benefit determinations resulting in initial disallowances. There have been 80,585 checks amounting to $732,499.95 issued against 107,028 pay orders received. Plans have been made to correct the back log in payments by issuing to each claimant one check covering all back payments due. The Baltimore Sun newspaper has been very critical of the situation and the Baltimore Department of Welfare has also been critical because checks are not being issued promptly.

MASSACHUSETTS

As previously reported to you, information concerning this State is meager for the reason that in requesting the services of the Treasury accountant the State Agency placed restrictions on the manner in which information would be communicated to Washington. The total number of claims filed is 243,164, of which 129,182 have been allowed and 18,864 denied, making a total of 148,046 claims disposed of. A total of 259,489 checks, amounting to $2,618,950, have been issued against 265,415 pay orders received, indicating that the progress of paying benefits, after the determinations have been made, is satisfactory. Much recent criticism in the newspapers has been directed at the

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employment by the State Board of certain individuals in key positions at substantial salaries and the employment of large numbers of the agency personnel without reference to State civil service.

MINNESOTA

The situation in this state is rather critical, although so far there has been no serious newspaper criticism. Most of the criticism has come to the Governor in the form of individual complaints and he has been manifesting personal interest in the improvement of conditions. The total number of claims filed is 73,785, of which only 36,583 have been allowed and 975 denied, making a total of 37,558 disposed of (approximately 50%). Many of the claims which have not been disposed of are in a disputed status. There will also be a serious condition of delayed payments as only 18,573 checks, amounting to $205,969.73, have been issued against 270,209 pay orders received. There is urgent need for correction of organization, establishment of efficient procedures, and the securing of a guiding force in the Agency. The Treasury accountant reports that unless this is done there is certain to be a serious breakdown in the payment of unemployment compensation. This week the Bureau of Unemployment Compensation of the Social Security Board called the State Board into conference in Washington. This was for the purpose of getting the State Board to definitely commit itself to prompt corrective action in the following respects: (a) To obtain an executive director to replace the present director or else to secure, on a temporary basis, a qualified deputy director who would be responsible to the

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Commission and would function without any outside interference in making a reorganization, establishing proper procedures, and eliminating duplications of work throughout the agency; (b) To replace present supervisors with capable ones and also to replace inefficient clerical personnel; (c) To replace the present chairman of the Board with one of the other members of the Board and, (d) To take steps to clean up the back-log of work throughout the State in local employment offices and establish a uniform system for such offices.

NEW HAMPSHIRE

The status of the work in this State appears to be generally satisfactory.

NEW YORK

The Treasury accountant reports that it can be definitely stated the situation, as a whole, has improved considerably the past two weeks, although there is still congestion in certain processing stages which probably will take several more weeks to remedy. Approximately 816,000 claims have been filed, of which 317,654 have been approved and 319,023 denied, leaving 179,323 claims awaiting benefit determination. Of the claims awaiting benefit determination it is estimated that 76,433 were in the filing stage in local offices, 6,000 of the claims in transit between local offices and the central state office, and 96,890 were in the benefit determination stage. An analysis of the claims denied shows that they were determined to be ineligible for the following reasons: In the case of 183,955 claims there were no

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wage records; there were insufficient earnings with respect to 91,035 claims; there were 34,326 claims returned to local offices for correction; and 9,707 of the claims represented duplicates. The total number of checks mailed to claimants by the Taxation and Finance Unit of the Unemployment Insurance Division is 277,200 amounting to $3,221,956.37. In addition, there are 143 checks on hand in that unit received on warrants from the State Controller's unit. There are also 184,604 checks being held by the State Controller's Unit for delivery to the Taxation and Finance Unit as soon as required notices are received from claimants indicating that they have not worked during the particular weeks to which the benefit checks pertain. In addition there were 51,692 eligible claims awaiting the preparation of checks. Improvement over previous conditions reported is indicated somewhat by the fact that on February 26th, 17,339 checks were mailed to claimants. It is still difficult for the Treasury accountant to render maximum service in New York State. This is indicated by his report that considerable time has been spent since February 18th with a member of the State Budget Bureau in making a survey of the Unemployment Insurance Office but the manner in which the survey has been conducted, in his opinion, cannot accomplish necessary information of value which will enable him to form a clear opinion of procedure or conditions of the office.

NORTH CAROLINA

Heretofore there was little inclination in this State to use Federal assistance. On February 23rd, however, the Bureau of Unemployment Compensation of the Social Security Board called the State Board into

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conference in Washington as a basis for formulating a definite agreement regarding the measures which should be taken to improve conditions and make proper use of the Federal assistance that is available. The Treasury accountant now reports that the condition which had existed with respect to the use of his services is improved. He states, however, that although several changes in procedure have been inaugurated since the Washington conference the entire situation, with respect to the payment of unemployment compensation, has not yet become generally improved. The total number of claims filed is 159,026, of which 82,484 had been allowed and 16,293 denied, making a total of only 98,777 claims disposed of. Although there have been 182,260 compensable claims filed, only 49,416 benefit checks, amounting to $289,202.67 have been issued. The situation is still very bad due to inadequate space, lack of trained personnel, inadequate organization and supervision, and a definite need for standard operating procedure which will be adhered to. The Treasury accountant states that there has been serious newspaper criticism and he considers the situation continues to be critical. The issuance of checks in payment of benefit claims is yet seriously in arrears and although the agency is now recognizing the Federal representatives it is reluctant to adopt suggestions and recommendations for changes which should improve conditions. The Treasury accountant further indicates that the agency's attitude appears to be that if suggestions are adopted the responsibility for the results of the changes should be placed upon the Federal representatives. He states, however, that a recommendation is now in course of preparation

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which, it is felt, will correct the entire situation provided it is wholeheartedly and cooperatively placed into effect by the agency. The kind of newspaper criticism is indicated by the following article appearing under date of February 26th:

> "An unexpected mass meeting of determined but orderly unemployed mill workers of North Henderson gathered at the Vance County Court House this afternoon at 2 o'clock to protest the non-reception of checks from the Unemployment Compensation Commission in Raleigh. * * * Checks from the unemployment office have been promised to the Henderson operatives at 11 o'clock Sunday morning. For sometime the county welfare office has been assisting the unemployed with the expectation of checks from Raleigh each day. This week the amount of county aid was cut in half. Today the operatives grew desperate declaring that they had no food and no way of securing food."

OREGON

This state is still moving very slowly and cautiously, placing considerable emphasis on accuracy in making benefit determinations and payments. Although a total of 52,200 claims have been filed, of which only 20,373 have been approved and 6,803 denied, leaving 25,024 claims to be disposed of, the issuance of checks based on pay orders received is strictly current. The Treasury accountant does not anticipate any serious public criticism and feels that the situation is generally satisfactory with no critical problems confronting the agency.

PENNSYLVANIA

Considering the great volume of work in this state, conditions may be said to be fairly satisfactory. Recently a need for additional personnel was recognized and approved by the Social Security Board principally to correct increasing back-log of benefit payment work. The

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employment of 200 additional clerks was authorized. Within a week or ten days a daily production of 40,000 checks should be attained. One of the chief difficulties is with respect to deferred claims subject to investigation and review, numbering approximately 100,000 cases. Considerable progress in making benefit determinations was evident during the week ending February 26th, in that total determinations were increased by 37,961 and claims awaiting determination were decreased by 13,699. Field investigation of employers delinquent in filing wage and contribution reports upon which the benefit determinations are predicated, has resulted in thousands of such delinquencies being cleared up as a basis for the reconsideration of denied and suspended claims. While newspaper criticism has not been forthcoming there is a great volume of individual complaints being received. As of February 28th the total number of claims filed is 545,175 of which 296,759 have been allowed and 90,578 denied, leaving 157,838 claims to be disposed of. Against 709,334 compensable claims, 416,490 checks amounting to $4,765,433.55 have been issued, leaving 292,844 checks to be issued.

RHODE ISLAND

The status of work in this state appears to be generally satisfactory.

TENNESSEE

The only serious problem still appears to be that of getting checks issued after benefit determinations have been made. The Agency has been paying second and third weekly benefits without giving very

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much thought to the payment of first weekly benefits. This has resulted in numerous individual complaints. Moreover, the number of checks issued is not keeping pace with pay orders being received. Whereas to February 20th, 31,006 checks had been issued against 82,910 pay orders received; to February 26th, the cumulative number of checks issued was only 51,939 as against a total of 121,840 pay orders received. The Treasury accountant states also that duplicate payments of benefits have been numerous due to inefficient personnel and lack of definite procedure.

TEXAS

The status of the work in this state appears to be generally satisfactory.

UTAH

The volume in this state is small and the status of the work appears to be generally satisfactory.

VERMONT

The status of the work in this state also appears to be generally satisfactory. None of the newspaper clippings received indicates any unfavorable criticism.

VIRGINIA

Although there has been no inclination to request the services of the Treasury accountant there is little doubt that he could be of material assistance in view of the conditions which exist. The total number of claims filed is 44,349, of which 26,370 have been approved and 6,828 denied, making a total of 33,198 claims disposed of.

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Although benefit payments were first due on January 24th, only 12,351 checks, amounting to $92,450.77, have been issued. The Treasury accountant states that his observations have only been made from rumor and indirect reports concerning unemployment compensation payments in Virginia, but he believes there is a bad state of affairs and that undoubtedly the number of unpaid claims has reached 60,000 or more. He also states that he believes the situation in Virginia has reached the point where preventive assistance is out of the question, although there undoubtedly exists a field for much constructive work. Eventually the State agency may be able to work the problem out in the course of time but it is doubtful whether it can be done without serious public criticism. The Treasury accountant states that there has been no local publicity given to this program during the past week.

WEST VIRGINIA

The latest information in the case of West Virginia indicates that conditions have improved. The total number of claims filed was 89,279, of which 61,213 were allowed and 4,666 denied, making a total of 65,879 claims disposed of. There have been issued 88,240 checks, amounting to $868,386.14, against 98,309 pay orders received. A recent newspaper article indicates that a large temporary force has been added to catch up with the increasing number of claims. Another recent newspaper article indicates that investigation of reported fraudulent claims has been started and that individuals responsible for such claims will be prosecuted.

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CONCLUSION

It appears to be generally true that the administration of the State Unemployment Agencies in each state is in the hands of a board consisting of a chairman and two other members, one of whom represents labor and the other industry. Under the board, actual direction of the work of the agency is left to an executive director. Generally, where there have been bad conditions reported by Treasury accountants, the trouble is attributed to lack of attention by the board to the work of the agency and its inaction in the solution of problems and also to incompetence on the part of the executive director in functioning as a guiding force. Invariably, it is reported that the members of the board have outside interests which do not permit them to devote the necessary time and attention to their duties relating to unemployment compensation. This matter has been brought to the attention of Mr. Bell with a view to having consideration given to legislation which would prohibit the payment of any part of an appropriation for grants to states for the administration of unemployment compensation, to any person not devoting full time to the duties for which he is employed.

While I fully appreciate State rights, in view of the fact that unemployment has become a National problem it is my opinion that the public interest would be promoted if the Federal Government should assume a more directive force in connection with the administration of the unemployment compensation policy. Since the success of the Federal law relating to unemployment compensation depends in a large measure upon the qualifications of the officers in charge of the State agencies, it would seem that the Federal Government should at least review the

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qualifications of the individuals before they are put in responsible positions. Above all, the grant to the State for administrative expenses should be made contingent upon the approval by the Federal Government of the person appointed as State Director of the Unemployment Agency. There should also be considered the advisability of making such grants contingent upon the State adhering to the accounting procedure prescribed by the Federal Government.

E. F. Bartelt,
Commissioner of Accounts
and Deposits.

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Saturday
March 5, 1938
12:06 p.m.

HMJr: Hello.

T.O.: Colonel Patterson is not there and his secretary is not there but they're going to try to locate the secretary and find out where Patterson is.

HMJr: Yes.

T.O.: It'll take a few minutes.

HMJr: Thank you.

T.O.: All right.

12:20 p.m.

HMJr: Hello.

Colonel Patterson: Hello.

HMJr: Colonel Patterson.

P: Yes.

HMJr: Henry Morgenthau, Jr.

P: How do you do?

HMJr: How are you?

P: Fine.

HMJr: The reason I'm calling you is the following. I needn't tell you that there's lots of discussion going on about..... - hello?

P: Yes.

HMJr: ...about the Tax Bill.

P: Yes.

HMJr: And I had this suggestion to make - if you thought well of it. I wondered if you would care to get together maybe a half a dozen different owners of newspapers.

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P: Yes.

HMJr: ...scattered through the country who would at least be willing to have an open mind...

P: Yes.

HMJr: ...and then I'd like to sit down with them and with Magill - nobody else - and put a solid day in to having a discussion on this whole question of the taxes.

P: Yes.

HMJr: And I'm willing to listen if they are, because, it's getting so that in the minds of a great many people it seems to be one of the important reasons why we - the country is standing still.

P: Speak a little louder.

HMJr: I say, in the minds of a lot of people it seems to be one of the reasons why the country is standing still.

P: Yes.

HMJr: And, if you thought well of it I'd like to have this opportunity to meet quietly and without publicity and then spend a whole day on it.

P: All right.

HMJr: Now, it would be convenient to have it in Washington but if it's not convenient for them I'd meet them any place they wanted.

P: Yes. I don't care.

HMJr: See? Well, I mean, it would be a little bit better for me if it would be Washington but I don't make that a condition.

P: Well, when do you think - what time?

HMJr: Well, how would next Wednesday be?

P: Well, I think it would be all right.

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HMJr: Well...

P: I think - that would be all right, as far as I know. I mean - unless something unexpected happened.

HMJr: Yes. Well, I'll hold all of Wednesday and I thought that we could have it at my house so it wouldn't attract any attention.

P: All right. Well, will you confirm this on Monday that it is set for Wednesday?

HMJr: I'll call you up Monday.

P: All right.

HMJr: And I'm not going to make any suggestions as to who should come - I'll leave that to you.

P: Oh well, I don't know, I couldn't make them either. I think Sulzberger - you'd better ask him.

HMJr: Well, I - would you be willing to ask the people or do you think I should?

P: I think you should.

HMJr: Well, I - well I want you to think it over.

P: Well, I know that. They don't think much of me, a good many of them, but they would think more of you.

HMJr: You think I should ask them?

P: I'm sure of that.

HMJr: Well now, let me just take a minute. You say Sulzberger - what about the fellows that own that paper in Des Moines?

P: Well, I guess they're all right.

HMJr: Hello.

P: Yes, I think that's good. Holmes.

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HMJr: Yes, Holmes.

P: Holmes.

HMJr: Yes.

P: Yes.

HMJr: Now, is there anybody in Chicago?

P: Well, do you want to get people that are sympathetic with the Administration or those that are against it?

HMJr: Well, I don't care.

P: Well, of course, you know who's in Chicago. Thomason is for the Administration, I think he'd be a good man.

HMJr: Who is that?

P: Thomason.

HMJr: I don't get that.

P: Chicago Times.

HMJr: Chicago Times?

P: The editor is a man named Thomason.

HMJr: Thomason?

P: Yes.

HMJr: Yeah. What about the Kansas City Star?

P: Well, I don't know the people but I - I think that would be all right. There's - there's a fellow named - I forget his name now but I know him, he's a big fat man....

HMJr: Leroy Roberts. - Roberts.

P: He was the one who promoted Landon for President.

HMJr: Yes. Roberts his name is.

P: Yes.

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HMJr: Yes.

P: I tell you what I'd do. I'd consult - I don't know enough about these men, I'd consult with some of your friends among the correspondents.

HMJr: I see.

P: I believe you'll get a better list that way - they'd give you a breakdown and a lowdown or whatever you call it.

HMJr: All right.

P: - better than any other way.

HMJr: All right.

P: I believe that will be a wise way to do it.

HMJr: Well, I'll get in touch with you again Sunday.

P: Monday.

HMJr: Monday, yes.

P: Yes, Monday.

HMJr: Monday.

P: All right.

HMJr: Thank you.

P: Goodbye.

T.O.: Operator.

HMJr: Was that over the Federal line?

T.O.: No, it wasn't, it was outside, but I think she got him on the line somewhere and put him on.

HMJr: Oh, through their switchboard?

T.O.: I think so.

HMJr: All right.

T.O.: It was a 'Daily News' operator but I think - I'll try to find out if she did that.

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HMJr: Never mind. Never mind.

T.O.: Never mind. All right.

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TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, March 7, 1938.
3/5/38

Press Service
No. 12-61

Secretary of the Treasury Morgenthau announced today the offering, through the Federal Reserve Banks, of 10-1/2 year 2-1/2 percent Treasury bonds of 1948, in exchange for 3 percent Treasury notes of Series C-1938, of which $455,175,500 mature on March 15, 1938. Exchanges will be made par for par as of March 15, and the offering will be limited to the amount of maturing notes tendered and accepted in exchange. Cash subscriptions will not be received.

The Treasury bonds now offered in exchange for the maturing notes will be dated March 15, 1938, and will bear interest from that date at the rate of 2-1/2 percent per annum payable semiannually. They will mature September 15, 1948, and will not be subject to call for redemption before that date.

The Treasury bonds will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds now outstanding, which provisions are specifically set forth in the official circular issued today. The bonds will be issued in two forms: bearer bonds with interest coupons attached, and bonds registered as to both principal and interest; both forms will be issued in the denominations of $50, $100, $500, $1,000, $5,000, $10,000 and $100,000.

Subscriptions will be received at the Federal Reserve Banks and Branches, and at the Treasury Department, Washington, and should be accompanied by a like face amount of Treasury notes of Series C-1938, maturing March 15, 1938, with the final coupon due on March 15 detached.

The right is reserved to close the books as to any or all subscriptions at any time without notice, and, subject to the reservations set forth in the

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official circular, all subscriptions will be allotted in full.

Special Treasury bills aggregating $400,642,000, which mature immediately after March 15, and about $162,000,000 interest on the public debt, which becomes due on March 15, will be paid from the cash balance.

The text of the official circular follows:

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UNITED STATES OF AMERICA

2-1/2 PERCENT TREASURY BONDS OF 1948

Dated and bearing interest from March 15, 1938 Due September 15, 1948

Interest payable March 15 and September 15

1938
Department Circular No. 581

Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, March 7, 1938.

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 2-1/2 percent bonds of the United States, designated Treasury Bonds of 1948, in payment of which only Treasury Notes of Series C-1938, maturing March 15, 1938, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series C-1938 tendered and accepted.

II. DESCRIPTION OF BONDS

1. The bonds will be dated March 15, 1938, and will bear interest from that date at the rate of 2-1/2 percent per annum, payable semiannually, on September 15, 1938, and thereafter on March 15 and September 15 in each year. They will mature September 15, 1948, and will not be subject to call for redemption prior to maturity.

2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds

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authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate $5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of $50, $100, $500, $1,000, $5,000, $10,000 and $100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of

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allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par for bonds allotted hereunder must be made or completed on or before March 15, 1938, or on later allotment, and may be made only in Treasury Notes of Series C-1938, maturing March 15, 1938, which will be accepted at par, and should accompany the subscription.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

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Monday
March 7, 1938
9:16 a.m.

Riefler: Hello.

HMJr: Good morning.

R: Good morning.

HMJr: Have you moved into your house.

R: Yes.

HMJr: Are you settled?

R: Well, fairly settled. We won't be settled really for another month, but...

HMJr: Are you interested in the troubles of Washington?

R: What's that?

HMJr: Are you interested in the troubles of Washington?

R: Oh, I'm always interested.

HMJr: Uh huh. Well, this is what I'm calling for. We're meeting tomorrow afternoon on this price study in relation to the cost of housing.

R: Oh yes.

HMJr: And I think this is our third meeting.

R: Yes.

HMJr: And we've got all of the agencies in Washington who possibly have anything to do with it. They're all working together for the first time.

R: Yes.

HMJr: And if you were so disposed I'd be delighted to have you come down.

R: Yes. When is it, tomorrow?

HMJr: Tomorrow afternoon.

R: Tomorrow afternoon. I'll come if I possibly can. I think I can.

HMJr: Right. And if you can get here in the morning in time to look this stuff over.

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R: Yes.

HMJr: See?

R: Right.

HMJr: I'll tell you what I was going to do. I think I'll have the people come into my office to give me a preliminary report at ten-thirty, see?

R: Yes.

HMJr: You think you could get here by then?

R: Oh yes.

HMJr: What?

R: Oh yes.

HMJr: And so-they're having quite a lot of trouble because you see we've got Labor, we've got the Tariff, we've got Federal Trade...

R: Yes.

HMJr: And State Department and - put all the things together it makes quite a....

R: Oh yes.

HMJr: But we're getting somewhere.

R: Yes. Good.

HMJr: And I really - it would be most helpful and then I'd like to get your reaction on the general situation.

R: Yes.

HMJr: So I hope you can make it.

R: Fine. I'll do it.

HMJr: Thank you.

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GROUP MEETING

March 7, 1938.
9:30 A. M.

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

H.M.Jr: (Nods to Mr. Magill.)

Magill: I have nothing. Mr. Vinson made a radio speech on the subject.

H.M.Jr: Did you see it?

Magill: No.

H.M.Jr: Herman?

Oliphant: Nothing except that matter of the assignment of personnel.

H.M.Jr: Well, I read your memo, and I was well impressed with it.

Oliphant: I was, frankly, myself surprised at how many head men ---

H.M.Jr: What is the situation?

Oliphant: Well, there is work to be handled - now Cairns has been handling Customs all along - taking over Coast Guard and Narcotics, and everything Steve was handling, so he can give all his services to Steve. Then the idea that we have had in general - bonds and credit and banks and Home Owners Loan, and that sort of thing - and then on a temporary basis, to see how it works out. Cox is coming down to see me Tuesday. We'll let Bernie (Bernstein) handle gold and silver and monetary.

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H.M.Jr: All these people Assistant General Counsels?

Oliphant: Bernie isn't - Huntington Cairns is, and Foley. I thought I would ---

H.M.Jr: You've got six, haven't you? Have you talked with everybody around?

Oliphant: Yes, I have.

H.M.Jr: Anybody want to say anything? Well, I'd go ahead on that basis then, unless somebody's got something they want to say. Those young fellows have certainly got a good collegiate record.

Oliphant: Frankly I was surprised myself when I got them together to see how successful I was getting at the top of classes.

H.M.Jr: The first thing I knew Berkshire was through.

Oliphant: He used to be in the legal division - and went over in charge of the administrative end.

H.M.Jr: He was a lawyer.

Oliphant: He is no longer a lawyer.

H.M.Jr: I also show my ignorance - I don't know this legal honorary society you mentioned several times. Is that national?

Oliphant: Yes, it is.

H.M.Jr: Phi Beta Kappa for lawyers. Now if everybody's satisfied it's the time to say so. If not - then go ahead on it.

Oliphant: While that report shows that we have what I call "top-string" men - by that I mean men who had been working directly with me and with whom I would trust difficult, important problems - we have lost fourteen of those since we've been here, and added twenty-two. I do want to look over a man or two and be sure to keep up the reserve.

H.M.Jr: You wanted to know if I knew of any more horseback riders. I know of one - they speak very highly of a fellow by the name of Lee Jackson.

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Oliphant: Any kin to Gardner?

H.M.Jr: No. They say he's quite a friend of Ed Foley's.

Oliphant: Yes.. I'll ---

H.M.Jr: They speak very highly of how he handles animals. You asked me to find out. Lee Jackson - great friend of Foley's.

Oliphant: And not a brother of Gardner?

H.M.Jr: No. He's a brilliant fellow, though - perfectly brilliant.

Oliphant: Well, so is Gardner.

H.M.Jr: He is.

Oliphant: That's all.

H.M.Jr: I wish you would put a man on records - back and forth between members of Board of T. V. A., so we'll have it in case I ask for it. Lots of stuff on the Hill. Put some one fellow on it, and tie it all together for me.

Oliphant: I'll have Sammy (Klaus) do it.

H.M.Jr: That is up to you. Have somebody do it.

Gaston: Herbert Emmerich investigated the T. V. A. administration for the President something over a year ago ---

H.M.Jr: Was that why he was down here last week?

McReynolds: No.

Gaston: --- which resulted in their appointing a single manager - administrative head. I think we could get it at the back door.

H.M.Jr: Herbert, will you let Colonel Patterson's office know I will not want to see him Wednesday. Thank him very much, but decided not to have the meeting.

Gaston: All right.

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H.M.Jr: What else?

Gaston: That was something I was going to ask you about. I haven't anything else.

H.M.Jr: George.

Haas: I haven't anything else except this letter I wanted to ask you about.

H.M.Jr: I am waiting for two things from your shop. I've been waiting a long time. One thing - you said you'd give me a survey of what could be done and what powers the administration has on recovery.

Haas: We've been feeding it piece-meal.

H.M.Jr: It's over a month. Then the other thing you told me you'd have - I brought down Professor Mitchell - Columbia - I don't mind saying you sneered at him - you'd bring up something much better. I haven't had a thing on it.

Haas: When I mentioned a reasonable basis I said that was a method of attack.

H.M.Jr: And I said, "Fine - let's have it." That must be two months ago.

Haas: That other basis we worked out with production and demand is a part of that same problem.

H.M.Jr: What happened to all this stuff - when did Professor Mitchell - did we just drop it?

Haas: We've been keeping it up. You told me the other day to let you know when Mr. Mitchell came back from Nassau.

H.M.Jr: Supposing you call up Mr. Mitchell and let him know what the next move is. We've done this stuff for him.

Haas: All right.

H.M.Jr: And I want - with my own people - tomorrow morning at ten-thirty, a preview of the report on Housing we will have at 3:00 P. M., tomorrow. I want everybody connected with the Treasury to come in here at ten-thirty and let's have a look at it. I have asked Riefler to come down and spend a

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couple days on it. Anybody on it come down at ten-thirty tomorrow.

What is that story in the paper this morning regarding the Eccles plan?

Gaston: In his off-the-record speech at the Press Club he said we must do something right away to get business going, and he suggested subsidizing housing would be the best thing.

H.M.Jr: Do you know where he got the other part?

Gaston: No.

H.M.Jr: We were out to dinner the other night and Alsop came over and sat next to me. He had everything. All the Tribune fellows got together and he knew about the housing thing. He put that - plus this - and it's all right; and I am tickled to death to have it out. I didn't know they were going to put it out, but I am just as much satisfied. It is better to have it out in the open.

Oliphant: Clarence said it was the best thing that's appeared.

H.M.Jr: I think it's all right. I saw it in the - and I told the Tribune Bureau about our conversation - and Alsop did a pretty good job of reporting the other night anyway.

Gaston: Another way they could have gotten it would be by talking to Mr. Eccles. There must have been a good deal of talking about town - must have asked Eccles how he would subsidize on it.

H.M.Jr: At the Roosevelt meetings at the White House - do everything - the whole business.

McReynolds: On the news broadcast last night, on the National hookup, fellow mentioned the fact that one very prominent and responsible government official whom he couldn't name, felt we had to go ahead with very rapid spending, particularly on housing. He was sorry he couldn't name the man.

H.M.Jr: That is all the more reason why I am going to push this price thing all I can. Mr. Walker says he is most encouraged with the thing; he is not discouraged at all. I mean very much - he's a little restless that it is moving so slowly. He had to leave town -

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but it is moving so slowly - had to get out of here three days. He can't stand the inaction. He will be back here today. We've only got the use of that fellow two weeks. He sent out bids on a type house to sixty contractors in twenty different cities. When we get that - George, you got that price commodity?

Haas: Yes. (Hands Secretary a chart.) Weekly figures.

H.M.Jr: Am I correct, George, in watching Moody's index which is the spot rather than the future?

Haas: I watch both of them. The future more ordinarily precedes the spot, but that is not always true, and in those industries the amount of prices which have future markets are rather limited - you have broader coverage on the spot markets.

H.M.Jr: Did you send to England the weekly business survey?

Lochhead: They are sending every week - Mr. Haas' office supplying the copies.

H.M.Jr: You read it first, don't you?

Lochhead: I go over it, yes.

H.M.Jr: Who decides whether they should go?

Lochhead: I thought - we send them over. Each one of them is marked special. It is only for confidential use.

Haas: I cut out something I know shouldn't go - once in a while some confidential figures of some particular firm.

H.M.Jr: O. K. Wayne?

Taylor: Start with your Mexicans this morning. That is all.

H.M.Jr: I couldn't read that copy you sent me. I wrote you a little memo on it. It was about a fifth carbon copy; I sent it back to you. I got the fourth or fifth carbon copy - a physical impossibility to read it. I'd liked to have read it but I couldn't. You and Mac will keep in touch

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with Smythe, won't you?

Taylor: Yes. He's been in three or four times since he started.

H.M.Jr: I told the Vice President I thought he was a good fellow, but he couldn't understand any fellow running sheep and cattle - no good cattle man with sheep.

Taylor: I think he's getting a very good picture.

Oliphant: Jack Laylin is back from Mexico. He's usually a placid fellow.

H.M.Jr: (To Miss Chauncey) Will you make a note of that? So is Mr. Welles no longer very placid. All right.

(Nods to Mr. Taylor.)

Taylor: (Shakes head "No.")

H.M.Jr: (Nods to Mr. Gibbons.)

Gibbons: (Shakes head "No.")

H.M.Jr: Eleven o'clock, George, for your business group?

Haas: Yes.

Gaston: You asked me for the memorandum where a certain man was born.

H.M.Jr: Yes. Were the New York boys enthusiastic about Washington?

Gibbons: Harry Durning gave a luncheon and Herman made quite a speech.

H.M.Jr: Herman or Herbert?

Gibbons: Both of them.

McReynolds: Herman was very very particular about what he talked about. Herbert really handed it back to them.

Gaston: They teamed up a little; they tried to put Herman on the spot.

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H.M.Jr: Who?

Gaston: Usual collection of judges. McKee, Judge Townley, some other judges; Floyd Odlum was there.

H.M.Jr: How many sat in on it?

Gibbons: I'd say about thirty.

Gaston: My guess is about twenty-four, but there may have been more.

Oliphant: Oh my yes! Table ran through two rooms.

Gibbons: I think there were about fifteen on each side of the table.

Bell: How many Odlums did you see?

Oliphant: I saw two, and they were identical twins.

Gibbons: I saw John - got his reactions, Herman - saw him at the dinner in the evening, and he thought that your talk was very good. He was very complimentary.

Oliphant: I am going on the chautauqua.

H.M.Jr: (To Mr. Upham.) The Comptroller, if you don't mind my saying publicly, asked what your decision was about going over to the F. D. I. C. and I said your decision was to remain happy and you thought you would remain here, - or that you were happy here and that you would remain here. Is that right?

Upham: That's correct.

H.M.Jr: And he said he didn't blame you, and asked that I find somebody else. It's for an Assistant Comptroller over in the F. D. I. C. It pays handsomely.

Gibbons: You say it pays handsomely?

McReynolds: It pays big - twelve thousand dollars a year. Oliphant, what is his office?

H.M.Jr. Assistant to the Comptroller - in Comptroller's capacity - as a member of the F. D. I. C., and the Comptroller has given me the job of finding somebody. He picked on Cy and Cy turned it down.

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Anybody interested as Assistant to the Comptroller? I told Cy I wouldn't let him go, but otherwise it was all right.

Oliphant: The Comptroller is supposed to do it himself, and he hired somebody else to do it?

H.M.Jr: Each member of the Board has a job of ten thousand dollars, and hires an Assistant for twelve thousand dollars. I told Cy here it was a good job but he couldn't have it.

Upham: He threatened ----

H.M.Jr: Still got your banking stuff in mind?

Bell: I have a letter from Wright Patman asking about the Federal Reserve buying. Routine of that thing would be to refer it to the Treasury for comment. I'd like to know whether the President is going to make a report on that by letter.

H.M.Jr: Who did he address it to?

Bell: Addressed it to me as Acting Director of the Budget.

H.M.Jr: I think he picked the right man to ask for a report from. I don't believe ---

Bell: Ordinarily I would refer it to the Treasury for comment. Now, you don't want to comment, I take it?

H.M.Jr: Well, - no, I wouldn't think of such a thing. Unless, of course, Taylor wants to. Otherwise I don't want to say anything. Don't they usually come to the Treasury?

Taylor: When they are addressed to the head of the Committee.

H.M.Jr: I think it would be illegal for me to comment.

Oliphant: We always say - Hester's shop does - from a member of the Committee, we don't report except to the Chairman.

H.M.Jr: Is it illegal?

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Oliphant: It's immoral and unethical.

Taylor: The Director of the Budget does funny things.

H.M.Jr: I know.

Upham: We have a request on that bill.

Bell: Have you?

Upham: Yes.

Bell: I'll wait until the Treasury makes a report.

H.M.Jr: From whom, Steagall?

Upham: No, I think it came from Patman also.

H.M.Jr: What else this morning? Gosh - passed all of you.

Upham: I'm sorry.

Taylor: We've got that settled now.

Bell: That really isn't worrying me.

H.M.Jr: What else?

Bell: That's all.

McReynolds: I've nothing. A report from Mrs. Ross on this Fort Knox thing. I don't think you want to look at it. She's quite - we've had it quite a little while and this is the first formal answer she's made, stating in great detail what she's done.

H.M.Jr: Mac, I don't want to come between you and Mrs. Ross.

McReynolds: You're very thoughtful.

H.M.Jr: I think that is a friendship which has flowered four years and far be it from me to be the cold blast in spring.

McReynolds: She called me on the telephone four times from New York on Saturday.

H.M.Jr: Anybody else got a thought? O. K.

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Monday
March 7, 1938
10:23 a.m.

HMJr: Hello.

T.O.: She says she can't reach Dr. Burgess for about five minutes.

HMJr: All right.

T.O.: Right.

HMJr: Hello.

T.O.: Dr. Burgess.

HMJr: Hello.

W. R. Burgess: Oh, hello, Henry.

HMJr: Hello, Randolph.

B: Well, it's almost too good.

HMJr: Well I'm sorry.

B: They're - they're quoting the rights from a hundred and one fourteen up to eighteen.

HMJr: Good heavens!

B: We've been bid seventeen for some.

HMJr: I thought they'd sell off, didn't you?

B: I thought they'd sell off a little. They did at the start.

HMJr: Yes.

B: But, you know how they get - they either go one way or the other.

HMJr: (Laughs)

B: There's a lot of new motion.

HMJr: Well, I - let's hope it'll help a little bit with the general market, the bond market.

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B: Well, the bonds are up a little bit.

HMJr: I mean the commercial bonds.

B: Oh yes. Well, I don't think it makes - the main thing the commercial bond market needs is a steady Treasury market, I think, rather than one that's rising.

HMJr: Are you fellows going to sell a few rights?

B: We haven't and I wanted to talk with you about that a minute. I'm here with George.

HMJr: Yes.

B: And, as a matter of fact, Szymczak came in this morning.

HMJr: Who?

B: Ah - I think if it goes too high and if replacements are available that we ought to be ready to sell, Henry, because we don't want this to look foolish.

HMJr: No. I think so.

B: So if it goes much above a hundred and one and a half I think we might let a few go.

HMJr: Szymczak there to help you?

B: He's ready to help us, yes.

HMJr: Yes.

B: (Laughs) If you need help. (Laughs)

HMJr: What?

B: Well, he just happened to be in the bank.

HMJr: Oh. Is he in the room?

B: Yes, he is.

HMJr: All right.

B: Well, you don't object any do you?

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HMJr: No.

B: All right, sir, we'll use our judgment and...

HMJr: All right.

B: ...and you can be sure we won't depress that market unduly.

HMJr: No, well I - well, as long as you don't, that's all right.

B: What's that?

HMJr: I wouldn't depress it.

B: No, we wouldn't sell them under a hundred and one and a half, for example.

HMJr: That's the rights?

B: Yes.

HMJr: Well that's reasonable.

B: Yes.

HMJr: That's reasonable.

B: And above that - they ought not to go much above that.

HMJr: No, I - I agree with you on that.

B: Yeah. /There seems to be a good demand for them from the various quarters and very little supply.

HMJr: The banks or insurance companies or what?

B: Well, both, some insurance companies and some banks in different parts of the country.

HMJr: Evidently they like it, huh?

B: They evidently like it, yes.

HMJr: Good. Well, give Harrison and Szymczak my regards.

B: All right, sir. First rate. I'll let you know if there's any change.

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HMJr: Please.

B: Good.

HMJr: Goodbye.

B: Goodbye.

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Saturday
March 7, 1938
10:48 a.m.

HMJr: Hello.

Stewart McDonald: Good morning, Secretary, how are you?

HMJr: Oh, pretty well. Say, McDonald.

McD: Yes.

HMJr: I thought you'd like to know this. I get reports that your modernization is going ahead swell.

McD: Yes.

HMJr: But that in the field there seems to be some bottle necks on the new mortgage thing.

McD: Well...

HMJr: I've asked for particulars but I've heard it now from two different sources. Some say the blanks are not ready and that sort of thing.

McD: Well, I think that that might apply a little bit upon the new part of the Act, Section 210 and 207, where it takes quite a little education to educate our own field force just what they can do.

HMJr: Yes. It's on the new part.

McD: Yeah.

HMJr: Yes.

McD: You see, on those big housing those mortgages run as much as five million dollars and...

HMJr: Oh.

McD: ...we don't want to make any wild throws on them.

HMJr: No.

McD: Now I've a hundred men in here today, underwriters, and I've just come back from - they're having a convention at the Wardman Park Hotel...

HMJr: Yes.

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McD: And we've taken them in bunches and shown them these four big projects here in Washington...

HMJr: Yes.

McD: ...and get all the plans before them and everything like that and educate them thoroughly because those are pretty high percentage mortgages, Mr. Secretary.

HMJr: I know, but I was talking about these small homes.

McD: Oh no, they're not - there's no delay on that; they're just going like a house a fire everywhere.

HMJr: What?

McD: They're going like a house a fire, those small homes.

HMJr: Good. I mean, the actual closings?

McD: Oh yes, the actual closing, yes. There's no change in that, they're just going fine. In fact we ran out of blanks in New York last week.

HMJr: Well, maybe that's what they heard.

McD: It was in the paper - they were doing so much; it was in the 'Telegraph.'

HMJr: Now...

McD: They had such a big volume of business they ran out of blanks. Now I don't know if the final volume this past week is going to be as high as the week before because I won't have the figures until tomorrow. And you remember Los Angeles finishes about two and a half million dollars a week.

HMJr: How about your volume on modernization?

McD: Well, we don't get reports on that for thirty days, but the present reports that we are getting are very big.

HMJr: Yes.

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McD: But our volume - but the national reports are every thirty days and the first thirty days isn't over yet.

HMJr: Well, the Sears Roebuck fellow who is here with me...

McD: Uh huh.

HMJr: ...says that last week they had the biggest week they've ever had on modernization.

McD: Well, I understand it's going like a house a fire, but I can't give you the exact figures.

HMJr: Well, that's what he said.

McD: No, the other isn't true, just - we'll just hold our horses for about thirty days and I think we'll show you something.

HMJr: What did you think of the story on the front page of the New York Tribune?

McD: I didn't see it.

HMJr: Well, you'd better send for it, it's very interesting.

McD: This morning's?

HMJr: Yes, sir.

McD: I'll be glad to see it.

HMJr: It's right down your alley.

McD: I'll see it and talk to you tomorrow.

HMJr: All right.

McD: Are we going to have the meeting the same time tomorrow?

HMJr: Yes.

McD: I'll be...

HMJr: Three o'clock and I hope you come.

McD: Two o'clock?

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HMJr: Three.

McD: Three. All right. O.K.

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RE BUSINESS SITUATION

March 7, 1938.
11:00 a.m.

Present: Mr. Taylor
Mr. Haas
Mr. White
Mr. Murphy
Miss Lonigan
Mr. Daggit
Mr. Driver

H.M.Jr: The new bond is selling at - at least, the rights - at 101 and 19 32ds. I said this morning 11 years would have looked good. And in New York they can't see how it's going to help the rest of the bond market.

Murphy: That's nearer to our pricing than any one else's.

H.M.Jr: Is it?

Murphy: It's selling higher than our pricing, and our pricing was the highest.

H.M.Jr: Well, personally, even if it is a Government bond market, I like to see something go up.

Haas: It's the right direction.

H.M.Jr: At least it's up, anyway. I can't help it, I've gotten to the point I want to see something move up outside of my temperature.

Haas: That reminds me, Mr. Secretary, we put out each evening a Government bond index, and we had some inquiry why don't we release that for the press every day. The only release it gets is through the Federal Reserve - what is it, once a month?

Murphy: Once a week.

White: Weekly.

Haas: Good index.

Murphy: The funny thing is, they are always quoted as the source for it, whereas we supply them with the figures.

Haas: We do all the work.

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H.M.Jr: Write it up next Monday. Let me take a look at it. What?

Hass: All right.

H.M.Jr: Might talk it over with some of the people. Talk it over with Mr. Taylor, Mr. Bell.

Hass: All right.

H.M.Jr: I'll read this out loud.

"Current statistics provide a picture of business activity maintained at a relatively stable but low level, with the expected spring improvement not yet in evidence. The late Easter this year, together with a return of winter weather, has tended to delay the beginning of the spring upturn.

"With commodity prices well maintained, retail inventories being steadily reduced, and the national income running but slightly below last year's level, the foundation seems to be laid for a general improvement in business. A comparison of trends in three previous business declines of somewhat similar character shows that improvement in each case began during the winter or early spring."

Just a second, I want to make sure of something.

(On phone) Comptroller O'Connor.

Sears Roebuck says that last week they did more business in modernization than any week since they've started.

(On phone) Jefty, when you talk to the banks, you might also ask them about modernization loans. - Yes, how that's going. Because in talking to F.H.A. they say they only get a report every thirty days; so if we could get sort of a spot check on how it's going, it would help. - Thank you.

Sears Roebuck says they had the best week, and they look at it as fall business and not spring business. But on the F.H.A. loans on housing, they say that the paper work has just bogged down, people can't get the

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loans. So I've asked both Sears Roebuck and the Comptroller to talk to the banks and try to find out where the trouble is. See, they just - the people want to borrow and build a house, but they can't get a mortgage. In some cases there aren't even blanks.

"The New York Times weekly business index, seasonally adjusted, continues at a low but rather stable level, remaining practically unchanged during the week ended February 26. A rise in lumber production and a decline in automobile production were noted during the week, while other series showed little change. The index for the week ending March 5 will be lower, owing to declines in steel output and automobile production at a time when seasonal rises were to be expected, unless these should be offset by improvement in other series.

"Steel output declined slightly this week to 29 percent of capacity. Normally it should be improving at this time, and should average 33 percent of capacity during March to represent the normal seasonal gain over February. Larger orders for steel are expected during March with seasonal expansion of automobile production, and expected improvement in buying from various other sources. The fact that heavy construction awards have recently made a much better showing than have actual bookings of construction steel, may indicate an impending upturn in structural steel buying. An encouraging upturn in General Motors retail sales during the latter part of February, a sustained improvement in used car buying, and a concerted used car sales drive scheduled for the coming week, to be participated in by all manufacturers in the industry, point toward a substantial March upturn in automobile buying.

"When should a spring rise in business activity normally be expected, may be asked. An answer to this question may be found by examining the seasonal indexes used in adjusting the New York Times business series. While these represent averages of trends that vary considerably from year to year, they give a picture of the approximate seasonal patterns."

I notice that both General Motors and Chrysler are going up and Ford's going down.

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Doggit: They'll all turn up this present week.

H.M.Jr: This week?

Doggit: Yes. Apparently the real seasonal upturn in automobile production is taking place this week.

H.M.Jr: You got some figures?

Doggit: The Journal of Commerce reports that the increase is estimated at between 18- and 20,000 units compared with the total of 54,000 last week.

H.M.Jr: You mean they'll manufacture that many this week?

Doggit: Yes. The seasonal upturn, according to the New York Times index, should have begun last week, so this would be pretty close.

H.M.Jr: Well, there is no reflection in the buying of steel here.

Doggit: That was for the week ended February 26 that we have latest figures, which include Washington's birthday.

H.M.Jr: I mean this morning's Times, with a report out of Pittsburgh - I mean there's nothing in it, any sign of hope.

"On this basis, steel output should have been improving gradually since the beginning of the year, and should normally reach a peak at the end of April." Well, it's at 29 percent.

"Automobile production should normally have reached a late winter low point at the end of February, and thereafter should increase rapidly until a top is reached about the latter part of April. Lumber production should increase gradually from the beginning of the year to a peak near the end of May. Cotton mill activity, on the other hand, should have reached its high point at the end of February, and should normally decline until early fall, while electric power production should normally continue to decline until the early part of April. These diverging trends between industries, and the fact that the individual trends vary from year to year, suggest that no one date can be selected as the time when a spring upturn

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should begin.

"Trends in previous business declines:

"An examination of three previous business declines, rather similar in character to the recent decline, shows that in each case improvement began during the winter or early spring and gained momentum during the latter half of the year.

"The duration of the decline in each case appears to be related to the extent of decline in commodity prices shown on the same chart. In 1903-04, when commodity prices held relatively steady, the decline in business lasted only three months and reached a low in December. In 1907-08, when the price drop was about comparable with that in 1937, business activity reached a low in January. In 1920-21, when the drop in prices was most severe and prolonged, business activity did not reach its low until March. It is of interest to note that recovery began in each case immediately after the first halt in the declining trend."

Declining trend of what?

Dargit: Of business.

H. M. Jr: Oh.

"Commodity prices. The prices of sensitive commodities have sagged somewhat this week, though activity in most cases has decreased on the decline and sentiment has continued generally favorable toward the trend of prices. Some individual commodities have been exceptions to this rule. Sugar has weakened substantially on a statement by the Secretary of Agriculture indicating that no further rise in price is favored, and wheat has been relatively weak on favorable weather and increased crop estimates. Hog prices, on the other hand, have risen to higher levels.

"The possibility of a decline in crude oil prices is suggested by current statistics on stocks of gasoline and other petroleum products. Gasoline stocks currently are 13 million gallons higher than a year ago, when they were considered above normal, while the consumption of

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gasoline this year is expected to show some decline. The stocks are expected in the trade to reach a total of 95 million gallons or more by April 1, the beginning of the heavy consumption season, unless output this month is drastically curtailed. Stocks of fuel oil are 20 percent higher than a year ago, while consumption in December was five percent lower, and production currently is running considerably ahead of last year."

I know about the gasoline situation; it's bad.

Incidentally, have any of you fellows made a guess as to what the farmers' income will be this year?

Daggit: The Department of Agriculture says that during the first six months of this year ....

H.M.Jr: Three billion.

Daggit: ... it'll be three billion, compared to three and a half last year.

H.M.Jr: Yes. Is that the best guess?

Daggit: That seems to be the best guess they have right now.

H.M.Jr: Last year it was what, eight and a half billion?

Daggit: I don't recall.

Haas: Three and a half the first six.

H.M.Jr: I mean for the year.

Haas: Oh.

Daggit: I could probably find out from Mr. Bean more exactly what they expect for this year.

H.M.Jr: Well, you might. I asked Wallace. He said he expects income of between seven and a half and eight billion. Had eight and a half billion last year. There isn't - I'd wait now, as long as I've just asked him.

(Looking at chart) Steel ingot. Let's see .... I don't get why you just pick the ingot production for business activity. What's the significance of that?

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Duggit: That's a leading series in the New York Times Index and is looked at, of course, as a most important component of any business index.

H.M.Jr: Steel ingot?

Duggit: Yes.

Hess: In other words, you can't get a business recovery and have that down. At least, we have never had one.

H.M.Jr: "Production and price trends."

Duggit: I thought you'd be interested in a comparison of the trend of the present business recession with those of three other recessions.

H.M.Jr: Have you got one for Mr. Taylor? You ought to give Mr. Taylor a copy of this. Want to look over my shoulder, Wayne?

Hess: He gets a copy each time.

H.M.Jr: If he had it here, when he sat here, each time ...

Hess: All right.

H.M.Jr: What's the explanation of this?

Duggit: Those are three previous business recessions in which the decline compared in steepness with the present decline. I wanted to show there about when the low was reached in each case....

H.M.Jr: Come up here, will you?

Duggit: ... and the relationship between the duration of the decline and the accompanying decline in commodity prices. Going back to the earliest one, we had a very sharp decline in business in the fall of 1903 that reached a low in December and was followed by a considerable upturn in the first part of the year and a decline in the summer, with a further upturn in the latter part of the year. Now, in that year, commodity prices held pretty stable throughout. There was a slight downward trend, which I take as one reason for its reaching a low relatively soon after the decline

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began.

In the 1907 decline, which was more marked than it was in this year, commodity prices declined to the same extent as they have during the current depression. The low in that year was reached in January, but business flattened out through March, at which time the rise started and increased in its momentum during the rest of the year.

The 1920 decline was complicated by this extreme drop in commodity prices. The bottom in that case was reached later than the other two. It was reached in March. I take it that the prolongation of that decline was partly due to the extreme drop in commodity prices.

H.M.Jr: Well, what do you think the '37-'38 is comparable to, '20-'21?

Taylor: '07 and '08.

Daggit: I think it is more nearly comparable to '07 and '08.

H.M.Jr: Why?

Daggit: Because the decline in commodity prices has been about the same, and the steepness of the decline has been somewhat similar. That was an extremely sharp decline.

H.M.Jr: Well, haven't we had the same thing this time? Oh, you are comparing them.

Daggit: The '07 and '08, yes. Of course, we can never compare two business recessions or two business cycles. There are always different factors that operate. That does give some historical basis.

H.M.Jr: Well, I wouldn't bet on it.

Haas: Neither would I.

H.M.Jr: What?

Haas: Neither would I, but it is interesting.

H.M.Jr: It's interesting, but I wouldn't bet on it.

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Taylor: If you are looking for a type, however, why, this would come - this would come closer to '07 and '08 than any that you had, wouldn't it?

Daggit: Yes, it would.

White: So far.

Haas: From the shape of the curve.

H.M.Jr: So many other things. I mean didn't have deficit spending that we've got now, didn't have the European situation that we've got now.

Haas: Oh, altogether different.

White: I think the differences are far more significant than the similarities in the cyclical movement we're having now.

H.M.Jr: All right, George, what else?

Haas: Ed, do you want ....

H.M.Jr: (On phone) Hello. - No, I'll go into her room. Be with you in a minute. (Leaves room, returns shortly)

Daggit: Here's one that you looked over. The various weekly series. Business activity and commodity prices continue at the level established at the end of the year.

It was interesting to me to see that lumber production turned up. I notice in the Journal of Commerce this morning that new orders for lumber are, I believe, 34 percent above production and shipments 22 percent above. I can verify those two figures.

This represents an adjusted production level. Cotton mill activity also has been improving more than the seasonal amount, and as I view the cotton situation we should get a continued improvement above the usual seasonal improvement through - generally through the remaining ....

H.M.Jr: Where's the building thing, construction on a ten day basis?

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Daggit: We have that here through February 20. We don't have the last week in February.

H.M.Jr: Doesn't that come through on a ten day basis?

Haas: Two times during the first two weeks and then the last. Three times a month.

H.M.Jr: Well, the next time that comes in, can I have it?

Daggit: Yes, we'll send it in immediately. That has shown a slight upturn from residential.

H.M.Jr: And you see the papers today - there is an editorial in the Journal commenting on Avery's statement and showing how residential is all off - Wall Street Journal, I think. And if they're wrong, let Gaston draw Duffield's attention to it.

Daggit: I notice some comments to the effect that the Federal Housing - or that the new program is expected to have considerable effect on building even early this year.

H.M.Jr: Well, we'll see.

Daggit: These are two commodity indexes.

H.M.Jr: We have had those right along.

Daggit: Commodity futures are weakened by the drop in wheat.

H.M.Jr: I get those too.

Daggit: I think you get these also.

H.M.Jr: Yes.

Daggit: Foreign prices.

H.M.Jr: I wish commodities would go up a little bit.

Haas: This week, Mr. Secretary, you have several new charts in your book there, most of them somewhat the same material you had before, but re-designed.

H.M.Jr: What's next?

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Haas: Want to hear from Mr. Driver about the estimates?

H.M.Jr: Yes.

Driver: I might talk about corporate earnings just for a minute. We are still on the trail of those.

H.M.Jr: How many are in now?

Driver: We have 93 in this list and we had hoped to get 100 before we reported. So I think we can report very promptly within a day or two on that.

H.M.Jr: How are the 93?

Driver: Well, the tabulations we have indicate that the earnings for '37 are about 8½ to 9 percent above the earnings of '36; that is for the full year in each case.

H.M.Jr: But what I am interested in is this. How does it compare with whatever our estimates were?

Driver: I was going to mention that.

H.M.Jr: Please.

Driver: We do feel that that ties in and substantiates our corporate statutory net estimate, which was up 16 percent.

H.M.Jr: What you estimated - the last estimate, as I remember it, you said was 8 billion, 1.

Driver: That's correct.

H.M.Jr: Let's cut out percentages and everything else. Is it going to be above or below 8 billion, 1?

Driver: It is going to be just about 8 billion, 1. It might vary slightly, but I think .....

H.M.Jr: You told me it might be off either way a hundred million.

Driver: Yes.

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H.M.Jr: And now?

Driver: There is no change from that.

H.M.Jr: Still hold to the 8 billion, 1?

Driver: This week's compilation still substantiates that same amount.

H.M.Jr: George, what are the forecasters figuring on that? I mean the people who are watching it.

Haas: You mean this comparable 8 billion, 1?

H.M.Jr: No, I mean as to the effect. Are they thinking that '37 will be above or below '36?

Haas: Above. National City Bank came out with a figure of 8, 5.

H.M.Jr: 8, 5.

Driver: All the indexes I have seen are up by about 8½ or 9 percent.

H.M.Jr: On earnings.

Haas: That's including that bad last quarter, you see.

H.M.Jr: I see.

Let's just see what - first four days, our income tax figures are up over estimates 2 million, 8.

(To Kieley) Has my daily sheet come down on the income tax receipts?

Kieley: I'll see. Hasn't come down. I'll ask them.

Driver: I can tell you about the February receipts, if you're interested in that, for the time.

H.M.Jr: Please, just for February.

Driver: In the month of February actual receipts were four million less than the estimated receipts. However,

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for the fiscal year through February, the actual receipts exceeded the estimate by 29 millions. We have this memo for you on that. The figures are on the second sheet in detail. There's the general and special accounts. There's the February figure alone; we're down four million. And this is the entire - up 29 million.

H.M.Jr: Anything else?

Driver: That's all.

H.M.Jr: You say in about a week you'll have a hundred companies?

Driver: I think probably today or tomorrow we'll have those, so we can get the report in on that.

H.M.Jr: Anything else?

Driver: That's all I have.

H.M.Jr: George, who else?

Haas: We might as well take the unemployment situation, Miss Lonigan.

Lonigan: Well, the weekly W.P.A. chart - don't know if the Secretary has had that or not.

H.M.Jr: Haven't had anything on unemployment since last Monday. I've had nothing.

Lonigan: I have a weekly chart on W.P.A. which Mr. Haas gets, and a monthly chart on the combined programs.

H.M.Jr: Let's begin to get those things, George.

Haas: I'm checking on it.

H.M.Jr: Let's take it even if it's wrong.

Haas: All right.

Lonigan: Do you want to see this?

H.M.Jr: The point is, if Miss Lonigan is going to come to these meetings, let her bring something in.

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Lonigan: This is the weekly chart, Mr. Secretary. That's the total.

H.M.Jr: And this is the number of people?

Lonigan: Number of people on W.P.A. I have another chart on people and money.

H.M.Jr: I haven't got that.

Lonigan: Yes, here it is. This is our newest composite chart.

H.M.Jr: Who makes that?

Lonigan: Made by my office.

Now, this figure is the one - that's the total dependents, as I recollect. In other words, it's about as high as it's ever been.

H.M.Jr: I see.

Lonigan: And this is the total expenditure. That includes W.P.A., other welfare and unemployment.

H.M.Jr: Well now, that's useful; I mean I'd like to get that every week.

Lonigan: All this is what I took up to Mr. Hopkins last April or May, you remember.

H.M.Jr: Now, this is - is this dollars?

Lonigan: This is money. Everything on this side is families, everything on this side is money.

H.M.Jr: Those are people?

Lonigan: Yes, sir. Now, the pieces don't fit because your people don't go on and off the program as the money does. This is your basic continuing statement of expenditures. It's going up. This chart, this, and this - these were taken up to Mr. Hopkins last May. You asked me to take them up.

H.M.Jr: Now, is this Federal? That's W.P.A.?

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Lonigan: Yes, this is Federal. You can separate them. We have separated Federal and state. We have separated people as much as we can.

H.M.Jr: Well, when that says 40 millions, is that for a week or a month?

Lonigan: 40 millions. Well, that's all on the monthly.

H.M.Jr: Oh, monthly.

Lonigan: That's W.P.A. unemployment program - R.F.C.

H.M.Jr: Have you got any comments on this?

Lonigan: No, sir. Just what it says. Of course, back of this, for every state ....

H.M.Jr: I mean is there anything you want to tell me, what's going on in the country on the relief situation that I ought to know?

Lonigan: I think that the hearing before the Social Security Board was an extremely important hearing, with reference to the best way to handle Federal money in the states. I don't know whether you want detail on it.

H.M.Jr: (Looking at report on income tax receipts) Pretty good. First five days - supposed to be very confidential - we're supposed to take in $20,500,000; we took in 24 million. Not bad, huh? These days, anything that's up looks good to me.

Hess: Is that our daily distribution, Jack?

Driver: I don't have the daily distribution with me. Been working on that some. I can check.

H.M.Jr: This is Bell.

Driver: Is that total receipts, Mr. Secretary, or income tax?

H.M.Jr: Income tax deposits. This comes out of Bell's office - income tax deposits. They estimate we'll take in 746 million in March.

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Driver: Yes, that's right.

Hass: That must be our figure that they get from Jack Driver.

Driver: That's our figure.

H.M.Jr: 746.

Driver: Someone in Internal Revenue told me 800 million the other day. I just happened to be talking on the phone.

H.M.Jr: 746 is this one.

Driver: That's the figure we're estimating.

H.M.Jr: And they figure first five days we should have taken in 20½ and we've taken in 24, so it's up 3½ million in five days. The big day comes on the 14th.

All right.

Lonigan: Did you want ...

Hass: Are you through?

Lonigan: I didn't know whether you wanted any report on this Social Security situation. It is an example of how leaks in Federal money can be checked in the state if the agency wants to check them. It was a beautiful piece of work in checking leaks in Federal money through state organizations. That's the way it can be done, but has not been done in the past.

H.M.Jr: Which state are you referring to?

Lonigan: The Oklahoma hearings. The Social Security Board called in Oklahoma and made them say in public how the money had not been going to the aged poor. It is a device for cleaning up the state and local organization that is spending Federal money which has not been used under the relief programs.

Then I think this change in the provision by which people no longer have to go on relief in order to get W.P.A. may be extremely significant, if it is tied in

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with Mr. Biggers' figures on unemployment as a means of raising estimates.

H.M.Jr: Now, I didn't know - they don't have a means test?

Lonigan: They've done away with the means test. The provision says they have to be in need of relief. That's meaningless, unless you have an administrative agency or device for determining what relief is. The difficulty has always been that relief is a completely manipulable idea.

H.M.Jr: And that's been changed.

Lonigan: I've just caught it from the newspapers, seen no official statement.

H.M.Jr: I think you ought to go in the field myself.

Lonigan: Yes, Mr. Secretary.

H.M.Jr: Where would you like to go this time?

Lonigan: Some time I would like to go back to Michigan. Michigan is one of the most delicate situations.

H.M.Jr: Why not let's go to Michigan? Could you leave - how many days?

Lonigan: I'd like to have three in Michigan, if I could.

H.M.Jr: Why not leave Tuesday night?

Lonigan: Tuesday night, yes, sir.

H.M.Jr: I think that'd be a good place because the automobile industry is so important.

Lonigan: Yes. Do you wish me to telephone Colonel Harrington?

H.M.Jr: If you please.

Lonigan: Yes, sir.

H.M.Jr: If you will.

Lonigan: May I add that I'm watching the C.I.O. relief policy, which I think is going to be extremely important.

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H.M.Jr: You might inquire when you're up there whether Farm Security is doing anything in Michigan.

Lonigan: They are, yes, sir.

H.M.Jr: What?

Lonigan: They are, yes, sir.

H.M.Jr: If you had time, I wish you'd take a look at that too. If you're going to do that, make contact with Mr. - oh, what's his name - Dr. Alexander. Will you?

Lonigan: Yes, sir.

H.M.Jr: But I mean I think from now on when you go into a state, I'd include Farm Security.

Lonigan: Do you wish me to make any contacts with the Washington end of the Social Security Board before I go into the states?

H.M.Jr: I wouldn't. You see, I've got here a 20-page report from our accountants in 22 states on Social Security, and that comes through Bartelt, and they're doing a wonderful job on that. That's March 5.

Lonigan: Yes.

H.M.Jr: So I have a picture of each state - there are 22 states - as to the benefit payments.

Lonigan: That gives me more time for the other things.

H.M.Jr: Would you like to read this?

Lonigan: I'd be very glad to, if I may.

H.M.Jr: I want to give this to the President. Mind asking Bartelt to let you read it?

Lonigan: Fine.

H.M.Jr: It comes from Eddie Bartelt. But that gives an up-to-the-minute picture on the benefit payments. I think if you had that ...

Lonigan: Yes, sir.

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H.M.Jr: Let's see what they say about Michigan. Some of the states are just shocking. Minnesota ... - why don't we have Michigan?

Lonigan: Michigan isn't making payments.

H.M.Jr: What?

Lonigan: Michigan isn't making payments under its law. Governor Murphy was trying to have the administration catch up.

H.M.Jr: Don't have Michigan.

Lonigan: They should be making payments. Evidently not. They're swamped.

H.M.Jr: Not - not here. Anything else?

Lonigan: No, sir.

Hass: You (Murphy) might tell him that bearish statement by Moody.

Murphy: I was just remarking during your absence that just before coming in here I had read Moody's stocks and bonds surveys, and Moody, after a very long period during which he has told his clients to hold idle any funds that they had obtained from stock sales, says that he thinks this is the bottom. He publishes a full page list of stocks to buy. He devotes most of the rest of the bulletin to qualifications about how hesitant he may be.

H.M.Jr: Qualifications what?

Murphy: He devotes most of the rest of his bulletin to qualifications about how hesitant he is on certain points. But he still gives you the list of stocks to buy, which will be the thing his clients remember.

H.M.Jr: Will you get it, phone for it? Will you?

Murphy: Sure, I'll have it sent right in.

H.M.Jr: Phone for it.

(Murphy goes out)

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H.M.Jr: Does he have anything this morning?

Haas: No.

H.M.Jr: Just a list of stocks for us.

Haas: No, we don't have anything. Just pulled that out, thought you might like it in passing.

H.M.Jr: What I understand - the statistics thing the other day - if you get anything like that ... I don't get those, you know.

Haas: That's what I'm trying to ...

H.M.Jr: I read that Standard Statistics. I don't read this junk until you find a kernel. Better than trying to climb a whole oak tree.

Haas: Usual question of direction - "yes" or "no."

H.M.Jr: Always.

(Murphy returns)

Anything else, Murphy?

Murphy: No, that's all.

H.M.Jr: Mr. White?

White: The international situation seems to be holding up surprisingly well. The decline is not at all rapid - not sufficiently to receive more comments merely than that they are a little more jittery, a little more undecided. As you have noticed, there is a little - slightly more loss of faith in currency as against gold, a little more skepticism with respect to the dollar. Our own exports seem to be holding up well.

H.M.Jr: You know, I think we've got to do something more in South America, and I wish that you fellows would get together some time this week and make recommendations for somebody to go down to Argentine and stay there.

White: I think we want somebody in Argentine. I think we

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might shift Schmidt from Brazil to Argentine, because if you want somebody there quickly, he's right next door, practically.

H.J.Jr: No, I'm thinking in terms that we ought to maybe have two or three fellows in there.

White: Oh, I see.

H.J.Jr: See? That's what I'm thinking of.

White: There's a man Fels spoke to me about who is now working with the Bank of Canada, an American apparently who has been very familiar - been working on the Latin American, who he asked whether we would be interested in. I'd just like to know.

H.J.Jr: Well, I'd like to have just as many people as I could get down in South America, because - now, for instance, at Cabinet the President went around and says, "Who is there in the Cabinet that talks Spanish?" When he gets to making an address over the radio in South America there isn't a single member of the Cabinet that can talk Spanish.

White: We have another lad, you know, the other of the two.

H.J.Jr: Well, talk it over with Mr. Taylor and Hass, and in - oh, and I might want to send somebody to Mexico City too. But I would like - I want to keep the fellow in Rio de Janeiro, want to send somebody to Buenos Aires, like to have somebody in Mexico City too. If I can't anybody, I'll send myself.

White: You wouldn't care go along, would you?

H.J.Jr: No, I'm just kidding. That's very good, Harry; that makes the conference worth while.

Murphy: This is the full page list of stocks to buy.

H.J.Jr: I'm just curious. "If, however, business activity should revive ..." They've got to - they give themselves a good hedge, don't they?

Murphy: That's their professional etiquette.

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H.M.Jr: Also a good way to keep your subscribers. I remember when Moody's once claimed they foresaw this bond thing go down we had the thing read for the previous year.

Murphy: I think it's interesting to note that they have picked the automobile industry as one of the industries that is going to get better.

H.M.Jr: I'll tell you something very amusing. How many stocks are there there?

Murphy: I didn't count them.

H.M.Jr: 50?

Murphy: What did you say?

H.M.Jr: 50. Are there 50 stocks there?

Murphy: I don't think so. Don't think they can get that many on a page. About 40 stocks.

H.M.Jr: About 40 stocks. Out of 40 stocks, I only own one of them. No, two. So one of us is wrong. Two. So one of us is wrong. What? Isn't that the usual ... Let's see how you (Taylor) check, just as a matter of fun.

Haas: They don't have Savings Bonds, do they?

H.M.Jr: On that list I got two; at least, between Mrs. Morgenthau and myself. I got one and she has one - out of 40. How do you make out, Wayne?

White: Those are the two Wayne hasn't got, probably.

Taylor: (Holds up four fingers)

H.M.Jr: Four. Well, that's not bad.

Now listen, I want to give you fellows a high pressure talk, see, and by God, you come in tomorrow with something, see? I don't care what, but I want something. And the whole trouble, as near as I can make out - I was talking to Walker this morning - is that the people are all afraid to put their name behind it. Now, Walker says this to me; he says, "There are ten different

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commodities...."

I want to show that (Moody's survey) to the President.

"... ten different commodities; about half we can do business on. What's everybody sitting around here for? What they waiting for?"

Hall: Harry has been driving on that.

White: We'll have something ready for you.

H.M.Jr: How about you (Haas)? You're supposed to have charge of this.

Haas: I wasn't trying to pass it on. He's chairman of one of those committees.

H.M.Jr: But you're supposed to represent me.

Haas: I understand that.

H.M.Jr: Isn't that your (Taylor) understanding?

Taylor: Yes.

H.M.Jr: He's just chairman of a committee. Economics - you're the head of the section.

Haas: Yes.

H.M.Jr: So I mean no use passing it on.

Haas: I wasn't passing it. We really have done something.

H.M.Jr: What I'm saying - you're having a meeting this afternoon and tomorrow - if there are a dozen, comb out half of them." He says, "You can comb out half of them. Might just He says, "You're just wasting your time. I can tell you as well make up your mind on cement. and who the company and the man who makes the price, you can see." He has them down. "Ingots - I can tell you who the two fellows are you should see on that. Glass - I can tell you who to see in the glass industry. Now, until all these other fellows make up their mind - I don't see what all the fuss is about."

Haas: Well, they ....

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H.J.Jr: I mean put it the other way around. Put it on the basis, "Why shouldn't we do cement? Why shouldn't we do glass? Why shouldn't we do gypsum? Why shouldn't we ...." Let's see: cement, glass, steel, gypsum; there's four. Why shouldn't we do those? He said, "You don't need any more figures." He says, "And you don't need any more figures to know their prices are out of line. Any child can tell you their prices are out of line." There's four - gypsum, cement, glass, steel. Those were the four. A couple others?

White: There are at least 10 or 15 others which they disagree about.

H.M.Jr: I'm getting awful restless. I might just as well get on to this thing. I've only got this fellow for two weeks.

Hess: One of our problems, and Harry is checking on this, is that we've got - we're not in our own shop on this thing. I mean just to a very small extent. It's on the side of Labor. How long did you (White) wait for that? Now you've finally got it.

White: Saturday morning.

Hess: Saturday morning.

H.M.Jr: Will you approach the thing from this angle, that Mr. Morgenthau says unless they can give him some good reason, he's going to start on steel, cement, glass, and gypsum, and why shouldn't he?

White: I think you'll get support from most of the committee on that.

H.M.Jr: Give me two more. Shingles?

White: Cedar shingles, possibly.

H.M.Jr: What about bath tubs?

White: They disagree; but we'll have a list for you by Saturday - rather, this afternoon, on ....

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H.M.Jr: I can't see too many. But agree on one and - say, agree on just one.

White: Just let us get our first report in to you tonight or tomorrow morning. It will have all that in it.

H.M.Jr: Agree on one. But you can tell those fellows that I'm going to take the attitude, "Tell me why I shouldn't." See? I can just think of four. The president of Lehigh Cement is the fellow that makes the price on that. Is it Mr. Avery makes the price on gypsum? Why shouldn't I see him? But when I do see him, I want to know all the tools the Government can use.

But in the meantime they're all fussing around with these indexes - "Are they right or are they wrong?" I mean supposing the index is off a couple percent. What of it? Supposing the supposed price isn't the right price, what of it? If gypsum is selling at 180 percent of 1929, supposing it's 175 percent; nobody's going to weep. I mean supposing it's off 5 percent, the Bureau of Labor Statistics; what of it?

White: That's a simple problem.

H.M.Jr: What?

White: Gypsum is simple.

H.M.Jr: I mean supposing it's 175 instead of 180. Supposing it's 170.

White: Still remains high.

H.M.Jr: What?

White: Still remains high.

H.M.Jr: I mean it's still too high. And this fellow comes in - Walker. He says, "What's it all about? I've been here for a week and I can't find out what they're trying to do."

Neither can I. I told him, "I don't know either."

Now, if you take four industries - I would say if they concentrated on six - I can't handle more than one at a time. But when I send for the head of Lehigh, I

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want to know, "Well, if you don't do it, what can I do?" I'm not going to bluff. "Either you do it or I will. But one or the other of us is going to crack." Either the Lehigh Cement - the cement's going to crack or I'm going to crack down on them. But I'll give them a chance first.

Hess: I was told that Mr. Avery - he can give you a low price. He has two prices, $10 and $2; $2 if you compete with him, until you're through, and $10 where he's got everything under control.

H.M.Jr: So they make a statement, Sewell Avery makes a statement. Well - but water's going over the dam and I don't want, as the Chief Justice said, to see the dam go over the water. And I won't wait, George. Good God, I won't wait!

Hess: We're figuring on this meeting Tuesday.

H.M.Jr: If those fellows can't do it, I'll start anyway. I'm not going to sit here. I'll give these fellows another 24 hours, then I start going to work.

Hess: O.K.

H.M.Jr: I mean I give them another 24 hours. This is two weeks now; it's long enough. It's just silly. I mean give me six different commodities.

White: Well, we haven't let you down yet. Tomorrow morning is the first report; we'll have it for you. Walker's notion of what's to be done - he was ready to start two weeks ago on the same four commodities. But if he had to defend it in public ...

Hess: What you have to look out for.

H.M.Jr: All right. I just wanted to let you know I'm still waiting, and you can pass this pep talk on to some of these other fellows.

White: All right.

Hess: Lubin went to Key West.

White: Did he?

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H.M.Jr: He phoned me. I think I'll join him.

Murphy: Our results there haven't been good recently.

H.M.Jr: Why?

Murphy: Dr. Seltzer went there for his health and he turned for the worse there.

H.M.Jr: Seltzer? I didn't know he went there.

Murphy: He went there to recuperate and he turned distinctly for the worse and is now in the Baptist Hospital at Boston, where, however, he is doing very well.

H.M.Jr: Well, Mrs. Klotz had her child there for three weeks. Came back with the same trouble. Didn't help her at all.

Murphy: When?

H.M.Jr: She was there in January for three weeks.

Murphy: Key West?

H.M.Jr: Key West. She was there for three weeks. Child came back; got her up in New York now at a hospital up there.

Haas: I've got one thing here; if I clear it, I'll save myself - I'll get rid of Miss Chauncey. She's been after me for something.

H.M.Jr: All right, go ahead, get rid of Miss Chauncey.

Haas: There's a Congressman named DeRuth - he writes to the President, tells him he greatly commends your action in desterilizing the gold, believes it is a move in the right direction, like to have more of it; and he encloses a speech he made in the House of Representatives, three of them, and he says the depression was caused by the - he attacks both you and the Federal Reserve - caused by raising reserve requirements, sterilization of gold, stopping of expenditures, so on. And James Roosevelt sent it to you for your consideration.

H.M.Jr: Well, prepare an answer. Is that what they want?

Haas: Evidently not. He says, "I can give you a memorandum on it." Evidently he doesn't want ....

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H.M.Jr: But just remember, young fellow, no matter who's head or chairman of this committee, I'm holding you responsible on this price thing.

Hass: I expected that, but ...

H.M.Jr: And don't forget, when Dr. Warren put the pressure on me to bring a price man over to the Treasury, I brought you over because you were supposed to be a price man. And this is prices. See? As a matter of fact, Harry has got no business in this anyway. He ought to be studying Mexico and gold, why Sweden is selling us gold, all the rest of it. I'm serious. He's got no business in this. Just as soon as I can, I want him to go back to his other stuff.

White: You have evidenced some slight interest, to change the subject, in effect of agricultural crops. You might be interested to know, if it hasn't come to your ears, that Argentine has a very bad corn crop, about cut in half.

H.M.Jr: I know that. We hope this spring recovery starts next week. I haven't see any signs of it yet.

White: I'm afraid you won't.

H.M.Jr: All right, thank you.

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March 7, 1938

Lunched with the President.

The President expounded a new plan that he has on flood relief. He thought that we ought to take about $1,000,000,000 worth of projects, approved by National Resources, the Federal Government to borrow money and pay the cost thereon and the various States to pay us 2% a year back to the Federal Government until the Government has been reimbursed for the actual capital expended.

He asked me what I thought of the idea and I said of all the schemes that have been expounded in the past six months, this one disturbed me the least. Asked him where he got the idea from and he said it was his own.

I drew his attention to the fact that we had turned down Fahey's amendments, but that we were going to work on the whole question of Home Owners' Loan just as soon as I got a breathing spell.

I drew his attention to the fact that McAdoo announced they would hold no hearings on the bank holding bill until April. I said, Would that mean that we could postpone our preparing a message for him until then? He said, No; that he wanted it before March 30th, in connection with his message on monopolies.

In connection with his memorandum on Harris Willingham, I told him of course we were willing to give him a job in the Treasury, but inasmuch as he was a road engineer by experience there was really nothing that he could do here. What would he think of the suggestion of having him work under Harrington? He said he thought that was an excellent idea and I should try to arrange it.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 7, 1938

TO Secretary Morgenthau

FROM M. A. Harris

A short weekly review of the government security market

Treasury bonds advanced about 1/8th of a point in the average during the past week, with individual changes ranging from 1/32nd by some of the long issues to 8/32nds by some of the shorter issues. These gains lifted most of the prices to new highs for the year. Last Tuesday, the day following the announcement that no new money would be raised, prices advanced 4 to 7/32nds, but on other days price changes were confined to small fractions as the market preferred to await the final announcements on the financing. Volume was not large and outside of a small amount of buying by out-of-town banks activity was confined largely to shifting of positions.

In the Treasury note market there was a good demand for "rights", with the price advancing 5/32nds to 101.12 bid. Long maturities were also in demand, particularly the 1942 issues, which were up 6 and 7/32nds, but the limitation on the supply appeared to have contributed as much strength to the market as the demand. Gains by the other issues were much smaller, ranging up to 4/32nds.

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Dealers' Portfolios

The only change of importance in the holdings of government securities by dealers was an increase of 55.2 million in their holdings of notes maturing after one year.

(in millions of dollars)

	Holdings Feb. 26	Holdings Mar. 5	Change
Treasury bonds	34.9	32.4	- 2.5
" notes (maturing within 1 yr.)	42.2	41.9	- 0.3
" " (" " 1-5 yrs.)	34.5	89.7	+55.2
" bills	3.7	- .5	- 4.3
H.O.L.C. bonds	3.0	10.9	+ 7.9
F.F.M.C. bonds	0.8	0.6	- 0.2
	119.1	174.9	+55.8

Treasury Accounts

The only transaction was the sale of $50,000 2 3/4% Treasury bonds of 1956/59 for the account of the Mutual Mortgage Insurance Fund.

Funds available for investment (March 5, 1938)

Postal Savings System	$ 3,157,000 *
Federal Deposit Insurance Corp.	21,449,000 *
	$24,606,000

* Desired to be kept uninvested.

System Account

During the past week the Federal Reserve System's holding of bonds decreased by $12,000,000 and bills and notes increased by $2,000,000 and $10,000,000 respectively. The only other trades of importance were the sales of $9,800,000 of the "rights", which were replaced by purchases of notes and the sales of $2,800,000 of long bonds, which were replaced by short bonds.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 7, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation

Conclusions

Current statistics provide a picture of business activity maintained at a relatively stable but low level, with the expected spring improvement not yet in evidence. The late Easter this year, together with a return of winter weather, has tended to delay the beginning of the spring upturn.

With commodity prices well maintained, retail inventories being steadily reduced, and the national income running but slightly below last year's level, the foundation seems to be laid for a general improvement in business. A comparison of trends in three previous business declines of somewhat similar character shows that improvement in each case began during the winter or early spring.

The current trend

The New York Times weekly business index, seasonally adjusted, continues at a low but rather stable level (See Chart 1), remaining practically unchanged during the week ended February 26. A rise in lumber production and a decline in automobile production were noted during the week, while other series showed little change. The index for the week ending March 5 will be lower, owing to declines in steel output and automobile production at a time when seasonal rises were to be expected, unless these should be offset by improvements in other series.

Steel output declined slightly this week to 29 per cent of capacity. (See Chart 1). Normally it should be improving at this time, and should average 33 per cent of capacity during March to represent the normal seasonal gain over February. Larger orders for steel are expected during March with seasonal expansion of automobile production, and expected improvement in buying from various other sources. The fact that heavy construction awards have recently made a much better showing than have actual bookings of construction steel may indicate an impending upturn in structural steel buying.

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An encouraging upturn in General Motors' retail sales during the latter part of February, a sustained improvement in used-car buying, and a concerted used-car sales drive scheduled for the coming week, to be participated in by all manufacturers in the industry, point toward a substantial March upturn in automobile buying.

When should a spring rise in business activity normally be expected, may be asked. An answer to this question may be found by examining the seasonal indexes used in adjusting the New York Times business series. While these represent averages of trends that vary considerably from year to year, they give a picture of the approximate seasonal patterns.

On this basis, steel output should have been improving gradually since the beginning of the year, and should normally reach a peak at the end of April. Automobile production should normally have reached a late-winter low point at the end of February, and thereafter should increase rapidly until a top is reached about the latter part of April. Lumber production should increase gradually from the beginning of the year to a peak near the end of May. Cotton mill activity, on the other hand, should have reached its high point at the end of February, and should normally decline until early fall, while electric power production should normally continue to decline until the early part of April. These diverging trends between industries, and the fact that the individual trends vary from year to year, suggest that no one date can be selected as the time when a spring upturn should begin.

Trends in previous business declines

An examination of three previous business declines, rather similar in character to the recent decline, shows that in each case improvement began during the winter or early spring and gained momentum during the latter half of the year (See Chart 2).

The duration of the decline in each case appears to be related to the extent of decline in commodity prices, shown on the same chart. In 1903-04, when commodity prices held relatively steady, the decline in business lasted only three months and reached a low in December. In 1907-08, when the price drop was about comparable with that in 1937, business activity reached a low in January. In 1920-21, when the drop in prices was most severe and prolonged, business activity did not reach its low until March. It is of interest to note that recovery began in each case immediately after the first halt in the declining trend.

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Commodity prices

The prices of sensitive commodities have sagged somewhat this week, though activity in most cases has decreased on the decline and sentiment has continued generally favorable toward the trend of prices. Some individual commodities have been exceptions to this rule. Sugar has weakened substantially on a statement by the Secretary of Agriculture indicating that no further rise in price is favored, and wheat has been relatively weak on favorable weather and increased crop estimates. Hog prices, on the other hand, have risen to higher levels.

The possibility of a decline in crude oil prices is suggested by current statistics on stocks of gasoline and other petroleum products. Gasoline stocks currently are 13 million gallons higher than a year ago, when they were considered above normal, while the consumption of gasoline this year is expected to show some decline. The stocks are expected in the trade to reach a total of 95 million gallons or more by April 1, the beginning of the heavy consumption season, unless output this month is drastically curtailed. Stocks of fuel oil are 20 per cent higher than a year ago, while consumption in December was 5 per cent lower, and production currently is running considerably ahead of last year.

Retail sales

Sales by department stores this month will make an unfavorable comparison with last year owing to the late Easter. While sales during the week ended February 26 improved somewhat, the sharp improvement at that time last year due to Easter buying makes this year's figure 13.7 per cent lower in comparison.

Taking March and April together, merchants expect sales in these months to show no more than the February decline from the previous year, which was about equal to the decline in prices. In rural areas a more favorable comparison is expected, since farm incomes have been relatively well sustained.

An explanation of the continued heavy movement of goods into consumption, as shown by retail sales, is seen in the fact that national income paid out during January was only 1.4 per cent below that in January, 1937, according to Department of Commerce estimates.

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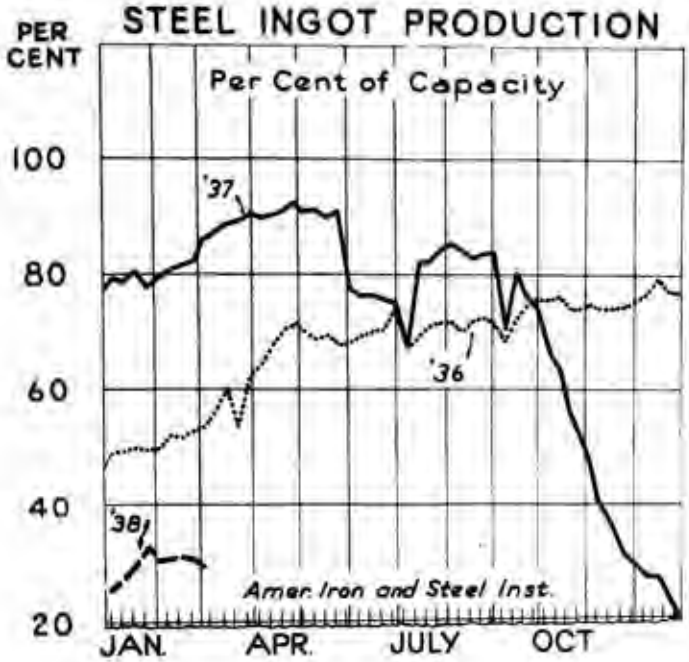

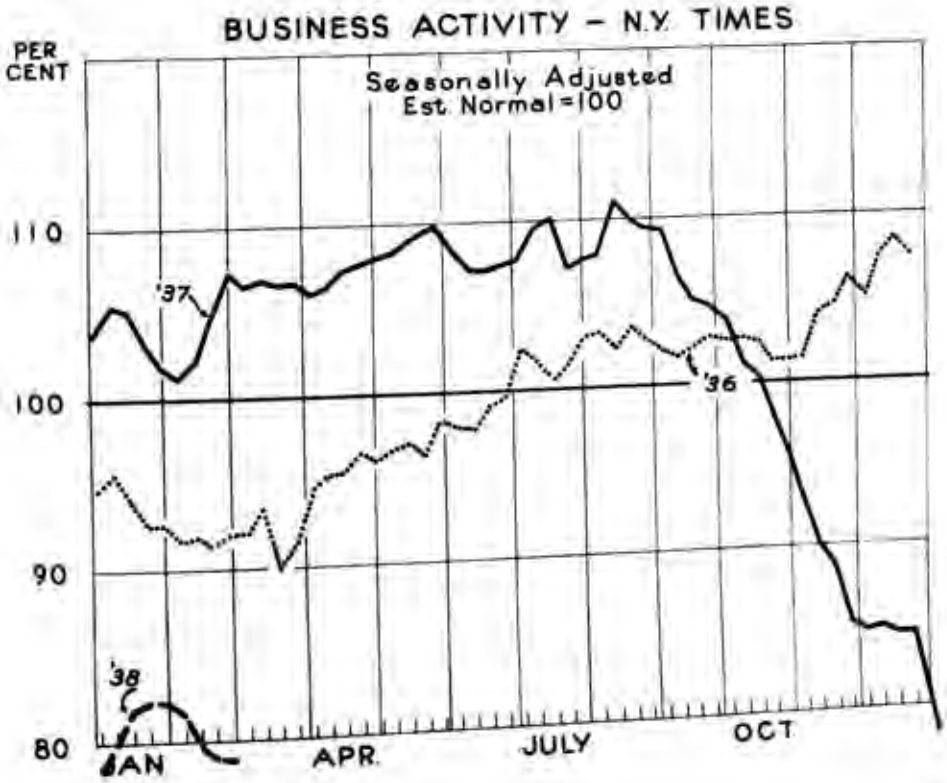

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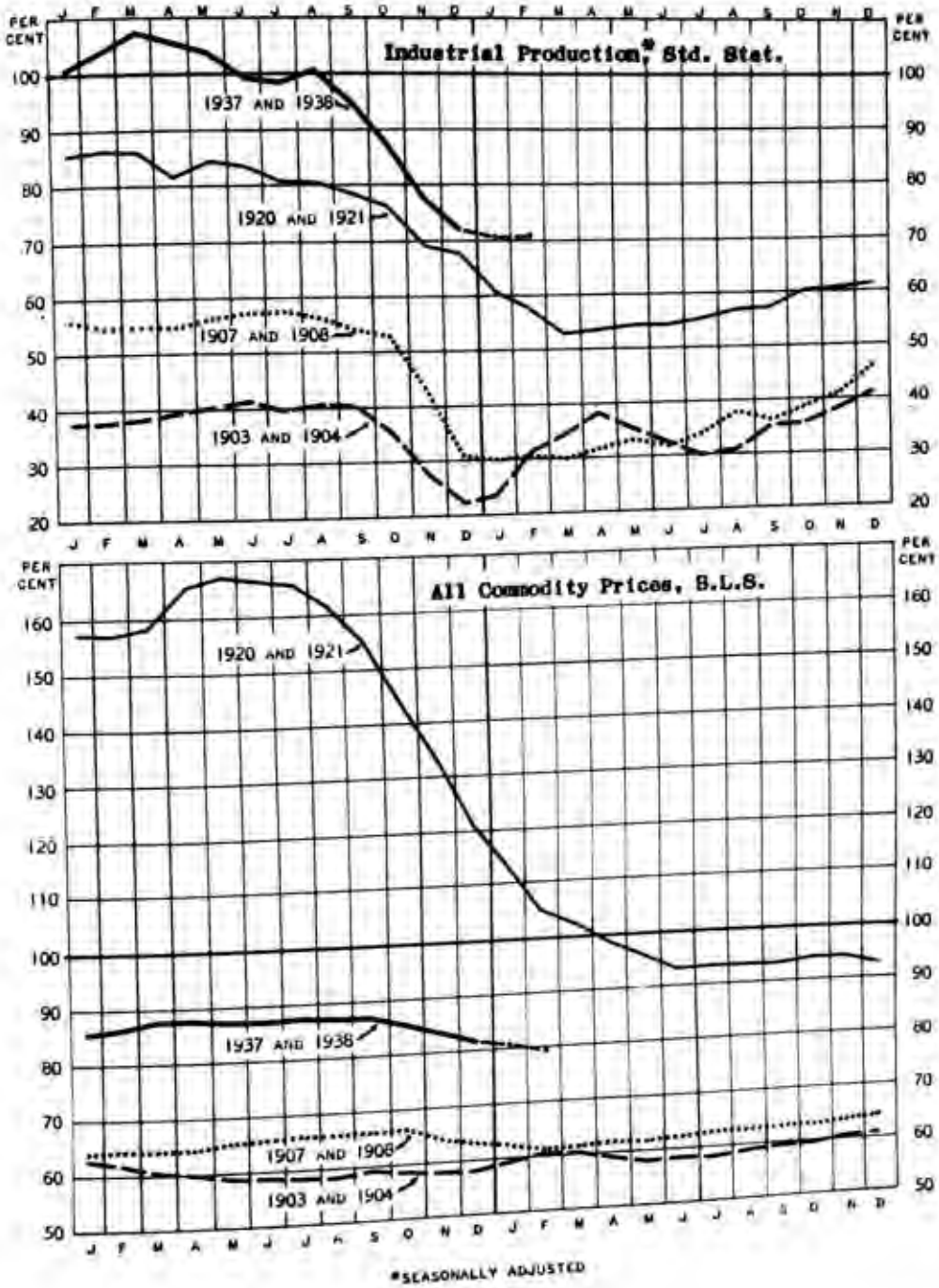
PRODUCTION AND PRICE TRENDS DURING SELECTED BUSINESS RECESSIONS

1926 = 100



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Office of the Secretary of the Treasury
Division of Research and Statistics

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March 7, 1938

HM,Jr said this happens to be his suggestion.

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INFORMATION FOR THE PRESS

United States Department of Agriculture

Agricultural Adjustment Administration

Release - Immediate

March 7, 1938.

AAA PAYMENTS TO FARMERS
NEAR PEAK LEVEL FOR YEAR

Payments in connection with the 1937 Agricultural Conservation Program and other 1937 and current AAA programs are now under way, and are expected to be at peak levels during the month of March. The payments during the period ending July 1 will exceed the payments of the past seven months by about $300,000,000.

Payments already made in 1938 amount to approximately $72,000,000. Payments between March 1, and June 30, are expected to amount to approximately $335,000,000. Of this amount, approximately $110,000,000 will be paid in March, $100,000,000 in April, $80,000,000 in May, and $45,000,000 in June.

The estimated total of approximately $335,000,000 for the March-June period 1938 compares with payments approximating $287,000,000 for the same period in 1937, and $168,000,000 for the same period in 1936. The $335,000,000 estimate is exclusive of $130,000,000 cotton price adjustment payments because the extent to which they will be paid during the period has not yet been determined.

The major part of these payments will be made in connection with the 1937 Agricultural Conservation Program. The estimate includes between $1,000,000 and $2,000,000 that will be made monthly for diverting surplus farm products to by-product uses. It also includes approximately $22,000,000 in payments expected to be made under the sugar programs during the months of April, May, and June.

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March 7, 1938

To: The Secretary

From: Mr. Magill

Conference with Messrs. Doughton, Vinson, and Cooper - March 5th

1. After a check of the congressional delegations by states, the Congressmen concluded that there might be 180 votes against Title 1B - the provisions respecting closely held corporations. Mr. Doughton thought this would defeat the Title, since the whole membership would not be in attendance at the time the vote is taken in committee of the whole. The Congressmen felt that pressure ought to be exerted on the New York City delegation, the New Jersey delegation, and the Progressives to make sure that they vote in favor of the Title.

The Congressmen said, however, that the attendance at the debates on the bill had been small, except for Mr. Vinson's speech, and usually that meant that the members had made up their minds as to how they would vote. It would be expected that they would vote for Title 1B, but a strong drive is being made against it.

2. The Congressmen wanted to know whether the President thought that if Title 1B is defeated, the bill should be recommitted to the Ways and Means Committee for the consideration of other methods of raising the necessary revenue. The Congressmen all felt that the motion to recommit should be agreed upon as the next step if Title 1B should be defeated. I suggested that Mr. Doughton should call the President, give him the news, and get his views direct.

3. Mr. Doughton was much disturbed by the President's comments to the Press regarding the provision for publicity of corporate officers' salaries which exceed $15,000 (section 148 (d) of the present law). He said that since he was in the midst of a hot fight, he needed all the support he could get and that this criticism made his work that much harder. Mr. Vinson said that the House had previously voted to repeal the salary publicity provision and hence the Committee could do nothing else than to put a similar repealer in the present bill.

RM

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MEMORANDUM OF THE DAY'S ACTIVITIES

March 7, 1938

To: The Secretary

From: Mr. Magill

1. Tax bill

Mr. Doughton informed me over the telephone that he spoke to the President on Saturday night regarding his difficulties with the tax bill and urged the President to assist him in his fight to put the bill through the House unchanged. Mr. Doughton said the President was very cordial and promised to give him assistance.

2. Additional revenues

Do you still contemplate a conference with the President regarding the budgetary outlook for next year and the desirability either (1) of recommending to the Finance Committee that provision for additional revenues should be made or (2) of supporting proposals for reduced exemptions and increased income and estate tax rates which are apt to be made by Senator La Follette?

3. Improvements in the tax bill

I have asked Messrs. Shoup and Haas to give me their recommendations of important improvements which they think should be made in the pending bill. Most of the suggested changes involve a necessity for additional revenue to make up losses caused by their recommendations.

In passing you will be interested to know that I have received today a copy of a letter which Professor Simons of Chicago has written Mr. Doughton, strongly criticizing the reduction in the tax on capital gains and the tax on undistributed profits. Simons' view seems to be that Congress has become unduly impressed with the idea that the existing surtaxes are too high and as a result is willing to make changes in the capital gains rate in particular which are economically unjustifiable.

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PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 7, 1938, 4 p.m.

NO.: 344

FROM COCHRAN.

French franc had to be supported in London Saturday and control has had to yield sterling steadily today supporting both spot and forward rates. Nevertheless franc moved from early morning rate of 153.92 to 154.90 to 95 on official market. Forward franc more offered at 5 for three months sterling.

During official trading I saw my Bank of France friend at the Bourse. He told me that the only sterling seller was himself. The terms of the coming loan were not yet known to him.

Legislation was enacted Saturday night for creation of national defense Caisse. It is expected that current treasury loan will be closed shortly and effort then made toward raising part of the 15 billion francs that will be required this year for national defense expenditures of type to be handled by the new Caisse.

Market operators and financial writers such as Jenny in LE TEMPS, are speculating as to whether the new national defense loan for which Chautemps made a preliminary patriotic plea before Parliament will be a long term issue with exchange guarantee or tax exemptions, or a short term operation similar

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similar to that of Vincent Auriol in July 1936.

The Bank of France was quite upset on Friday over (and took steps at once to stop) the idea emanating from the Ministry of Finance of a short term (3 months) script at a rate which would be above that for current discounting.

Concensus of market opinion is that to raise important sum in present circumstances special advantages and a costly rate must be involved. Consequently holders of other French rentes are selling heavily today presumably to shift their funds to coming issue.

Week-end criticism of recently adopted labor arbitration legislation by Socialist leaders and threat that Socialists will increase their cooperation with labor confederation toward seeking control of credit, nationalization of insurance, electricity, et cetera, have disturbed atmosphere. Furthermore January figures of Paris department store sales, coal production, textile and iron and steel operations, et cetera, have been discouraging.

Premier Janson defends policy of higher taxes to meet economic set back in Belgium.

According to press, Dutch Government opposes agitation in Dutch First Chamber toward further depreciation of florin to assist industry, basing attitude on fidelity to tripartite agreement and insisting that further depreciation would make control policy even more difficult.

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B.I.S. has reappointed present members of German Standstill Arbitration Committees.

END OF MESSAGE.

WILSON.

EA:LWW

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PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: March 7, 1938, 6 p.m.

NO.: 188

FROM BUTTERWORTH FOR TREASURY.

Today I received the following personal note from Waley:

"I saw Monick on Thursday and he told me that the United States Government had agreed to tripartite conversations provided that they are kept secret; and that what Monsieur Marchandeau has in mind is that at the proper moment the French Government shall adopt the decision as to their currency of which they spoke and that there should be simultaneous declarations by the French, United States of America and United Kingdom Governments. Monsieur Marchandeau regards it as essential that the declarations by the other two Governments should contain something more than a mere expression of sympathy but I am still completely puzzled to know what specific points he thinks they should contain."

I had a talk with Waley too. He told me in confidence that if he had not previously known of our statement to Minister Marchandeau [reference, my telegram No. 188 of February 28] he would hardly have recognized it as Monick described it. Monick evidently made it appear that the prospect of tripartite conversations was heartily welcomed by the United States. When I talked with Waley I asked him whether he did not agree with me that Monick had no inten-

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tion, if he could avoid it, to progress with the tripartite discussions under the present French Government. I thought that his real purpose was to arrange the preliminaries so that the major conversations could take place under a Government with a broader view, presumably of the Thorez to Moreau variety, the Minister of Finance being Paul Reynaud, Monick's friend. Waley told me that he had had much the same idea, and with this in mind had naturally been cautious and had questioned Monick, but that now it seems clear that Monick sees Marchandeau in the role of John the Baptist.

Waley particularly requested that all of the above be regarded as strictly confidential.

JOHNSON.

EA:LWW

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