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March 8 - March 15, 1938

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Tuesday
March 8, 1938
9:49 a.m.

HMJr: Hello, Cochran.

H. Merle
Cochran:

Yes.

HMJr: Cochran, I'm getting disturbed about the way this franc is slipping.

C: Well, it's doing pretty badly today.

HMJr: Well, isn't there any bottom?

C: Ah - have you received the wire I sent at eleven o'clock this morning?

HMJr: No.

C: I sent one then saying that by ten forty-five this morning...

HMJr: Yes.

C: ...my friend had lost one half million pounds.

HMJr: Yes.

C: It was one a rate move from 154.95 to 155.85.

HMJr: Yes.

C: And the selling was coming principally from here.

HMJr: Yes.

C: And then I got this word while your call was coming through - the sale has slackened up a little bit; they've gotten it back to 155.45.

HMJr: Yes.

C: But then in my wire I let you know that the statement which is coming out on Thursday...

HMJr: Yes.

C: You know what that is? ...will show money drawn by the - by your opposite number.

HMJr: Yes.

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C: Eight hundred million francs. And then when I sent my wire..

HMJr: What do you mean by my 'opposite number'?

C: The man here.

HMJr: Oh.

C: The Government has drawn on their account.

HMJr: I see.

C: Because - hello.

HMJr: Yes.

C: You see here everyone has thought that would not be necessary...

HMJr: Yes.

C: .. because of this current wrongdoing for three billion francs they thought there would be enough coming in so that wouldn't be necessary. But it evidently hasn't come in solid enough, or a big enough value to meet the needs.

HMJr: Yeah.

C: And they had a meeting of the Cabinet this morning.

HMJr: Yes.

C: It was just over a while ago.

HMJr: Yes.

C: And the dope I had before they left was that there might be a resignation of the Government this noon.

HMJr: Oh, for heavens' sakes.

C: And now I'm just through talking to the Bourse and they said that it was gotten out at the Ministry. That's the gossip.

HMJr: Yes.

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C: To the effect that the people would have to give up part of their earnings for national defense and something about taking exceptional measures to protect the currency.

HMJr: Uh huh.

C: So I hadn't seen that - I was just on the way from Havre here when you first called.

HMJr: Uh huh.

C: The meeting hadn't finished when I went home.

HMJr: I see.

C: And the papers haven't the stuff yet.

HMJr: Uh huh.

C: But I can get it in a little while I think.

HMJr: Well, if it's the communique we'll get it here over the ticker.

C: You'll get it on the wire there on your ticker if it's a communique.

HMJr: Right.

C: But, I'll get in touch with my friend this afternoon...

HMJr: Yes.

C: ...and if I do learn of any measures of course I'll call you back.

HMJr: That's right.

C: But this morning I didn't state definitely that there's going to be any fall but it's certainly been awfully close to it. I said - here's what I said...

HMJr: Well, never mind, I'll get it.

C: Yes.

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HMJr: Don't do it on the phone.

C: Good.

HMJr: All right, Cochran. If there's anything important let me know.

C: All right, I'll call you back if I hear anything other than the communique.

HMJr: Thank you.

C: Goodbye. All right, sir.

HMJr: Goodbye.

C: Goodbye.

FEDERAL RESERVE BANK
OF NEW YORK

5

OFFICE CORRESPONDENCE

DATE March 8, 1933.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knobe

Mr. Bolton called me at 10:42 today. Things had been very quiet in London, he said, until yesterday, when transactions in French francs and belgas became very active. Both currencies had been under considerable pressure, the latter's losses yesterday ^{being} estimated at 3/4 million pounds and the same amount today. The belgas were weak partly because of the weaker franc, partly because of internal conditions in Belgium due to the budget situation, the armament program and to the recent trade recession. As a result of these difficulties a split had developed within the Cabinet and a political crisis was likely unless the Cabinet members came to an agreement. There were no signs of speculation against the belga yet.

The French franc had been under severe pressure since Saturday morning. This movement was started by the French Defense Loan. The Government, particularly Chautemps and Marchandeau, were physically completely worn out and it looked as though Chautemps' request for special powers to put through emergency financial measures, which would be discussed before the Chamber on Thursday, had deliberately been made for the purpose of inviting defeat in the Chamber and thus get an excuse to quit. It was obvious that the French Government's difficulties had increased recently as a result of the change in London (Eden). The general feeling in London was that a new government under Paul Reynaud was feasible, with the radical socialists and the socialists under Blum, but not the communists, supporting Reynaud. The country, it seemed, was ripe for a change but the politicians were not

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 8, 1938.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHFROM L. W. KnokeBANK OF ENGLAND.

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as yet ready; so, all one could do was to wait and see. In the meantime, the pressure against the franc continued, with quite an amount of speculation going on. The franc's weakness was accentuated by the rumor that the French Treasury had to draw on the Bank of France this week.

Bolton inquired as to the significance of the suspension of Richard Whitney & Co. but I could not enlighten him.

There was nothing new as regards Russian gold although another smaller shipment was probably on the way to London but would not get there for another week. The amount was not known but it did not seem of any consequence.

I asked what he could tell me about the amount of gold lost by the Bank of Spain since August 1936. He replied that they were very anxious to know that themselves, that their estimate, and it was an estimate only, was that the Bank of Spain had lost in 1937 about 7,000,000 ounces. If he could find out anything covering the period from August 1936 to the end of 1936, he would let me know.

I referred briefly to our recent remarks for Swiss and Swedish account.

LWK:KMG

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, March 8, 1938.
3/7/38

Press Service
No. 12-63

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 2-1/2 percent Treasury Bonds of 1948 will close at the close of business Wednesday, March 9, 1938. This offering is open only to the holders of Treasury Notes of Series C-1938, maturing March 15, 1938.

Subscriptions placed in the mail before 12 o'clock midnight, Wednesday, March 9, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and their division among the several Federal Reserve districts will be made later.

--000--

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 8, 1938, 11 a.m.

NO.: 348

RUSH

FROM COCHRAN.

French foreign trade figures show lower exports and higher imports for February as compared with January and with February last year. This factor added to those mentioned my 344, March 7, 4 p.m., caused further weakness of franc this morning.

This morning by 10:45, 500,000 pounds had been lost by the French control. The rate ^{also} moved from 154.95 to 155.85. Paris is the principal source of sales. The Thursday statement of the Bank of France will show that 800,000,000 francs has been drawn by the Treasury on its credit at the Bank of France. It will shortly be seen whether the Government will want to face this disclosure - and as a result thereof, the more difficult task of raising the defense loan - or whether it will prefer to retire.

WILSON.

EA:LWW

REB

PLAIN

London

Dated March 8, 1938

Rec'd 4:10 p. m.

Secretary of State,
Washington.

192, March 8, 8 p. m.

FOR TREASURY FROM BUTTERWORTH.

The unemployment figures published today though showing the first decrease since August do not (repeat not) indicate a turn in the general downward trend of industrial activity. The decrease was one of only 17,186 and amounted to much less than the usual seasonal movement. In 1937 the seasonal improvement between January and February was 61,000; in 1936 it was 135,000; in 1935, 40,000; in 1934 and 1933 it was 71,000 and 56,000 respectively.

The most marked increases in unemployment continued to show in the textile trades, the volume of unemployment in the cotton industry having more than doubled during the year and nearly trebled in the wool industry. These industries are particularly sensitive to export market contraction and their slackening trend undoubtedly reflects the declining purchasing power in primary-producing countries. In the primary metal products there was

little

LMS 2-No. 192, March 8, 8 p. m., from London.

little change with the exception of tinplate in which unemployment increased decidedly. It is also significant that there were again substantial increases in unemployment in general engineering; in the group which includes automobiles; and in metal goods manufactures.

There was no appreciable change in the employment situation in coal mining. Building and public works contracting both showed fairly healthy seasonal improvement, as would be expected from the fairly high level of building activity reflected in the January returns of plans approved.

As reported in my 172, March 1, 7 p. m., and 142, February 18, 5 p. m., Leith-Ross, Economic Advisor to the British Government, and Clay, Economic Advisor to the Bank of England, predict some seasonal improvement in employment which may temporarily -- but only temporarily -- obscure the unmistakable downward economic trend.

Meanwhile activity in the City has rapidly declined; the volume of trading in all markets is small and there is a general reluctance to undertake forward commitments. Not for many years have such lifeless conditions prevailed in the City at this season, and needless to say anxiety about the outlook in America is increasing.

Bankers

LMS 3-No. 192, March 8, 8 p. m., from London.

Bankers' clearing returns for the last week in February were pounds 678 million as compared with pounds 787.5 million the previous week and pounds 928 in the corresponding week of 1937. The gilt-edged market is good, however, and conditions for the flotation of governmental loans favorable. The defence White Paper and the Prime Minister's statement on the cost of rearmament, in which he made it clear that expenditure would be substantially (repeat substantially) more than the five years' pounds 1500 million estimates of a year ago, naturally give rise to discussions on possible taxation increases in the forthcoming budget, but it seems unlikely that any substantial increases will be made at this time. The recession though belittled in official public references to the general position will nevertheless make the Government wary of taking action discouraging to business activity.

The franc was again weak due to developments pertaining to the 15 billion franc defence loan and the French fund lost substantial amounts of sterling.

KENNEDY

KLP

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 8, 1938, 8 p.m.

NO.: 353

RUSH

FROM COCHRAN.

Tendency indicated in my 348, March 8, 11 a.m. continued throughout day with French control yielding important amount of sterling. Operators guess the total loss at around 2,000,000 pounds. Premium on three months sterling advanced to six francs. Rentes down 45 to 60 centimes. Dollar declined for a while following ticker report of suspension of Richard Whitney from New York Stock Exchange because of insolvency. National Bank of Belgium selling sterling and bought belgas to check weakness therein.

Communique issue at the close of French Cabinet meeting this noon indicates that Chautemps and Marchandeau will appear before Parliament on Thursday to seek special endorsement of their financial policies (perhaps even requesting the delegation to the government of practically full powers in financial matters). The government apparently would not be willing to proceed with its loan undertakings without a vote of confidence.

Communique was not issued in time for editorial comment in afternoon financial papers.

It

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It is the conviction of market operators with whom I have spoken that the Senate will not give anything like full powers to the present Government. Pending debate on Thursday, the franc will probably continue under pressure; this pressure should be accentuated on Thursday by the Bank of France statement. With reference to my final sentence in telegram No. 348, it would appear that the Government is realizing the futility of its efforts toward financial recovery, and will take a chance on going out before undertaking such great responsibility as would be involved in new borrowing for national defense and current treasury needs.

WILSON.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France,

DATE: March 8, 1938, 9 p.m.

NO.: 354

RUSH.

Communique issued this afternoon following the meeting of the Cabinet, after calling attention to the necessity of taking all possible measures to assure the success of the proposed national defense loans, states that Chautemps "insisted upon giving the country, as an essential counterpart to the confidence asked of it, the certainty that the improvement of the public finances will be methodically and energetically pursued by a government henceforth sure of its immediate future and free in its actions, in an atmosphere of calm and work which will assure an increase in production, particularly as concerns national defense". The communique adds that the government will bring before the Parliament on Thursday next proposals destined to give it the power required to carry out the work of national improvement, and will stake the life of the government on obtaining the necessary measures.

I had a talk with a government official just now, and he gave me the following review of the present situation:

It will be necessary for the Government to float large loans in order to meet the ever-growing armament burden. There is a lack of confidence in the Government. The French financial situation is deplorable. There is

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increasingly strong pressure on the franc, as was witnessed today. The Government's only hope is to get a grant of "more or less" full powers in order to deal with the circumstances; it is up to the Chamber to reach a decision as to whether it prefers to have the present Government exercise such full powers, or whether a new Government, on a broader basis, is to be established. My friend told me also that at the present moment Chautemps was conferring with different party leaders, but the outcome of these discussions was not yet known.

My thought is that a request for full powers made under present circumstances by a government which does not have much parliamentary support is about the same as recognizing that a new government with a broader basis of support is necessary. It is most likely that the new government would be a combination running from the Socialists through Reynaud's group in the Center. The Communists have been eliminated from any such government because of the Moscow trial. The new government might have Blum for its head, or some other prominent Socialist, or it might be headed by Daladier or Herriot, or even again by Chautemps.

END OF MESSAGE.

WILSON.

EA:LWW

GROUP MEETING

March 8, 1938.
9:30 A. M.

15

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

H.M.Jr: Listen, Mr. Oliphant, unfortunately I have a good memory, and I think that somebody's gypped me out of a million dollars for the City of New York, because when we started - unless the newspaper account is wrong - we started negotiating it was \$4,354,907.61, and the papers said three million something. The amount payable would not be - why did the papers carry it three million?

Oliphant: I'll look into it and see.

H.M.Jr: Would you? It says there is a sum of four million three hundred thousand dollars.

Oliphant: The amount involved is not involved in this arrangement at all. Your amount definitely should be left to the court to decide. I'll give you a memo on it. I'll look it up and give you a memo.

H.M.Jr: You look up the release from the Attorney General's office.

Oliphant: (Making note.) A. G. release.

H.M.Jr: It spoke about three million and something.
(Nods to Mr. Magill.)

Magill: Hope you noticed the excellent tax decisions by the Supreme Court yesterday.

H.M.Jr: The one on the Mitchell case I can understand - the one on the Federal-State case, I didn't. It's important

Magill: It is important, and valuable. I am trying to get George Haas to put a figure on it, but he won't as yet. I am going to pin him down on it.

Haas: I'll get started.

Magill: The Ways and Means Committee is meeting again this morning, no doubt to consider the cosmetics amendment.

H.M.Jr: Is the cosmetic to put money on - increase it?

Magill: To take it off.

H.M.Jr: To take it off?

Magill: Yes.

H.M.Jr: Now which of the miscellaneous taxes have been removed?

Magill: Ten of them have been removed. The principal ones are furs, sporting goods, matches, cameras, phonographs - phonograph records, some dentifrices and mouth washes --

H.M.Jr: -- Cigars, cigarettes -- (Laughter.)

Gaston: Some of Mr. Ickes' hot oil taxes.

Bell: Then see, cotton futures have been reduced in theory although there seems to be some question as to whether it has in practice.

H.M.Jr: I thought - if you want to look for an increase, it seems to me that an increase on cosmetics would be very good.

Magill: The sub-committee so recommended, but Senator Hardwicke was not of the same mind as the Committee on that point.

H.M.Jr: This fellow is getting to be quite a man.

Magill: He is a big man. I think we'd better take him in the Treasury. It would be cheaper to hire him than fight him.

H.M.Jr: Is that all to be taken on the floor this morning?

Magill: As far as I know.

H.M.Jr: What state does he come from?

Magill: Georgia.

H.M.Jr: Has he got a law firm here?

Magill: Well, I guess so, consisting of himself and - He was in the Senate during the war and opposed our interests in the war. President Wilson vigorously opposed his reelection to the Senate and succeeded. And the Senator got elected Governor of Georgia after that, and since then has practiced law successfully for the Ponds Extract Company.

H.M.Jr: (To Miss Chauncey) I get mine from Squibbs. All right. Keep me informed.

Magill: All right. Did you read my night letter last night?

H.M.Jr: I didn't get a night letter last night.

Magill: I wonder who they sent it to. Do you want more revenue in the Senate or not?

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H.M.Jr: I don't know. I haven't seen the President on it. He tried to pin me down yesterday on how much we stood to lose or gain. I told him I couldn't tell him how much. I didn't want to give him something he'd use and - I mean unless it was something that was accurate. I called up his office and told them I wanted to ask for a couple hours - I want a couple hours uninterrupted - so I imagine we'll get it. What's the others?

Magill: I think that is all.

H.M.Jr: There was no memorandum from you came to the house last night. I had a very chatty one from Mr. Taylor, but I didn't have any from you. I saw something on the top of my desk here this morning.

Magill: I sent you one.

H.M.Jr: Well, just a minute. There was one on the top of my desk from Mr. Magill. It was on top of my desk. I didn't know what it was or where it came from. It was lying loose on my desk. (To Miss Chauncey) I guess you took it out with your work.

Magill: That's very mysterious to me.

H.M.Jr: Call up the Secret Service. (To Miss Chauncey) You'd better bring it back. The way Mr. Magill stresses it, it must be important.

Magill: Well, you can live without it but I would rather you would have it than Dowling, for example, or Jefty O'Connor.

H.M.Jr: Some grouping. What else?

Magill: I think I've done my bit this morning.

H.M.Jr: Herman Lee Oliphant?

Oliphant: Well, in addition to tax cases ---

H.M.Jr: I can't hear you.

Oliphant: In addition to tax cases in the Supreme Court, we want to go places in the Court of Claims - some of those fellows are demanding those.

H.M.Jr: All right. What else?

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Oliphant: That's all.

H.M.Jr: Gaston?

Gaston: Would you have any time today to see a young man from Yale, heeling for the Yale News?

H.M.Jr: (Shakes head "No.") Unless it is somebody I know personally.

Gaston: It's a roommate of Mr. Taylor's son.

H.M.Jr: Do you want me to see him?

Taylor: I don't think so.

H.M.Jr: I don't mind. Did Hobie ask for it?

Taylor: He's an awfully nice boy.

H.M.Jr: Did Hobie ask for it?

Taylor: Yes.

Gaston: Ten o'clock?

H.M.Jr: (Shakes head "No.") Quarter of three.

Gaston: All right.

H.M.Jr: What's his name?

Gaston: Lawrence Lepkins.

H.M.Jr: The last boy I saw made it.

Taylor: That is where you get so much business.

H.M.Jr: What else?

Gaston: Nothing else.

H.M.Jr: George?

Haas: This ten-thirty meeting on this building - you want Reynolds to come, and Barton, and the other people? They haven't been notified.

H.M.Jr: I don't know who is working on it.

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Haas: They have worked on it.

H.M.Jr: Then bring them over.

Haas: And Walker?

H.M.Jr: Yes.

Haas: Reynolds is waiting outside. He wants to go up to the Hill unless he comes over here - but I can see him when we get through here.

H.M.Jr: You got a cold?

Haas: A little bit. We had a meeting yesterday - probably can give you that at ten-thirty?

H.M.Jr: Yes.

Haas: (Hands Secretary loose-leaf notebook.) Couple new reports, and both went up about a nickel's worth.

H.M.Jr: Good. Incidentally, I think it is most interesting the way our commodity index sticks - I mean being on a level.

Gaston: Harry Durning showed us some reports in New York. He was very much pleased that on their imports and exports, both the volume and the collections were turning up.

H.M.Jr: Imports and exports?

Gaston: On the imports and exports, both the volume and collections were turning up.

McReynolds: It didn't cover quite two weeks.

H.M.Jr: I'm glad to know that you looked at Mr. Durning's reports while you were there, Mac.

Gaston: He'll gradually make it a case.

Oliphant: Mac said, "Why do you draw two lines on these pages?"

H.M.Jr: All right. (Laughter) And about Thursday we'll begin to find out. I am glad this Acting Comptroller General is active. You know - makes the boys a

- 6 -

little more careful.

George, you take that book back with you.

Haas: Yes.

H.M.Jr: Anything else?

Haas: No.

H.M.Jr: Taylor?

Taylor: Here is this communication from Commerce. This is from Dye.

"The Commercial Attache at Buenos Aires has been asked by ---" whatever his name is ---"Director General of the National Mint in Buenos Aires, whether it is possible for the Argentine Mint to obtain plans of the buildings and general setup of the Denver Mint. The Argentine Mint will probably be moved this year to a new building, the tentative plans for which are now being prepared. Dr. Morales is anxious to secure this information for the guidance of his office in preparing the tentative plans mentioned, if it is not confidential."

H.M.Jr: Well, it is. Of course the plans of the Government - if they want a good one they want the San Francisco one. Tell you what you tell them. If they will draw theirs up we'll be glad to make criticisms, and suggestions, but our own plans would not be available. See? But after they have finished it we'll be glad to make suggestions and criticisms.

Taylor: All right.

Lochhead: Maybe they'd like to see the West Point too.

H.M.Jr: Sure. What else?

Taylor: (Shakes head, "No.")

H.M.Jr: Dan?

Bell: I have nothing.

H.M.Jr: You owe me an answer on that last crack of the Acting Comptroller General too, on your checks.

Bell: Yes. It isn't so important as the headlines indicate.

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H.M.Jr: I don't like that though. I want an answer every time he makes a crack. Fix me up on it.

Bell: We are prepared to talk on it now. We have a memorandum and a report going to Cochran.

H.M.Jr: Well, let's do it tomorrow morning. Is that crowding you too much?

Bell: No, that's all right.

H.M.Jr: I thought the boys almost had me, but fortunately it was off the record yesterday when I was talking about bonds. "We are very much off the record. Either the market is too low or the new bond is too high." They didn't use it, but it was all right.

Lochhead: The Times printed that.

H.M.Jr: Did they? Just like that, they used that?

Lochhead: Unofficially.

H.M.Jr: It's nice. Well, anyway - of course, the statement was correct. Either the market is too low or the new bond is too high.

Bell: You got the report of the volume last night?

H.M.Jr: Yes, last night. I also saw that the ninety-nine day bills also sold ---

Taylor: That's a funny one.

H.M.Jr: ---For a lower rate than the ninety day bills. Incidentally, Archie, I've had a call in for Paris some time. I wonder when they are going to get it. (Picks up telephone: Hello. What about Mr. Cochran? I see. All right.)

(To Mr. Lochhead) You might step out and see if there are any new cables that have come in. Will you - huh? We can't sit here forever on this thing, you know.

(Nods to Mr. Upham.)

Upham: I have nothing.

H.M.Jr: (To Mr. McReynolds.) I told you about the fast one I pulled on the President?

McReynolds: Yes.

H.M.Jr: It worked.

McReynolds: Another gentleman was in my office when I came out of the room.

H.M.Jr: Was he? What did you tell him?

McReynolds: I told him I understood the President was considering a proposal for the W. P. A.

H.M.Jr: What did he say?

McReynolds: Said he thought it would be fine if it works out; that he hopes it would be something to do and not just a payroll job.

H.M.Jr: Name him - it's no secret.

McReynolds: Harris Willingham.

H.M.Jr: All right, gentlemen.

Oh, by the way. Somebody told me Mr. Eccles' sister died.

Upham: It was in the papers.

H.M.Jr: Dowling comes in and tells me about it. Is Eccles in town?

Taylor: Yes, but he is going to Florida tomorrow night.

H.M.Jr: Well, will somebody call him and find out whether he wants to eat with us or not, and let me know.

Upham: Sure.

H.M.Jr: I'd be glad to have him if he wants to.

March 8, 1938

Between 10:30 and 10:45 I told Dr. Burgess to stop selling any Government bonds for both Federal Reserve and our own account and to watch the bond account very carefully. He said they were not selling. Made this suggestion in view of the failure of Whitney & Company.

At 10:45, told the Comptroller of the Currency O'Connor that Whitney & Company had failed and that their account was at Corn Exchange and Chemical and please to investigate and find out to what extent Whitney & Company had borrowed money from Corn Exchange and Chemical. He said he would report by 2:30.

Tuesday
March 8, 1938
10:28 a.m.

HMJr: Hello.
William
Douglas: Mr. Secretary.
HMJr: Talking.
D: Bill Douglas.
HMJr: How do you do?
D: The firm of Richard Whitney/is insolvent. and Company
HMJr: Oh, gosh!
D: It's - I was up all night on the thing and
we're on top of the job - we have our men in
there...
HMJr: Yes.
D: The situation just couldn't be saved.
HMJr: Yes.
D: I was talking to the President and telling him
about it a little while ago...
HMJr: Yes.
D: ...and he suggested that I call you...
HMJr: Yes.
D: ...for such bearing as it might have on the bond
market.
HMJr: Yeah.
D: The firm admitted its insolvency along about ten
o'clock this morning.
HMJr: Yes.
D: And they're being suspended forthwith from the
New York Stock Exchange and from the New York
Curb Exchange.
HMJr: Yes.

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D: Ah -

HMJr: Will you wait just a minute until I can talk to you alone? Will you just wait a minute?

D: Yes

(Short pause)

HMJr: Just one minute.

D: - Yes.

HMJr: How big are they?

D: They haven't even a very approximate idea, Mr. Secretary, for the reason that the - the partners don't know 'what the hell' they have and what they haven't. And Whitney himself, if he knows he won't tell. The bank loans are a million four hundred thousand.

HMJr: Uh huh.

D: The evidence that we have now is that the banks hold as collateral, among other things, securities that belong to Trust Funds and Institutions with which Dick Whitney was connected.

HMJr: Uh huh.

D: Our information is that two hundred thousand dollars of Government bonds belonging to the New York Yacht Club, of which Dick Whitney was Treasurer, --

HMJr: Yes.

D: -- are, had been pledged for bank loans.

HMJr: Good heavens!

D: And..

HMJr: They're crooked!

D: And that securities of an Estate that he was connected with have been pledged for the bank loans for the purpose of raising firm capital.

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HMJr: Yes.

D: To what extent there has been such conversion nobody right now knows, but we know that there have been some. It's a situation that has developed very very rapidly. We got a hold of it last night.

HMJr: Uh huh.

D: And our men are in there now. The banks...

HMJr: You don't know which banks they are, do you?

D: We haven't even - Christ, we can't even find out from the firm what the list of banks is. We know that the Corn Exchange is involved and that the Chemical is involved.

HMJr: I see.

D: But how many more - the records are in such shape that we haven't been able to spot all the bank loans yet.

HMJr: For heavens' sakes.

D: It-fortunately from one angle - very few members of the public are going to be involved.

HMJr: Uh huh.

D: The - there is a Chicago house that is involved and a Hartford, Connecticut house that is involved.

HMJr: Bankruptcy?

D: Yes. And those houses, we think, are strong enough to stand the shock.

HMJr: Uh huh.

D: There is probably no customer in the public sense. There are a 'hell of a lot' of Dick Whitney's friends in there.

HMJr: I see.

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D: And they're - he's heavily indebted to them.

HMJr: Yes.

D: And he owes one an unsecured note - four hundred and thirty-seven thousand dollars to J. P. Morgan and Company.

HMJr: Uh huh.

D: But...

HMJr: Unsecured?

D: Unsecured. Now, we tried early this morning to get some standby agreements and what-not and were proceeding on that basis, but the thing was so 'God-damned' messy that we couldn't have even an approximate idea as to how much he was under.

HMJr: I see.

D: And therefore we didn't - nobody in the Street would touch the thing because they didn't know how much they'd be underwriting.

HMJr: Yes.

D: While I was telling this to the President he asked me that I pass it on to you.

HMJr: Well, I'm delighted, as I say. I can't - I'm pleased that I priced the conversion extra sweet. I have a sixth sense on this, you know it's selling now at - I mean the rights are selling/a hundred and one and sixteen and seventeen (at) thirty-seconds, so we've got a nice comfortable market.

D: Yes.

HMJr: But I was criticized for making it a little extra but I thought that with so much hanging over us...

D: Yes.

HMJr: ...that I'd rather have it that than to have it not go.

D: Yes.

HMJr: So we're very comfortable, but...

D: Yes.

HMJr: ...after lunch, if you have something more, if you don't mind, I'll give you a ring.

D: Fine. I'll do that. I'll be in touch with the thing all day.

HMJr: And call me here, say between two and three.

D: I'll do that.

HMJr: Because...

D: Now, we're going to have a nervous market today, Mr. Secretary.

HMJr: Well, that's all right. I mean to say as far - I mean I - when I - when I know this stuff it's very helpful to me.

D: Yes.

HMJr: See?

D: Yes.

HMJr: And - the only other thing is whether it's different when you know which banks they are - I'd like to watch that.

D: The only two that I know today are Corn Exchange and Chemical.

HMJr: Corn Exchange and Chemical.

D: Yes.

HMJr: Well, it's as far as I know.

D: Yes. And I'll - as soon as I get the list of the others...

HMJr: Yes.

D: ...it's going to - it may take a little time to reconstruct this whole picture but as soon as I get the others I'll pass them on to you.

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HMJr: But it's - this, with a Morgan connection, it seems unbelievable, doesn't it?

D: It is. It's just tragic.

HMJr: Yes.

D: It's just tragic.

HMJr: Well, thanks so much.

D: All right, thanks.

Tuesday
March 8, 1938
12:02 p.m.

HMJr: Hello.

T.O.: Dr. Burgess.

HMJr: All right.

T.O.: Go ahead.

HMJr: Hello.

W. R. Burgess: Hello, sir.

HMJr: Well, what's going on up there?

B: Well, it seems to have steadied off.

HMJr: It has?

B: The rights are sixteen eighteen - I checked just a minute ago.

HMJr: Yes.

B: Which is up a little from the low; they were down as low as fifteen and seventeen.

HMJr: Yes.

B: The bond market is a little above its low and a little below yesterday.

HMJr: Yes.

B: But apparently smoothed off; there's trading going on.

HMJr: Well, are they at all nervous down there?

B: Ah - not very; apparently this is a special situation; it's been going on for some time and...

HMJr: Yes.

B: And this fellow Whitney apparently has gone a little haywire.

HMJr: Yeah.

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B: But it's just apparently an individual case.

HMJr: I see.

B: Not anything general.

HMJr: Well, what are our rights worth now?

B: Sixteen eighteen.

HMJr: Sixteen eighteen.

B: A hundred and one sixteen eighteen.

HMJr: Well, that isn't off much.

B: Oh no, it's only off, say, about three thirty-seconds.

HMJr: Uh huh. Have you sold any more?

B: We haven't done anything since the first thing this morning;- the first thing this morning we did five million. We've done nothing since then; nothing since this news came out.

HMJr: Uh huh. What are you down to now?

B: We're down to fifty million.

HMJr: Uh huh. Are you going to keep that in?

B: Oh yes, I think so.

HMJr: Yes.

B: I think we'll keep some.

HMJr: Yes.

B: Fifty is a little large.

HMJr: Oh.

B: But we didn't want to do anything until this thing settles down a little bit.

HMJr: Good. Good.

B: Which I think it probably will do before the day is over.

-3-

HMJr: Yes. Well, I don't - up until eleven I understood the market was only off a point.

B: Yes. It doesn't amount to anything yet.

HMJr: But the French thing is bad.

B: Yes.

HMJr: It's very bad.

B: Yeah.

HMJr: All right.

B: All right, sir.

HMJr: Thank you.

B: Goodbye.

Tuesday
March 8, 1938
1 p.m.

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HMJr: Hello.

T.O.: Dr. Burgess.

HMJr: Thank you.

T.O.: Go ahead.

HMJr: Hello. Hello.

T.O.: Go ahead.

W. R. Burgess: Hello.

HMJr: Hello, Burgess.

B: Oh hello, Henry.

HMJr: Yes.

B: Well, I just wanted to tell you this market is behaving very well.

HMJr: Good.

B: The Government market is back with its low a thirty-second or so lighter I suppose. The rights are up to seventeen nineteen or eighteen twenty, different dealers reported them. And the market has a good tone. Now, we're inclined to do a few transactions in rights if we get a chance; they're selling too high.

HMJr: Yeah.

B: But we wouldn't do anything unless the market's in good shape, of course.

HMJr: All right.

B: But it seems to be fine now.

HMJr: All right.

B: I think the little blow is over so far as the Government is concerned. Of course your franc is still bad and your...

HMJr: Yes.

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B: Your Stock Exchange is - seems to be steady,
but it's down below last night a little.

HMJr: All right.

B: But the Government Market seems to be all right.

HMJr: Thank you.

Tuesday
March 8, 1938
2:32 p.m.

HMJr: Hello.

Wm.
Douglas: Mr. Secretary, this is Bill Douglas.

HMJr: Go ahead.

D: There is very little more to report on this thing to date. The firm of Whitney & Company has filed a voluntary petition in Bankruptcy...

HMJr: Yes.

D: The only banks that are involved according to my accountants are, in addition to Corn Exchange and Chemical...

HMJr: Yes.

D: ...that I mentioned earlier this morning, - National City and Chase.

HMJr: National City and Chase?

D: Yes. It's still somewhat of a mystery; the facts are pretty befuddled as to what the total amount of those debts right today...

HMJr: Yes.

D: ...amounts to, but it's somewhere between a million and a quarter and a million and a half. They're - the public - we verified the fact that the public is not involved in that situation. There are some stock exchange houses that are large creditors but they can - from our reports - can stand the shock. The report came back very definitely again that - this afternoon - that some of the securities from Trust Funds, et cetera, had been wrongfully pledged to these banks to secure loans for firm capital. The market seems to have been fairly steady; it's gone off a little bit but the shock of this thing hasn't had a very pronounced effect. Whether the banks have been liquidating or not, I don't know.

HMJr: I thought that the market behaved particularly well today.

D: Yes. It...

HMJr: What?

D: It was off a point and a third.

HMJr: It has come back considerably.

D: Well, at 2:15 it was off a point and a third.

HMJr: Yes.

D: It has come back.

HMJr: Good. Well, I mean probably it was off...

D: Almost two points, yes.

HMJr: It was almost off two points...

D: Yes. Yes.

HMJr: ...at twelve. And then it came back to one ninety-six and now a point and a third.

D: Yes. Yes.

HMJr: Which, I think, under the circumstances, is awfully good.

D: Yes.

HMJr: What?

D: Yes. We've got out, I think, pretty well through the country the story that the public isn't involved and...

HMJr: Yes.

D: ...and this is an inside failure.

HMJr: Yes.

D: Well, I just - that's the only different fact that I wanted to carry on to you.

HMJr: Thank you so much.

D: Goodbye.

Tuesday
March 8, 1938
3:48 p.m.

HMJr: Hello.

T.O.: Mr. McDonald.

HMJr: All right.

T.O.: Go ahead.

HMJr: Hello.

Stewart
McDonald: Mr. Secretary.

HMJr: Yes.

McD: The increase in mortgages accepted for insurance last week was two million against about three million for the mortgages - accepted for appraisal. In other words that is picking up too.

HMJr: I haven't - you'll to say...

McD: You see there is a lag there and the lag - I find that most of our business, they tell me now, is from pretty good size developers, do you see?

HMJr: I see.

McD: And the lag will take place due to the fact that they have to grade their property and - and put in their streets and so forth and so on.

HMJr: I didn't get the figures.

McD: You didn't get the figures?

HMJr: No. Would you repeat the figures?

McD: Yes, I'll give them to you, righto.

HMJr: I didn't get them. I didn't get it.

McD: Here it is right here. The mortgages selected for approval was \$17,529,000.00

HMJr: That's right.

McD: The mortgages accepted for insurance were \$6,215,000.00.

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HMJr: Yes.

McD: The week before the mortgages accepted for insurance were \$4,350,000.00.

HMJr: So it's up...

McD: About two million.

HMJr: Well, that's swell.

McD: Oh, they're starting to come up too.

HMJr: Fine.

McD: But there is a lag there, do you see?

HMJr: I get you.

McD: O.K.

HMJr: Thank you very much.

McD: Goodbye.

March 8, 1938

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WEEKLY VOLUME OF FHA INSURING OPERATIONS

HOME MORTGAGES SELECTED FOR APPRAISAL

<u>Week Ending</u>	<u>Week Ending</u> <u>1938</u>		<u>Corresponding Week</u> <u>1937</u>	
	<u>No.</u>	<u>Amount</u>	<u>No.</u>	<u>Amount</u>
Jan 8	1,256	\$ 5,483,184	1,967	\$ 8,565,550
" 15	1,504	6,531,200	2,286	9,556,860
" 22	1,711	7,299,975	2,167	9,447,127
" 29	1,888	8,150,840	2,272	10,091,713
Feb 5	1,982	8,571,895	2,306	9,721,165
" 12	1,988	8,787,105	2,701	11,068,008
" 19	2,219	10,025,800	2,765	11,764,089
" 26	2,775	13,100,250	2,835	11,747,954
*Mar 5	3,864	17,529,602	3,244	13,683,500

*Tentative figures -- one office not reporting.

Note: This is the largest week in mortgages selected for appraisal since beginning of Title II operations -- largest prior week was week ending March 20, 1937, when mortgages selected numbered 4,086 amounting to \$16,879,710.

LARGE SCALE RENTAL HOUSING:

From February 1 through March 5, 1938, applications on 35 projects were received for mortgages totalling \$30,795,313.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 8, 1938.

TO Secretary Morgenthau
FROM Mr. Taylor

It developed in the meeting with Mr. Sarro that he is merely the advance party for some other Mexican Treasury officials who expect to be here at the beginning of next week. It was quite obvious that he was not intended to discuss policies. I therefore made arrangements to have him bring material which he has to the Treasury so that Harry White, or rather some of Harry White's men can go over it with him with a view to comparing it with the information which we have and filling in any gaps. I reported this action to Feis and told Feis that we were going to take the position which was agreed on at lunch, namely that we want to know what the Mexican policies are and would be glad to comment on them but did not wish to be placed in the position of making recommendations at this time. Feis reported this to Welles who hoped that we could go a little more strongly in the matter of telling them what to do. I told him that it might develop later that as the conversations developed we would be able to make rather forceful suggestions but that we should not start off in that fashion. Feis then told me that Welles thought that Berle could be helpful. I welcomed the suggestion and said that we would be glad to have Berle sit in on any of the detail negotiations.

The Hungarian Minister called me on the telephone to say that he was leaving for Cuba unless I could think of any reason for postponing his necessary visit. I told him that I thought this was a very good time for him to

be away and that we would not hesitate to call him back if his presence were advisable. During his absence Balasy will be in charge and will be able to furnish us any economic information which we may need.

aej

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March 8, 1938

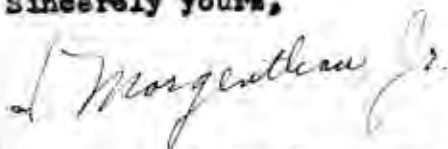
My dear Mr. Chairman:

I have before me your letter of February 16th enclosing a copy of your letter of the same date to the Central Bank, Oakland, California, which you were kind enough to send me voluntarily for my information.

In the letter to the Oakland bank, you state with respect to the bank's application for approval of the establishment of branches in Alvarado, Hiles, and Irvington, California, "We feel, therefore, that action by us upon your current application should be postponed until public policy on this point has been clarified. When the current uncertainty concerning public policy on this matter has been settled, we shall give consideration to your application."

I am writing to inquire whether there has been any change in the policy of the corporation on this matter since February 16th.

Sincerely yours,



Secretary of the Treasury

Hon. Leo T. Crowley,
Chairman, Federal Deposit
Insurance Corporation,
Washington, D. C.

CBU:pm

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAR 8 1938

TO Secretary Morgenthau
FROM Herman Oliphant

For your informationGenesee Valley Gas Company, Inc.

Mr. Foley attended meetings last Thursday and Friday at the SEC with Mr. Landis, attorney for the Company, Mr. White, president of the Company, and Mr. Kline, attorney for the trustee for the bondholders. Two plans to carry out the agreement reached at the meeting with Judge Caffey were submitted. Neither of the plans was acceptable as both involved marketing or purchasing on the part of the Treasury of \$115,000 Pavilion bonds held by Genesee. Yesterday the Company submitted still another plan calling for approximately \$5,000 of new money.

The SEC is now preparing its own plan which will be proposed in lieu of the plans submitted by the Company. This plan will have the approval of the SEC Commission and the Treasury and is expected to be ready some time this week. It is not now anticipated that Genesee will require any new money since the \$30,000 bonds under the Valley mortgage have been extended until 1941.

Representatives of the Company also conferred, as to the Treasury claim for taxes of approximately \$7,100, with Mr. Thurman Hill of the reorganization section of the Bureau. The Company has now submitted a formal offer to compromise our claim for \$3,000 to be paid in cash. We are considering this offer and expect to advise Genesee of our conclusion this week.

RE HOUSING COSTS

March 8, 1938.
10:50 a.m.

Present: Mr. Taylor
Mr. Oliphant
Mr. Haas
Mr. White
Mr. Foley
Mr. O'Connell
Mr. Murphy
Mr. Glasser
Mr. Daggit
Mr. Gaston
Mr. Riefler
Mr. Reynolds
Mr. L. R. Walker
Mr. Barton

H.M.Jr: The reason we had this delay, the stock exchange firm of Whitney & Company failed.

White: Former President of the New York Stock Exchange.

H.M.Jr: Sorry, but that had to be taken care of first.

Incidentally, very nice that we have plenty of margin in our conversion, because it's already fell.

Murphy: I agree with you.

H.M.Jr: All right, George, let's have it.

Haas: Yesterday afternoon we had another long meeting with the committee of which Harry is chairman. We have prepared a written report of this meeting, conclusions we have reached. As a basis for the discussion, might read that report.

H.M.Jr: How long is it?

Haas: About six pages.

H.M.Jr: What's in it, Harry? I mean I can't read the damn thing now.

White: Well, I'll read it aloud, if you like.

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H.M.Jr: No, give me the high points, because I'm late and I'm under pressure.

White: The high points are that there was agreement that there were three commodities that are too high, that we definitely feel are appropriate for reduction.

H.M.Jr: I tell you, let me just read it. Has everybody seen this?

White: No, nobody has seen it. Just done a minute ago. It represents the committee's views. The committee has

H.M.Jr: All right, read it aloud. We'll see how it goes.

White: All of it?

H.M.Jr: I guess you better.

White: "Preliminary report on prices of building commodities.

"Prices which are too high:

"The cost of building material and equipment constitutes from 60 to 70 percent of the combined material and labor cost of moderate and low priced houses. The material and labor costs in turn constitute from 70 to 90 percent of the total cost to the purchaser, (exclusive of the cost of land). Therefore, the cost of building materials is 45 to 65 percent of the cost to the consumer of a moderate or low priced home (exclusive of land).

"The members of the committee agreed that the following items may be definitely characterized as being too high and appropriate for reduction:

Iron and steel - as basic products
Cement
Gypsum and gypsum products

"Iron and steel in themselves are not important in the construction of low priced houses but are extremely important as constituent raw materials in a large portion of building materials.

"These three groups, directly or through being the basic raw material, make up roughly one-third of the cost of materials of a low priced or moderate home.

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"This means that the total value of the building materials which may be too high in price constitute from 15 to 25 percent of the cost of the home to the consumer.

"There was no agreement as to the extent to which these three groups of commodities could be reduced in price through any action the Government might take.

"If the prices of these three groups could be reduced by 10 percent, the cost of the home to the consumer would probably be reduced from 1 to 2 percent; if a 20 percent reduction, the cost could be reduced possibly from 2 to 4 percent.

"However, the gain obtainable from a reduction in the price of these three commodities is not to be measured solely by the reduction in the cost of housing. Other advantages are:

1. Iron and steel, and cement are much more important in industries other than low cost homes. A reduction in the price of these commodities would benefit industry all along the line.
2. Building renovating and repair would be reduced in cost and a large latent demand may be stimulated.
3. A better balance in our price structure would be obtained.

"(The reductions referred to above are exclusive of any reductions in the cost of building that may be obtainable through the elimination of 'racketeering' practices.)

"Prices which may be too high:

"There are several other building material items which may be too high in price, but the committee would not approve their inclusion without further investigation. Among these items were:

Electrical fixtures, wire and cable
Lime
Glass

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"Data supplied by the H.O.L.C. emphasizes the need for caution in generalizing with respect to price movements of building material. They show, for example, that in the two years 1936-37, while the building materials were moving up in general, the increase varied from about 7 percent in the small cities to 15 percent in the larger cities.

"Likewise, the price movement varied considerably in different parts of the country. Even for the same commodity the trend in prices varied from 5 to 15 percent among the 12 regions selected for study."

There is a large memorandum which has been prepared by Mr. Murphy's division which bears on that whole aspect.

"III. Why are the prices too high?"

"From the preliminary analysis of each of the items which are listed above as being in the opinion of the experts too high, we draw the following tentative conclusions as to the reasons why they are too high.

"The two most important reasons appear to be:

1. Price fixing practices successfully carried out through trade associations or through 'follow the leader or else' practices in the various industries.
2. Inefficient, complicated, and restrictive methods of distribution of the product at various stages in the marketing from the producer to the consumer. These practices result in price increases which may not in some instances be reflected in the manufacturers price, and which may be extremely important in local situations.

"The committee wished to emphasize the importance of these two factors in high building costs to the consumer.

3. A third reason for the failure of building materials cost to fall in price in conformity with the fall in general prices is the quantitative importance of rigid transportation costs

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in the cost of most of the building materials.

"IV. What can be done to reduce the prices of iron and steel, cement, gypsum and gypsum products?"

"Though the work of analysis of all these commodities is not complete, enough has been done to draw the following tentative conclusions as to the effectiveness of various methods that might be used to secure lower prices.

"There are seven possible channels through which an attempt may be made to secure a reduction in the prices of these commodities:

1. Tariff action.
2. Federal Trade Commission procedure.
3. Modification of transportation rates.
4. Government purchase policy.
5. Anti-trust legislation enforcement.
6. Voluntary cooperation of producers in an effort to increase volume.
7. Establishment of a permanent inter-departmental agency operating with regional boards to induce locally as well as nationally lower building costs through fact finding, publicity, and coordinating activities.

"

Now, each one of those is taken up more or less briefly. Do you want me to continue or shall I just tell you what we conclude?

H.M.Jr: No, I rather I'd get it and they all get it.

White: Continue reading?

H.M.Jr: Yes.

White: "Tariff action." Three possible channels. The first is:

"Trade agreement action.

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"Cement, iron and steel and gypsum products (not gypsum) are subject to import duties. Cement and some iron and steel products have already been included in trade agreements but further reductions under the Trade Agreement Act are possible" - to make up the maximum of 50 percent allowed by law. "Reductions to the limits provided by the Trade Agreement Act would lower cement prices at seaboard points, and possibly iron and steel. However, the existence of international cartel arrangements in iron and steel would make even coastal region price reductions in iron and steel uncertain.

"Some price reduction effect on cement in coastal regions through trade agreement action is more likely. A further cut in the duty (through trade agreement) of 1½ cents per hundred pounds is possible" - a cut already having been made of 4 cents. "The cement industry is at the present time pleading for relief from imported cement under the Anti-Dumping Act (a complaint is even now under investigation at the Treasury) and the cement industry strongly opposed the former reduction in the Belgian trade agreement."

That suggests that they are vulnerable in some degree, particularly along the Coast, to a possible further cut. "Gypsum products" - they would be imported chiefly from Canada - "bear a 35 percent ad valorem duty. A cut of half of that duty (which might be incorporated in the contemplated Canadian agreement) would doubtless be strongly opposed by the gypsum manufacturers." The reason why it is not certain is because the same company that produces - the leading producer in this country owns the leading producer, leading factory in Canada from which we would import it; so the extent of competition with the duty lowered is not certain.

"Crude gypsum comes in free and therefore is not amenable to tariff action except that the 'binding' on the free list can be eliminated." In the last Canadian agreement they asked that gypsum be bound. Might unbind that; but it's not very significant. And there are some special types of gypsum upon which duties do exist and which could be cut, but their quantitative importance in the gypsum industry is of no significance.

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"Trade agreements usually take considerable time to consummate; but the imminence of an agreement with United Kingdom dominions and colonies may provide a ready opportunity for reducing the tariff on some iron and steel and gypsum products. There is no likelihood in the near future of a trade agreement which could include cement." The last one was made with Belgium. The next high supplier is Denmark, and there is no treaty contemplated with Denmark. It would raise the question of reconsideration of the Belgian treaty, which is not being contemplated at present.

"The mere possibility, however, of what can be in effect administrative action in lowering import duties should constitute a bargaining weapon in the hands of the government in their effort to reduce prices of gypsum products and iron and steel products." That is, the mere knowledge that those things may be included may be of some value.

"(b) Tariff legislation by Congress" - is the second possible channel under tariff action.

"If the duties on these three groups could be eliminated instead of reduced, the effect on prices would, of course, be greater but action through this channel is politically difficult. The Ways and Means Committee of the House and Finance Committee of the Senate in recent years have refused to approve any legislation that involved tariff adjustment by the Congress for the reason that it is easier to start such action than to keep it in check. Tariff legislation looking toward a reduction in the duties on certain of these building materials would undoubtedly arouse antagonism and might result in tariff changes on building materials and other products that would prove rather embarrassing." That is the opinion of the Tariff Commission, or Mr. Fox of the Tariff Commission.

There remains the flexible tariff provision.

"Section 336 of the Tariff Act of 1930 authorizes the President of the United States to make adjustments in tariff rates within certain limitations after a cost-of-production investigation by the United States Tariff

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Commission. Such investigations, even if handled most sympathetically by the Tariff Commission, might under present conditions of low volume and high unit cost in iron and steel, cement and gypsum industries end in result justifying increases rather than decreases, to the embarrassment of the Administration."

It would be so simple to show that costs are very high in the United States now because of the refusal of most companies to accept as a measure of their cost reasonable maximum capacity. They take existing conditions and they say that their increased output is unusual and therefore is not to be used as a basis for costs.

"2. Possibilities of using Federal Trade Commission procedure to reduce prices of building materials.

"Where prices have been maintained by restraints upon competition, cease and desist orders by the Commission may be effective in reducing prices. The possibility of reducing the price of building materials by Commission complaints and orders is greater eventually than immediately because of the time required for investigation and trial. The immediate opportunities consist in expediting cases now in process, of which the more important are mentioned below. Any other cases initiated will require time for investigation before complaint is issued -- a matter of from a month to a year, depending upon the complexity of the case.

"The issuance of the complaint itself may have some price reducing effect similar to that in the steel case. The full effect of the order will not be felt, however, until after a trial in which the legal formalities of due process consume a minimum of one hundred days in addition to the time spent in taking testimony. Granted a year or more for proceedings, the Commission is potentially an effective price reducing instrument throughout the field.

"The more important cases in process bearing on our immediate problem are listed below, with comment as to the stage they have reached.

"(a) Cement Industry" - upon which there is a very large amount of material.

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"Complaint for price fixing. The Commission's testimony is now being presented and will take several months. The respondents' testimony probably will be extended, and if the order is issued the case probably will be appealed to the Circuit Court and the Supreme Court."

H.M.Jr: Let's skip that. Let's go down to 6.

White: 4, do you mind if I don't skip 4.

"Government purchase policy.

"Mr. Reynolds expressed the opinion that the Government was already doing all that could be done in this direction at the present time. However, some members of the Committee thought that some further examination of that channel might be undertaken. The Committee believes that Mr. Oliphant is preparing a memorandum on this matter."

H.M.Jr: You might as well do 5.

White: "Anti-trust legislation enforcement." Oliphant has an outline of a paper that they're preparing, which he has with him, on that point.

H.M.Jr: Let me read the rest, because I can read it faster and my time is short on account of this other thing, and I can't put my mind on this. (Reads few lines silently).

Well, what I want to say is this. Can't take the time to read this thing. So far so good. But I think the thing to do is to try to concentrate. If you'd only take three things, I mean - but iron and steel - I mean that covers so much. If it was one product in iron and steel

White: That was iron and steel, not products. The thought was on iron and steel - that's pig-iron, then

H.M.Jr: Well, take one thing. If it's pig-iron

White: That would be iron.

H.M.Jr: Well, cement.

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White: Well, don't - ...and steel.

H.M.Jr: Well, let me finish.

White: Sure.

H.M.Jr: What I want to get is this. First place, I've got nothing here to support this. I don't get the picture of cement. I want a graph, I want comparison to other prices, something - and then - I mean, in other words, using cement as an example, I'd want to just concentrate on cement or gypsum, gypsum products. Who are the people, what would I have to do? I'd want a whole paper prepared as to what I could do and in the order of their preference, in the order of their speed.

White: That's the next step.

H.M.Jr: I mean so that I could take it and read it, decide, "Well, I'll send for the representative of the industry; I've got a good case," or "I haven't." I've got to say to myself ...

Haas: We've got a further - the gist of this paper is what he didn't read - that last thing.

H.M.Jr: Well, I could go more into that this afternoon. But I'd like - would you concentrate, just take one thing; I don't care

White: You'd like one sample case.

H.M.Jr: I'd like one sample case. Then let's discuss it: Has the Government got a good case? I mean is there - I don't care what it is, take one thing.

White: All right. Gypsum would be the simplest.

H.M.Jr: Well, let's take one thing, and what can we - I mean if I send for "Mr. Gypsum" and sit down and talk with him, the representative of the industry, and say, "All right, this is why we think your price is too high. We think, Mr. Gypsum, you ought to reduce it and this is why we think you ought to reduce it, and we hope you will see your way clear. But if you don't, this is what the Government can do." But I

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don't want to sit in on a game like this, with people as able as they are, unless I've got good cards. I mean I want to be fair.

White: Would you like to see the chart on gypsum?

H.M.Jr: No, not now.

And the other thing - George, you've got to get Harry White out from under. He ought to be right now on foreign exchange, putting his whole brain on that. He doesn't belong in this thing. You've got to take the chairmanship over. I ought to have Harry right now sitting at my desk with me on this French situation. It's a crime to have him on this thing. He ought to be out from under this by tonight. You ought to take this thing over. Harry ought to be concentrating right now on this French thing.

Haas: I've got several committees.

H.M.Jr: This man behind there doesn't belong in this either.

White: Mr. Glasser has done more work than probably anybody else on this.

H.M.Jr: Isn't he in your office?

White: Yes.

H.M.Jr: He and you ought to get out from under this thing by tonight, because this French thing needs everybody's attention, see? I mean I've got to talk in front of my own people, because I haven't got time to see everybody individually. But Murphy - I mean Harry White and his people that are here on gold and monetary, have got to get out from under this thing and be available on what they're hired for. George!

Haas: I'll do it.

H.M.Jr: I don't know what Murphy is doing in here.

Murphy: The only reason I am here, Mr. Secretary, is because our sub-division prepared the data which we got from the Home Loan Bank Board, because our long contacts with that board gave us a special advantage in looking

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up their material. That's the only segment of the project in which we've been concerned at all.

H.M.Jr: But White and all his people - I mean I don't want them so fagged out that when we go into this other thing they aren't any good.

Haas: That's true of our whole staff.

H.M.Jr: I mean, but this - I need them now, and I'll need them any time. And that goes - I mean what time you (Riefler) can spare - I mean the international thing is, if you don't mind - if you'll take the last couple days that you're here ... I mean what you can give them, give them, but I get you so rarely that when I can get you I think you ought to brush up on the French thing. I mean whatever you can give these boys, fine, but on the other stuff - if you will.

Haas: If you've got a few more minutes - I'm just fearful the general consensus of opinion hasn't come out here at all, which is very important.

H.M.Jr: And what is that?

Haas: I take it the consensus of opinion was that it would be very unwise for you to sit across the table with a member of the industry and use sort of a big stick or threat. And Mr. Walker feels very strongly on that point - several of the other people. I feel it is almost an impossible task for you to win on that basis, too. I think Harry feels the same way. But that was the - if there was any accomplishment in the meeting, outside of this build-up, so you can have the background, I think that was it. Now, you may disagree with the committee on that, but

H.M.Jr: Well, I'm not - I'm going to be extremely cautious. And we can discuss that this afternoon. I mean we've got - I've got a very critical situation on my hands that needs my immediate attention. I can't put my mind on this thing. I've got a domestic thing and I've got a foreign thing both cracking, and I've got to pay attention to them, and if the thing gets worse we'll just call off the meeting this afternoon. I don't want to do this and do it except if I'm doing it

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a hundred percent, and if the thing continues to get worse, we'll just call off the meeting this afternoon. But I mean I'm not - I'm not going to move until Mr. Walker and everybody else has ample time to talk.

White: Would you suggest that I make enough copies for this afternoon so as to have them distributed, or would you prefer not to?

Haas: Do you want him out now, do you want these two people out now?

H.M.Jr: No, let them go through and clean up today. But by tonight I want them out of this picture. By tonight. Tomorrow morning I want White and his whole section free to concentrate on the monetary stuff.

Haas: All right.

H.M.Jr: I mean by tomorrow morning I want them free of all of this, and that goes for everybody in his section.

Reynolds: Mr. Secretary, could I leave? I have an appointment with the Appropriations Committee for 11:15.

H.M.Jr: Please.

(Reynolds leaves)

H.M.Jr: But as I say, if I go on this thing this afternoon, what I'll do is - and I don't expect to have it ready - is to take one thing and let's take a look at it. And I won't

Haas: I don't think they'll have it ready.

H.M.Jr: Well then, we can wait. Then we can wait.

All right, gentlemen, thank you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE
March 8, 1938.TO Mr. Haas
FROM Mr. White

Subject: Preliminary report on prices of building commodities.

I. PRICES WHICH ARE TOO HIGH

(a) The cost of building material and equipment constitutes from 60 to 70 percent of the combined material and labor cost of moderate and low priced houses. The material and labor costs in turn constitute from 75 to 90 percent of the total cost to the purchaser, (exclusive of the cost of land). Therefore, the cost of building materials is 45 to 65 percent of the cost to the consumer of a moderate or low priced home (exclusive of land).

(b) The members of the committee agreed that the following items may be definitely characterized as being too high and appropriate for reduction:

Iron and steel - as basic products
Cement
Gypsum and gypsum products

Iron and steel in themselves are not important in the construction of low priced houses but are extremely important as constituent raw materials in a large portion of building materials.

(c) These three groups, directly or through being the basic raw material, make up roughly one-third of the cost of materials of a low priced or moderate home.

This means that the total value of the building materials which may be too high in price constitute from 15 to 25 percent of the cost of the home to the consumer.

(d) There was no agreement as to the extent to which these three groups of commodities could be reduced in price through any action the Government might take.

If the prices of these three groups could be reduced by 10 percent, the cost of the home to the consumer would probably be reduced from 1 to 2 percent; if a 20 percent reduction, the cost could be reduced possibly from 2 to 4 percent.

However, the gain obtainable from a reduction in the price of these three commodities is not to be measured solely by the reduction in the cost of housing. Other advantages are:

1. Iron and steel, and cement are much more important in industries other than low cost homes. A reduction in the price of these commodities would benefit industry all along the line.
2. Building renovating and repair would be reduced in cost and a large latent demand may be stimulated.
3. A better balance in our price structure would be obtained.

(The reductions referred to above are exclusive of any reductions in the cost of building that may be obtainable through the elimination of "racketeering" practices.)

II. PRICES WHICH MAY BE TOO HIGH

(a) There are several other building material items which may be too high in price, but the committee would not approve their inclusion without further investigation. Among these items were:

Electrical fixtures, wire and cable
Lime
Glass

(b) Data supplied by the H.O.L.C. emphasizes the need for caution in generalizing with respect to price movements of building material. They show, for example, that in the two years 1936-37, while the building materials were moving up in general, the increase varied from about 7 percent in the small cities to 15 percent in the larger cities.

Likewise, the price movement varied considerably in different parts of the country. Even for the same commodity the trend in prices varied from 5 to 15 percent among the 12 regions selected for study. (The range of variation is indicated in Charts in the appendix.)

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III. WHY ARE THE PRICES TOO HIGH?

(a) From the preliminary analysis of each of the items which are listed above as being in the opinion of the experts too high, we draw the following tentative conclusions as to the reasons why they are too high.

The two most important reasons appear to be:

1. Price fixing practices successfully carried out through trade associations or through "follow the leader or else" practices in the various industries.
2. Inefficient, complicated, and restrictive methods of distribution of the product at various stages in the marketing from the producer to the consumer. These practices result in price increases which may not in some instances be reflected in the manufacturers price, and which may be extremely important in local situations.

The committee wished to emphasize the importance of these two factors in high building costs to the consumer.

3. A third reason for the failure of building materials cost to fall in price in conformity with the fall in general prices is the quantitative importance of rigid transportation costs in the cost of most of the building materials.

IV. WHAT CAN BE DONE TO REDUCE THE PRICES OF IRON AND STEEL, CEMENT, GYPSUM AND GYPSUM PRODUCTS?

(a) Though the work of analysis of all these commodities is not complete, enough has been done to draw the following tentative conclusions as to the effectiveness of various methods that might be used to secure lower prices.

There are seven possible channels through which an attempt may be made to secure a reduction in the prices of these commodities:

1. Tariff action
2. Federal Trade Commission procedure
3. Modification of transportation rates
4. Government purchase policy
5. Anti-trust legislation enforcement
6. Voluntary cooperation of producers in an effort to increase volume.
7. Establishment of a permanent inter-departmental agency operating with regional boards to induce locally as well as nationally lower building costs through fact finding, publicity, and co-ordinating activities.

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1. Tariff action

(a) Trade agreement action

Cement, iron and steel and gypsum products (not gypsum) are subject to import duties. Cement and some iron and steel products have already been included in trade agreements but further reductions under the Trade Agreement Act are possible. Reductions to the limits provided by the Trade Agreement Act would lower cement prices at seaboard points, and possibly iron and steel. However, the existence of international cartel arrangements in iron and steel would make even coastal region price reductions in iron and steel uncertain.

Some price reduction effect on cement in coastal regions through trade agreement action is more likely. A further cut in the duty (through trade agreement) of 1½ cents per hundred pounds is possible. The cement industry is at the present time pleading for relief from imported cement under the Anti-Dumping Act (a complaint is even now under investigation at the Treasury) and the cement industry strongly opposed the former reduction in the Belgian trade agreement.

Gypsum products bear a 35 cent ad valorem duty. A cut of half of that duty (which might be incorporated in the contemplated Canadian agreement) would doubtless be strongly opposed by the gypsum manufacturers. Their likely opposition suggests that their price would be somewhat forced down were the duty cut. Crude gypsum comes in free and therefore is not amenable to tariff action except that the "binding" on the free list can be eliminated.

Trade agreements usually take considerable time to consummate; but the imminence of an agreement with United Kingdom dominions and colonies may provide a ready opportunity for reducing the tariff on some iron and steel and gypsum products. There is no likelihood in the near future of a trade agreement which could include cement.

The mere possibility, however, of what can be in effect administrative action in lowering import duties should constitute a bargaining weapon in the hands of the government in their effort to reduce prices of gypsum products and iron and steel products.

(b) Tariff legislation by Congress

If the duties on these three groups could be eliminated instead of reduced, the effect on prices would, of course,

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be greater but action through this channel is politically difficult.

The Ways and Means Committee of the House and Finance Committee of the Senate in recent years have refused to approve any legislation that involved tariff adjustment by the Congress for the reason that it is easier to start such action than to keep it in check. Tariff legislation looking toward a reduction in the duties on certain of these building materials would undoubtedly arouse antagonism and might result in tariff changes on building materials and other products that would prove rather embarrassing.

(c) Flexible tariff provision

Section 336 of the Tariff Act of 1930 authorizes the President of the United States to make adjustments in tariff rates within certain limitations after a cost-of-production investigation by the United States Tariff Commission. Such investigations, even if handled most sympathetically by the Tariff Commission, might under present conditions of low volume and high unit cost in iron and steel, cement and gypsum industries end in result justifying increases rather than decreases, to the embarrassment of the Administration.

2. Possibilities of using Federal Trade Commission Procedure to reduce prices of building materials.

Where prices have been maintained by restraints upon competition, cease and desist orders by the Commission may be effective in reducing prices. The possibility of reducing the price of building materials by Commission complaints and orders is greater eventually than immediately because of the time required for investigation and trial. The immediate opportunities consist in expediting cases now in process, of which the more important are mentioned below. Any other cases initiated will require time for investigation before complaint is issued -- a matter of from a month to a year, depending upon the complexity of the case.

The issuance of the complaint itself may have some price reducing effect similar to that in the steel case. The full effect of the order will not be felt, however, until after a trial in which the legal formalities of due process consume a minimum of one hundred days in addition

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to the time spent in taking testimony. Granted a year or more for proceedings, the Commission is potentially an effective price reducing instrument throughout the field.

The more important cases in process bearing on our immediate problem are listed below, with comment as to the stage they have reached.

(a) Cement Industry

Complaint for price fixing. Commission's testimony now being presented and will take several months. Respondents' testimony probably will be extended, and if order is issued case probably will be appealed to Circuit Court and Supreme Court.

(b) Cast and Iron Soil Pipe

Price fixing complaint now under suspense awaiting order in the cement case because of similarity of questions involved.

(c) Lock Joint Pipe Manufacturers

Complaint for price fixing activities has been issued, testimony taken, and case awaits filing of attorney's briefs.

3. Through lowering transportation costs

The Committee expressed no opinion of the feasibility of this approach to the problem.

4. Government purchase policy

Mr. Reynolds expressed the opinion that the government was already doing all that could be done in this direction at the present time. However, some members of the Committee thought that some further examination of that channel might be undertaken. The Committee believes that Mr. Oliphant is preparing a memorandum on this matter.

5. Anti-trust legislation enforcement

Comments on the effectiveness of this channel will be submitted by Mr. Oliphant.

6. Voluntary cooperation of producers to lower prices in an effort to increase volume.

Most of the members of the Committee were of the opinion that something might be achieved through conference.

Several of the Committee, particularly Mr. Loomis of the H.O.L.C., Mr. Reynolds and Mr. Walker, were very disturbed at the possibility that the "big stick" method might be applied in the conferences even though clothed in velvet rather than the method of seeking voluntary cooperation from leaders of the industry. They hoped it would be the possibility of larger profits arising from increased volume that would be the inducement presented to business men to lower price rather than any implied threat of exercise of administrative powers.

Several of the Committee, on the other hand, believed that little was to be expected from purely voluntary cooperation among the leaders of these three industries. Mr. Edwards of the Federal Trade Commission was particularly skeptical of the possibility of inducing the iron and steel industries to voluntarily relinquish their price fixing procedures.

Mr. Edwards likewise expressed the view that in the event of conferences it were highly desirable that nothing should be stated by government representatives which might be interpreted as official government sanction of practices or prices in existence or anticipated.

Virtually all the members were of the opinion that even if some price reductions were obtained through voluntary action or through threatened or actual administrative action there was great danger that the prices of those commodities, as well as the prices of a large number of other items entering into building materials, would rise the moment the demand for building showed any substantial improvement. In the hope of preventing that from occurring, and in the expectation that more could be accomplished in reducing and keeping building costs reasonable through the maintenance of a permanent committee, the Committee recommends the following as a set-up worthy of consideration:

7. Establishment of a permanent inter-departmental agency operating with regional boards to induce lower building costs through fact finding, publicity, coordinating, and, possibly, policing activity.

This suggestion involves federal supervision of regional and local board of inquiry. These boards presumably would

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examine the local situations with regard to those restrictive practices of contractors, building material supply companies, and labor unions which result in unreasonably high building costs. It was the thought of the Committee that by such investigations, followed by publicity, and informal coordinating offers among the conflicting interests, possibly supplemented by some policing powers, the chaotic conditions which characterize the building industry can in due time and to some degree at least be removed. Moreover, such an organization might promote closer cooperation between local situations and Federal responsibilities (e.g., financing facilities, Federal Trade Commission's policing activities, anti-trust prosecution, etc.) with desirable effect on the cost of building to the consumer.

It is obvious, however, that more study and particularly much more planning is called for before any such scheme can be launched or even seriously proposed.

V. NEXT STEPS TO BE TAKEN BY THE COMMITTEE:

- (a) Completion of study of the three industries whose prices are definitely too high, for the purpose of supplying the necessary factual background for conference or administrative action.
- (b) Formulation of definite proposals for tariff action.
- (c) Further investigation of additional prices which may be too high.
- (d) Further examination of the proposal to create a permanent inter-departmental building materials committee with regional and local boards. This examination should include a study of the operations of the British committee dealing with building prices.

March 8, 1938

Mr. Haas

Mr. White

Subject: Preliminary report on prices of building commodities

I. PRICES WHICH ARE TOO HIGH

(a) The cost of building material and equipment constitutes from 60 to 70 percent of the combined material and labor cost of moderate and low priced houses. The material and labor costs in turn constitute from 75 to 90 percent of the total cost to the purchaser, (exclusive of the cost of land). Therefore, the cost of building materials is 45 to 65 percent of the cost to the consumer of a moderate or low priced home (exclusive of land).

(b) The members of the committee agreed that the following items may be definitely characterized as being too high and appropriate for reduction:

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Cement
Gypsum and gypsum products

Iron and steel in themselves are not important in the construction of low priced houses but are extremely important as constituent raw materials in a large portion of building materials.

(c) These three groups, directly or through being the basic raw material, make up roughly one-third of the cost of materials of a low priced or moderate home.

This means that the total value of the building materials which may be too high in price constitute from 15 to 25 percent of the cost of the home to the consumer.

(d) There was no agreement as to the extent to which these three groups of commodities could be reduced in price through any action the Government might take.

Mr. Haas - 2

If the prices of these three groups could be reduced by 10 percent, the cost of the home to the consumer would be reduced from 1 to 2 percent; if a 20 percent reduction, the cost could be reduced possibly from 2 to 4 percent.

However, the gain obtainable from a reduction in the price of these three commodities is not to be measured solely by the reduction in the cost of housing. Other advantages are:

1. Iron and steel, and cement are much more important in industries other than low cost homes. A reduction in the price of these commodities would benefit industry all along the line.
2. Building renovating and repair would be reduced in cost and a large latent demand may be stimulated.
3. A better balance in our price structure would be obtained.

(The reductions referred to above are exclusive of any reductions in the cost of building that may be obtainable through the elimination of "rack-tearing" practices.)

II. PRICES WHICH MAY BE TOO HIGH

(a) There are several other building material items which may be too high in price, but the committee would not approve their inclusion without further investigation. Among these items were:

Electrical fixtures, wire and cable
Lime
Glass

(b) Data supplied by the H.O.L.C. emphasizes the need for caution in generalizing with respect to price movements of building material. They show, for example, that in the two years 1936-1937, while the building materials were moving up in general, the increase varied from about 7 percent in the small cities to 15 percent in the larger cities.

Likewise, the price movement varied considerably in different parts of the country. Even for the same commodity the trend in prices varied from 5 to 15 percent among the 12 regions selected for study. (The range of variation is indicated in Chart ___ in the appendix.)

III. WHY ARE THE PRICES TOO HIGH?

(a) From the preliminary analysis of each of the items which are listed above as being in the opinion of the experts too high, we draw the following tentative conclusions as to the reasons why they are too high.

The two most important reasons appear to be:

1. Price fixing practices successfully carried out through trade associations or through "follow the leader or else" practices in the various industries.
2. Inefficient, complicated, and restrictive methods of distribution of the product at various stages in the marketing from the producer to the consumer. These practices result in price increases which may not in some instances be reflected in the manufacturers price, and which may be extremely important in local situations.

The committee wished to emphasize the importance of these two factors in high building costs to the consumer.

3. A third reason for the failure of building materials cost to fall in price in conformity with the fall in general prices is the quantitative importance of rigid transportation costs in the cost of most of the building materials.

IV. WHAT CAN BE DONE TO REDUCE THE PRICES OF IRON AND STEEL, CEMENT, GYPSUM AND GYPSUM PRODUCTS?

(a) Though the work of analysis of all these commodities is not complete, enough has been done to draw the following tentative conclusions as to the effectiveness of various methods that might be used to secure lower prices.

There are seven possible channels through which the prices of these commodities may be reduced:

1. Tariff action
2. Federal Trade Commission procedure
3. Transportation rates
4. Government purchase policy
5. Anti-trust legislation enforcement
6. Voluntary cooperation of producers in an effort to increase volume.
7. Establishment of a permanent inter-departmental agency operating with regional boards to induce locally as well as nationally lower building costs through fact finding, publicity, and coordinating activities.

Mr. Haas - 4

1. Tariff action

(a) Trade agreement action

Cement, iron and steel and gypsum products (not gypsum) are subject to import duties. Cement and some iron and steel products have already been included in trade agreements but further reductions are possible. Reductions to the limits provided by the Trade Agreement Act would lower cement prices at seaboard points, and possibly iron and steel. However, the existence of international cartel arrangements in iron and steel would make even coastal region reductions in iron and steel uncertain.

Some price reduction effect on cement through trade agreement action is more likely. Further cut in duty by trade agreement of 1½ cents per hundred pounds is possible. The cement industry is at the present time pleading for relief from imported cement under the Anti-Dumping Act (a complaint is even now under investigation at the Treasury) and the cement industry strongly opposed the former reduction in the Belgian trade agreement.

Gypsum products (that would be imported chiefly from Canada) bear a 35 cent ad valorem duty. A cut of half of that duty (which might be incorporated in the contemplated Canadian agreement) would doubtless be strongly opposed by the gypsum manufacturers. Their likely opposition suggests that their price would be somewhat forced down were the duty cut. Crude gypsum comes in free and therefore is not amenable to tariff action except that the "binding" on the free list can be eliminated.

Trade agreements usually take considerable time to consummate; but the imminence of an agreement with United Kingdom dominions and colonies may provide a ready opportunity for reducing the tariff on some iron and steel and gypsum products. There is no likelihood in the near future of a trade agreement which could include cement.

The mere possibility, however, of what can be in effect administrative action should constitute a bargaining weapon in the effort to reduce prices.

(b) Tariff legislation by Congress. If the duties on these three groups could be eliminated instead of reduced, the effect on prices would, of course, be greater but action through this channel is politically difficult.

The Ways and Means Committee of the House and Finance Committee of the Senate in recent years have refused to approve any legislation that involved tariff adjustment by the Congress for the reason that it is easier to start such action than to keep it

in check. Tariff legislation looking toward a reduction in the duties on certain of these building materials would undoubtedly arouse antagonism and might result in tariff changes on building materials and other products that would prove rather embarrassing.

(c) Flexible tariff provision

Section 336 of the Tariff Act of 1930 authorizes the President of the United States to make adjustments in tariff rates within certain limitations after a cost-of-production investigation by the United States Tariff Commission. Such investigations, even if handled most sympathetically by the Tariff Commission might under present conditions of low volume and high unit cost end in result justifying increases rather than decreases, to the embarrassment of the Administration.

2. Possibilities of using Federal Trade Commission Procedure to reduce prices of building materials.

Where prices have been maintained by restraints upon competition, cease and desist orders by the Commission may be effective in reducing prices. The possibility of reducing the price of building materials by Commission complaints and orders is greater eventually than immediately because of the time required for investigation and trial. The immediate opportunities consist in expediting cases now in process, of which the more important are mentioned below. Any other cases initiated will require time for investigation before complaint is issued -- a matter of from a month to a year, depending upon the complexity of the case.

The issuance of the complaint itself may have some price reducing effect similar to that in the steel case. The full effect of the order will not be felt, however, until after a trial in which the legal formalities of due process consume a minimum of one hundred days in addition to the time spent in taking testimony. Granted a year or more for proceedings, the Commission is potentially an effective price reducing instrument throughout the field.

The more important cases in process bearing on our immediate problem are listed below, with comment as to the stage they have reached.

(a) Cement Industry

Complaint for price fixing. Commission's testimony now being presented and will take several months. Respondents' testimony probably will be extended, and if order is issued case probably will be appealed to Circuit Court and Supreme Court.

Mr. Haas - 6

(b) Cast Iron Soil Pipe

Price fixing complaint now under suspense awaiting order in the cement case because of similarity of questions involved.

(c) Lock Joint Pipe Manufacturers

Complaint for price fixing activities has been issued, testimony taken, and case awaits filing of attorneys' briefs.

3. Through lowering transportation costs

The Committee expressed no opinion on the feasibility of this approach to the problem.

4. Government purchase policy

Mr. Reynolds expressed the opinion that the government was already doing all that could be done in this direction at the present time. Mr. Whisdell, however, thought that some further examination of that channel might be undertaken and will submit some comments later in writing.

5. Anti-trust legislation enforcement

Comments on the effectiveness of this channel will be submitted by Mr. Oliphant.

6. Voluntary cooperation of producers to lower prices in an effort to increase volume.

Most of the members of the Committee were of the opinion that something might be achieved through conferences.

Several of the Committee, particularly Mr. Loomis of the F.H.A., Mr. Reynolds and Mr. Walker, were very disturbed at the possibility that the "big stick" method would be applied rather than placing the conferences on a purely cooperative and voluntary basis. They hoped that it would be the possibility of larger profits arising from increased volume that would be the inducement to business men to lower price rather than any implied threat of exercise of administrative powers.

Several of the Committee, on the other hand, believed that little was to be expected from voluntary cooperation among the leaders of these three industries. Mr. Edwards of the Federal Trade Commission was particularly sceptical of the possibility of inducing the iron and steel industries to voluntarily relinquish their price fixing procedures.

Virtually all the members were of the opinion that even if some price reductions were obtained through voluntary action or through coercive action the prices of those commodities as well as the prices of a large number of other items entering into building materials would rise the moment the demand for building showed any substantial improvement. In the hope of preventing that from occurring and in the expectation that more could be accomplished through the maintenance of a permanent committee and regional boards the Committee recommends the following as a setup worthy of very serious consideration:

7. Establishment of a permanent inter-departmental agency operating with regional boards to induce lower building costs through fact finding publicity and coordinating activity.

This suggestion involves federal supervision of regional and local board of inquiry. These boards will examine the local situation as to restrictive practices of contraction, building material supply companies and labor unions resulting in unreasonably high labor costs. It was the thought of the committee that by such investigations, followed by publicity, and informal coordinating offers among the conflicting interests the chaotic conditions which characterize the building industry can in due time and to some degree at least be removed. Furthermore, closer cooperation between local situations and Federal responsibilities (e.g. financing facilities, Federal Trade Commission policing activities, anti-trust prosecution, etc.) would be promoted with desirable effect on the cost of building to the consumer.

It is obvious, however, that more study and particularly much more planning is called for before any such scheme can be launched or even seriously proposed.

V. NEXT STEPS TO BE TAKEN BY THE COMMITTEE

- (a) Completion of study of the three industries whose prices are definitely too high for the purpose of supplying the negotiations with the necessary factual background for conference or action.
- (b) Formulation of definite proposals for tariff action.
- (c) Further investigation of additional prices which may be too high.
- (d) Further examination of the plan to create a permanent inter-departmental committee with Regional and local boards.

March 9, 1938

My dear Mr. President:

I am sending you herewith
a report from Emerson Ross of WPA.

Yours sincerely,

The President,
The White House.

March 9, 1938

My dear Mr. Ross:

Thank you for your letter of March 8th and your memorandum on the employment situation.

I thought your report was so good that I sent a copy of it to the President.

Yours sincerely,

Mr. Emerson Ross, Director
Division of Research,
Statistics and Records,
Works Progress Administration,
Washington, D. C.

WORKS PROGRESS ADMINISTRATION

WALKER-JOHNSON BUILDING
1734 NEW YORK AVENUE NW.
WASHINGTON, D. C.

ack 74

HARRY L. HOPKINS
ADMINISTRATOR

March 8, 1938.

Mrs. Henrietta S. Klotz
Assistant to the Secretary
U. S. Treasury Department
Washington, D. C.

Dear Mrs. Klotz:

Secretary Morgenthau asked me for the
attached memorandum yesterday. I wonder if you
would pass it on to him.

Sincerely yours,

Emerson Ross

Emerson Ross, Director
Division of Research,
Statistics and Records

Enclosure.

WORKS PROGRESS ADMINISTRATION

WALNUT-JOHNSON BUILDING
1734 NEW YORK AVENUE NW.
WASHINGTON, D. C.

HAROLD L. HOPKINS
ADMINISTRATOR

March 3, 1939

MEMORANDUM

TO: Mr. Morgenthau, Secretary of the Treasury

FROM: Emerson Ross, Director *ER*
Division of Research,
Statistics and Records

The decline in private employment which began in September and continued without interruption through January was finally halted in February. The preliminary confidential index of factory employment (B.L.S.) increased .5 percent during February. There is, however, a usual seasonal increase in factory employment of 1.6 percent during February. The preliminary figure for factory payrolls went up 3 percent in February, indicating slightly longer hours per employee and alleviating to some extent the very serious problem of part-time employment which has developed. This payroll increase is also less than seasonal--the usual seasonal increase in February being about 6 percent.

Final figures for January show that the private employment decrease during that month was even greater than had been expected. Non-agricultural employment declined by 1,300,000 persons during the month of January, making a total decline of 2,800,000 persons since September. If the decline in agricultural employment were added to this the total decline in employment since September would approximate 3,500,000 persons. (This compares with the estimate of 3,000,000 persons made at the time the request for the \$250 million deficiency appropriation was sent to Congress.)

The need for WPA employment and direct relief continued to increase during February, chiefly because the large number of persons who lost their employment in December and January were forced to apply for relief. WPA employment has continued to increase and on February 26, the latest data available at this writing, stood at 2,076,000. The passage of the deficiency appropriation will enable WPA employment to increase to an average of 2,500,000 for March.

Direct relief has also continued to increase, but at a slightly declining rate. This decline in rate was in part due to slightly better employment conditions, but was chiefly due to the increase in WPA employment which took families off the direct relief rolls. The weekly increases in direct relief recently are as follows:

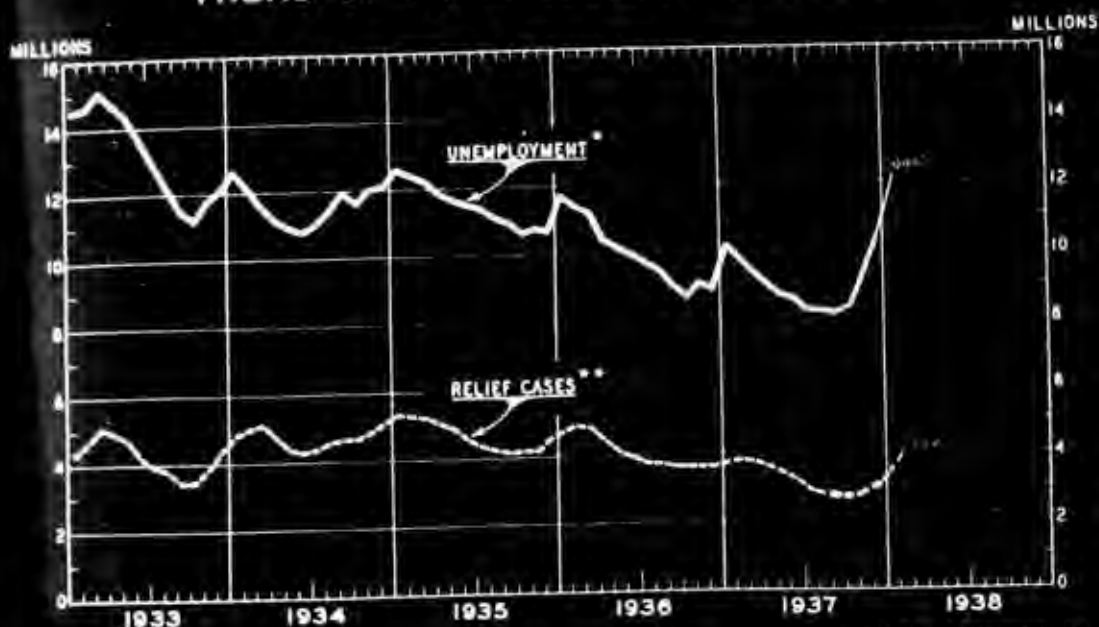
<u>Weekly periods</u>	<u>Cases</u>	
	<u>No. Areas Reporting</u>	<u>Percent Increase</u>
Jan. 1 to Jan. 8	40	2.6
Jan. 8 to Jan. 15	47	3.4
Jan. 15 to Jan. 22	48	3.4
Jan. 22 to Jan. 29	48	3.3
Jan. 29 to Feb. 5	49	2.2
Feb. 5 to Feb. 12	49	1.4
Feb. 12 to Feb. 19	47	1.5
Feb. 19 to Feb. 26	27	0.2

On the basis of these weekly figures we now estimate that approximately 2,000,000 cases received direct relief during the month of February. This is an increase of 3.9 percent over the revised estimate of 1,925,000 cases in January. The figures for recent months are as follows:

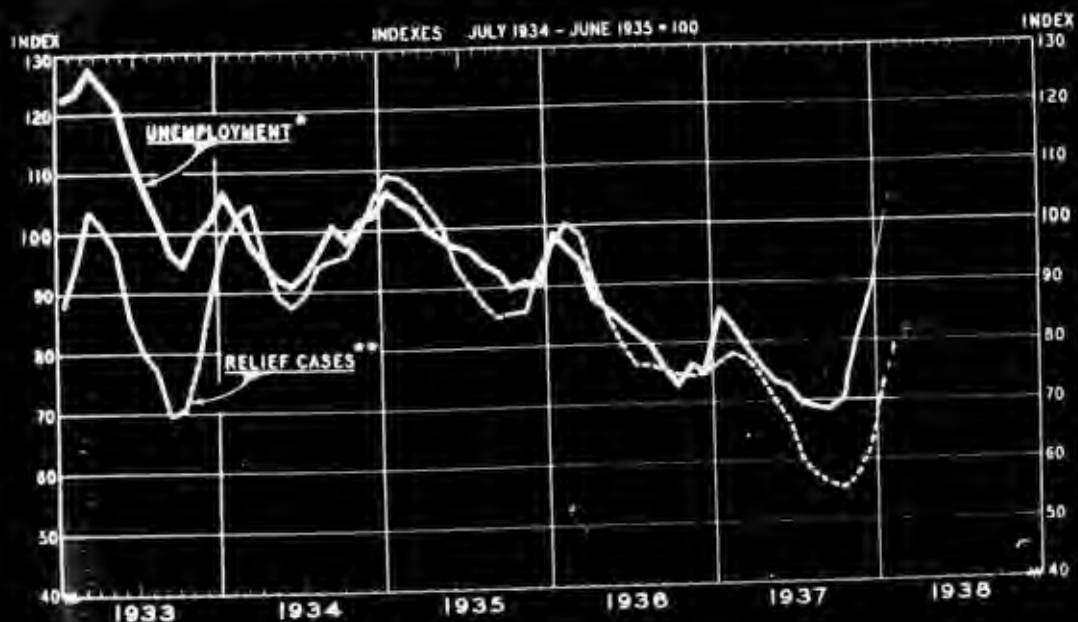
<u>Month</u>	<u>Cases</u>
<u>1937</u>	
October	1,272,000
November	1,375,000
December	1,655,000
<u>1938</u>	
January	1,925,000 (revised estimate)
February	2,000,000 (preliminary estimate)

I am attaching a chart which shows the trends of estimated unemployment as compared with the trend of unemployment relief during the past five years.

TREND OF UNEMPLOYMENT & RELIEF



Works Progress Administration 2451



* Unemployment statistics made for the Committee on Economic Security.

** Estimated unduplicated total number of families and single persons receiving relief and persons from relief rolls employed on Civil Works Program and Works Program Projects by month (Excluding August 1938).

Works Progress Administration 2454

RE HOUSING COSTS

March 9, 1938.
3:00 p.m.

Present: Mr. Taylor
Mr. Oliphant
Mr. Gaston
Mr. McReynolds (for brief period)
Mr. Haas
Mr. White (" " ")
Mr. Daggit
Mr. Goldenweiser
Mr. Currie
Mr. O'Connell
Mr. Blaisdell
Mr. Hinrichs
Mr. Reynolds
Mr. Barton
Mr. Edwards
Mr. Fox
Mr. Piquet
Mr. Loomis
Mr. Stewart McDonald
Mr. Fisher
Mr. Chawner
Mr. P. A. Stone (W.P.A.)
Mr. L. R. Walker

H.M.Jr: Well, let's start off and hear from the chairman of the rackets committee. I like the title.

Blaisdell: Not one of Mr. Capone's henchmen, Mr. Secretary.

H.M.Jr: I guess Al Capone overlooked a couple, didn't he?

Blaisdell: I think that in one sense this follows Mr. Haas' report, Mr. Secretary, but - but I think it ties closely enough together so that

"In our previous report we called attention to the fact that trade practices which tend to maintain costs of building are to be found in the following types of associations: Associations of manufacturers, associations of distributors, associations of local subcontractors, the use of local building codes and regulations to require the use of particular materials. It should be noted that these practices of manufacturers, distributors, subcontractors are often interrelated so that it is impossible to deal with one group without dealing with the others. At this time it is not important to specify exactly the way in which these selling arrangements between manufacturers, subcon-

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tractors and distributors are carried out.

"Our committee which is concerned with the price of materials" - that is, Mr. Haas' committee - "has picked out steel, cement and gypsum as building materials the prices of which are 'out of line'. These materials are of significance in residential construction. They are of even greater significance in all other types of construction, such as, commercial structures, roads, government buildings, etc.

"In suggesting methods for dealing with the types of practices noted in our previous memorandum we will again break down our analysis in terms of the original four.

"Manufacturers.

"Our immediate concern is with the level of prices maintained by manufacturers of steel and iron products, cement and gypsum. There is, however, a longer-run concern - that once business activity has begun prices are not immediately raised so as to press a further brake on construction activity.

"In the immediate situation there is some indication that prices of basic products such as pig iron and scrap, etc., are out of line with competing products (scrap), and with finished steel, and with the prices of some derived fabricated products. This would indicate that the time is ripe for a readjustment of the price of these basic materials. On the other hand the announced prices of iron and steel for the second quarter remain at previous levels with the exception of a drop in the price of cold-rolled steel sheets. The agreement to maintain prices is apparently strengthened by the announcement of the International Steel Cartel indicating a further intention to maintain prices.

"An attempt to reach a voluntary agreement to reduce prices is apparently our only method of procedure, unless we are willing to proceed in the immediate future with an anti-trust suit or a cease and desist proceeding. Such action would have great value if successful. It is known that both the anti-trust division of the Department of Justice and the Federal

Trade Commission have on hand a great deal of material which might be used in such proceedings. If the proceedings were successful it would probably destroy the work of many years in building up certain underlying pricing policies in the industry such as those included in basing point systems, maintenance of uniform delivered prices, the allocation of markets, and the agreement on discounts, and other charges.

"The use of yardstick competition in the steel industry is apparently out of the question in view of the fact that we have not as yet arrived at a point where we are willing to use the Government armament plant for the manufacture of armament.

"Dealing with the price of cement we are faced with many of the same problems already suggested in dealing with steel. As a matter of fact we are dealing with some of the steel manufacturers. The use of the multiple basing point system of setting prices, and the maintenance of 'regular' trade channels, the agreements on discounts and other charges are all found in this industry as well as in steel.

"It is possible that an immediate drop in price might be secured by negotiations. Other methods of approach involve the pooling of all government purchases in the procurement division of the Treasury. If through the concentration of purchases of cement for governmental use it is still impossible to break through the practices now used by the industry the possibility of anti-trust action still remains. In this connection it should be noted that the Federal Trade Commission is now pressing its complaint against the Cement Institute. It seems highly probable that this suit will grind on for another year at least before the completion of taking testimony. An action by the Department of Justice would not involve some of the difficulties by which the Federal Trade Commission is hampered.

"In dealing with gypsum there has been no opportunity to explore the field. However it is known that the industry is functioning under a consent decree and it is possible that some line of approach could be found by exploring the situation of the industry with regard to this consent decree.

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"Associations of Building Materials Dealers."

"The Federal Trade Commission now has complaints pending against the Florida Building Material Institute and a number of associations in California. They have recently issued a cease and desist order which includes a number of national associations of building materials dealers. It is desirable that these orders and complaints be pressed and that the Commission remain active even after the issuance of its cease and desist orders.

"Local Subcontractors."

"It should be noted that while local subcontractors usually take the responsibility for supplying labor on building jobs that part of their income is derived from commissions on materials bought through them. In order to maintain the flow of materials through their hands agreements are struck between their associations and trade unions whereby the union assumes responsibility for 'policing' the job in return for maintaining a union contract. The type of practice involved as far as the unions are concerned is that of a secondary boycott. It would seem clear that many of these practices are illegal. The important question is the location of this kind of agreement. From information in the hands of the procurement division it seems clear that they are fairly widespread but more frequently found in large centers than in small.

"It is suggested that a possible method of dealing with these practices might be found through the use of government contracts. The breaking up of such practices by the government on government jobs would undoubtedly be reflected in private contracts even if no legal action were taken. A procedure somewhat as follows might be carried out: On all government construction jobs require that bids be submitted broken down; wherever there is evidence of subcontractors' agreements bids should be rejected and the reasons stated. If it is still impossible to secure competitive bidding on the underlying contracts either one of two lines of policy might be followed. The first would involve individual negotiations with trade unions making it clear that there is no desire on the part of the government to break union scales or destroy union conditions. If it is still impossible to break down the

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combination construction could be undertaken by the government on force account. This of course still would require the purchase of materials under competitive bidding. However, in this field the methods which have already been used by the procurement division in breaking through non-competitive bids are available.

"The Use of Local Building Regulations and Codes to Establish the Use of Certain Materials."

"The National Bureau of Standards has secured from various government agencies concerned with financing of homes some evidence of this type of practice. Just how widespread it is we do not know. Here again local citizens' committees could be of real value."

"Summary."

"The program suggested centers around the following four types of agency: (1) Procurement Division, (2) Department of Justice, (3) Federal Trade Commission, and (4) Local Citizens' Committee. It is obvious that a close coordination in carrying through this type of program is essential. It is, however, entirely practical."

H.M.Jr: That is an excellent paper. You going to give me a copy?

Maisuell: Yes, sir. I'll give you the one I read from.

H.M.Jr: Who would like to question it? Reynolds, are those suggestions about methods of asking for bids in Procurement - is that practical?

Reynolds: Well, there would have to be some change in legislation to permit work on force account.

H.M.Jr: How about asking for this breakdown on bids to check subcontractors' agreements?

Reynolds: Well, we've given it some thought. I rather think that there is a possibility that something along that line can be done.

H.M.Jr: Well, that's something wholly within our own control, I mean.

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Reynolds: Yes. Our endeavors so far have been to see that the subcontractors get paid, and we have been jumping on the general contractors all the time, and I think we picked the wrong bird most of the time. The subcontractors are the ones that are causing us the greatest trouble and greatest cost.

H.M.Jr: I mean this part of the memorandum - did you sit in on this?

Reynolds: No, this is the first time I've seen it. I gave them a memorandum of certain practices we've found all over the United States, and indicated the additional cost to us that we are paying due to these trade practices, in some cases probably a hundred percent.

H.M.Jr: Well now, am I not correct that in, for instance, the purchasing of cement - of course, we don't buy for the Army engineers, do we, for dams?

Reynolds: No.

H.M.Jr: What?

Reynolds: No, sir.

H.M.Jr: But we could.

Reynolds: Bureau of Reclamation is one of the large purchasers of cement.

H.M.Jr: Who?

Reynolds: Bureau of Reclamation. Of course, there is an enormous amount of cement used in the construction of roads, but the Bureau of Public Roads is largely a financing agency.

H.M.Jr: To the states.

Reynolds: Yes.

H.M.Jr: But the Bureau of Reclamation - they buy cement direct?

Reynolds: That's my understanding.

Oliphant: Mr. O'Connell has been looking into that. Might state what the possibilities are in the way of concentrating

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Government purchases on cement.

- O'Connell: In the main, the Bureau of Reclamation purchases direct all the cement they use on the jobs, make the cement available to contractors. The War Department - Army engineers do that to some extent. In 1937 the Army engineers bought direct about 1,400,000 barrels of cement, and a large amount was purchased by contractors. There is no reason why both agencies couldn't buy all this direct from manufacturers.
- H.M.Jr: Well, if I'm correct, and you can check, I think that under - whatever the Act that Procurement operates under, the President could, for instance, just under an Executive Order direct that Procurement would include in its purchases all cement.
- Oliphant: An order for the Director of Procurement, approved by the President, would include that.
- H.M.Jr: We could include as much as we want to. We buy all automobiles now for all agencies, I believe, don't we? Don't we buy all automobiles?
- Reynolds: There's been a few exceptions.
- Oliphant: Large amount of cement is purchased by Forestry, in Agriculture, and what other possibilities are there?
- Reynolds: We're buying a lot of cement. Now, of course, for W.P.A. on buildings we have not as yet bought the cement.
- Oliphant: What were those figures you gave me on W.P.A.?
- H.M.Jr: Mr. McReynolds has been working for me for some time on setting up really what amounts to - we've kept very quiet about it - a War Industries Board. That's what it amounts to. And he's got about three months' head start on that, and I'll have him come in and find out where we are. But he's had about two or three months' work on that, just to get ready, so - and I don't know just now far he's got. But that would be - but cement - I mean it looks to me as though we might do something.
- Oliphant: You might be interested in this figure, Mr. Secretary. As I get it, Procurement purchased for itself and for

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W.P.A. about 10 percent of 1937 production - 11 million barrels.

(McReynolds comes in)

H.M.Jr: McReynolds, we were talking about - this is this price committee, and we were talking about cement. The question came up of the possibility of having Procurement buy all the cement for Army engineers, Navy, Interior - Roads, might be able to, but I doubt it. Now, how far are you along on my so-called "War Industries Board"?

McR: Well, the boys have been gathering - they've got information, I think, from all of those units as to their purchases and contemplated purchases for this year.

H.M.Jr: They have?

McR: I think Harry could furnish you pretty currently that information.

H.M.Jr: Harry?

McR: Collins, who is in charge of the stuff.

H.M.Jr: Well, as long as you've been handling that, supposing you find out what would be necessary - take it up with Admiral Peoples - if we decided we wanted to move on cement, and how much cement will the Government buy for the rest of this calendar year. See?

McR: All right.

H.M.Jr: See?

McR: Yes, sir.

H.M.Jr: And give me - well, I don't want to be unreasonable; if I could have the answer Monday morning, it would be very nice.

McR: Yes, sir. You want all Government units?

H.M.Jr: On cement. Now just wait a minute, see if there will be anything else. Will there be anything else? But McReynolds has been handling this. Anything else that

the Government buys?

Blaisdell: Some structural steel.

Hinrichs: Your reinforcing steel comes in that same market.

H.M.Jr: Reinforcing steel?

McH: I doubt whether you've got information in detail at the present time on the classes of steel. May have some information.

H.M.Jr: Reinforcing - do we buy enough of that?

Reynolds: There are large tonnages of reinforcing steel bought for W.P.A. purposes, and we use a lot of reinforcing steel bought through the general contractor. It's been my feeling that that is one item in the steel industry that is out of line. I can't understand why reinforcing bars should cost more than rolled shapes.

H.M.Jr: Should McReynolds add reinforcing steel to that?

Blaisdell: That would be fine.

H.M.Jr: What?

Blaisdell: I think it would be fine to add that.

H.M.Jr: Reinforcing steel?

Blaisdell: I think anything that we do get on this volume of steel purchases, Mr. Secretary, would be helpful.

H.M.Jr: Well, I don't want to give him so much that he ... Is it reinforcing steel that you want? Is that what you call it? Is that the technical name, Reynolds?

Reynolds: Yes, sir, reinforcing steel.

Oliphant: Used in reinforcing cement.

Reynolds: Used in reinforcing concrete.

Oliphant: With cement.

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H.M.Jr: What else, while we have McReynolds? All right, Mac, thank you.

McR: O.K. We can probably give you a better story on the whole steel picture. I doubt whether we've got the classification on the information we've got now.

H.M.Jr: Well, you know how the Army always loves to give us that.

McR: Well, we got some pretty good information from them. Of course, you have one problem, you know, Barton, on that material; when you're talking about the stuff that will be bought by contractors - well, we haven't got it.

Reynolds: No, you wouldn't have it. But we could give you an approximate figure as far as our work is concerned.

McR: Of course, that would be the contractors in various places. But so far as both cement and steel are concerned, as far as the public building is concerned, you could give that better than anybody else, because it would have to be an estimate on the basis of the amount of business you expect to do, and wouldn't be contemplated direct purchases, which is all Harry would have.

(White comes in)

Reynolds: We can get that for you.

McR: Yes. Well, will you do that?

Reynolds: Yes. Of course, on many of our small buildings, it would be impractical, but the Department of the Interior building required over a hundred thousand barrels of cement in itself, which is a nice amount. Wouldn't appreciate that that much went in there.

(McReynolds leaves)

H.M.Jr: Before I call on the price people, I want to explain why Dr. White isn't taking part any more. This French thing got so serious that I had to pull him out of this - and his whole section that works under him. I just had to stop him on short notice and get him out from under this, because it's up to him to save France, and he can't do both at the same time.

Taylor: Or maybe either one.

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H.J.Jr: Well, I just wanted to explain why he was suddenly pulled out. But the French are now trying to resign and they won't let them. But maybe before this meeting is over they will have found a way to do it. But that's why White and his people are out of this picture. I just wanted to explain.

Oliphant: Exploring this cement possibility, did you want to include also cases where now the contractors supplying

H.J.Jr: Harry, you can go back on France. I wanted to explain why you weren't in on this.

(White leaves)

Oliphant: I wanted to explain also this possibility: cases where contractors are now supplying the cement, but where we could under the law supply the cement.

H.M.Jr: Say that again, Herman.

Oliphant: You want to explore also this possibility: namely, those cases where hitherto the contractor has been buying and supplying his own cement, but where we under the law could.

H.M.Jr: Yes, that's right.

Oliphant: Supply the cement.

Reynolds: We could supply the cement on all our contracts. Nothing to prevent that.

H.J.Jr: Now, who else is in on cement? Federal Trade in on cement?

Glaisdell: That's right. I discussed this pretty thoroughly with Mr. Edwards, but he might like to say something additional.

Edwards: The Commission has been taking testimony in a cement case for price fixing activities for two or three months. I should say the presentation of the Commission's side of the case will take at least two or three months more. How long the respondent will

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take for their reply, of course, no one can say.

H.M.Jr: Well, supposing this end of the Government did something in the sense of - I mean pooling our purchases and using that as a lever to get a reasonable price. Would that in any way interfere with your case?

Edwards: I don't think so.

H.M.Jr: What?

Edwards: I don't think so. The Commission's case is based upon a set of price-fixing activities of long standing. Even if those should by any chance disappear at the present moment, under the Commission's statute it has authority to issue a cease and desist order against a practice which is discontinued during prosecution, to make sure it isn't resumed as soon as the case is dropped.

H.M.Jr: How about the Tariff Commission on cement?

Fox: We had an investigation many, many years ago in which the duty was increased. It has since been reduced, in the Belgian trade agreement, not full way but part way, and there has been considerable repercussion on account of that decrease. We received only today a very serious argument from Florida that we're killing their cement industry.

H.M.Jr: How about the State Department? Is there anything up on any trade treaty?

Fox: No, the only one possible ...

H.M.Jr: Where is the State Department?

Haus: It's my fault. I forgot about them.

Fox: The only place where possible, Mr. Secretary, is a renewal of that Belgian trade agreement. We went half way on that, and we'd have to reduce it again.

H.M.Jr: How about Canada? Canada make any cement?

Fox: No.

H.M.Jr: Freight is very important, isn't it?

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- Fox: Very important. In other words, the imported cement reaches only certain markets on the Atlantic Coast that cannot very conveniently or very efficiently be reached by our domestic producers. They don't get very far inland.
- Blaisdell: It is true, is it not, Mr. Fox, that the price of cement on the seaboard has been materially affected by the treaty?
- Fox: That's right. That is, it is lower than they'd like to have it, because of competition.
- H.M.Jr: Well, I think there are possibilities in cement, and I think, Mr. Oliphant, this would be a good time now to let Justice know how far we are and ask them what they've got. Will you? I mean, where do they stand? What?
- Oliphant: (Nods yes)
- H.M.Jr: I mean I think we've gone far enough now to ask them where they stand.
- Before we get on the prices, anybody want to ask anything on this?
- Blaisdell: I would like the opportunity, Mr. Secretary, of exploring a little further with Mr. Reynolds the possibilities under the modification of bid practice.
- H.M.Jr: I wish you would. I wish you'd press Mr. Reynolds on that.
- Blaisdell: I don't think he needs any pressing.
- Reynolds: I gave him about 15 pages, or 12.
- H.M.Jr: Well ...
- Blaisdell: They've spotted particular places. The thing I'm thinking of is method of procedure and possibly exploring any additional legislation if necessary.
- Taylor: Cement is - use subcontractors in that. This question of commissions, so on, for the subcontractor - would

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that appear in the cement to any extent?

Blaisdell: Yes, it does. As a matter of fact, right here in the District there was a strike called for the purpose of forcing the purchase of cement through a particular dealer.

Sawards: Long-standing arrangement between dealers and manufacturers as to what channels of trade are recognized as the dealer's province, and an effort has been made from time to time to force that policy upon the Government in its buying.

H.W.Jr: Has anybody got a little chart - I'm chart-minded - on cement?

Reynolds: It's a straight line.

McDonald: You have one, Dr. Fisher, haven't you?

Fisher: Yes, I have. I think they've got another one there.

(Blaisdell takes a chart up to Secretary)

Blaisdell: The steel and the cement are together.

H.W.Jr: What?

Blaisdell: The steel and cement - here's steel structural. These are brick tile and lumber, showing

H.W.Jr: How much - what's a hundred?

Blaisdell: '26.

H.W.Jr: I think this - from what I have heard, I'd just like to make this suggestion, see what you people think of it: that we just get a group and concentrate on cement. It seems to me as though we've got enough, and I just wondered, for instance, if we could take a group and simply say - now, Mr. McReynolds will get that as fast as he can - and take somebody I mean the Tariff Commission would come in on it, wouldn't you; Federal Trade; somebody from State Department. I mean just let's - General Counsel; yourself (Blaisdell). I mean if you continue - and this is a good paper - Procurement - and let's just concentrate on cement.

I really think that after all what we're trying to do is demonstrate here, can this Administration, or the Government, let's say, the Federal Government, work as a whole, as a committee, on this thing? And from what I've heard - what is it, three weeks now - it looks to me as though cement was - we really had an opportunity there. And after all, cement is so important not only from the standpoint of the home owner but from the Government itself. What would you think of that: just to take cement? Let's say cement and structural steel, because they go together - to reinforce the cement.

Blaisdell: I'd say by all means....

Reynolds: Reinforcing steel is in a different category from structural. In our opinion, fabricated structural steel is selling at a very low price; but not reinforcing bars, they remain constant.

H.M.Jr: What about reinforcing bars and cement, those two?

Blaisdell: I think we could explore that cement picture - I mean the steel picture still further and possibly get somewhere on other items in that list too.

H.M.Jr: Well then, let's just - of course, the cement - when you make it, you've got your reinforcing bars that are so important, aren't they?

Blaisdell: The two things run together, undoubtedly.

H.M.Jr: Pardon me?

Blaisdell: The two things certainly hang together, from a structural standpoint.

H.M.Jr: Well, look around, let's get names of people who will work with you, so you know. Let's just take a look around. I think the thing is to concentrate. I think we'll get somewhere on this.

Fox: Mr. Secretary, I don't know of any group that would be as much concerned about a threat - a threat that cannot easily be carried through - of a further reduction in tariff, as the cement people.

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H.M.Jr: I didn't get it. That they would or would not be?

Fox: They would.

H.M.Jr: Would be influenced?

Fox: Would be very much concerned by the possibility, although the possibility isn't a very easy one to carry through, of a further reduction.

H.M.Jr: They would?

Fox: The cement people would be much more concerned than any other group.

H.M.Jr: Then you think it's good to take cement, Mr. Fox.

Fox: Yes, they're vulnerable as far as the tariff is concerned.

H.M.Jr: Let's go around, just name them. Commissioner Fox.

Blaisdell: Mr. Fox. Mr. Reynolds certainly. Legal counsel.

H.M.Jr: Mr. Oliphant. And I'll get Mr. Oliphant to give you a name from - somebody in the Department of Justice, see? This would be a swell thing for Thurman Arnold to start on.

Oliphant: After he's confirmed.

H.M.Jr: What?

Oliphant: After he's confirmed.

H.M.Jr: They'll get him confirmed.

(On phone) Hello. - Just a minute. I'll take it in her room.

Just discuss this cement thing. I'll be back in a minute. Just a minute. Just discuss the cement.

(Secretary leaves)

Blaisdell: How about Edwards over here, of Federal Trade? (Writes name down on list)

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Hinrichs: Is there anything in the Bureau of Mines, Tom?

Chawner: Statistics on production.

Blaisdell: Of course, got all the statistical material.

(Discussion proceeds in several
small groups for few minutes)

(Secretary returns)

H.M.Jr: Well now, have you got your committee?

Blaisdell: I would say, Mr. Secretary, Commissioner Fox, Mr. Edwards, Mr. Oliphant, Mr. Reynolds

H.M.Jr: Reynolds?

Blaisdell: Yes, sir.

Fox: Mr. Secretary, I wonder if Mr. Piquet could act in my stead, if it's satisfactory.

Blaisdell: Rely on your judgment.

Fox: Yes. I'll keep in touch with it.

H.M.Jr: And I think it would be good to put Mr. McReynolds on too, because he's got this - he's been working on this central purchasing agency, see?

Blaisdell: (Nods yes)

H.M.Jr: And the understanding is that they're going to concentrate on cement and reinforcing bars, is that right? But cement particularly.

Blaisdell: Yes.

Reynolds: Is there any other part of that report that you want to concentrate on? Because there are some very important things in there other than what

H.M.Jr: No, because I know enough about this - I mean if we can do one, I think it's time enough - I think cement is so involved and everything that if we get one

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thing done, I think that - then we've got the pattern, then we can go ahead. And after all, when I get this thing started I want to turn it over to somebody and say, "Well, we've done it one way. Let somebody... We've done cement. Now let the President appoint somebody to go ahead and do the rest of them.

Reynolds: The things we're interested in are these rackets.

H.M.Jr: All right. Well, you're going to re-examine your method of asking for bids, aren't you?

Reynolds: Yes, we'll look into that. We'll look into that.

H.M.Jr: Well, this is so big, I think if in the next four or five days they could come in with a report - that they'd have something on cement - I think that it would be most encouraging. After all, I look at the English - I mean the English get out a report; in one year they decided what color the bath tub would be, and they filed their report. That's their annual report. They decided they'd use white bath tubs instead of green bath tubs. That's their annual report. That's slightly exaggerated, but ...

Now, Haas, who's got prices?

Haas: I guess I better take it.

H.M.Jr: All right, go ahead.

I mean the reason I'm - we went through the thing with tires, and believe me, to get in on this thing - it's a job and it will take all the intelligence and backbone that we've got. As I say, we went through on tires, and that was something.

Fisher: Would it be possible, Mr. Secretary, to have another group that follows up these rackets simultaneously?

H.M.Jr: All right.

Fisher: It does seem to me that we have an opportunity there of accomplishing more.

H.M.Jr: Do you? All right, how will we break it up? I mean I don't want to - how would we do that?

McDonald: Do you refer, Doctor, to the rackets that you have a

list of there?

Fisher: Yes.

A.J.Jr: Well, just how would you - can you carry more than one?

Bulldell: I'm afraid not, sir.

A.J.Jr: I didn't think so either.

Bulldell: I said to Mr. Reynolds as I came in at the door, gave him a copy of this, that I didn't want to put him on it, but it seemed as though a lot of things hit right on him and Procurement Division.

A.J.Jr: All right. How about if we ask Mr. Reynolds, and he needn't be on this cement committee. We can put Collins on it. Huh?

Reynolds: Yes, sir.

Bulldell: Yes, and Mr. Barton.

A.J.Jr: All right, let Barton be on this thing. Really - isn't it really Collins?

Barton: Collins is in the purchasing. He's been doing a great deal of it.

B.M.Jr: I think I'd put Collins on this thing, huh, to represent the Admiral? Huh?

Reynolds: All right.

A.J.Jr: And then why don't you two fellows pick up this racket thing?

Reynolds: All right, we'll do what we can with it. We have a great number of instances of what's going on. We know generally what's going on everywhere. It's a question of how you're going to get at it and find a cure for it.

A.J.Jr: Well, I suggest you two gentlemen pick up the racket thing. How would that be? Fisher, could you work with them?

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Fisher: I'll do everything I can to help them, yes.

H.M.Jr: Well, who would you like to have work with you?

Reynolds: I'd like to have Dr. Fisher and Mr. Barton.

H.M.Jr: All right, Barton. Who else?

Reynolds: Well, I don't know. Mr. Stone, I think, could serve.

Stone: I'll serve.

H.M.Jr: Stone, all right. Who else?

Reynolds: That's enough.

H.M.Jr: Any other ideas, Fisher?

Fisher: Well, I've got a long list of rackets here. But we can offer those in committee.

H.M.Jr: All right.

McDonald: You'd be surprised to hear them.

H.M.Jr: I bet I would.

McDonald: Have you heard some of them?

H.M.Jr: No. Well, I think - now, Reynolds, you take this, will you?

Reynolds: I'll take it.

H.M.Jr: All right. We'll plan to meet on next - let's say Tuesday, or Wednesday. Let's see, what's today, Wednesday? How about - is it crowding you, would you want to make it next Tuesday or next Wednesday afternoon? Give it till Wednesday?

Reynolds: Wednesday is better.

H.M.Jr: All right, Wednesday at three o'clock. I think we're going to get somewhere. I think we've got a good chance. I don't know much about the racket business, but I think we've got a good chance on prices, on cement.

Now, George, what else?

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Reas: I have a report here of this price committee, Mr. Secretary, but I think it's a - to read all this now is a - you've already arrived at your conclusion, except it's cement.

H.M.Jr: I see. Well, cement and reinforced steel bars.

Reas: Reinforced steel bars. And many of the points in here have been discussed in connection with Mr. Blaisdell. I might tell you what I have here, then you can choose.

H.M.Jr: All right.

Reas: You know, last time you asked that we pick out one - if this committee could agree on three different price groups which they felt were out of line: iron and steel, basic products; cement; gypsum and gypsum products. And you asked, in order to get a better feel of the situation, for someone to put material together on it. And I have that preliminary report here, as much as they could do in that time limit, and also this report. Now, I might take up both, if you want.

H.M.Jr: Well, you see, I read that (Subject: Preliminary report on prices of building commodities; March 8, 1938) yesterday, didn't I?

Reas: Yes.

H.M.Jr: I don't want to take your time, and, having read it and having a chance to digest it, I think really that - I'd like to listen if anybody - that if we break up this way and concentrate on these - well, rackets is a group that you haven't had a chance to go into, but this other - if we concentrate on two things on the prices, I think we'll get further than to keep discussing whether the price of cement is high or not. Everybody agrees it's too high. Huh?

McDonald: Yes, that's right.

H.M.Jr: Do you agree, Stewart? Don't you think we'll bite off too much?

McDonald: Precisely. Let's get somewhere on one thing.

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H.M.Jr: Yes.

Currie: Mr. Secretary, this would not preclude going into iron and steel generally, because that is an awfully important product. Getting those prices down would be one of the major contributions to recovery.

H.A.Jr: This doesn't preclude anything. We can keep going, but I'm just saying that - I think they ought to continue these studies all the time and keep going in further, but

Oliphant: You have now set up two action committees, haven't you? Special action committees.

H.S.Jr: Yes.

Wass: Iron and steel, Mr. Secretary, is a very involved problem, and you might want to consider setting up a committee on that, because it won't be something they can come through on with anything very rapidly, and it also will handle part of the problem on the reinforced steel.

H.S.Jr: Well, I just feel - I've been around this town five years now, and if you want to get something done, you've got to say, "We'll pick one thing"; and it's three weeks now and we know it's a tough problem and we know that nobody's been able to meet it yet. And so rather than - I mean anybody can continue working on as many - but I still think if we say, "All right, now we got two things, let's work out a pattern, let's work out a formula, let's see if we can work as a group, whether we can accomplish anything." And after all, from the day NRA was over till this day we haven't accomplished anything along those lines. So we're taking on a big job and I kind of think that between now and Wednesday, if everybody would help on just those two things, I really think we'd make progress faster - that is, cement and reinforced bars. And then this racket thing - there's no limit to the size of that. What? There's just no - there's no end to that.

Taylor: That was a question I wanted to ask, whether they're going to look for the rackets in those two particular products or whether they're going to broaden out beyond that.

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Reynolds: There are no rackets, as far as we know, that may be confined to any two products. The rackets that we have in mind are those that are agreements of material dealers, subcontractors and labor. And we know, or feel, that in some of our buildings it is costing as much as a hundred percent excess cost, in certain trades. And there is a practice in the electrical field, for instance, in Washington, where one contractor gets a job and you have an extension to do and no one else will bid against them. As an example, we got a bid for a certain job at \$23,000. We rejected it as high. Then they came back and said, "We'll do it for \$16,000." We told them it was too high, let the job go over for re-bidding. We took bids on it, got it for \$8,400.

H.M.Jr: How much?

Reynolds: \$8,400.

H.M.Jr: You started where?

Reynolds: \$23,000.

H.M.Jr: To answer your question, Wayne, it is this - this is the way I feel. Let's see if they agree. On this price thing we feel we've got the best chance on two things. Therefore, we're going to concentrate on two commodities. In the racket thing, it's just the whole field. And I hope when Reynolds comes in next Wednesday that the racket thing will get down to a couple things; then we'll concentrate on those. But I'd say, as between now and next Wednesday, you've got the whole field, and then try to bring in something that looks as though we had a 75 percent chance of winning. I mean that would be my - it's still the whole field.

Taylor: But you would like to have them thoroughly exhaust the possibilities in those two products.

H.M.Jr: If there are any. But he says there aren't any.

Taylor: No, he says there are.

H.M.Jr: In cement?

Reynolds: Very little in cement, or reinforcing steel either.

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H.M.Jr: Well, if there's anything

Reynolds: It's in the electrical field, and plumbing and heating and plastering.

McDonald: Sheet metal.

Reynolds: Sheet metal.

Stone: Painting.

Reynolds: Painting is one too.

H.M.Jr: So the whole field is yours. Between now and next Wednesday, clarify it, so everybody will say, "Let's do plumbing," or "Let's do this" or "Let's do a certain part of plumbing." Huh?

Reynolds: Very well.

Fox: Mr. Secretary, may I just say one word about

H.M.Jr: Please.

Fox: ... about the wisdom of this plan as illustrated by iron and steel. We have been at it and had quite a crew at it for a year and a half; been very anxious to get that report out because of the possibility that's been hanging over the air here for about six months of an export tax on scrap. And with all the pressure we could put on it, because of the varied complication of the subject and because of the contentious items involved, we haven't been able to get that report out; so that you see what it would mean to scatter your shot on a subject as complicated and difficult as that.

H.M.Jr: You mean you're talking on my side?

Fox: Yes, that's right.

(Hearty laughter)

H.M.Jr: I wasn't quite sure. You're so judicious since you're a Commissioner that I couldn't

Fox: I wish others thought so.

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H.M.Jr: I wasn't quite sure.

Mr. Walker, you got anything?

Walker: No, I don't believe so.

H.M.Jr: Well, I think we're getting somewhere. What I hear about the tariff and trade practices and all that - I realize how difficult it is. I think if by the end of the month or six weeks we get something we'll be very lucky. And so far we've been able to fool the newspapermen.

Mr. McDonald, don't you want to tell these boys a little bit about what you're doing. Do them good to hear it.

McDonald: I think that self-praise is a very

H.M.Jr: You want me to tell them?

McDonald: You can tell them anything you want.

H.M.Jr: Well, Mr. McDonald, see if I can say this correctly. Approved selected mortgages

McDonald: Mortgages accepted for appraisal.

H.M.Jr: All right. You had nearly 17 million.

McDonald: Almost 18.

H.M.Jr: And that's the best week you've ever had, breaks all-time records for the F.H.A.

McDonald: And that's about three or four weeks before we thought we'd get up there. It indicates to us, with reasonable similarity of conditions, that the first six months of this year will be, as far as residential construction goes, an excessively high period. In that memorandum I gave you. That is, we believe now that the first six months of this year of residential construction may catch the first six of last year, which were very good, the big drop taking place in the last six months of 1937, and with that start, and if we can carry it through, why, we can do a great deal better for 1938 than we originally thought we would. Every office has

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almost twice the number of applications for home building that we had three weeks ago.

Currie: Is there any possibility, Mr. McDonald, that you're getting a larger percentage of your homes built on F.H.A.-appraised mortgages, so it may not be representative of total building?

McDonald: There is something to that. The figures are not exactly parallel. On the other hand, we do have this too, which we didn't have before. We have had a larger percentage of large contractors filing their applications for rather sizable operations. You see, in our program, if a contractor wants to develop, say, a 20-acre plot with a certain number of houses, 40 or 50 houses, he has to come to us now under the new rules, under the new law, and submit the application with the plans. Otherwise, they are not eligible for insurance. Heretofore, he could build them and have them practically constructed and then make up his mind that he thought he would submit them for insurance. So it doesn't make the present situation parallel. But the volume is quite reassuring.

Gaston: Is that new construction only, Mr. McDonald?

McDonald: No, that's not.

Gaston: That's both titles.

H.W.Jr: About 65 percent of that is new construction.

Hinrichs: January figures were definitely good this year. Only one month, and a very small straw in the wind.

Currie: Wasn't it largely the New York situation there?

Hinrichs: It was heavily New York, but it wasn't - heavy New York plus the fact that all over the country - and here again it's a tiny straw; can't talk in one month's figures - that the price per unit was way down, and not exclusively in New York. It was a big break there.

Walker: How are you going to report this? I got a report this morning for an area and they told me so far this month modernization was 17 percent ahead of last year.

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- McDonald: Modernization was also very good last year. But we don't get a report on that at all until at the end of - we don't require the lending institution to report except six - every thirty days. I won't be able to give you a figure on that.
- Walker: General business in that area is not very good.
- McDonald: But you had figures for the whole country on modernization.
- Walker: Yes, we had in February - in the New England area we were one-half percent behind; in the Pennsylvania area we were one-half of one percent behind. It ran from that on up to 46 percent ahead in the rural areas of Iowa and Nebraska. And the total for the entire country was 9 percent.
- McDonald: Ahead. That's very good.
- Walker: That was quite a sizeable business last year. Very successful last year. And it's running counter to a normal retail purchasing decline of about four and a half percent. Four and a half percent, with a nine increase.
- Reynolds: Mr. McDonald, do you have any figures on how much building costs have come down?
- McDonald: We have. Dr. Fisher, you have those figures, haven't you, on building costs? They're down about 7 or 8 percent since last July - I think that's about correct, isn't it - although we have isolated cases where they are down more than that.
- Reynolds: That's what our figures show - about the same percentage.
- McDonald: In smaller towns the percentage is much greater than in larger cities. In isolated cases, it is down
- Reynolds: We expected to save four hundred thousand dollars on the re-bidding of the Government Printing Office.
- McDonald: Where?
- Reynolds: In Washington. Bids were taken in July last year.

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Walker: I would say it would run nationally from 7 to 15 percent.

McDonald: I think that's correct; probably 15 percent in small towns and 7 percent in cities.

Daggit: That means that as far as actual physical construction is concerned it shows an even more favorable increase than would be indicated by your figures. Your figures are in dollars, aren't they?

McDonald: Yes, dollars.

Walker: This is from last May, not last January.

McDonald: Last July, I figure.

Daggit: I see.

H.M.Jr: I want to say again, between now and Wednesday I'm available if anybody wants to talk to me and if you need any help. May I again thank you, thank everybody for what they're doing.

This should be
filed 3/9/38.

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INTER-DEPARTMENTAL COMMITTEE

APPOINTED

TO SURVEY THE PRICES OF BUILDING MATERIALS

Chairman's Report for period up to November, 1933

*Presented by the Minister of Health to
Parliament by Command of His Majesty,
December, 1933*

LONDON

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CHAIRMAN'S REPORT FOR PERIOD UP TO NOVEMBER,
1933.

To Lieut.-Commander The Rt. Hon. Sir E. HILTON YOUNG, G.B.E.,
D.S.O., D.S.C., M.P., Minister of Health,
and

The Rt. Hon. WALTER RUNCIMAN, M.P., President of the Board of
Trade.

SIR,

I have the honour to submit a report summarising the principal recent fluctuations in the prices of building materials, based upon reports of prices received from the Committee's correspondents during the month of November, 1933.

Bricks.—During the earlier months of this year there was a somewhat unexpected increased activity in building in various parts of the country, for which, particularly in view of the previous period of stagnation, manufacturers were not prepared. In some parts of the country common bricks were for a time difficult to obtain. I understand, however, that the position is now much easier and that, speaking generally, although there may still be a few instances of shortage, manufacturers have now very largely overtaken the shortage created by the unexpected demand. There were some instances of hardening of prices, but, with few exceptions, prices do not now show any increase over the prices obtaining before the period of stimulated demand.

Lime and Cement.—In no case has the price of lime risen recently, and in some instances reductions in price have been reported during the past few months.

As regards cement, there have been substantial reductions in the price in most districts during the last eighteen months; in no case has any recent increase in price been reported.

Timber.—In recent months, there has been an advance in several districts in the prices of *carcassing timber*, the increase varying from five shillings to two pounds per standard. In some cases, however, no increase in price is reported. There has also been some increase in the prices of *joinery* and *flooring timber*. I should, however, point out that until recently there had been a steady decline in timber prices and that the present prices are generally lower than they were two years ago.

4

Tiles and Slates.—No general fluctuations have been reported in the prices of these articles.

Lead.—A number of districts report increases during the past few months but there is some indication that the price is again falling. The present price of lead is substantially lower than it was before the war.

Cast Iron.—There has been some advance in the prices of *Rain Water goods*, but prices do not exceed those which obtained at the time when the Committee investigated prices and reported that the investigation did not show that an undue profit was being made by the members of the National Light Castings Association as far as housing schemes were concerned. I have been in communication with the successors of that Association, namely, the British Iron Founders' Association, on the matter, who state that while present prices represent an advance on previous prices, they merely represent the stabilisation, at a level of cost, of prices which during the past two or three years had, owing to unrestricted competition, fallen to a level which was absolutely uneconomic.

The price of *baths* shows some increase in most districts, enquiries into which are now being made.

Glazed-ware.—The price of *W.C.s.* has remained constant, but the price of *sinks* has increased somewhat in most districts.

Glass.—Reports in most instances indicate that the price of glass has fallen.

I have the honour to be,

Sirs,

Your obedient Servant,

(Sgd.) S. ROBERTS,

Chairman.

(Sgd.) P. DAVENPORT,

Secretary.

16th December, 1933.

105-C

March 9, 1938

TRADE PRACTICES

In our previous report we called attention to the fact that trade practices which tend to maintain costs of building are to be found in the following types of associations: (1) Associations of manufacturers, (2) associations of distributors, (3) associations of local subcontractors, (4) the use of local building codes and regulations to require the use of particular materials. It should be noted that these practices of manufacturers, distributors, subcontractors are often interrelated so that it is impossible to deal with one group without dealing with the others. At this time it is not important to specify exactly the way in which these selling arrangements between manufacturers, subcontractors and distributors are carried out.

Our committee which is concerned with the price of materials has picked out steel, cement and gypsum as building materials the prices of which are "out of line". These materials are of significance in residential construction. They are of even greater significance in all other types of construction, such as, commercial structures, roads, government buildings, etc.

In suggesting methods for dealing with the types of practices noted in our previous memorandum we will again break down our analysis ⁱⁿ terms of the original four.

1. Manufacturers.

Our immediate concern is with the level of prices maintained by manufacturers of steel and iron products, cement and gypsum. There is, however, a longer-run concern - that once business activity has begun prices are not

immediately raised so as to press a further break on construction activity.

In the immediate situation there is some indication that prices of basic products such as pig iron and scrap, etc., are out of line with competing products (scrap), and with finished steel, and with the prices of some derived fabricated products. This would indicate that the time is ripe for a readjustment of the price of these basic materials. On the other hand the announced prices of iron and steel for the second quarter remain at previous levels with the exception of a drop in the price of cold-rolled steel sheets. The agreement to maintain prices is apparently strengthened by the announcement of the International Steel Cartel indicating a further intention to maintain prices.

An attempt to reach a voluntary agreement to reduce prices is apparently our only method of procedure, unless we are willing to proceed in the immediate future with an anti-trust suit or a cease and desist proceeding. Such action would have great value if successful. It is known that both the anti-trust division of the Department of Justice and the Federal Trade Commission have on hand a great deal of material which might be used in such proceedings. If the proceedings were successful it would probably destroy the work of many years in building up certain underlying pricing policies in the industry such as those included in basing point systems, maintenance of uniform delivered prices, the allocation of markets, and the agreement on discounts, and other charges.

The use of yardstick competition in the steel industry is apparently out of the question in view of the fact that we have not as yet arrived at a point where we are willing to use the Government armament plant for the manufacture of armament.

Dealing with the price of cement we are faced with many of the same problems already suggested in dealing with steel. As a matter of fact we

are dealing with some of the steel manufacturers. ~~including~~ The use of the multiple basing point system of setting prices, and the maintenance of "regular" trade channels, the agreements of discounts and other charges are all found in this industry.

It is possible that an immediate drop in price might be secured by negotiations. Other methods of approach involve the pooling of all government purchases in the procurement division of the Treasury. If through the concentration of purchases of cement for governmental use it is still impossible to break through the practices now used by the industry the possibility of anti-trust action still remains. In this connection it should be noted that the Federal Trade Commission is now pressing its complaint against the Cement Institute. It seems highly probable that this suit will grind on for another year at least before the completion of taken testimony. An action by the Department of Justice ~~will~~^{would} not involve some of the difficulties by which the Federal Trade Commission is hampered.

In dealing with ~~the~~ gypsum ~~it~~^{there} has been no opportunity to explore the field. However it is known that the industry is functioning under a consent decree and it is possible that some line of approach could be found by exploring the situation of the industry ^{with regard} to this consent decree.

2. Associations of Building Materials and Dealers.

The Federal Trade Commission now has complaints pending against the Florida Building Material Institute and a number of associations in California. They have recently issued a cease and desist order which includes a number of national associations of building materials dealers. It is desirable that these orders and complaints be pressed and that the Commission remain active even after the issuance of its cease and desist orders.

3. Local Subcontractors.

It should be noted that while local subcontractors usually take the responsibility for supplying labor on building jobs that part of their income is derived from commissions on materials bought through them. In order to maintain the flow of materials through their hands agreements are struck between their associations and trade unions whereby the union assumes responsibility for "policing" the job in return for maintaining a union contract. The type of practice involved as far as the unions are concerned is that of a secondary boycott. It would seem clear that many of these practices are illegal. The important question is the location of this kind of agreement. From information in the hands of the procurement division it seems clear that they are fairly widespread but more frequently found in large centers than in small.

It is suggested that a possible method of dealing with these practices might be found through the use of government contracts. The breaking up of such practices by the government on government jobs would undoubtedly be reflected in private contracts even if no legal action were taken. A procedure somewhat as follows might be carried out: On all government construction jobs require that bids be submitted broken down; wherever there is evidence of subcontractors' agreements bids ^{should} be rejected and the reasons stated. If it is still impossible to secure competitive bidding on the underlying contracts either one of two lines of policy might be followed. The first would involve individual negotiations with trade unions making it clear that there is no desire on the part of the government to break union scales or destroy union conditions. If it is still impossible to break down the combination construction could be undertaken by the government on force account. This of course still would require the purchase of materials under competitive bidding. However ^{in this} NA/field the methods which have already been used by the procurement division in breaking through non-competitive bids ~~is~~^{are} available.

It is possible that in this field local committees of public-spirited citizens could have very healthy influence particularly in relation to the building of residences.

4. The Use of Local Building Regulations and Codes to Establish the Use of Certain Materials.

The National Bureau of Standards has secured from various government agencies concerned with financing of homes some evidence of this type of practice. Just how widespread it is we do not know. Here again local citizens' committees could be of real value.

Summary.

The program suggested centers around the following four types of agency: (1) Procurement Division, (2) Department of Justice, (3) Federal Trade Commission, and (4) Local Citizens' Committee. It is obvious that a close coordination in carrying through this type of program is essential. It is, however, entirely practical.

March 9, 1938

MEMORANDUM

To: Secretary Morgenthau
From: Mr. Walker
Subject: Building Program

Because of the magnitude of the problem and because of its many ramifications, I feel that success can be obtained only through a well integrated organization, made up of some men who are not connected with the building industry but who can take a broad view of the social and economic value of the movement that you are fostering, and other men who are directly connected with the building industry and have a detailed knowledge of its problems. I am, therefore, respectfully submitting the following suggestions:

Organization

(1) That a small organization, in Washington (hereafter referred to as "Washington Committee"), be put in charge of the entire problem, headed by a man that has a broad manufacturing and merchandising knowledge but who has not been directly connected with the building industry.

(2) That a master committee be set up regionally, as outlined later (hereafter referred to as "Regional Committee"). The "Regional Committee" to report to and be responsible to the "Washington Committee".

(3) That various subcommittees be set up regionally, as outlined later (hereafter referred to as "Subcommittee"). The "Subcommittee" to report to and be responsible to the "Regional Committee".

(Note: It might be possible, if arbitration or persuasion failed, to give the "Washington Committee", and through it the "Regional Committee", some policing powers.)

The reason for this organization can be appreciated from a brief outline of some of the problems involved.

Secretary Morgenthau - 2

Brief Outline of Problem

Inasmuch as the greatest need for housing falls within the low income group, this problem divides itself into four parts:

- (1) Labor
- (2) Local building and zoning restrictions
- (3) Materials
- (4) Finance

The material problem divides itself into (a) a local problem because such items as brick, sand, and gravel are usually produced locally; and (b) a national problem because the following items are generally produced and sold by national companies:

Lumber	Roofing
Mill work	Paint
Hardware	Plaster
Steel	Lime
Heating	Metal and gypsum lath
Plumbing	Wall board
Electrical wiring and fixtures	Cement

Inasmuch as item (1), labor; item (2), local building and zoning restrictions; and part of item (3), local materials, must be handled regionally, a committee should be formed in each community, made up of the following:

A chairman who is an outstanding public-spirited citizen, not connected with the building industry

A real estate man	Two labor men
A contractor	A leading politician
A building supply man	A banker
A lumberman	One lawyer from the Government

Each of these members of the "Subcommittee" should be representative of his individual activity or industry, and should be chairman of a subcommittee representing his activity or industry.

Secretary Morgenthau - 3

The "Regional Committee" should:

- (1) Investigate local prices and seek correction where prices seem to be out of line. By making a regional comparative price chart, the "Washington Committee" could advise them as to what prices are out of line at present, and point to those items that should be watched for increases as business develops;
- (2) Study the labor rates by crafts and determine the number of men available by crafts;
- (3) Conduct a property inventory;
- (4) Determine whether a revised building code will make possible substantial economies in building homes, especially in the \$5,000 class;
- (5) Determine whether partial or complete rezoning is necessary;
- (6) Recommend action that should be taken on properties which have been tax delinquent over a period of years;
- (7) Investigate the present foreclosure laws and determine whether the shortening of the period of redemption would invite private capital into building, and whether the cost of financing would be reduced if foreclosure laws were amended;
- (8) Determine what slum areas should have immediate attention;
- (9) Determine what areas would respond to rehabilitation and restore values and adequate tax revenues;
- (10) Recommend the change of any restrictions that add to the cost without benefit to labor.

By working through their subcommittees, these various activities could be carried on simultaneously.

Fourteen industries listed as national in scope furnish the majority of the materials that go into small homes. Some

Secretary Morgenthau - 4

of these industries are well organized; some are not. Some of them are underproduced. In order that you may have the picture as I see it, I am briefly outlining the condition of each of these industries in an attached appendix.

Finance

The fourth item is that of finance. Working in conjunction with the "Washington Committee," the F. H. A. could perform a very necessary service. Where building is needed and where manufacturers, dealers, and contractors cooperated with the "Regional Committees," the F. H. A. could organize lending agencies in such a way that ample funds would be available to take care of the needed building.

In those points where the "Regional Committees" did not receive this cooperation, or in those points where a shortage of either material or labor might occur due to over-building, causing undue advances in prices, the F. H. A. could "put on the brakes" until the conditions were adjusted.

Conclusion

In my opinion so little can be gained by cracking down on those producers that are out of line that the result would not be worth the effort. As an example, if a drop in price of 10 percent to 15 percent was obtained from the cement manufacturers, the gypsum and lime manufacturers, and the steel manufacturers, it would amount to only 2 or 3 percent on the total cost of a home. On the other hand, if a 2 to 3 percent reduction could be secured at the source of material, reductions that would amount to 4 or 5 percent on the total cost of a home could be secured through better dealer and distributing methods, and another 4 or 5 percent could be secured by doing away with rackets and inefficiencies that have grown up in the building industry, effecting a minimum saving of 10 or 12 percent for the home owner.

More important than the initial saving would be the ability to maintain reasonable prices after a real building program got under way. One of the grave dangers at present is that so many manufacturers and distributors have been operating for the last eight years without satisfactory profits so when an opportunity comes there will be a temptation to raise prices too rapidly in order to make up for the lack of profit over the last few years. This happened in a small way last spring.

O 105-L

Secretary Morgenthau - 5

Unless this is controlled, I feel that the Administration's efforts will be considerably nullified.

There is a crying need for real leadership in the building industry. From my wide acquaintance, I know it is well recognized.

As I see it, the building industry is dependent upon Washington for a strong leadership. If the Administration would make an effort along the lines outlined, pointing out to the local investment groups, material men, and local labor representatives, the magnitude of the possible building program providing the game was played with all cards face up, the material men could shave their unit prices and make a fair dollar and cent profit rather than a high percentage of profit. The manufacturers could cut out much of their present expense which is today duplicating the local dealer and distributor's efforts.

The local labor groups would cut out many of the cost-raising and jurisdictional rules and regulations providing they could be assured that their men would make a better monthly wage rather than a high hourly wage, especially in the building of homes and apartments to house those in the income brackets of \$3,000 a year or less.

Knowing this industry as I do, I am confident that much can be accomplished through cooperation, and I believe the stage is all set for a real building boom in this country if the Administration would lead the way by setting up an agency that can cooperate with all factors, including private lending agencies, manufacturers, material suppliers, and labor.

I wish to take this opportunity to express my appreciation for the privilege of meeting you and the members of your splendid organization. If I can be of any further service, please do not hesitate to call upon me.

APPENDIXLumber

The rough or framing portion of the lumber industry is not well organized. Prices are low.

The hardwood portion of this industry contains fewer producers and is much better organized.

The problem in this industry is to see that prices do not advance too rapidly with the return of business. It is my feeling that this happened during the spring of 1937.

Mill Work

Prices in this industry have declined during the last six months and appear to be on a fair basis. Like lumber, this industry advanced prices too rapidly in the spring of 1937.

Hardware

Hardware prices are reasonable today, but this is an under-produced industry. Many parts of this industry became six to eight weeks behind during the spring of 1937 because of the slight upturn of building. This shortage caused advances that I feel in some cases were unjustified.

Steel

Steel in the form of pig iron, sheets, wire, and to some extent structural steel is a very large factor in the small building field. It is the base for hardware, heating, plumbing, and nails. My feeling is that some adjustment should be made in steel prices at the present time.

Plumbing and Heating

Prices in this industry are on a fair level today. The only opportunity for reduction would result from a reduced price of pig iron and other steel products used as raw materials in this industry.

Electrical Wiring and Fixtures

This industry has been working under a NEMA Code. A number of items have not sufficiently reflected the reduction in copper that has taken place in the last six months.

Asphalt Roofing

This industry is in a fight at the present time. Prices should be advanced. I do not believe that the industry can survive on the present price level.

Paint

With the exception of the White Lead portion of the paint industry, I do not feel that there is a definite organization in this industry, nor do I feel there is very much to fear from price advances as there is ample production.

Plaster, Lime, Metal Lath, Gypsum Lath, and Wall Board

This industry is very well organized. A very careful study of the price situations should be made. Practically all of these products are handled by the same companies. It is my feeling that they could afford to contribute to the lowering of housing costs because increased volume reflects in a lower cost so quickly in these industries.

Cement

This industry is very well organized. Inasmuch as cost decreases so rapidly with volume in this industry, it also should contribute to the home building industry by a reduction in prices.

MEMORANDUM OF THE DAY'S ACTIVITIES

108

March 9, 1938

To: The Secretary

From: Mr. Magill

1. Tax bill

Senator Harrison asked me to meet him tomorrow afternoon to discuss the tax bill, and in particular amendments proposed by the public utility companies and approved by the SEC to exempt them from income taxes in connection with transfers of properties made under orders of the SEC. Senator Harrison asked also that we calculate what would be the revenue yield of a 15 percent flat tax on capital gains.

Have you seen the Whaley-Eaton Service comment on the bill: "The bill is far from ideal or even "fair." It still contains innumerable unnecessary hardships, irritations, and bad economic pressures - vestiges of the reform spirit. But, even so, it represents the biggest, concrete, business gain, legislatively, in some years."

2. Tax enforcement treaties

The Canadian authorities asked us to endeavor to conclude our negotiations with France before we undertook negotiations with them. The French have now indicated that it will be sometime before they are ready to proceed. Consequently, we will ask the Canadian authorities to sit down with us at once. I should much rather conclude a treaty for mutual assistance in tax enforcement with Canada than with any other country, since it will be more useful, and since the Canadian authorities entertain policies similar to our own.

If we complete negotiations with Canada, we contemplate negotiations with Holland, Sweden, and Belgium. Preliminary letters to the authorities in these countries, looking toward negotiations, have been discussed with the State Department and will soon be forwarded.

Rm

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE March 9, 1938.

TO Secretary Morgenthau
FROM Mr. Taylor

I called John Fahey on the telephone as you suggested and told him of your conversation with the President and of the President's desire that no amendments or legislation appear on the Hill prior to your having had an opportunity to make a recommendation; that you were personally interested in the situation, realized the importance of a determination of administration policy, et cetera, and that you were going to study the situation as soon as possible.

He was very pleased with this news and wanted to know how soon he would be able to see you and hoped that you would be ready to talk the situation over with him by Monday or Tuesday of next week. I told him that it was not possible to make a definite engagement at this time but that your interest in the matter was great and that you would familiarize yourself with the situation as soon as possible.

WET.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAR 9 1938

TO Secretary Morgenthau
FROM Herman Oliphant

For your ~~information~~. *files*

Apropos of the attached ticker item, you are right. The amount due from New York City, if we win the suit, is roughly four and one-third million dollars.

For your information, the amount claimed to be due is derived as follows:

The agreement provides that the amount payable to the Federal Government shall be such proportionate part of the cost to the Government of the new Post Office site as would bear the same relation to the total cost as the area of the old Post Office site bears to the area of the new Post Office site. The cost of the new Post Office site was \$5,056,246, which, divided by 75,768.67 (the area of the new site) and multiplied by 65,259 (the area of the old site), gives \$4,354,907.61, the amount due by the City to the Federal Government.

HO

Enc. 1

ATTORNEY CUMMINGS SAID TODAY AFTER A CONFERENCE WITH MAYOR LAGUARDIA OF NEW YORK THAT THE GOVERNMENT WOULD FILE A SUIT FOR APPROXIMATELY \$3,000,000 AGAINST NEW YORK CITY SOON.

THE SUIT WILL BE FILED IN CONNECTION WITH CLAIMS INVOLVING THE NEW FEDERAL POSTOFFICE BUILDING IN NEW YORK CITY AND CLAIMS TO THE OLD POSTOFFICE, CUMMINGS SAID.

"IT WILL BE AN ENTIRELY FRIENDLY PROCEEDING," HE ADDED.

CUMMINGS EXPLAINED THAT OFFICIALS OF THE CITY HAD PLEDGED APPROXIMATELY \$3,000,000 TO THE PURCHASE OF A NEW POSTOFFICE SITE, AND THE NEW POSTOFFICE WAS BUILT. WHEN THE LAND FOR THE OLD POSTOFFICE WAS DEEDED TO THE GOVERNMENT BY THE CITY A "REVERSION" CLAUSE WAS WRITTEN INTO THE DEED PROVIDING THAT THE LAND SHOULD REVERT TO THE CITY IF THE BUILDING CEASED TO BE USED AS A POSTOFFICE.

THE GOVERNMENT CONTENTS THAT THE OLD POSTOFFICE SITE SHOULD BE TRADED TO THE CITY FOR THE NEW SITE, OR THAT IF THE CITY IS PAID FOR THE NEW LOCATION THE GOVERNMENT SHOULD RETAIN THE OLD POSTOFFICE BUILDING.

THE CITY, CUMMINGS SAID, CONTENTS THAT THE AGREEMENT FOR THE CITY TO APPLY \$3,000,000 TOWARD PURCHASE OF A NEW LOCATION WAS VOID, AND THAT IT SHOULD HAVE THE OLD BUILDING AND LOCATION UNDER THE CONTRACT.

3/4--GE1242P

EMPLOYMENT ON WPA PROJECTS, BY STATE,

UNITED STATES AND TERRITORIES

Weeks Ending March 5 and February 26, 1938

(Partly Estimated - Subject to Revision)

State	Number of Persons Employed		Increase or Decrease (-)
	Week Ending March 5	Week Ending February 26	
GRAND TOTAL	2,166,878	2,076,257 ^{A/}	+90,621
CONTIGUOUS UNITED STATES	2,164,386	2,073,757 ^{A/}	+90,629
Alabama	51,591	30,857	+ 734
Arizona	7,964	7,642	+ 322
Arkansas	27,580	30,576	+ 2,996
California	87,863	86,526	+ 1,337
Northern	107,939	105,948	+ 1,991
Southern	39,924	39,578	+ 346
Colorado	26,029	25,517	+ 512
Connecticut	21,111	20,870	+ 242
Delaware	2,581	2,578	+ 3
District of Columbia	7,319	7,032 ^{A/}	+ 287
Florida	28,961	28,372	+ 589
Georgia	34,225	33,912	+ 313
Idaho	11,083	10,840	+ 243
Illinois	199,750	119,276	+10,474
Indiana	79,785	64,591	+15,194
Iowa	27,163	26,376	+ 787
Kansas	35,171	34,109	+ 1,062
Kentucky	11,247	13,000	+ 1,753
Louisiana	10,366	30,520	+ 20,154
Maine	7,939	7,913	+ 26
Maryland	11,607	11,112	+ 495
Massachusetts	88,137	81,960	+ 6,177
Michigan	101,050	86,356	+14,694
Minnesota	59,872	18,561	+ 41,311
Mississippi	36,504	26,151	+ 10,353
Missouri	71,272	69,123	+ 2,149
Montana	17,117	16,414	+ 703
Nebraska	36,560	27,227	+ 9,333
Nevada	2,613	2,240	+ 373
New Hampshire	7,320	7,309	+ 11
New Jersey	73,267	71,973	+ 1,294
New Mexico	8,191	8,001	+ 190
New York City	14,853	13,797	+ 1,056
New York (Excl. N.Y.C.)	62,523	52,519	+ 10,004
North Carolina	26,518	28,041	+ 1,523
North Dakota	14,873	14,786	+ 87
Ohio	163,083	150,030	+13,053
Oklahoma	51,532	54,128	+ 2,596
Oregon	16,220	16,157	+ 63
Pennsylvania	195,329	193,247	+ 2,082
Rhode Island	12,186	12,570	+ 384
South Carolina	26,925	27,173	+ 248
South Dakota	17,475	17,522 ^{A/}	+ 47
Tennessee	29,051	28,113	+ 938
Texas	72,147	70,963	+ 1,184
Utah	9,240	9,084	+ 156
Vermont	1,916	1,941	+ 25
Virginia	22,034	21,590	+ 444
Washington	35,633	38,563	+ 2,930
West Virginia	36,198	35,314	+ 884
Wisconsin	55,932	52,352	+ 3,580
Wyoming	4,044	3,823	+ 221
Hawaii	2,492	2,493	+ 1

^{A/} Revised.

WORKS PROGRESS ADMINISTRATION
Division of
Research, Statistics and Records

Revised 8-1938
Regraded Unclassified

March 9, 1938

Col. Harrington's office telephoned that employment figures for week ending March 5 were:

2,166,878

an increase over February 26 of

90,621.

nmc

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 9, 1938, 10 a.m.

NO.: 355

RUSH

FROM COCHRAN.

SECTION ONE.

Yesterday the French control lost foreign exchange to the amount of 437,000,000 francs. On the eighth of March at the close of the business day the stabilization fund still had approximately 2 1/2 billion francs of gold and foreign exchange. The Mendelssohn banking group of the Netherlands has given the French no new credits, ^{recently} and the French do not expect any.

This morning at 9:30 I called at the Bank of France. At that time, at a quotation of 156.10, Swiss sellers of French francs had already taken 125,000 pounds sterling from the French control. French business had not yet started at this hour.

END SECTION ONE.

WILSON.

For 437 000 000 2 1/2 billion
2 1/2 81 000 000

EA: LWW

SECTION TWO, TELEGRAM NO. 355 OF MARCH 9, 1938,
FROM PARIS

Needless to say a busy day is anticipated by the control. While I was at the Bank of France, consultations held there favored an attempt to hold the rate at 156.10 for the present.

This morning at a quarter of ten I went to the Ministry of Finance to visit Couve de Murville, who is the official next to Rueff who was consulting with the Minister of Finance. Couve de Murville told me that the plan of Marchandau discussed at yesterday's Cabinet meeting involves asking for full powers for the Government in both the economic and financial fields. The powers would thus include authority to deal with the forty-hour week and other labor questions connected therewith. In my friend's opinion, Parliament will not grant the present Government the full powers requested.

END SECTION TWO.

WILSON.

EA:LWW

PARAPHRASE OF SECTION THREE OF TELEGRAM NO. 355
OF MARCH 9, 1938, FROM PARIS.

RUSH.

My friend told me that so far as he knows, there has not yet been formulated any plan of action except to appear before Parliament and request full powers for the Government. However, my friend is of the opinion that there may develop today such strong opposition to Marchandean's plan on the part of the Left that the Government will resign without waiting for the debate before Parliament on Thursday, as this debate would risk splitting the Popular Front Party.

Yesterday morning it was Marchandean's idea to bring on a crisis in the noon Cabinet meeting yesterday, which would have made necessary the Cabinet's immediate resignation. This idea could not be carried out, as his colleagues made it impossible for him to act as he wanted to by their agreeing to support the full-powers plan.

END SECTION THREE.

WILSON.

EA:LWW

PARAPHRASE OF SECTION FOUR OF TELEGRAM NO. 355
OF MARCH 9, 1938, FROM PARIS.

RUSH.

In the press this morning a communique denies the rumor that any "new and important" drawing by the State on its credit with the Bank of France will be shown on the Bank of France statements to be issued for March 3 and March 10. According to my information, up to 1,400,000,000 francs was withdrawn for the week ended March 3. This amount was reduced to 800,000,000 before time for usual closing of the statement by means of ransacking various funds.

According to my contact in the Ministry of Finance, tomorrow the current treasury loan will be closed. By yesterday the 3,000,000,000 francs cash subscriptions desired had not yet been subscribed, but my friend thought that they might yet reach the aforementioned total. Only a few hundred million francs were converted.

The franc rate had moved to 157 by 11 a.m. There was a heavy demand for sterling from Paris.

END OF MESSAGE.

WILSON.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 9, 1938, noon

NO: 356

RUSH

STRICTLY CONFIDENTIAL.

Just now I have come from the Presidency of the Council; Chaumpey at the time I was there was tied up in a conference of leaders of political groups, but he sent me a message to the following effect by his Chef de Cabinet:

The decision to ask for full powers had been taken because he was convinced that they could not permit matters to go on as at present. His Government or any other Government had to have the necessary powers to refuse increased social expenditures which were demanded by the Extreme Leftists and to increase production by modifying and making more supple the forty-hour week. If a national defense loan were floated and the Government did not have the necessary authority to take steps for restoring confidence, the loan was doomed to failure, putting France in an impossibly weak position before the whole world. Chaumpey added that he had little hope that the Socialist and Communist leaders would give him their support, which idea he gathered from his conversation with them last night. This morning a meeting is being held

- 2 -

held by the Communist Parliamentary group. This afternoon the Socialist group meets. Chautemps will resign this afternoon rather than fall on tomorrow's adverse vote of the Chamber of Deputies, if, as seems likely, the Communists and Socialists do not support him. It will be "extremely difficult" to solve the political crisis which will result.

WILSON.

EA:LWW

Wednesday
March 9, 1938
2:45 p.m.

118

HMJr: Hello.
H. Merle Cochran: Hello, Mr. Secretary.
HMJr: Hello, Cochran.
C: Yes, sir.
HMJr: Well, we've got a group here and we want to hear what you've got to say.
C: You received one message from me today, did you?
HMJr: Which - what's the number of it?
C: Ah -
HMJr: 355? *8.112*
C: Five.
HMJr: Yes.
C: You have that?
HMJr: Yes.
C: This afternoon the pressure continued fairly heavy and I talked with my friend just before seven o'clock...
HMJr: Yes.
C: ...The loss for the day has been greater than yesterday.
HMJr: Greater?
C: Yes.
HMJr: Yes.
C: There was some selling - considerable selling from London...
HMJr: Yes.
C: And selling from here.

-2-

HMJr: Yes.

C: And there was a little short covering quite late in the evening...

HMJr: Yes.

C: ...because some of the people here feel that the Government will go out tonight...

HMJr: Yes.

C: ...if they fall yet this evening; and that the Bourse and the Foreign Exchange Market may be closed tomorrow.

HMJr: I see.

C: So there's some short covering on that account.

HMJr: Uh huh.

C: When I talked with my friend just before seven o'clock his chief, the Governor of the Bank, was over at the Ministry of Finance conferring with the Minister.

HMJr: Yes.

C: They're not sure yet what they will do tomorrow.

HMJr: I see.

C: - call me back yet this evening...

HMJr: Yes.

C: ..if there's any decision to close the Bourse.

HMJr: Uh huh.

C: The various political groups were meeting this afternoon individually...

HMJr: Yes.

C: ...to decide whether or not they would support Chautemps in his request for full powers.

HMJr: Yes.

-3-

C: When I left the office at half past six...

HMJr: Yes.

C: ...there was no word yet as to the final outcome.

HMJr: Yes.

C: Just waiting to see what the other groups would do.

HMJr: I see.

C: They were following the Socialists and the people at the extreme left. Then there was to be a meeting of the political leaders later...

HMJr: Yes.

C: That's the full Cabinet, you see, to decide whether they would resign tonight or go before Parliament tomorrow.

HMJr: I see.

C: The belief on the market and among most of the people that I've talked with is that they will resign tonight...

HMJr: I see.

C: ...rather than go before Parliament tomorrow.

HMJr: Uh huh.

C: But that is not positive yet and I can't tell when it will come out today.

HMJr: Uh huh. Well...

C: And so far there's nothing definite as to who would succeed. I mean, no one wants the job. There's a possibility that Blum might be the first one called to head a Government.

HMJr: I see.

C: On the other hand Chautemps might considerably - from the basis - from the base for his own cabinet - may turn somewhat more to the right and try to go ahead then.

-4-

HMJr: Who - who did you say?

C: - set up from the.....

HMJr: Who?

C: I say, the best suggestion as far as the financial outlook is concerned, is that of Daladier becoming Premier with Paul Reynaud as Minister of Finance.

HMJr: Just a moment.

C: But if politically feasible or not is a question.

HMJr: I see.

C: And late this evening the press carried a communique in which the Minister of Finance denied the communique which was in the paper this morning.

HMJr: Oh, really?

C: Yes. That is, he admits that they have drawn on the Bank of France credit and it will show up in the bank statement tomorrow.

HMJr: It will or will not show up tomorrow?

C: -show up.

HMJr: It will?

C: Yes.

HMJr: It will show up?

C: It will. Affirmative.

HMJr: I see.

C: But I talked that with Rueff at five-thirty.

HMJr: I see.

C: And he gave me the same information.

HMJr: I see.

C: But I'm to call him at nine o'clock tonight; he said he might have some word at that time.

-5-

HMJr: Well, if you get anything really definite, why telephone me.

C: Beg pardon?

HMJr: If you get anything definite please telephone me.

C: I'll say I will call you back then - I'm staying in so I'll call you back if I get anything from him - I mean I'm calling him then.

HMJr: Yes.

C: I understand that the bank has promised to call me.

HMJr: Yes.

C: So if I get anything from either one definite on plans I'll give you a ring.

HMJr: Now just a minute, the Ambassador is here; I'll ask him if he wants to say anything.

C: All right.

W.
Bullitt: Hello, Cochran.

C: Good morning, Mr. Bullitt.

E: How are you?

C: All right. How are you?

B: Good - fine. Look here, there was a portion of what you just said to the Secretary which was a little bit difficult to hear.

C: What's that?

B: There was a portion of what you said to the Secretary which was a little difficult to hear.

C: Which was that?

B: What we understood was that there was a chance that Blum might form a Government.

C: I talked with Wilson before I came home.

B: Yes.

- C: There was also the gossip on the Bourse that he might attempt it.
- B: Yes.
- C: Wilson talked with Chautemps in the afternoon.
- B: Yes.
- C: I mean, with his secretary, rather.
- B: Yes.
- C: Had the definite feeling that the Government would fall tonight.
- B: Yes. I see.
- C: He talked with the man you mentioned.
- B: Yes. Now there may be a possibility, and you said also, I believe, of Daladier forming a Government with Paul Reynaud as Minister of Finance.
- C: That's right.
- B: Yes. Those are the two chief possibilities at the moment?
- C: They mentioned earlier - oh, but you know they couldn't do that...
- B: Yes.
- C: They also mentioned Bonnet.
- B: Yes.
- C: But the three most mentioned are Blum for first choice to be given a try...
- B: Yes.
- C: ...then Chautemps to have second...
- B: Yes.
- C: the base of the Cabinet.
- B: Yes.
- C: And Daladier/^{the}third and most favorable from the financial point of view.

-7-

B: I see. Thank you very much indeed, Cochran.
And give my best wishes to everybody at the
Embassy. Just a moment.

C: I'll be delighted to.

B: Fine. All right. O.K. - Good luck to you
all.

C: Does the Secretary want to speak to me?...

B: No, he says that they've - he's said^{all}/he has to
say.

C: Good.

B: Fine. Goodbye - good luck.

C: Good night. Best of luck.

B: Goodbye.

COPY

125

Paris

Dated March 9, 1938

Rec'd 4:58 p.m.

Secretary of State,
Washington.

RUSH.

361, March 9, 7 p.m.

Reference my 360, March 9, 6 p.m.

The delegation of the Left has refused to give Chautemps the full powers which he requested. He is expected to go to the Elysses shortly to present the resignation of his Cabinet. As a matter of form the President will ask him to try to form a new government. In case he declines it is likely that Daladier will be asked to form a government.

WILSON.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 9, 1938, 6 p.m.

NO.: 358 RUSH FROM COCHRAN.

Demand for sterling continued throughout the day with spot rate moving to 158.40 and premium on three months sterling to seven francs. London sold francs importantly. National Bank of Belgium again sold sterling to support belga. Late this evening there was a little short covering in Paris on belief that Government would resign yet tonight and exchange market would be closed tomorrow.

I had a talk with Rueff at 5:30, and he told me that as yet they had taken no decisions. Rueff admitted that the item in the press this morning - reference, my telegram No. 355 of March 9, 10 a.m. - was inaccurate, as did also a communique given to the press this evening by Marchandeu. He said the Government had drawn on the Bank of France, and that the statement tomorrow would show such withdrawal.

WILSON.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 9, 1938, 6 p.m.

NO.: 380

RUSH.

Reference my 356, March 9, noon.

Information has come to me that the Socialist group, at their meeting during the afternoon, decided in principle against the grant of full powers to any government in which the Socialist group was not represented. However, it is reported decision was reached that the group would not make a final decision until the delegation of the Left, made up of the Popular Front parties, has considered the question together. At the present moment the delegation of the Left is holding a meeting. This afternoon at the meeting of the Communist group it was decided that they would base their attitude upon that to which the Socialists adhered. The most reliable information I can get is that the delegation of the Left's attitude will be such that this evening Chautemps will probably turn in his resignation.

This political crisis has been due to various factors: the sense of isolation in foreign affairs has been growing, and French policies have failed; France's friend - Eden - lost his place in the British Government, and Chamberlain decided to hold discussions with Italy immediately, without consulting

- 2 -

consulting the French about it; French interests are threatened by reason of developments in Spain and Central Europe.

Minister Delbos has been discouraged about the situation and has wanted to resign. There has been a growing feeling that a Government with more authority to act in defense of the foreign interests of the country should be formed.

The prestige of the present Government was also damaged by the long-drawn out dispute last week between the Chamber of Deputies and the Senate over the first section of the proposed labor code. In domestic affairs it has been becoming more evident that the country would sooner or later be on the brink of a catastrophe if things continued to drift the way they were going now. It becomes impossible to bear the armaments burden when the greatest of treasury and monetary difficulties are created by reduced production, higher living costs, continued agitation by labor, and a foreign trade vastly out of balance.

For some time it has seemed that before conditions got better they would have to get worse. It remains to be seen whether conditions are serious enough so that politicians and the general public realize they will have to sink petty political strife and unite in order to deal effectively

- 3 -

effectively with these questions. My own opinion is that it is doubtful whether this has taken place. It will probably be brought about by a serious menace from abroad or a first-class financial panic.

The Socialists will not break with the Communists, according to all indications; for electoral reasons they are unwilling to do this, although because of the Moscow trial they have been willing enough to score points on the Communists. In other words, any new government in France of a Socialist or Radical Socialist direction will continue to be subject to the heavy liability involved in trying to keep on working terms with the Communist Party.

It would appear that there is no chance of forming a real government of national union on France, assuming that the present capital flight from France does not go as far as panic proportions. The most reliable information I can secure today is that the government to be formed next will probably be either a Socialist Government with support from the Radical Socialists, which would be along the lines of Blum's first Popular Front Government, or another Radical Socialist Government will be formed, with support from the Socialists, similar to the present government of Chautemps. A government on such a basis would obviously be a stop gap only.

END OF MESSAGE.

WILSON.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: March 9, 1938, 7 p.m.

NO.: 196

FROM BUTTERWORTH.

FOR TREASURY.

I had luncheon with Bewley, who in the course of the conversation, referred to the projected discussions under the Tripartite.

(1) Bewley confirmed the information which I set forth in the last paragraph of my telegram No. 188 of March 7, that the British Treasury believes a Government with a broader base in France is essential before progress can be made in these discussions.

(2) Bewley also confirmed that they had not yet got a clear interpretation from the French of what they meant by the statement that "more than a mere expression of sympathy" should be contained in the declarations of the United States and the United Kingdom.

(3) I confirmed Bewley's idea that the Johnson Act precluded our extending any financial assistance to France. Bewley made reference to the political and strategic ties between Great Britain and France, and said that the London market would still give funds to the French. However, he said all borrowing would have to be long term and not short term, and pressure in favor of France would no doubt have to

- 2 -

to be brought by the British authorities. For his part, he added, he could not see why the London market should be called on to come to the French taxpayer's aid, that France needed funds and not sterling exchange.

(4) Bewley was not specific, but he mentioned the recommendation in the report of Mr. Van Zeeland to extend the "twenty-four hour basis". I asked Bewley whether there would be support in Great Britain for establishing a fixed gold price, and he replied that the price of gold was in effect fixed and there had been a tendency on the part of public opinion to consider it in this way; I did not try to press this point.

(5) As the conversation continued, Bewley also said that any important changes which might come up for consideration in the conversations under the Tripartite would, under present economic circumstances, be matters of really high policy. These questions, in his opinion, would be settled not only on their financial merits but on their political merits as well.

Political developments in France have accentuated the weakness of the franc which has been allowed to slip to 157 1/2. The French fund has operated sporadically and in the process of checking the decline has lost a considerable amount

- 3 -

amount of sterling. The city's attitude is one of watchful waiting but on balance opinion is skeptical about the formation at this time of a broadly based government of national union on the ground that the psychological basis for such a development has not yet been laid. There are those, however, who hold that the forthcoming crisis may be prolonged sufficiently to create that basis.

END MESSAGE.

KENNEDY.

EA:LWW

RR

GRAY

London

Dated March 10, 1938

Received 7 a. m.

Secretary of State,
Washington.

RUSH 197, March 10, 11 a. m.
FOR TREASURY FROM BUTTERNORTH.
STRICTLY CONFIDENTIAL.

I had a word with Waley this morning who told me that Monick before leaving for Paris last evening had called on Phillips and him. Waley said that Monick again explained the position along the lines reported in his letter to me of March 7 (my 188 of March 7, 6 p. m.) ; that whereas he was obviously anxious to know whether the British Government was prepared to take any steps and if so what steps, he did not at this stage press for any reply. Waley criticized this approach as asking the British Treasury in effect to supply the questions and answers.

Waley referred to the ticker report that the Chautemps Government has now resigned and added that Monick had seemed convinced that this government would fall and in turn be succeeded by a broader based government with Paul Reynaud as Finance Minister.

RR

KENNEDY

JR

GRAY

Paris

Dated March 10, 1938

Rec'd 7:20 a.m.

Secretary of State,
Washington.

362, March 10, 9 p.m.

Reference 361, March 9, 7 p.m.

After having announced last night his intention to resign immediately because of Socialist opposition to granting him full powers, Chautemps in a last minute switch decided to go before the Chamber this morning at 9:30. It is not clear yet whether he intends merely to make an explanation of the situation and then resign or whether there will be a debate.

WILSON

RR:CSB

JR

GRAY

Paris

Dated March 10, 1938

Rec'd 9:28 a.m.

Secretary of State,
Washington.

364, March 10, 11 a.m. (SECTION TWO).

He said that he had been charged with the intention of abandoning the proposed fund for aged workers and of withdrawing from labor the benefits obtained under the forty hour law. He denied any such intentions but stated that at the very moment of making an appeal to the country to subscribe funds for national defense, he could not consistently lay before the Chamber a bill for aged workers which would increase the treasury outlay by several billions. At the same time, without amending the forty hour law, he felt it imperative to have a more supple application thereof in order that in essential cases such as the armaments industry production could be increased.

While he succeeded in keeping his address on a high plane above party politics and ended with an appeal for national union it was not difficult to discern at times his bitterness towards the Socialists. The Socialist
and

-2- #364, March 10, 11 a.m. (SECTION TWO) from Paris.

and Communist groups on their part refrained from any indication of approval of anything he said and gave the appearance of being opposition groups rather than part of the Government majority.

At the close of his statement Chautemps immediately left the Chamber followed by the members of his Cabinet to submit his resignation to the President. (END MESSAGE)

WILSON

CSB

JR

GRAY

Paris

Dated March 10, 1938

Rec'd 9:45 a.m.

Secretary of State,
Washington.

RUSH.

364, March 10, 11 a.m.

In his declaration before the Chamber this morning Chautemps said that he had intended to resign last night but that after conferring with the presiding officers of the Senate and Chamber he had felt that it would be more in keeping with parliamentary traditions for him to make a statement before the Chamber, thus informing public opinion through the Chamber of the reasons for his resignation.

In his statement he covered the same ground as given in the Government's communique of March 8 and in his statement to the press yesterday. He reiterated that the Government had not been forced to resign because of treasury or monetary difficulties but that it had seemed to him imperative that before appealing to the public for subscription to the national defense loan the Government be given the necessary powers to make the loan a success and to satisfy the public that the funds

subscribed

-2- #364, March 10, 11 a.m., from Paris.

subscribed for national defense would not be frittered away in meeting constantly expanding needs of the treasury for other purposes. (END SECTION ONE)

WILSON

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 10, 1938, 10 a.m.

NO.: 383

RUSH

FROM COCHERAN.

Approximately five hundred million francs foreign exchange was lost by French control yesterday. This loss reduced the stabilization funds total gold and foreign exchange holdings to around two billion francs on March 9 at the close of the business day.

This morning at a quarter of ten I called at the Bank of France. At that time there was already considerable selling of francs against sterling from Switzerland, and sterling was also being taken by Paris. At this hour the pressure was not as heavy as for the corresponding hour yesterday. It is presumed that the reason for this is that many operators feared that the market would not be open today and had finished their transactions yesterday. The control decided, nevertheless, to let the rate slide. The rate moved from 157.70 to 158.20 while I was at the Bank. I have been given to understand, in strict confidence, that the rate is to be permitted to go to 161. An attempt will be made to hold it at that point.

The Bank of France is of course unable to anticipate political developments, for at this hour Chautemps is

before

- 2 -

before Parliament. Up to the present there has been no suggestion of placing any new restrictions on dealings in exchange or of closing the market today.

WILSON.

RECEIVED
MAY 10 1933
TOLSON'S DEPARTMENT
OFFICE OF THE ATTORNEY GENERAL
WASHINGTON, D. C.

EA:LWW

Thursday
March 10, 1938
10:47 a.m.

HMJr: Hello.
H. M.
Cochran: Hello.
HMJr: Hello, Cochran.
C: Hello, Mr. Secretary. Yes.
HMJr: Good morning - good afternoon. We've - I just wondered if there was anything you could tell me; we've got the information that the Cabinet has resigned.
C: Have you received my 363? (p. 139)
HMJr: Well, wait a minute.
C: Sent at ten o'clock this morning.
HMJr: Oh - listen, we never get anything under five hours.
C: Good heavens, I sent it at ten o'clock this morning.
HMJr: Well, we never get anything under five hours.
C: Because I was out early this morning, you see.
HMJr: Yes. So we haven't - Archie is sitting here and he says that we have not got it.
C: Five hundred million francs.
HMJr: What's that?
C: I say, I was out at the bank this morning at nine forty-five.
HMJr: Yes.
C: And I confirmed that they had lost half a billion, that's five hundred million francs, yesterday.
HMJr: I see.
C: Which brought their holdings down to two billion.

HMJr: Yes.

C: And when I was out there the pressure was a little heavy but not as bad as yesterday.

HMJr: Yes.

C: Because many people had finished their transactions yesterday...

HMJr: Yes.

C: ...thinking that the market would be closed today.

HMJr: Yes.

C: And when I was there the rate for sterling moved from 157.70 to 158.20.

HMJr: Yes.

C: And I was told in strictest confidence that they might let it move on through the 61's, and then put up a wall. But as it happened it didn't go beyond 159. and three quarters.

HMJr: I see.

C: At that point there began a certain amount of profit taking.

HMJr: Yes.

C: So - the Control didn't have to intervene any time during the official Bourse, that is, from half past one until half past two.

HMJr: I see.

C: And the rate is now 158.90.

HMJr: I see.

C: So it's not as good as it opened, but still there's enough short selling to take care of the market.

HMJr: Uh huh.

-3-

C: And the future here improved a little bit too. The Belga was rather weak - the National Bank of Belgium selling gold in London makes it bad.

HMJr: Yes.

C: The Bank of France Statement came out as^I/anticipated.

HMJr: Yes.

C: That is, eight hundred million francs bought.

HMJr: Yes.

C: That is, through their creditor and by the state.

HMJr: I see.

C: As the possible connection.

HMJr: But...

C: - communicate about, really.

HMJr: What's the earliest that they could form a Cabinet?

C: I'm afraid it's going to take some time. This morning after they tendered their resignation at ten forty-five...

HMJr: Yes.

C: The President of the Republic called Herriot, Vice President of the Chamber, and the President of the Senate.

HMJr: Yes.

C: They had conversations up until one o'clock. Then they told us over at the Elysee, at the White House, that there would be no definite news before four - between four and six this afternoon.

HMJr: I see.

C: The gossip - the feeling is that the three men who will be invited to form a Government are Chautemps, Blum and Herriot.

-4-

HMJr: I see.

C: But no one of these three may want to take the job, it then may pass to Daladier.

HMJr: I see.

C: But it's going to be particularly difficult since the feeling between the Socialists, who have been responsible for this, - fall, and the Radical Socialists, has become so bitter.

HMJr: I see.

C: The Socialists had a meeting today in which they insisted that the next Government will be a Popular Front Government.

HMJr: I see.

C: And that the Communists be represented in that too.

HMJr: I see.

C: See, I mean, that would be a government which couldn't float a loan and would probably try to resort to exchange control. So it looks like there's going to be some dickering for some time.

HMJr: All right.

C: So we certainly can't know anything before along later in the afternoon.

HMJr: Cochran.

C: Yes, sir.

HMJr: I got that letter that you wrote me.

C: Yes.

HMJr: And, my advice to you would be to keep the title that you've got and forget about the rest.

C: I think that's the best then.

HMJr: I don't want to go into a lengthy explanation, but...

C: Yes.

-5-

HMJr: ..if you'll take (short laugh) my advice, I think that's what I would do.

C: Good. Well, I'm quite happy to do it.

HMJr: And I don't think - there are some things that are worth fighting for but I don't think that this is.

C: I don't either. If they could have done it regularly...

HMJr: Yes.

C: Fine. But if not, why, I don't need it and I am quite happy to go along.

HMJr: Well, that's what I would do.

C: All right. Fine. Well, I thank you so much for worrying about it, but let's let it go then.

HMJr: Archie Lochhead just tells me that Monnick is back in Paris.

C: He was due back here tomorrow; he said that he would see me Friday or Saturday.

HMJr: Well, now just hold the wire a minute; Archie has just given me something - let me read it a minute.

C: Yes.

HMJr: Will you wait a minute?

C: Surely.

(Short pause)

HMJr: Hello.

C: Hello.

HMJr: Did Butterworth send you number 197?

C: Just a second. He sent me one, I think that's about it.

HMJr: 197?

-6-

C: No, I haven't that. I have 188.

HMJr: But not 197?

C: No, sir, I haven't seen that yet.

HMJr: Well, I think that I'll have it repeated from here, that -

C: All right.

HMJr: Well, I'll tell you what you do. Yes, call up Butterworth, see?

C: Yes.

HMJr: And tell him to mail you today...

C: Yes.

HMJr: 197.

C: 197.

HMJr: Yes. - to mail it right away.

C: All right.

HMJr: Because that saves hours on us here.

C: Yes.

HMJr: - to mail you 197.

C: Yes.

HMJr: Yes.

C: I have that 188 which reported a conversation with...

HMJr: No, but 197 you ought to have.

C: Oh - because this man was planning to come and see me on Friday or Saturday.

HMJr: Yes. Ask him to mail you 197.

C: All right. I'll get him right away.

HMJr: All right.

-7-

C: Then the only other thing was - it's in my telegram, which you'll probably get while you're talking - that there's no suggestion of any new restrictions on exchange today or any closing of the market.

HMJr: All right.

C: As long as there's no government these people will go along the same way.

HMJr: All right.

C: Goodbye.

HMJr: Thank you.

C: All right, sir. Goodbye.

REB

GRAY

London

Dated March 10, 1938

Rec'd 2:50 p. m.

Secretary of State,
Washington.

RUSH

200, March 10, 7 p. m.

FOR TREASURY FROM BUTTERTWORTH.

One. The volume of trading in francs has not been extraordinarily large. The French fund has not had to operate except in the morning when the franc depreciated to the low point of 159-3/4 and at this point natural support developed and even the future rate moved in from 7 to 6. It is significant that in the last two crises the franc has needed no support during the periods between governments.

Two. It is noteworthy that despite yesterday's fall by 47,000,000 pounds in clearing bank deposits, today's Bank of England statement reveals that bankers deposits only fell by 1,431,483 pounds. They now stand at the very high figure of 114,279,741 pounds compared with 98,826,734 pounds at the corresponding date in 1937. In this connection reference is made to paragraph three
my

REB

2-#200, From London, Mar. 10, 7p.m.

my 178, March 3, 6 p. m.

Thres. Sir Josiah Stamp at today's meeting of the London Midland and Scottish Railway stated inter alia that "although in many particular industries 1938 will have difficulty in maintaining the 1937 results, the general prospect for the company's system is that trade as a whole may be just about the same level as reported 1937 -- perhaps a little above it."

KENNEDY

HFD

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 10, 1938, 5 p.m.

NO.: 366

FROM COCHRAN.

Franc went to 159.75 shortly after despatch of my 363, March 10, 10 a.m. Profit taking then commenced and has followed intermittently during the day. Rate has consequently varied considerably. No evidence of intervention by the French control during official trading session.

Belga was again under pressure and National Bank of Belgium sold gold in London to protect its currency.

Bank of France statement as of March 3 showed 800,000,000 francs drawn by Treasury.

When word that Blum had accepted task of forming a cabinet came out around 4:00 o'clock traders had already left the Bourse.

Bankers generally believe that Blum will not be able to set up a Government capable of raising the national defense loan. They are of the opinion, however, that a trial by Blum is necessary as a prelude to a degeneration of the situation which may result in opportunities for national government.

END SECTION ONE.

WILSON.

EA:LWW

REB

GRAY

Paris

Dated March 10, 1938

Rec'd 4:35 p. m.

Secretary of State,
Washington.

366, March 10, 5 p. m. (SECTION TWO)

On grounds of ill-health Belgian Minister of Finance Demeux has tendered his portfolio and Premier Janson has provisionally turned over his duties to Marlot, Minister of Public Works. Due principally to decline in Belgian economic situation new taxes exceeding \$30,000,000 have recently been imposed to balance current budget.

Press report from Amsterdam this evening says Nederlandsche group has negotiated with the Belgian Government a 120,000,000 florin loan, 4%, to be issued at par in the Netherlands, Switzerland and Sweden to provide funds for reimbursing French franc loans of 1932 and 1934.

Of interest to central bankers is appointment of President Imredy of the National Bank of Hungary to the post of Minister without Portfolio in Hungarian Cabinet. He retains the central Bank Presidency.

(END OF MESSAGE)

ALP-YPL

WILSON

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 10, 1938, 6 p.m.

NO.: 387

Today at luncheon I had a talk with Sarraut. Before the Chautemps Government resigned, he told me, nothing had been done towards the formation of a new government. Sarraut is of the opinion that the political crisis will last a long time and that it will be very difficult to solve the problem. Should Blum try to form the new government, he said (and Blum since luncheon has decided to do so), Blum's program would determine whether or not the Radical Socialists would participate; their support would not be given if the program contained such items as nationalization of industries or exchange control.

Should Blum not be able to form a government, Sarraut believed that Chautemps, with another Radical Socialist Government supported by the Socialists, might come back again. It is also Sarraut's belief that should there be a few failures in the attempt to set up a government, Daladier might then succeed. However, he said, it remained doubtful whether Daladier would get the support of the Socialists. It is Sarraut's opinion that at the present a National Union Government is out of the question.

WILSON.

EA:LTV

Paris

Dated March 11, 1938

Rec'd 8:35 a.m.

Secretary of State
Washington.

RUSH.

371, March 11, noon.

The Paris editor of the NEW YORK HERALD TRIBUNE, commenting upon the report that Blum had acceded to the Radical Socialist demand for rejection of exchange control, added that "a reliable source said last night pressure from the Treasury Department in Washington had helped him to make up his mind".

We have received inquiries about this story and have replied that it is absurd.

There is no mention of the story in the French press.

WILSON.

GROUP MEETING

March 10, 1938.
9:30 A. M.

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

McReynolds: Harold's back this morning.

H.M.Jr: Is he?

Oliphant: He said he got caught in the flood.

H.M.Jr: How'd the thing go?

McReynolds: All right.

H.M.Jr: All right? I gathered from reading the papers there was a conversation between Doughton and the President.

Magill: It would appear so. Did you read the Times?

H.M.Jr: No.

Magill: It had the longest story. They were apparently in session until six o'clock and - they had a lead from someplace that the bill was to be passed in its present form, but -- which would mean it would be light about a hundred million.

H.M.Jr: The way it is now?

Magill: (Shakes head "Yes.")

H.M.Jr: Think I ought to call up the President and tell him the way it is now, because he asked me the other day?

Magill: Let me ---

H.M.Jr: This is the best time to call him.

Magill: It depends on which year you take - which is the complication about it - for the next ensuing fiscal year '38-'39, George's division estimates the activity of this 1-B Section very low - ten million, something like that, which has always seemed to me to be very low.

Haas: That's true. When you have production and don't have profits you have nothing to pay out.

H.M.Jr: Supposing I call up Mr. Doughton and see if he has any instructions.

Magill: I see no objections to that.

H.M.Jr: I'll call him up. (Picks up telephone) Congressman Robert Doughton please.

Magill: Regarding George's figures, unless something has happened to change them for the fiscal year '38-'39 the bill would be light by about forty-two million, as I recall it.

Haas: I don't recall exactly, but it is somewhere around there.

Bell: Thirty-three, I think.

Magill: Thirty-three point eight, plus the 1-B laws, whatever that is.

H.M.Jr: Thirty-three plus how much?

Magill: The bill was supposed to be light for the next fiscal year thirty-three point eight millions.

H.M.Jr: Call it thirty-three million.

Magill: Then the 1-B, according to the division, next year would yield a comparatively small amount.

Haas: I thought it was thirty but I am not sure.

H.M.Jr: Let's get together on this. If the bill is tied up, let's have it right - don't let's guess.

Magill: I should say for the next fiscal year, your fifty million ---

H.M.Jr: Let's wait until George comes back.

Magill: Now for a fiscal year like 1937, ordinarily regular business activity ---

(Telephone interrupts.)

H.M.Jr: Hello.

Telephone Operator: Congressman Doughton.

H.M.Jr: All right. Hello.

Doughton: Yes, Mr. Secretary.

H.M.Jr: How are you?

Doughton: Oh, fine thank you, how are you?

H.M.Jr: Well, I'm not quite as good as that.

Doughton: I've been knocked down, rolled over and drug out and had my insides cut out so many times that I've gotten used to it. I'm kind of like a rubber ball, I just rebound and come back.

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

Doughton: I never could do anything while I was sore or mad or nervous or upset. I suppose I was just disappointed and regret very much what it was yesterday but it wasn't any great surprise to me; I've been a feeling a storm a coming for some time.

H.M.Jr: Well, you ---

Doughton: I told the President last week what we're up against.

H.M.Jr: Well, what I was calling up was just to put our heads together ---

Doughton: Yes.

H.M.Jr: And we haven't received any instructions here as to additional revenue. I wondered whether you had.

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Doughton: No. I talked to the President yesterday afternoon and then I got another message indirectly from him; I talked with him about it and he seemed - of course he seemed to think that the revenue should be taken care of in some way and I tried to get in touch with him later. We had a Democratic conference ---

H.M.Jr: Yes.

Doughton: ---With all the Democratic members. I tried to get in touch with him. I wanted to discuss the matter with him and I didn't think we should agree on anything without showing him the courtesy of talking to him anyhow. And Marvin McIntyre phoned back and he said - I told him we could go down there last night, a few of us. He said he had callers last night and for us just to go ahead and do whatever we thought was best under the circumstances. I'd like very well to discuss it with you and the President too. But the time's short, you know. We adjourned yesterday so we could give time ---

H.M.Jr: Yes.

Doughton: ---To - if we wanted to confer. I - of course, it's possible but I don't think at all probably likely that we might reverse that vote today when we get in the House. We'll have a roll call vote. But I don't think we can beat them. I don't think that's forcing anybody if we go ahead and before that's done and bring in an amendment - raising an additional amount of revenue, then it would militate against us on that vote, you know. They'd say, "Well, it's no use to restore that now because you're providing the revenue in another way."

H.M.Jr: I see.

Doughton: Now we planned - our thought was this, Mr. Secretary ---

H.M.Jr: Please.

Doughton: That we go over it here today - I figured - let the bill go on over to the Senate ---

H.M.Jr: Yes.

Doughton: And then if you and the President and all of us got together - thought that the best thing to do was to - that the House provide additional amount of revenue we could bring in a separate bill and get it over there before the President - I don't think we'd have a great deal of trouble in agreeing on a bill to raise fifty or sixty million dollars. And just send on over that before the Senate gets through with the first bill. That is kind of what we thought might appeal if the President's going to insist on his raising the - that full amount which the bill before it was amended would have raised - which we set out to raise.

H.M.Jr: Well, it seems to me in view of the temper of the House the suggestions you are making - that if you could pass a separate bill later on it seems to me as though that that would give you a chance to get the control back into your hands again.

Doughton: Yes. Well, then what I think is this. That whenever they - if they - of course, those who have not threshed that out feel responsibility for it, you know.

H.M.Jr: Yes.

Doughton: And if - if the impression gets out that if that bill should come to the President short - it looks as if it'll be short now - if the amount is not restored in the Senate ---

H.M.Jr: Yes.

Doughton: ---That it'd probably be vetoed in the lower left side the way it is ---

H.M.Jr: Yes.

Doughton: I don't think we'd have any difficulty in passing a supplement - a supplemental bill.

H.M.Jr: Yes.

Doughton: Now if we could be assured by Pat Harrison and that crowd that they would increase the amount in a way that we'd be satisfied with it why of course that would take care of it. But you see they might do it in some way the House couldn't consent to.

H.M.Jr: I see.

Doughton: And then we'd have no voice and we couldn't put in something new and something they hadn't put in, why we'd just be confined to what we sent over there and what they put in.

H.M.Jr: Yes.

Doughton: So I feel like that unless we feel like we can trust them if we have to have additional revenue we'd better send a supplemental bill over there to appear today.

H.M.Jr: Uh huh.

Doughton: That's my view about it.

H.M.Jr: Well, I would say - I mean, I haven't been ---

Doughton: I've been - what I think, Mr. Secretary ---

H.M.Jr: Yes.

Doughton: If there's no further conferences necessary in the morning - this morning - and of course, if the President wanted to see us we'd run down this morning, but if there's no - or you - but if there's no further conference needed we'll see what's done today. I think then we ought to have a conference immediately with you and the President.

H.M.Jr: When?

Doughton: Mr. Vinson and myself and two or three of us.

H.M.Jr: You mean today?

Doughton: How's that?

H.M.Jr: Today?

Doughton: Well, as soon as it's convenient for you and him and after we see what we do today, yes.

H.M.Jr: I see.

Doughton: I think the quicker the better.

H.M.Jr: After what happens today?

Doughton: Yes. Don't you think so?

H.M.Jr: I would say the sooner the better, and my feeling - I mean it's just my 'horse-sense,' would say that if you try to pass something through today the way the House is feeling that you might get beaten again and then it's be that much more difficult to get the revenue.

Doughton: Yes. We couldn't enforce that bill - we have to - you see after the bill goes out of the Committee into the House ---

H.M.Jr: Uh huh.

Doughton: ---why then we can't do anything because there's only one motion that we can make and that'll be made by the Republicans - and that'll be made to strike out all of this undistributed profits tax and we'll beat them on that of course and so we - if it - if we don't offer some amendment before - from the Committee as a whole - before it takes this vote on restoring in the House - on this - defeating that amendment adopted yesterday, why then we can't do it.

H.M.Jr: I see.

Doughton: And - but we can send a supplemental bill. Now we had a conference - all the Democratic members - yesterday afternoon.

H.M.Jr: Yes.

Doughton: Including McCormick and Lamneck and they manifested that they favor latitude toward doing something to restore the lost revenue. And I don't believe we'll have much trouble. And of course there'll be several ways we could raise the money ---

H.M.Jr: Yes.

Doughton: And that's a matter that we have to - first we ought to decide whether or not we'd want to try to raise additional money and then if so just what was the best method of doing.

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H.M.Jr: Well, you and I agree. You and I agree and I think before - I think when we - those two questions are up, I think that we ought to see the President, so that ---

Doughton: Well, that's exactly the way I feel. If it suits him why we can see him this evening, if he don't have an appointment or I don't know what time. The House may run late. If not, we can see him tomorrow morning.

H.M.Jr: I'll get that word to them ---

Doughton: You get that word to him and then ---

H.M.Jr: You do it also. You do it also. I'll ask for a conference either tonight or tomorrow morning.

Doughton: Yes. And then we can set the date of the conference just - we'll have it tonight anyway or we can have it tomorrow morning. We don't know how late we'll run this evening, we might - probably couldn't have it this afternoon, I don't believe we could.

H.M.Jr: The trouble is he's got ---

Doughton: We'll have it tonight or in the morning.

H.M.Jr: I'll ---

Doughton: And I'll call - of course you'll know - and I'll call you again whatever the House voted today.

H.M.Jr: Please.

Doughton: All right.

H.M.Jr: Thank you.

Doughton: Thank you. Goodbye.

H.M.Jr: I don't know what you think, but I think that makes sense.

Magill: They have apparently got eight or ten different ideas as to how they might raise this money. I think in their present confused state if that were put up in the House, I don't know what would happen.

H.M.Jr: Is that all that thing's going to produce - seven

hundred million dollars?

Haas: The situation there, Mr. Secretary, - that is just that third basket there - the exemptions are very high. As far as we can figure out, the total amount involved is low, and then too, it comes at a year when there is a depression, and its revenue producing effect is when you have profits, but when you have a depression you have no profits - don't produce anything. Take a capital gains fact, whereby if you knock it out you weaken your revenue structure. The whole bill, as we figure - you might check on the last sheet there Ros - the whole bill was down thirty-three million for '32.

Magill: '38 '39.

Haas: If this bill had been in effect instead of the present law in 1937 --- ?

Magill: Yes - I guess so. I don't know whether all your pluses went in or not. I guess so. Yes.

Gaston: You are figuring on a fiscal year basis?

H.M.Jr: You think there is any chance in going in there today and trying to jam that through?

Bell: I wouldn't. I wouldn't try to beat it into line today.

H.M.Jr: You might make it worse?

Bell: I think you might endanger some of the other bills too - get them mad.

Upham: I think so too. The House organization is not working toward this bill.

Magill: The 'whip' is sore too.

Upham: I've never seen as great a difference between the House and President as last Saturday.

H.M.Jr: (Over telephone.) Is Miss Chauncey sick today? Why isn't she in here? Tell her to come right in. (Over White House telephone.) Good morning. Would you ask the President whether I could speak to him?

Magill: You've got the further factor too ---

H.M.Jr: What did you write on this piece of paper?
Thirty-three is just a slippage we have accumulated
as the bill's been going along?

Gaston: That figures on a fiscal year basis. It only
figures - your March and June collections. What
we've got to talk on is fiscal year ---

Haas: Herbert also ---

Bell: Doesn't effect this March and June ---

Gaston: So that you are only taking into account only
about six-tenths of the whole year's loss. If
your forty-eight million ---

H.M.Jr: I can't do this thing. If you don't - you ought
to do it before you ever come in here - not in my
room. Why don't - I asked 'how much.' Why is the
revenue - good God, you've got all these people,
and the answer should only be one answer - not
ten answers. I am sick and tired of it; there
should be one answer when you come into this meeting -
not ten. There should be one answer - either
that is right or it isn't right. I can't be using
my head and be worrying about figures.

(At this point the Secretary talked by telephone
to the President.)

H.M.Jr: Well now, that is too important to take any chances
on; so you know what we said, huh?

Magill: Yes.

H.M.Jr: I've got to move so fast - if you don't mind my
saying so, that's the kind of a figure which a
fellow - somebody - could anticipate, and I can't
help getting upset when I don't have any tools to
work with.

Haas: They are on there but there were too many other
figures there too.

H.M.Jr: I know, but I can't do that; I've got to work too
fast.

Gaston: I'm sorry to have injected that.

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- H.M.Jr: If you don't mind, take these fellows out together. That's the worse slap the President's had since he's been in. The President asked me that I have a figure which everybody in the Treasury agrees on. When he said, "What is it?" "Thirty-three. I think that is right," -- I don't think it is unreasonable to ask that you have that, and -- if they are wrong. I think it is inexcusable. I am not blaming you, but I do say again that the Secretary of the Treasury at this 9:30 in the morning -- it is not asking too much to have a figure which everybody agrees on. It is just that I knew what happened, and if the President asked for it and I started to side-track he'd say, "For God's sake Henry what are you doing? Don't you know your business?" And the answer would be, "No, Mr. President.." that "I can't get a figure out of my staff."
- McReynolds: That is two o'clock tomorrow you are talking about -- not two o'clock today?
- H.M.Jr: Yes.
- Magill: 2:00 tomorrow.
- H.M.Jr: Well, I think I'll call Doughton and tell him so he will know -- don't you think so? That will save --- (Telephone) Mr. Doughton, please. (To Mr. Gaston) That's all right. You and I understand each other on that, Herbert?
- Gaston: Yes. You don't want to be bothered by a memorandum on that question?
- H.M.Jr: No, because Magill is here, and Haas is here, and if you don't mind, take it up with them and fight it out with them -- and Bell's here. I don't want it taken out in my hide.
- Magill: That is your figure to work with, with the President.
- H.M.Jr: All right. (Telephone rings) Hello. (Conversation with Congressman Doughton follows!)

March 10, 1938.
9:55 a.m.

H.M.Jr: Hello

O: Congressman Doughton

H.M.Jr: Hello

D: Yes.

H.M.Jr: I just talked to the President and told him of our conversation, see?

D: Yes.

H.M.Jr: And he says if you're sure that you can't get that vote changed on the 1-B, see?

D: Says which?

H.M.Jr: If you cannot get the vote changed on the 1-B

D: Yes.

H.M.Jr:to-day - he says there's no use risking it.

D: No use what?

H.M.Jr: Taking a chance.

D: Well you're not sure - you can't be sure either way I doubt if we can.

H.M.Jr: Well that's what I told him. I said that you said that you couldn't guarantee that you could get the votes.

D: No - some of the boys think we have a fair chance. I think the chances are against it but you never can tell about that.

H.M.Jr: Well I told.

D: This way you just take a chance and try a sample vote.

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H.M.Jr: Well I told him that after talking to you that you weren't sure.

D: No, we're not sure.

H.M.Jr: Well then he says let it go.

D: Let it go?

H.M.Jr: To-day.

D: Let it go to-day.

H.M.Jr: Yes, not try to force it.

D: Well that's what we thought.

H.M.Jr: Yes. And then he said he would see us if the TVA thing - he's got a meeting with TVA at 11 tomorrow morning.....

D: Yes.

H.M.Jr:and that if that TVA thing - if he's through by noon he'll see us right after lunch.

D: Well that will be fine - we'll have the light of what's been done to-day to guide us. All right.

H.M.Jr: All right.

D: Thank you very much.

H.M.Jr: Thank you.

H.M.Jr: He's changed now, from the first conversation; he said there was no chance, didn't he?

Oliphant: No.

H.M.Jr: Yes he did.

Oliphant: The record will show.

H.M.Jr: Didn't he?

Upham: He said he had seen this thing coming for a long time, and he didn't think there was any chance of putting the 1-B over; that some of the other boys did but he didn't.

Oliphant: It's going to make a very big difference when you have a record vote and you have to face your - that's the important question there, whether or not they have a record vote.

H.M.Jr: Well, I understood him and that is what I told the President, that he couldn't get this thing changed.

Upham: He can't.

H.M.Jr: They forecast it.

Upham: 180 votes.

H.M.Jr: I thought the first time I talked to him he said that - well, they couldn't get this thing changed, and I got that distinct feeling. Before I passed it on to the President I wanted to make sure.

Oliphant: The big question down there is whether or not there is to be a roll call, so they will have to stand up and let the country know how they voted. That is the big thing today.

H.M.Jr: He said they talked it over last night and couldn't get it; and there was no use even trying to make up the revenue today. Well, the record is there anyway. I'll call him back if there is any doubt - if you want me to.

Magill: Doughton said for the papers that he didn't think it could be changed on a roll call vote.

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Oliphant: I think Doughton now has the impression that the President doesn't want a roll call.

H.M.Jr: Well, I'll call him back. (Over telephone:) Mr. Doughton again.

Operator: All right.

H.M.Jr: Nothing was said about a roll call in my conversation; I didn't even know anything about a roll call.

Now, have you got that thing on Jesse Jones?

Oliphant: Yes, I have.

H.M.Jr: What about that?

Oliphant: I have been over it. It is very broad, of course.

H.M.Jr: It is?

Oliphant: In the first paragraph the loans to any business are limited to cases where other credit is not available. The second paragraph - loans to municipalities and all those sub-divisions, of course there is no such limitation. I don't think the breadth of authority does any harm.

H.M.Jr: What is that?

Oliphant: I don't think the breadth of it does any harm.

H.M.Jr: Haas, did you change that (Preliminary Report on Prices of Building Commodities, dated March 8, 1938) any from the day-before-yesterday's meeting?

Haas: Yes.

H.M.Jr: Give Naster a copy and tell him it's in connection with yesterday's meeting.

Haas: Yes.

H.M.Jr: Herman?

Oliphant: It will take a little time to get in touch with Bob Jackson because he's got a big case this morning.

H.M.Jr: That's all right. What else?

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Oliphant: Nothing.

H.M.Jr: Steve?

Gibbons: Collector Kelly doesn't believe Governor Moore - that he doesn't want to come down and see the President with the two Senators. I called McIntyre about it yesterday and the answer is absolutely no. McIntyre wouldn't even talk to the President about it. The other thing is to call him and ask him to resign and give him Monday as a deadline. Governor Moore's mother-in-law died in the interim.

H.M.Jr: If you don't have it by Monday - Monday's the dead-line.

Gibbons: I have some figures here on Coast Guard.

H.M.Jr: Monday's the deadline.

(Looks at Mr. Lochhead.)

Lochhead: There's still no pressure on the market here.

H.M.Jr: George?

Haas: I have several more figures that came in.

Gibbons: Incidentally, Mr. Secretary, Harry Durning told me yesterday his firm lost fifty thousand dollars through Mr. Whitney.

Taylor: Through him or to him?

(Telephone rings. Conversation with Congressman Doughton follows:)

March 10, 1938.
10:03 a.m.

H.M.Jr: Hello

O: Congressman Doughton.

H.M.Jr: Hello

D: All right.

H.M.Jr: Bob, I was thinking over our conversation and I just wanted to make sure that there was no misunderstanding because it's pretty important.

D: All right, Mr. Secretary.

H.M.Jr: When I talked to you first, before I talked to the President, you see, I got the impression that there was not any chance of getting a vote in Congress to-day to put back one B.

D: Well you got that a little too strong.

H.M.Jr: Did I?

D: I didn't say we had a good chance but we had a chance and we were going to try that.

H.M.Jr: Well I didn't get that and that's what I passed along to the President.....

D: Yes.

H.M.Jr:and the President said, "Well if they have no chance, there's no sense in trying it".

D: Well we wouldn't say that at all because Cooper and Vinson think they've got a reasonable chance. I don't think its good but its worth undertaking and our folks won't be satisfied anyway unless they have a roll call you know.

H.M.Jr: Well -

D: There's some chance but I - of course how good it is you can guess as good as I can.

H.M.Jr: Well -

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- D: When you've got to chase 28 votes, you know, and the battle's hard fought and the lines drawn you can see the disadvantage we're in.
- H.M.Jr: Well then I.....
- D: We - we might make it now - its not hopeless.
- H.M.Jr: Well I gave the President the impression that it was hopeless.
- D: Well no I wouldn't say that.
- H.M.Jr: Well that was the impression I gave him.
- D: Well -
- H.M.Jr: He said, "If its hopeless, it would be foolish to try it but if it wasn't hopeless why, in other words he's leaving it up to you, if you think....."
- D: You mean - you mean it isn't hopeless - its foolish to depend on it.
- H.M.Jr: Yes.
- D: Well we don't - we don't think its that bad and the boys are going to have a roll call anyhow and I want to say this about it you know.
- H.M.Jr: Yes.
- D: If we have to - if it fails.....
- H.M.Jr: Yes.
- D:and we have to supply additional revenue, its mighty hard to do it satisfactorily in two minutes.
- H.M.Jr: I see.
- D: We want time to discuss it with you all and the Members of the Committee and they'd possibly have a little hearing on it. ^{any of the sub-}committee know the revenue just offhand, you know - its kind of blind business.

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H.M.Jr: Well then you're going to have a roll call?

D: Oh we're going to have a roll call. You couldn't keep them from that. We're going to put them on record anyhow.

H.M.Jr: I see.

D: Yes, as I say, the boys think there's a fair chance to and I don't think you need to chance but its one chance worth trying.

H.M.Jr: Well then they're going to have a roll call but the only thing that you're going to postpone is to introduce a measure to make up the loss of revenue in case you lose on the roll call.

D: In case we lose on the revenue why then we'd have to take steps after that, you know, and not before.

H.M.Jr: And that's what you're going to wait to talk to the President about.

D: How's that? Yes and if we're beaten why then I thought we'd want to talk to the President then about - ah - what he suggests we let go to the Senate. Of course, it will go on there anyhow but whether or not we take steps at once to bring in a deal to raise a little lost revenue, then we'll wait to see - take a chance on what they'll do.

H.M.Jr: I see.

D: And that's the matter I wanted - we wanted to - I thought it especially important to discuss with you and him.

H.M.Jr: All right, thank you so much.

D: You're welcome, Mr. Secretary.

H.M.Jr: Well, there's no use. He said there were twenty-seven votes and you couldn't get them changed. It will be interesting to read the record. I never take the position - (Over the telephone) I'd like the President again - and tell him it's urgent.

Magill: This last is, they are going to have a roll call.

McReynolds: At first there was never any idea of having a roll call.

H.M.Jr: There are - he said there are twenty-seven votes and no chance of changing it.

Magill: Chances are he has talked to Vinson between your calls - the reason for the busy line - and Vinson says, "By golly, we'd better have a roll call."

H.M.Jr: As I understand it, they are going to have a roll call and Vinson and Cooper think they can win, and he doesn't.

Magill: Vinson and Cooper think we have a chance - I don't.

H.M.Jr: It will be interesting to read that thing.

(At this point the Secretary talked again to the President over the White House telephone, with Mr. Magill listening.)

H.M.Jr: Will you do that.

Magill: Yes.

H.M.Jr: I don't want to seem to be talking one minute to Doughton and the next minute to calling Vinson.

Magill: Do you want this for Vinson?

H.M.Jr: He said for Vinson.

Magill: You'll get that in the discussion.

H.M.Jr: Mac?

McReynolds: Nothing that you would want to take up today.

H.M.Jr: Thank you.

Thursday
March 10, 1938
9:35 a.m.

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HMJr: Hello

T.O.: Congressman Doughton.

HMJr: All right. Hello.

Robert L. Doughton: Yes, Mr. Secretary.

HMJr: How are you?

D: Oh, fine thank you, how are you?

HMJr: Well, I'm not quite as good as that.

D: I've been knocked down, rolled over and drug out and had my insides cut out so many times that I've gotten used to it. I'm kind of like a rubber ball, I just rebound and come back.

HMJr: Well, you're...

D: I never could do anything while I was sore or mad or nervous or upset. I suppose I was just disappointed and regret very much what it was yesterday but it wasn't any great surprise to me, I've been a feeling a storm a coming for some time.

HMJr: Well, you....

D: I told the President last week what we're up against.

HMJr: Well, what I was calling up was just to put our heads together...

D: Yes.

HMJr: And we haven't received any instructions here as to additional revenue. I wondered whether you had.

D: No, I talked to the President yesterday afternoon and then I got another message in directly from him; I talked with him about it and he seemed - of course he seemed to think that the revenue should be taken care of in some way and I tried to get in touch with him later. We had a Democratic conference.

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Yes.

HMJr:

D:

With all the Democratic members. I tried to get in touch with him. I wanted to discuss the matter with him and I didn't think we should agree on anything without showing him the courtesy of talking to him anyhow. And Marvin McIntyre phoned back and he said - I told him we could go down there last night, a few of us. He said he had callers last night and for us just to go ahead and do whatever we thought was best under the circumstances. I'd like very well to discuss it with you and the President too. But the time's short, you know. We adjourned yesterday so we could give time...

HMJr:

Yes.

D:

...to - if we wanted to confer. I - of course it's possible but I don't think at all probable likely that we might reverse that vote today when we get in the House. We'll have a roll call vote. But I don't think we can beat them. I don't think that's forcing anybody if we go ahead and before that's done and bring in an amendment - raising an additional amount of revenue, then it would militate against us on that vote, you know. They'd say, 'Well, it's no use to restore that now because you're providing the revenue in another way.'

HMJr:

I see.

D:

Now we planned - our thought was this, Mr. Secretary..

HMJr:

Please.

D:

That we go over it here today - I figured - let the bill go on over to the Senate...

HMJr:

Yes.

D:

And then if you and the President and all of us got together and thought that the best thing to do was to - that the House provide additional amount of revenue we could bring in a separate bill and get it over there before the President - I don't think we'd have a great deal of trouble in agreeing on a bill to raise fifty or sixty million dollars.

And just send on over that before the Senate gets through with the first bill. That is kind of what we thought might appeal if the President's going to insist on us raising the - that full amount which the bill before it was amended would have raised - which we set out to raise.

HMJr: Well, it seems to me in view of the temper of the House the suggestions you are making - that if you could pass a separate bill later on it seems to me as though that that would give you a chance to get the control back into your hands again.

D: Yes. Well, then what I think is this. That whenever they - if they - of course those who have not thrashed that out feel responsibility for it, you know.

HMJr: Yes.

D: And if - if the impression gets out that if that bill should come to the President short - it looks as if it'll be short now - if the amount is not restored in the Senate...

HMJr: Yes.

D: ...that it would probably be vetoed in the lower left side the way it is...

HMJr: Yes.

D: I don't think we'd have any difficulty in passing a supplemental bill.

HMJr: Yes.

D: Now if we could be assured by Pat Harrison and that crowd that they would increase the amount in a way that we'd be satisfied with it why of course that would take care of it. But you see they might do it in some way the House couldn't consent to.

HMJr: I see.

D: And then we'd have no voice and we couldn't put in something new and something they hadn't put

in, why we'd just be confined to what we sent over there and what they put in.

HMJr: Yes.

D: So I feel like that unless we feel like we can trust them if we have to have additional revenue we'd better send a supplemental bill over there to appear today.

HMJr: Uh huh.

D: Now that's my view about it.

HMJr: Well, I would say - I mean, I haven't been....

D: I've been - what I think, Mr. Secretary...

HMJr: Yes.

D: If there's no further conferences necessary in the morning - this morning - and of course, if the President wanted to see us we'd run down this morning, but if there's no - or you - but if there's no further conference needed we'll see what's done today. I think then we ought to have our conference immediately, with you and the President.

HMJr: When?

D: Mister Vinson and myself and two or three of us.

HMJr: You mean today?

D: How's that?

HMJr: Today?

D: Well, as soon as it's convenient for you and him and after we see what we do today, yes.

HMJr: I see.

D: I think the quicker the better.

HMJr: After what happens today?

D: Yes. Don't you think so?

RMJr:

I would say the sooner the better and my feeling - I mean, it's just my 'horse sense', would say that if you try to pass something through today the way the House is feeling that you might get beaten again and then it'd be that much more difficult to get the revenue.

D:

Yes. We couldn't enforce that bill - we have to - you see after the bill goes out of the Committee into the House...

RMJr:

Uh huh.

D:

..why then we can't do anything because there's only one motion that we can make and that'll be made by the Republicans - and that'll be made to strike out all of this undistributed profits tax and we'll beat them on that of course and so we - if it - if we don't offer some amendment before from the Committee as a whole - before it takes this vote on restoring in the House - on this-defeating that amendment adopted yesterday, why then we can't do it.

RMJr:

I see.

D:

And - but we can send a supplemental bill. Now we had a conference - all the Democratic members - yesterday afternoon.

RMJr:

Yes.

D:

Including McCormick and Lamneck and they manifested that they favor latitude toward doing something to restore the lost revenue. And I don't believe we'll have much trouble. And of course there'll be several ways we could raise the money...

RMJr:

Yes.

D:

And that's a matter that we have to - first we ought to decide whether or not we'd want to try to raise additional money and then if so just what was the best method of doing.

RMJr:

Well, you and I agree. You and I agree and I think before - I think when we - those two questions are up, I think that we ought to see the President, so that...

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D: Well, that's exactly the way I feel. If it suits him why we can see him this evening, if he don't have an appointment or I don't know what time. The House may run late. If not, we can see him tomorrow morning.

HMLJr: I'll get that word to them..

D: You get that word to him and then...

HMLJr: You do it also. You do it also. I'll ask for a conference either tonight or tomorrow morning.

D: Yes. And then we can set the date of the conference just - we'll have it tonight, anyway or we can have it tomorrow morning. We don't know how late we'll run this evening, we might - probably couldn't have it this afternoon, I don't believe we could.

HMLJr: The trouble is he's got...

D: We'll have it tonight or in the morning.

HMLJr: I'll...

D: And I'll call - of course you'll know - and I'll call you again whatever the House voted today.

HMLJr: Please.

D: All right.

HMLJr: Thank you.

D: Thank you. Goodbye.

March 10, 1938

During the course of the 9:30 meeting, the Secretary had the following conversation with the President:

"The French franc is very 'seck'. The President asked Chautemps to stick around and not leave town, but I doubt if they will form a cabinet before Monday. In the meantime the franc yesterday was 3.19 cents and today it is 3.15, which is the lowest we have had yet.

"But for the moment I was not worrying as much about that as I was our tax bill and I wanted to tell you of my conversation with Mr. Doughton and see whether we are together. He said that this morning the Democratic majority feel that they had better not attempt today to put 1-b back in because they will only get licked over again and as soon as Congress is through today they would like to come down with us and see you today or the first thing tomorrow with this in mind: we either could sit and let the bill go over to the Senate and then when they get control of the House again pass a bill in the House which would call for additional revenue to make up what we have lost and he said he does not think there will be any trouble on that at all and I told him that I thought it was so important I wanted to check with you. He thought they had better not take any vote on 1-b today. He says definitely they will get licked as they do not have the votes. But, he said he could after the bill has gone over, get a separate bill through calling for additional revenue after we had had a conference with you and decided what the nature of the revenue should be. We have a list of 10 or 12 things which can produce the revenue. As the matter stands, we are off \$41,000,000, of which a little over \$7,000,000 is due to the 1-b."

The President inquired what the rest was on and RM, Jr said 'Miscellany. Slashed something on the fur tax and something on sporting goods, a little here and a little there, which total to be exact \$33,800,000."

The President then said, 'Could you get for me -- I thought I would see you and Ross. Depends a little bit on how -- we are having Cabinet today -- I thought tomorrow if I can clean up this TVA thing, I would give you and Ross the afternoon. You wanted to

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get away, didn't you?' Hm, Jr replied, 'That depends on you.' The President asked, 'When are you going?' Hm, Jr answered, 'I was leaving -- I could leave on the Federal at 8 or 9 o'clock at night.'

Continuing, the President said, 'What I want particularly is about one page or a page and a half, a very simple statement, to prove a very simple thing; in other words, that this tax which was knocked out was a tax to remove or prevent special privilege and just the opposite of a penalty tax. It is a tax to remove privilege rather than to impose penalty on such corporations. One or two very simple illustrations. I might write a letter to Doughton over the week-end and include also in the second part we need more revenue.'

The Secretary said, 'Yes. If you do get through with TVA, if you could see Ros and me at 2 and then right after that let Vinson and Doughton come down, and maybe Jerry Cooper.' The President said, 'That's all right.'

* * * *

There being some difference of opinion among the group as to what Doughton had said, the Secretary called Mr. Doughton back and then telephoned the President and said: 'Doughton has changed his position since I talked to you. He now says, and I think it is because he talked to Vinson and Cooper, they are going to have a roll call and put the boys on record.' The President said, 'That's all right.' The Secretary added, 'If they lose, then before they introduce any measure to recover the lost revenue that's what they want to talk with you about. But they are going to have a roll call.'

The President then said he wanted the word passed on to Vinson that he would like to have it said on the floor of the House that the headline in the Post calls it a punitive tax whereas this tax is merely a tax to end special privilege and if it does not go through these corporations will retain the special privilege by which taxes can be and are being evaded and if anyone wants to go on record that family corporations with over \$75,000 income, of which there are about 200 such families in the country, that they should continue to enjoy this special privilege, let him do so.

Note: Transcripts of phone conversations are attached to record of 9:30 group morning, this date.

Thursday
March 10, 1938
10:16 a.m.

HMJr: Hello.
T.O.: General Wood in Chicago.
HMJr: Please.
T.O.: Go ahead.
HMJr: Hello.
R. E. Wood: Hello.
HMJr: General.
W: How are you?
HMJr: I'm fine. Henry Morgenthau, Jr.
W: Yes, sir.
HMJr: I've got Mr. Walker sitting here and he's listening to the conversation.
W: All right. (Laughs)
HMJr: I have a loud speaker on my desk. The reason I am calling - in the first place Mr. Walker has been a great help and the way this thing looks now as though what we ought to have is a board that'll sit permanently and get complaints on these - not only the prices but the mal-practices in the industry, do you see?
W: Yes.
HMJr: And he said that if we get that far he thinks that the best man to head a thing like that up would be General Westervelt. And I wondered - as I understand it he retires on the - or has retired on the first of January - but I haven't had a chance to talk to the President about it but if it was agreeable to him would General Westervelt consider such a thing?
W: Well, I just talked with him; I'm just back from Pittsburg this morning and I just talked with Westervelt. Our arrangement - he retired the first of February...

HMJr: Yes.

W: But we retain him on a consulting basis.

HMJr: Yes.

W: And - until August first.

HMJr: Yes.

W: Now, I just talked to him and he would be agreeable to it. He'll have to make one or two short trips to California...

HMJr: I see.

W: ...on a special project we have there but it wouldn't take him over a week at a time, and...

HMJr: Yes.

W: ...he said he'd be willing.

HMJr: I see.

W: And he would be an excellent man for you.

HMJr: Yes.

W: He's got a fine mind and - you know I loaned him once before to Henry Wallace for six months...

HMJr: I know.

W: the A.A.A.

HMJr: I know you did.

W: I think Henry thinks very highly of him.

HMJr: Well, I haven't had a chance but - but Wayne Taylor, who was over in three A's, thinks very highly of him.

W: Well, I talked to him - he was just in this office.

HMJr: Yes.

W: And he said he'd be willing to do it.

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HMJr: Uh huh. Well, I'll talk to the President the first time I see him which - and ask him about it and then I'll - we're not quite ready yet, but I just wanted to know if we were going to do this sort of thing would a man like General Westervelt be available.

W: Yes.

HMJr: Now, as you know - I don't know what he did with the three A's but as an Army man you know the difficulties in paying an Army officer with Federal funds out of the Treasury.

W: Well, if you could arrange - I think we'll continue our payment until August first.

HMJr: I see.

W: So if you could just arrange to take care of his expenses...

HMJr: I think that could be done.

W: That - I think Westervelt is a very public spirited fellow and he wouldn't expect - I don't think - any salary. (of course)

HMJr: Well, I think that could be done but I could find out awfully quickly.

W: That is, if you could take care of his extra expenses while he's living in Washington away from his family.

HMJr: Well, I'll get the answer on that awfully quickly. But we're getting along and what I'm doing is to keep it very quiet until we definitely know what we do want to do. I don't want people thinking about houses the way they are automobiles - waiting for them to drop the price.

W: I might say this, Mr. Morgenthau, I've been out visiting all my managers...

HMJr: Yes.

W: ...that there is a surprising amount of - of modernization and some new building of - I mean, applied for under this new FHA law, that is, outside of the industrial districts of the East.

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HMJr: Yes.

W: Where things are very bad.

HMJr: Yes. Well, we get those reports from Stewart McDonald and the business is coming in from the country as a whole, I mean, the total volume is tremendous. And McDonald now feels that the first six months of this year will be ahead of the first six months of last year and they were very good.

W: Well, I think so too, only it's very funny. Now of course in these steel and motor districts...

HMJr: Yes.

W: ...there's nothing.

HMJr: Yes.

W: But in other parts of the United States it's pretty good.

HMJr: Yes.

W: By the way, Mr. Secretary, when are you going to return Roy to me? - Mr. Walker?

HMJr: Well, there's no reason - he's answering - he won't give me - he said he'd be back Monday morning.

W: (Laughs) Because we need him awfully badly.

HMJr: Well, he'll be back there Monday morning.

W: All right. Thank you.

HMJr: And I'm ever so much obliged - for lending him to us.

W: Well, he's one of our best men.

HMJr: Good. ^{Well} Thank you so much.

W: All right. Goodbye.

March 10, 1938

A group met in the board room of the RFC. Those present

were:

RFC	Mr. Jones	Mr. Klossner
	Mr. Merriam	Mr. Coombs
	Mr. Husbands	Mr. Durr
	Mr. Cooksey	
Federal Reserve	Mr. Ransom	
	Mr. Wingfield	
Comptroller of the Currency	Mr. Diggs	
	Mr. Kelly	
Treasury	Mr. Taylor	
	Mr. Foley	
	Mr. Upham	

Mr. Jones read the draft of a proposed statement on bank holding companies to be included in the President's message on monopolies. He explained that the object of the meeting was to discover how the various bank supervisory agencies feel about bank holding companies looking toward a policy which might be included in the proposed message.

Mr. Taylor explained that this draft had been prepared prior to the introduction of the Glass Bill and he felt the discussion should go forward without regard to the Glass Bill for an independent determination of policy for inclusion in the message and later in legislation.

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Mr. Ransom said, as they regard it, there are three possibilities: (1) A death sentence for bank holding companies with either speedy or slow execution; (2) a freezing of the existing situation plus additional control; and (3) a continuation of the present situation under which growth of bank holding company groups is possible. So far as the Federal Reserve is concerned, the third is not to be considered as a possibility.

Mr. Diggs stated that so far as the Comptroller's Office is concerned, they are opposed to the further extension of group banking but favor some further regulations.

Mr. Jones stated that it seems clear that the Federal Deposit Insurance Corporation opposes any further extension of bank holding companies.

Mr. Ransom said that while he spoke for himself and not for the Board, the informal discussions in the Board have been to the effect that it is not practical to impose a death sentence at this time. Such action would be deflationary. Moreover, the test is whether branch banking can be substituted for group banking and they would prefer not to see that issue injected at this time. He favors restriction and control only, with some emergency permissives to take care of pressing situations and so-called "accidental" holding companies. In other words, the control should not be inflexible.

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Speaking specifically of the draft of message, Mr. Ransom said he thought it good on the whole but would want to see some changes in words. He referred particularly to the expression "the last few years," to the suggestion that "no limits" had been put upon group banking, and he also raised the question about the expression "operating from a distance."

Mr. Wingfield distributed an outline of a bank holding company bill such as the Federal Reserve would like to see enacted for freezing the present situation. Mr. Ransom explained that while in this outline the supervisory control was placed in the Federal Reserve Board, he wanted to explain that their idea is that all of the control should be located in one place, and if any of the control was placed elsewhere, that the Federal Reserve would want all to be elsewhere.

Mr. Jones said that the RFC Board has no position on a death sentence for bank holding companies, having never considered it. Since the RFC and the Comptroller's Office and the FDIC all seem to oppose the death sentence, he suggested that the committee proceed on the basis that "no one wants to knock them in the head."

Mr. Wingfield explained the principal differences between the Federal Reserve proposal for a bank holding company bill and the provisions of the Glass Bill.

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(1) The principal difference, according to Mr. Wingfield, is that the Federal Reserve proposal would eliminate duplication of Federal supervision. At present the Comptroller of the Currency is authorized to examine affiliates, including holding company affiliates, of national banks. The Federal Reserve has the right of examination of the affiliates of state member banks and also issues voting permits to all holding companies. The Glass Bill would superimpose upon this structure a third supervisory agency--the FDIC. The Federal Reserve proposal is that all bank holding companies would be supervised by the Federal Reserve Board.

(2) Under the Glass Bill a company is a holding company if it owns more than 10 per cent of the stock of any one bank; under the Federal Reserve proposal, a company would be a holding company if it owned 20 per cent of the stock of more than one bank.

(3) The freezing of the existing situation is about the same under both proposals.

(4) Branch banking is about the same under both proposals.

(5) The Glass Bill provides very little regulation for existing holding companies; the Federal Reserve proposal goes further and provides more supervision and control.

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(6) The Federal Reserve proposal would require that all banks in groups become members of the Federal Reserve System.

(7) The penalties in the Federal Reserve proposal are much the same as in the Glass Bill but they are civil, not criminal.

(8) Under the Federal Reserve proposal, existing loans by banks to their affiliates need not be liquidated within three years, as is required in the Glass Bill.

Mr. Taylor commented that he thought we were now up to the point where we could decide if there is to be one supervisory agency, which shall it be?

Mr. Diggs inquired whether there was any necessity for disturbing the present situation and asked if there had been any criticism of the supervision by the Federal Reserve Board.

Mr. Jones summarized the decisions to date as being

(1) No death sentence; (2) freezing the present situation; (3) stricter supervision. This left open, he said, the matter of which agency should supervise. Mr. Ransom said the Federal Reserve Board wanted it all in one place. Mr. Diggs said he thought a continuation of the existing situation with some tightening of the lines satisfactory.

Mr. Jones asked if there was general agreement on the draft of message as written. Mr. Ransom repeated his former statement that it was satisfactory in principle but that some words would have to be changed.

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Mr. Taylor commented that if the holding company situation were not frozen as it is, we would have to face the alternative of branch banking. Mr. Jones agreed with that, saying there was no private capital available for banks. Asked by Mr. Jones, Mr. Husbands confirmed his feeling that the RFC has had more trouble with independent banks than with those in groups.

Mr. Jones suggested that the committee meet again at eleven o'clock on Monday and that at that meeting each agency be prepared to submit a memorandum on where holding company supervision should be placed and why. He asked that copies of the message draft be furnished to each of those present, which Mr. Upham agreed to take care of.

THE SOLICITOR GENERAL
WASHINGTON

March 10, 1938

My dear Mr. President:

I return the memorandum of March 7, in reference to the tax message, which reaches me in the Attorney General's absence. I am fearful of the effect of the second paragraph on page three of the proposed message. It seems to imply a purpose to divert funds from states and municipalities, and will tend to confirm one of the attacks likely to be made upon legislation - that it impairs the ability of the states to finance themselves.

I agree that the message needs pepping up. As I was tied up in Supreme Court, I asked Ben Cohen to give it attention. I enclose a four page statement which he has prepared. I also quote from his letter to me sentiments with which I feel in agreement:

"I feel very strongly that the President should recommend legislation and not a constitutional amendment. It is an issue on which I think the President should wish to take a stand. It is extremely doubtful whether a constitutional amendment would ever be ratified by the requisite number of states for a long period of time. I have made a rather careful study of the authorities and I feel quite confident that the Supreme Court would sustain the statutory removal of these exemptions.

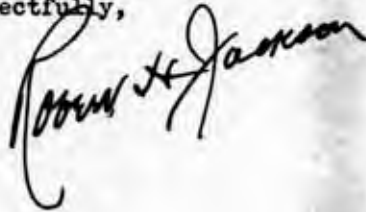
I also feel quite strongly that the

President should also recommend the legislation proposed by Senator Glass in 1919, which would require tax-exempt income to be taken into account in determining the surtax applicable to taxable income."

The sending of the message will probably cause some unsettlement of the market in the tax-exempts, and it is not likely that the unsettlement will be more severe if the Glass plan which might be obtained is proposed than if a constitutional amendment not likely to be obtained soon is proposed.

I will finish in Supreme Court tomorrow and will be glad to confer with you at your convenience.

Respectfully,



The President
The White House
Washington, D.C.

The Sixteenth Amendment to the Constitution of the United States, approved in 1913, expressly authorized the Congress "to lay and collect taxes on incomes, from whatever source derived." Fairly construed this broad language would seem to authorize taxation of income derived from state and municipal, as well as federal, bonds, and income derived from state and municipal as well as federal offices.

The reciprocal tax-immunity accorded such income was originally conceived to strengthen government finance and to protect the federal system. Today it constitutes a serious menace to the fiscal systems of both the states and the nation. Both the states and the nation are deprived of revenues which could be raised from those best able to supply them. Neither the federal government nor the states receive any adequate, compensating advantage for the reciprocal tax-immunity accorded to income derived from their respective obligations and offices.

In recent years both the federal government and the states have come to rely increasingly upon graduate income taxes for their revenues. In recent years the rapid expansion of federal and state

activities has resulted in the issuance of an increased volume of tax-exempt securities and in the creation of an increased number of state and federal officers and employees who claim special tax-exemption. Tax-exemption which was once an inequity of relatively slight, if any, importance has become a most serious defect in the fiscal systems of the states and the nation. Progressive surtaxes cannot be made to operate fairly or effectively so long as governmental tax-exemptions operate to give in effect a greater advantage to those with large incomes than to those with small incomes. A fair and effective progressive income tax and a huge perpetual reserve of tax-exempt bonds cannot exist side by side.

Men with great means best able to assume business risks have been encouraged to lock up substantial portions of their funds in tax-exempt securities. Men with little means who should be encouraged to hold the relatively secure obligations of the federal and state governments have been obliged to pay a relatively higher price for those securities than the very rich because the tax-immunity is of much less value to them than to those whose incomes fall in the higher brackets.

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For more than twenty years an unbroken line of Secretaries of the Treasury has reported to the Congress the growing evils of these tax-exemptions. Economists generally have regarded them as wholly inconsistent with any rational system of progressive taxation.

I do not think the Congress should feel obliged to wait upon the realization of the cumbersome and doubtful remedy usually proposed for this evil, namely, a constitutional amendment. These tax-immunities are not inexorable requirements of the Constitution. The present unfortunate situation is the product of adjudication and adjudication can undo its mischief. More than one hundred years ago doubts and difficulties attending these immunities were expressed by members of the Court, and in recent years the underlying assumptions of the doctrine have been impressively questioned by the Court itself. The doctrine was originally evolved out of a totally different set of economic circumstances from those which are now dominant. It is a familiar principle of law that rules of law lose their binding force when the reasons which gave rise to the rules no

I, therefore, recommend to the Congress that effective action be promptly taken to terminate these tax-exemptions for the future. The legislation should confer the same powers on the States with respect to the taxation of federal bonds hereafter issued and federal salaries hereafter earned as is granted to the federal government with respect to state and municipal bonds hereafter issued and salaries hereafter (earned.) [I also recommend to the Congress legislation which will authorize existence of tax-exempt income to be taken in account in fixing the surtax applicable to taxable income.] As Senator Glass in his report as Secretary of the Treasury for the fiscal year of 1919 stated:

"It is intolerable that taxpayers should be allowed, by purchase of exempt securities, not only to obtain exemption with respect to the income derived therefrom, but to reduce the supertaxes upon their other income, and to have the supertaxes upon their other income determined upon the assumption, contrary to fact, that they are not in possession of income derived from state and municipal bonds."

March 10, 1938

To: The Secretary
From: Mr. Magill

1. For the fiscal year 1938-39, the Division of Research and Statistics estimated that the revenue bill as reported to the House would yield approximately \$34 millions less than present law. In other words, total internal revenues would be \$5,296.2 millions as against \$5,330. millions shown in the budget.
2. The I-B tax was estimated to produce \$7.2 millions for 1938-39. Hence, with the I-B tax eliminated, the bill as it now stands would yield \$41 millions less for 1938-39 than the present law.
3. Some of the provisions of the bill will have no revenue effect in 1938-39, but will have an effect on the revenues in later years. Moreover, business conditions in later years may be better. In a good business year, with all the provisions fully operative, the bill as it now stands might produce \$152 millions less than existing law, according to the Division's estimate.

Rm

March 10, 1938

NOTE:

(Confidential)

In our conference with the President on January 7, 1938, when he cleared the Subcommittee's proposals with Messrs. Doughton, Vinson, you and me present, I told him that our estimators said the bill in a good business year might produce from \$100 to \$200 millions less than the present law, but there would be little loss in 1938-39.

Rm

CONFIDENTIAL

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March 10, 1938

To: The Secretary

From: Mr. Magill

Someone may question the relatively small yield of Title 1B as estimated by the Division for 1938-39. The Division made the estimate on the basis that the next fiscal year would be a relatively poor business year and hence the business profits affected by 1B would be comparatively small.

My own judgment is that the Division's estimates on Title 1B are low. I have thought, and have told the Committee, that in its original form Title 1B would have yielded \$25-40 millions in a full year; and with the modifications which were made before the bill was reported to the House, it should yield \$18-30 millions.

Rm

March 10, 1938

To: The Secretary
 From: Mr. Magill

The following possible sources of revenue, in addition to the provisions of the pending bill, would yield the amounts indicated.

Additional revenue for 1938-39

1. Increases in the corporation normal tax in the bill (now 16-20 percent).
 - a. Change the rate to 16 $\frac{1}{2}$ -21 percent \$ 25 millions
 - b. Change the rate to 17-21 $\frac{1}{2}$ percent 50 millions
2. Increases in individual surtaxes on incomes
 - a. Add from 1 percent to 10 percent in brackets between \$10,000 and \$62,000 54 millions
3. Decrease the personal exemption of married persons from \$2500 to \$2000 26 millions

(The four changes above would yield approximately twice the amounts stated in a full year of operation.)

4. Increase the stock transfer tax to $\frac{1}{2}$ of 1 percent on the market value 35 millions (full year)

Additional revenue for 1939-40

(All revenues for full year of operation.)

1. Increase estate tax and gift tax rates
 - a. Increase effective rates an average of 15 percent 50 millions
 - b. Increase effective rates an average of 35 percent 100 millions
2. Decrease estate tax exemption to \$20,000 from \$40,000 35 millions

March 10, 1938

To: The Secretary
From: Mr. Magill

Conference with Senator Harrison

Senator Harrison assembled representatives of the SEC, the Treasury, and the drafting services to discuss amendments proposed by the SEC to exempt from tax certain sales and exchanges of public utility property required by orders of the SEC under the Holding Company Act. The proposed provisions are very complicated, but probably meritorious. The Senate drafting service will endeavor to work them out in the next few days.

At the close of the conference the Senator told me that he hoped that the Finance Committee would complete all of its work on the revenue bill and report it back to the Senate by the end of next week. He said he was glad the House had knocked out Title 1B (closely held corporations); for if the House had not done so, the Finance Committee undoubtedly would have eliminated it. He said the 20-16 normal tax on corporations was all right if it was necessary to save someone's face, but he would prefer a flat corporation tax of 18 or 19 percent.

Conference with Chairman Douglas of the SEC

Mr. Douglas told me that the SEC expected to send a man to London about April 1st to study transactions by Americans on foreign stock exchanges. He said he understood that some Americans were evading our capital gains taxes by purchases and sales abroad, and asked whether the Treasury would want to send a revenue agent along with the SEC representative. I told him that we already had representatives in Europe and that I thought we would be glad to arrange for them to cooperate with his man. As soon as his man is actually designated, we can write to Mr. Wait and our internal revenue agent in Paris, asking them to cooperate with the SEC man and to develop any leads which which he suggests to tax evasion.

Rm

Thursday
March 10, 1938
3:47 p.m.

HMJr: Hello.

T.O.: Congressman Doughton.

HMJr: Thank you.

T.O.: Go ahead.

HMJr: Hello.

B. L. Doughton: Mr. Secretary.

HMJr: Talking.

D: Hello, Mr. Secretary.

HMJr: Hello, Bob, how are you?

D: All right. How are you feeling?

HMJr: I'm all right.

D: Now, about - Mr. McCormack - John McCormack, the man who claims to have tried to get in touch with you, was quoting the figures from you that you said that the Budget would be out of balance, that is, that we'd be short in the amount that the - this tax bill now is - be short in the amount the present law is raised, by forty-one million.

HMJr: Yes.

D: Now, does that mean short from the - short from the Budget's lowered rate or short from the way it'll be when it's brought out?

HMJr: Well, let me - Magill is here, let him talk to you, will you?

D: How is that?

HMJr: Let Magill talk to you, he's sitting right here.

D: All right.

Goswell
Magill: That forty-one million is the estimated shortage of the bill in the shape it now is, that is, with the 1-8 out, as compared with existing law as applied

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to this coming fiscal year, 38-39.

D: You mean forty-one billion now would be - forty-one million would be what would be short in the existing law and not from what the bill was before 1B was taken out?

M: That's right.

D: I see. And now then, they have just - they have just voted down here, I guess you've heard about it, the House has, by an overwhelming majority, to impose a tax of twenty-five - a whisky tax on whisky of twenty-five cents a gallon, which I understand is estimated to yield about thirty or thirty-five million, is that right?

M: Well, that's his own estimate, that isn't ours. Our estimate is that it would yield about nineteen million.

D: About nineteen million?

M: That's right.

D: That would leave it then about twenty million still short.

M: It would still be about twenty million shy.

D: I see. Well, that was adopted overwhelmingly.

M: It was?

D: Yes. We haven't voted yet on 1B, but I expect that'll take us more - I don't think we have much chance anyway - to restore 1B, but it'll be harder since that amendment's probably dead.

M: They put that in first, therefore they voted on....

D: Yes. we haven't - we can't vote on taking the 1B amended out, you know, until we get in the House. You see, you can only have a vote on that when we get in the House.

M: Yes, I see.

D: They ask a separate vote, you know.

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M: Oh, you're still in the Committee?

D: I see.

M: You're still in the Committee as a whole?

D: We're still in the Committee, yes.

M: What else - is there anything more coming up in the Committee? Is that....?

D: We're on the excise taxes now, you know.

M: Yes. (on - excise tax)

D: They're debating that tax now/on poultry - talking it over.

M: For heavens' sakes.

D: All right. Well, I'm glad to have that information.

M: Well, that's the way that is. Now, you understand, that's for the next fiscal year.

D: Yes. Well, what do you have next if you don't - that doesn't fit in with the other

M: That's the way - that's the one we've been estimating on right along, is 38-39.

D: Well...

M: - conditions were changed why it makes no....

D: Now, just the way the bill now stands you estimate it to be short of what the present law would yield next year by forty-one million?

M: That's right.

D: Thank you very much.

M: You're welcome.

GROUP MEETING

March 11, 1938,
9:30 A. M.

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

H.M.Jr: Morning.

Group: Good morning.

H.M.Jr: (To Mr. McReynolds:) Did you fix something for the White House?

McReynolds: No. The understanding I had with Rudolph was that he was to call me back the first thing this morning if he didn't ---

H.M.Jr: Do you mind calling him now? Do it right here on the White House phone. Do it right here. (To Miss Chauncey) I don't think these commodities ought to come in ---

Chauncey: It comes every week.

Bell: We get it every week. Once a month enough?

H.M.Jr: Once a month, yes - once a month.

McReynolds: Rudolph said please tell you thank you. He called but the other place was able to furnish reporters.

H.M.Jr: Before I do anything else on this tax thing, do you (Magill) want to talk to Doughton or anything this morning?

Magill: I talked to Doughton over the phone a few minutes ago. Two pieces to the conversation. He was calling up, obviously with the other members of the Committee in his office, requesting that we furnish him before noon, a letter giving him

the precise yield of this bill - reporting it at the time to the House - and the changes in the Roberts amendment and McCormack amendment. I have no particular difficulty with that except this very low yield on this 1-B as shown for next year, which would be very unfortunate, I think, to bring out at this particular time.

H.M.Jr: Well now, what about - will they be ready to meet the President this afternoon if the President is available?

Magill: I think hardly, because - the second part of the conversation - the previous question moved last night so they were to start in this morning on roll calls on the amendments which were adopted in the Committee as a whole, and then on the bill itself, on motion to commit the bill, so it would appear that the first hour or two after they convene will be spent in roll call.

H.M.Jr: If the President would see us, we'd better take the opportunity.

Magill: I would think so.

H.M.Jr: (Over telephone) Colonel McIntyre - White House please. Hello - if he's not there Kannee.
(To Mr. Magill) Anything else?

Magill: No, I gave you my conversation with Senator Harrison. That is all.

H.M.Jr: Herman?

Oliphant: I talked to Cohen and he said you needn't be embarrassed; that he's farther behind than you are. Cohen has been doing some work on it but was called off on the T. V. A. thing. Bob has another large case to argue today. He's going to be free - drop everything else Monday morning, to go to work on it.

H.M.Jr: This is this monopoly message. (Telephone rings)
Hello Kannee. Has McIntyre gone over yet to the White House? Well, has he come in yet? Well, will you give him this message for me please. In talking to the President yesterday he said if he got through with the T. V. A. case by one o'clock he would see Mr. Magill and myself at two on the

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tax bill, you see? Hello. And I want McIntyre to know that so that he will remind the President, you see, because I'm staying over - I was going away - I'm staying over just for that, you see, so if there is some mixup or change I would appreciate knowing, but the President said he would see Magill and myself at two if he got through with the T. V. A. And tell Mr. McIntyre when he comes back from the White House if he would let me know what the results are I would appreciate it. Oh, I don't mean that. What I mean is if the T. V. A. would be through at one, would we be the next on the calendar? That's what I want to know. Thank you.

(To Magill) What I'm getting at, I want to find out from Justice how far along they are on the monopoly, and their answer is we shouldn't be embarrassed - they are farther behind than we are. We should be ready by Tuesday morning, huh?

Magill: Bob said he visited --(inaudible)-- for a long time.

Tell: The morning papers say there would not be a message.

E.J.Jr: I got that on the ticker there wouldn't be anything on monopoly. I brought it over to the President and he said, "I said no such thing to Sam Rayburn; I never said that, so let them go right ahead with the plans, because I said no such thing." I had the same idea, Dan. That's the beauty of once in a while being able to see him and know where you stand.

Now the other thing, I just want to check up - you people who are on the cement and reinforcing structural steel. You are on it Mac, aren't you?

McReynolds: Well, I was checking to see that we get the information from Reynolds and any of the other boys who were there yesterday, and they are getting the thing on an annual basis. They are getting also the amount that was bought last calendar year, and they expect to be ready the first of the week.

E.J.Jr: Well, now I've got two things. I think at the next meeting we should have Peoples here.

McReynolds: Yes.

H.M.Jr: Number two, I wish you would take up with McDonald of the Roads how much do the states buy for roads that have Federal aid money, see? And then ---

McReynolds: I think they are working that up now.

H.M.Jr: Well, then, for instance, Colonel Green, Superintendent of Highways, State of New York, says to the man who has the building contracts, "When you come to -- we'll buy the cement for you; we'll furnish the cement," because if you included in the State - in the Federal highways, the Federal-aid states - if you include that it would be a tremendous amount.

Oliphant: Some of the states do that now.

H.M.Jr: Well ---

Oliphant: One state has its own factory.

H.M.Jr: I don't see why that couldn't be checked.

McReynolds: They are undertaking to get the information on not only roads but on other contract construction as best they can. They are trying that problem now.

H.M.Jr: Who is "they"?

McReynolds: Bert Reynolds and Harry Collins are working on it - discussing that yesterday.

H.M.Jr: Herman, when we get, for instance, discussing this thing, not knowing much law but having a little common sense, I should think I wouldn't want to talk to the Cement Institute, would I?

Oliphant: Well, very careful ---

H.M.Jr: It is perfectly proper for me to talk to the President of the X Y Z Company, but I should think it would be highly inadvisable for me to talk to the head of the Cement Institute. Is that right?

Oliphant: That's right.

H.M.Jr: But somebody was suggesting that I talk to the Cement ---

Oliphant: Did the man from Pittsburgh suggest it to you?

H.M.Jr: No. He did suggest a man, but he is no longer connected with them.

Oliphant: I can tell you something about him in case you are interested.

H.M.Jr: Yes - but not with the Cement Institute. Mr. Gaston?

Oliphant: I may be out of town, but near by tomorrow. My son and I are ---

H.M.Jr: How's that?

Oliphant: My son and I are going out to Hewitt's horse farm.

H.M.Jr: Is he married?

Oliphant: Yes. He's giving all his time to this farm, breeding thoroughbreds, sixty miles west of Washington. He married Lee Higgins' daughter. He has a large breeding stable.

H.M.Jr: I didn't know that. How's it going?

Oliphant: Very well.

H.M.Jr: Didn't he spend thirty thousand dollars for a stallion?

Oliphant: Yes.

H.M.Jr: Is it insured?

Oliphant: The first one's too old.

Gaston: Like the T. V. A.

Oliphant: That's right. He is doing all right.

H.M.Jr: Well, give him my regards. How's Garrett? Does he still wear the same blue shirt?

Oliphant: Yes. He never changed.

McReynolds: I thought he got that ripped off him.

Oliphant: No, he has it sewed on him.

H.M.Jr: He used to be over in Farm Credit and somebody put an ink spot on his shirt to identify him, and I'll swear, that fellow never changed his shirt.

Gibbons: That's as bad as an applicant - they had thirty-five applications - this one candidate, he didn't take even the usual Saturday night bath. They got down to that low in their personalities.

Oliphant: They have a grand old house - one of those Colonials.

H.M.Jr: Herbert?

Gaston: Nothing.

Oliphant: I'll be within call in case ---

H.M.Jr: No.

Gaston: I've nothing. .

Oliphant: That Austrian situation doesn't look very good.

H.M.Jr: Huh? Might be on the march over there? Well, do they do that on Saturday or Sunday? (Laughter)

Haas: There are four components of the New York Times in there - all right in - and steel is down slightly, and automobile is down, and two others are up - lumber and electric power - so the total up to today is about ---

H.M.Jr: Well, Wall Street Journal, which has been always right, on Thursday says the index will be up.

Haas: Car loading?

H.M.Jr: These are Thursday - yes.

Haas: Then, too, - I think - probably being reflective - next week this prospective increase in rates will tend to force artificially ---

H.M.Jr: What about the automobile production this week? When do we get that information - the things they are doing this week? Look it up; I am very much interested to know what they are doing this week. Then also---

Reas: If we don't have it I think I can get it.

H.M.Jr: Also, George, "Engineering construction awards for the week amounted to eighty million, of which fifty-seven million were private, highest in nine months, against forty-one million, of which twenty-one million were private, year ago. Indications appeared that decline in building material prices is currently leveling off after an uninterrupted drop of several months."

Do you get those engineering contract ---

Reas: Yes.

H.M.Jr: That is just about double, and for the private is fifty-eight million against twenty-one million the same week last year.

Bell: I saw that; thought it was very good. I think there is some indication there that two or three large projects took care of most of it.

Reas: I'll run it down.

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

Gibbons: Collector Kelly says he doesn't know anything about the charges - I told him we'd get in touch with him. I talked to Guy Helvering ---

H.M.Jr: Listen, that fellow's going to be canned Monday. This isn't any monkey business. Who'd you tell?

Gibbons: Kelly himself.

H.M.Jr: When?

Gibbons: Kelly himself, ---

H.M.Jr: Good God, this thing started over a month ago, didn't it?

Gibbons: It will have to be put up to the President Monday. When I talked to him he said, "I don't know anything about it." I said, "An investigator talked to you, didn't he?" "Yes, but I don't know anything about it." Of course he's lying. He was to call Guy yesterday and he hasn't called him yet. I am keeping right on top of it.

H.M.Jr: Now he knows - he's been told Monday?

Gibbons: Absolutely - told and reiterated to him three times, Wednesday and yesterday.

H.M.Jr: Will you make a note, Mac, for lunch Monday for me to take a note over to the President dismissing him.

Gibbons: I had lunch yesterday with Mr. Latimer and I'd like to tell you about that friend of yours up there sometime. He takes letters off the desk that Latimer dictated to Senators and Congressmen. Latimer showed me the type - same as we would write here - "Be glad to bear Mr. So-and-so in mind --". He took them off his desk, and Latimer is looking for them. This is a violation of Civil Service and the fellow is just - he's taken the fellow from the T. V. A. - a friend of Mr. Morgan's over there - some fellow who was with a big corporation, but knows nothing about Federal Civil Service. He is just - to use the vernacular of the day - he is just "screwball." Poor Latimer is a very nice fellow and trying to do a good job. I don't think we want to get mixed up in it. He had Ballinger and Schoeneman over there and they just couldn't get anywhere.

H.M.Jr: That's any way ---

Gibbons: Yes.

H.M.Jr: Wayne?

Taylor: Here is a case about a late subscription that you might want to look at, on bonds.

H.M.Jr: Oh, you and Dan settle that. Whatever you fellows agree on that.

Taylor: We are going to have to turn it down.

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H.M.Jr: All right. Whose?

Taylor: Aetna State Bank of Chicago and First National Bank of Chicago.

H.M.Jr: Subscription is for when?

Bell: The Aetna gave it to the First National and said, "Put this in," and the First National slipped up. It was an error on one of the employees. I talked to the fellow at the bank on the telephone and he said that the boy who made the error has been with the bank twenty-two years and this is the first mark against him. I said, "We'll give it consideration, but I don't have much hope for it." There is a precedent to be followed - in the past, and I don't think we can disturb it.

H.M.Jr: When do I get the final decision on it?

Bell: They ran four hundred fifty million last night - five million outstanding.

Taylor: That will practically add fifteen hundred we'll have to add to the preferred stock of the Aetna Bank.

H.M.Jr: Well, you fellows fix it - whatever you do. Four hundred fifty?

Bell: Four hundred fifty. Yes.

Gaston: What was the figure we had yesterday, four hundred fifty-three?

H.M.Jr: Four fifty.

Gaston: It was ninety-seven four-tenths.

H.M.Jr: This would --

Gaston: Four forty-three.

Bell: Where did you get that figure?

Gaston: Yesterday morning.

H.M.Jr: Let's get on another one.

Bell: Yes. Four forty-two. That's right, but you didn't have the mail report. They came in the mail during the night.

H.M.Jr: Whatever the thing is, Gaston, get it out, send a little wire to our two boys abroad, see? The people that don't turn in the five million, we shoot them.

Taylor: We'll fine them.

H.M.Jr: But I'd send it over; they can rub it under the nose of the Frenchmen.

Bell: It's pretty close to the total, I think. It is the closest we've had for a long time.

H.M.Jr: I see you've gone "Roosevelty" on these cigarettes.

Gaston: It's sobriety.

H.M.Jr: Huh? Bell came around and said, "Good God, I hope a hundred million people don't subscribe," he said - it would be nice.

(Nods to Mr. Lochhead.)

Lochhead: Franc continues to improve - about three eighteen and a half.

H.M.Jr: Archie and I are in favor of no cabinet for France. They'll do much better. Do I send another telegram to Marchandean - is that the usual thing - tell him how much I enjoyed working with him? Make a note of it.

Lochhead: All right.

Oliphant: Hope he gets a better job.

H.M.Jr: He's got a pretty good job; he's Chairman of the Conference of Mayors of France.

Magill: What do these fellows do between cabinets?

H.M.Jr: Marchandean's got a good job.

Any gossip or flare-back on the meeting of yesterday?

Upham: (Shakes head "No.") I haven't heard any.

H.M.Jr: I understood Upham was supposed to know everything that went on in the meeting yesterday. Do you know anything about it.

Upham: I didn't see anything.

Lochhead: One of the papers simply mentioned there was a meeting.

H.M.Jr: I wasn't casting any aspersions. Don't get me wrong.

Upham: Oh no, I didn't take it that way at all.

Gaston: He told me he didn't get it from Cy.

Oliphant: Did they tell you Jesse directly forecast what happened in the meeting.

Upham: The only story I planted yesterday was about the barber shop.

H.M.Jr: Did you see it?

Upham: I haven't seen it in the papers yet.

H.M.Jr: Do the rest of them know about it?

Upham: I don't think so.

H.M.Jr: Tell them about it.

Lochhead: I happened to be getting a haircut - the barber told me - establishing a branch over in the Federal Reserve Board - barber shop and beauty parlor over in the Federal Reserve Board.

H.M.Jr: Why are they doing it, Mr. Lochhead?

Lochhead: That was my end of the story. They tried their best to fill out those spaces and run out of economists, so they were getting another barber.

Bell: Oh oh.

H.M.Jr: All right.

Bell: And bankers.

Magill: Well, they are better off, don't you think, Archie?

Lochhead: Well, I guess he can trim them just as close as anybody else.

Gibbons: That is nearly equal what happened in New York when they wanted a banker for Comptroller and they got a baker.

H.M.Jr: Dan?

Bell: I haven't anything.

H.M.Jr: I see you are lousy with money.

Bell: Lousy? Yes, I've got a lot of money.

H.M.Jr: You talked with Dr. Burgess?

Bell: Yes.

H.M.Jr: He wanted us to start selling again.

Bell: Sometime along here?

H.M.Jr: No use talking about it yesterday, but I told him to call again. You folks still working on - I don't see any sense in it now.

Bell: Well, the market is going a little fast and he is not pushing this any because of that. I told him I thought that was according to your policy. I'll have an answer today on that letter you gave me, signed by Delano.

H.M.Jr: Isn't that the same thing the President ---

Bell: I am pointing out that - I did hear about this flood control million dollar thing.

H.M.Jr: You want to come down and talk to me today?

Bell: Sure.

H.M.Jr: I don't know what is on this afternoon. Is one-thirty all right with you.

Bell: It's all right.

H.M.Jr: Because I've got it right here - flood control - I want to talk to you about it, but it seems to me, having the states contribute two per cent is the same thing - I mean - it looks to me - aren't those two things the same things?

Bell: I assume they are, yes, but in view of the nature of the conference with Parran and Woolman, the President made his suggestion and the discussion in that letter - I assume it goes further than flood control - it might take in public works of all kinds.

McReynolds: What they went over to talk to him about was pollution.

Bell: That part of the program ---

H.M.Jr: That is out in the morning's paper, Dan. Certain things the Vice President said if you pay three per cent interest on a million dollars over so many years, doesn't it usually - it is just double - I mean, it works out itself - a million dollars for principal and a million dollars for the interest, by the time it is paid back.

Bell: Well, I figured out if we loaned the states a billion dollars without interest and they paid it back over fifty years, it would be twenty million dollars a year and that we got money for that period at an average of two and a half per cent, it would cost us in interest six hundred thirty-seven million dollars, so that is the same as a loan and a grant. We are contributing to that flood control program about thirty-nine per cent, and the states will contribute about sixty-one per cent.

H.M.Jr: The President said it would work out about fifty-fifty.

Bell: No sir. It might if we put the interest rate a little higher.

H.M.Jr: I'd put it about three per cent.

Bell: I figured two and a half.

H.M.Jr: Try it on three. Yesterday we talked about a

fifty year bond at three per cent. When you can't get ---

Bell: Well, I took two and a half because I didn't think we could sell a fifty year bond. We'd probably sell ---

H.M.Jr: I wanted a serial bond.

McReynolds: Parran was in yesterday trying to see the boss; I didn't even ask to see him before next week about that particular thing.

H.M.Jr: Of course, if the President doesn't see us this afternoon then my schedule is different.

Bell: If they keep on sending these reports to Congress like that one yesterday we are going to get some sort of a public works program that will astound the country I think.

H.M.Jr: The other thing is, where does that whole thing fit in with the President's program - other than the flood control?

Bell: Well, I haven't seen a report other than the comment in the Washington Post, but I assume that what the Post said about it that this is the comprehensive public works program that he referred to last year when he vetoed that War Department bill.

H.M.Jr: Doesn't a thing like this go through the Budget?

Bell: It should, but doesn't.

H.M.Jr: The President - take this flood control - says to the states, "We'll spend ten million dollars in your state, provided you will pay the Federal Government back the principal at the rate of two per cent a year, and we will pay the interest." Sec? And he says that on a two and a half per cent basis - the states contributing two-thirds and we contribute one-third - the President thinks we are contributing one hundred per cent.

Bell: On the President's basis we will contribute about ninety per cent, because the states have to furnish the lands, rights-of-way, easements, etc.

- H.M.Jr: The President said if we did this the Federal Government would keep title to all lands and riparian rights.
- Oliphan: That would have to be by virtue of state statute or treaty.
- H.M.Jr: I just wondered how he got that - I mean, if the states did that it would leave the state nothing other than the work done, but wouldn't ---
- Bell: They get protection.
- Oliphan: The state would have to cede the territory - would have to go through formality of ceding the territory.
- H.M.Jr: Then if somebody else brought up the question, wouldn't they have to have Constitutional amendments to their laws as to what states come in, and pass the law that they will pay a billion dollars a year back to the Federal Government.
- Bell: I imagine every state would require legislation.
- H.M.Jr: But the President thinks he can get this thing going and put a hundred thousand men to work this summer.
- Bell: You've got to have some kind of an arrangement for flood control programs with the states. For example, you will put - you've got a dam in the river - they'll say, "We're not going to contribute to this - this helps Arkansas, way down the river."
- H.M.Jr: Somebody brought up - even more which I can understand in New York - and I'll say all this work is done up in the Adirondacks, and it is a fifty million dollar program. The City of New York says, "Wait a minute - why should we tax the City fifty million dollars for headwaters at the Hudson river?" And the same thing would be - well, say in Texas, the question of spending it way up in one section - in part of the Arkansas - a joint project up there in some dam - how would Houston and Dallas and the rest of them feel about it?
- Bell: That's right. It isn't so simple to work out.

H.M.Jr: I'd much rather get a memorandum and get it to the President and let him have it. I feel it's something to work for. We might run through and get the benefit two or three years from now.

Bell: That's right. It would be a year or two off.

H.M.Jr: But it's worth pushing along.

Bell: I shouldn't think - not now - it isn't yielding enough.

H.M.Jr: I'll show you the memo before it goes over. McReynolds?

McReynolds: You wouldn't, by chance, have an opportunity at that eleven-thirty meeting to go over this check thing? You see, I've got a letter addressed to Jack Cochran - it's on that same problem. It ought to be signed and sent up there, but it's all one problem.

H.M.Jr: Let's make it eleven o'clock and we'll have plenty of time. Is that all right?

Bell: I think that is all right. I have a hearing at ten, but I think it will be all right.

H.M.Jr: Make it eleven-fifteen.

Bell: Leave it at eleven.

McReynolds: I'll be glad to come in at that time.

H.M.Jr: All right.

Olinhart: You asked my shop for three things on the bank holding companies. I have them ready. Do you want them? One, summary of the Glass Bill; how the Glass Bill affects the Pacific coast situation; third, S. E. C.'s contact with the Pacific coast situation. Do you want any of them over the week-end?

H.M.Jr: No. All right.