### Summary of Proposals for the Solution of the Railroad Problem

*(In order of frequency)*

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*One system (1) - Miller and Caskie; limited number of systems (3) - Plan Committee, Lisman, Budd; subsidiaries and affiliates (1) - Muhlfeld.*

- Fulbright, Wheeler, Muhlfeld, Hicks
- Budd, Fulbright, Muhlfeld
- Fulbright, Wheeler, Muhlfeld
- Budd, Muhlfeld
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Detailed Summary of Proposals for the Solution of the Railroad Problem

(In order of frequency)

I. Consolidate the railroads. (5)

Miller and Caskie

Consolidate all the railroads of the United States into one National Transportation System, the railroad system to continue as private property but devoted to public use. Congress to create a federal corporation with power of eminent domain, value of property condemned to be determined by the I.C.C. with court review limited to errors of law or arbitrariness.

Plan Committee

Limited consolidations of carriers to be provided for by legislation along the lines suggested in the Fourth Report of the Coordinator (H. Doc. 394, 74th Cong., 2nd Sess., pp. 49-50).

Lisman

Amend act to authorize condemnation for consolidating competing systems but with two competing companies in each section. I.C.C. to allocate parts of line by trackage rights, etc., to give competitive service to key cities. Condemnation values to be paid in securities of consolidated companies and no par stock to be given bondholders in compensation for heavy reductions in funded debt. Personal belief that all transportation should be consolidated into small sectional systems, but thinks public opinion would not sanction such elimination of competition.

Budd

By making consolidation provisions workable and effective. Reducing railroads from 850 to 20 would reduce overhead, concentrate traffic on favorable routes and best coordinate terminal facilities.

Muhlfeld

Consolidate all subsidiaries and affiliated companies with the system companies.

II. Reorganize and improve railway capital structures. (4)

Fulbright

Encourage the reorganization of railway financial structures to reduce fixed charges with a view to lessening the burden of fixed charges incident to rates of interest prevailing on outstanding securities.
II. Reorganize and improve railway capital structures. (Continued)

Wheeler
A. When the railroads cannot meet fixed charges, they should be reorganized and their bonded debt should be reduced to a point where they can meet them.
B. Keep total capitalization down to earning value in lean years.
C. Keep debt and interest charges low.
D. Eliminate necessary holding companies and non-operating affiliates and subsidiaries.

Muhlfeld
A. Reduce railway capitalization and ratio of funded debt to stock.
B. Simplify the capitalization with reference to kinds of securities.

Hicks
Voluntary readjustment of capital structure at suggested rate of exchange of 50 cents in new stocks and bonds for present capitalization to be developed by an independent neutral board or committee of 5, an accounting finance railroad man, one operating man, one lawyer, one railroad labor man, and one selected by R.F.C. and I.C.C., the first four to be selected by each road to which assigned and all to be paid by the road in question.

III. Increase railroad earnings through rates. (3)

Budd
Reestablish fair rate of return rule of rate making with a just and workable method of recapture.

Fulbright
A. Adjustment of rates voluntarily reduced by the railroads to levels fixed by the Commission should be made where practicable.
B. Government land grant rates should be abolished.

Muhlfeld
A. Increase freight rates.
B. Continue passenger fare at 2 cents but reduce Pullman to 2½ cents.

IV. Exempt railroads from undistributed profits tax. (3)

Fulbright
Exempting railroad corporations from the taxes upon undistributed net incomes will enable railroads to apply their income toward financing improved equipment and carrying out programs looking to a more economical operation.
IV. Exempt railroads from undistributed profits tax. (Continued)

Wheeler
Exempting from the surplus tax in order that the railroads can set up sinking funds to pay bonded debt.

Muhlfeld
Abolition of surplus tax to set up surplus funds in "fat" years to improve the property and tide over "lean" years.

V. Improve railroad credit. (2)

Budd
Large obsolescence in present railroad equipment an opportunity if a national policy to restore railroad credit is adopted. The difference between starvation and sustaining railroad revenue should not be a serious obstacle.

Muhlfeld
A. Relieve roads of grade crossing and similar capital expenditures.
B. Charge betterment and other non-revenue producing investments to operating expenses.
C. Set up depreciation reserve fund in cash.

VI. Develop pooling. (2)

Fulbright
Permanent pooling not satisfactory, but emergency pooling through a moderate increase to create a fund to pay deficiencies of net income under fixed charges is desirable.

Muhlfeld
Pooling of passenger trains by a neutral company taking over all passenger service between any two points.

VII. Create Transportation Board for coordination. (1)

Plan Committee
A. Create two-year (and not exceeding five-year) Transportation Board of three with jurisdiction over entire transport field without power to issue orders nor required to hold public hearings but authorized to recommend legislation, to present matters to Commission for action, and to undertake to work out improvements in cooperation with carriers; salaries to be fixed by President and employees to be selected without regard to Civil Service regulations but with approval of the C.S.C. Board to consider:
VII. Create Transportation Board for coordination. (Continued)

(1) Competition of various forms of transport, including conduct at government expense.
(2) Encouragement or discouragement of use of particular carriers for particular transport.
(3) Purchase of materials.
(4) Labor.
(5) Control of managements of roads (bankers, etc.)
(6) Scientific research under government auspices.
(7) All important transportation developments and tendencies.
(8) Financial abuses.
B. Authority of Commission to bar operation of anti-trust laws to any coordination project on application of the carriers if found consistent with public interest.
C. Commission jurisdiction (a) to impose conditions which will result in equitable distribution of benefits of coordination on application of the carriers, and (b) to require coordination upon fair and equitable terms on petition of Board.

VIII. Reduce operating expenses (specific methods). (See also Coordination) (1)

Muhlfeld
A. Eliminate obsolete equipment, repair shops, fuel and water supply facilities.
B. Reduce idle time of equipment, excess of locomotive over train mileage, cross and circuitous, and number of competitive passenger trains.
C. Increase unit rail length.
D. Buy on comparative merit.
E. Combine freight and passenger solicitation.
F. Legislation on train limit, excess crew, and 6-hour day would burden roads with no public benefit.
G. Twenty percent more space can be obtained by removing the no longer used ice bunkers in fruit and vegetable cars.
H. Scientific research in roadway, mechanical equipment and transportation operations.

IX. Decrease regulation. (1)

Fenske
Repeal Section 15(a) and all other sections of the act except only language necessary to the exercise of quasi-judicial powers.
X. Increase regulation. (1)

Wheeler
A. Tighten laws regulating expenditures for stock acquisition of other roads.
B. Require genuine competitive bidding for equipment and supplies.
C. I.C.C. to have access to records of bankers and brokers.
D. Strengthen I.C.C. Bureaus of Accounts and Finance.

XI. Make abandonments more practicable. (1)

Fulbright
Make it more practicable to abandon unprofitable branch lines or facilities.

XII. Set up labor tribunal. (1)

Budd
Independent labor tribunal should be established with responsibility and authority to put rules and working conditions on a reasonable and sound basis adapted to present conditions.

XIII. Reduce interest. (1)

Muhlfeld
Reduction of interest rates on refunding as well as now debt must be made.

XIV. Improve railroads' competitive position. (1)

Muhlfeld
A. Discontinue subsidies to competing carriers.
B. Set up roads to meet effectively other carrier competition.

XV. I.C.C. control of water and air commerce. (1)

Lisman
The I.C.C. should be given authority to regulate commerce by air and water.
XVI. Change present reorganization procedure. (1)

Lisman
A. Create Court of Transportation and Reorganization with appeal to Circuit Court of Appeals to assume exclusive charge of reorganization but with final approval of capital structure in I.C.C.
B. Amend Section 77 (1) to expedite reorganization, and (2) to establish right of mortgage holders to enforce their liens.

XVII. Improvement of management. (1)

Muhlfeld
Remove all but practically trained men from rail administration.
My dear Mr. President:

In accordance with the instructions transmitted to me by Mr. James Roosevelt on March 24, 1938, I am commenting briefly on the transportation report submitted by Messrs. Splawn, Eastman and Mehaffie.

Frankly, I am disappointed by this report, and it is my strong feeling that the over-cautious approach to the pressing national problem of transportation embodied in the committee's recommendations can only intensify the need for drastic action at a later date.

While I am in sympathy with several of the recommendations for immediate action, in particular with the first two recommendations, I prefer to confine my specific comments to recommendation number seven.

First, I do not feel that creation of the type of temporary Federal Transportation Authority envisaged in the report would serve any useful purpose, and

Second, I urge that you request Congress to create immediately a Department of Transportation with power to move vigorously to properly coordinate our national transportation facilities. Page 35 of the report states that "If the idea were carried to its full logical conclusion, it might involve the creation of a new department of the Government. This new department, in addition to undertaking work such as is outlined below, could take over the conduct of various administrative duties in connection with transportation now scattered throughout the executive departments." 

While I realize, as the report also states, that "The creation of such a new department of the Government is a project of magnitude and difficulty, however, requiring much time to get it under way and involving many considerations which would provoke discussion," I see no reason for delaying this strongly indicated and desirable action.

Sincerely yours,

H. MORGENTHAU, JR.

The President,
Warm Springs, Georgia.
Dear Mr. President:

The report by Chairman Splawn, Commissioners Eastman and Mahaffie, is a very good analysis of the railroad situation. The following are my observations on "means of immediate relief:"

1. I concur in their recommendation that we be authorized to lend for the purchase of equipment, and that the equipment be security for these advances. This will require legislation.

2. I concur with the principle of their recommendation, but do not agree that this authority be limited to 12 months. It should be for a much longer period, if not indefinite. I would also eliminate the words "within the time fixed therefor" in their suggested substitution at the bottom of Page One.

3. I think the government might well afford to aid railroads in reducing their fixed charges through providing senior money at substantially lower interest rates than roads now pay. This can be done in reorganizations either through loans or by guaranteeing the interest on senior securities.

The government agency extending credit to railroads might be given authority to require that the management of the borrowing road be satisfactory to it, or at least have representation on the board of the road.

4. This is probably equitable, although I have no information on the subject other than that in the report.

5. I have nothing to add to their comment.

6. Section 77 of the Bankruptcy Act should, in my opinion, be amended to give some authority the power to reorganize railroads, allocating to security holders such new securities as, in the opinion of the authority, are equitable. Whether this should be through the establishment of a new court to have charge of railroad reorganizations or the power given to existing Federal district courts should be considered. Personally, I have not sufficient information as to the legal aspects to suggest specific procedure.

As for the "long term program", I have long been of the opinion that transportation should be treated as a national problem and a national responsibility, that the various methods of transportation, railroads, waterways, highways and airways, should be under one authority and that, that authority should have power to fix rates, supervise service, require responsibility and designate, as far as practicable, movement of traffic by the facility best equipped to handle it. The authority should also have power to require consolidations.

We should maintain effective competition, but cut-throat competition, either between railroads, or between any of the different methods of transportation, should not be allowed.

Unnecessary duplication of service should be eliminated.

I do not subscribe to the theory that our railroads are doomed. We must have the best possible facilities and service, but the roads should give ground to that part of our transportation which can best be handled by other methods.

I do not agree with the suggestion of Commissioner Splawn that the RFC be authorized to lend railroads for the payment of interest on railroad bonds held by banks unless such loans are so secured as to reasonably assure their repayment. I do not believe banks hold enough railroad securities to require this procedure. Furthermore, we can give the banks any help they may need through the purchase of preferred stock
and capital notes. The same applies to insurance companies.

We at the RFC have not felt that the quoted market of securities, railroad or otherwise, necessarily represents sound value. We have tried to make our loans on the basis of sound values and of a going country. Railroad loans have been treated no differently. Many railroad securities are selling at absurdly low prices.

Our railroad lawyers have been giving a great deal of study to suggested railroad legislation independently and in cooperation with the ICC, and are available if needed.

Sincerely yours,

Jesse H. Jones
Chairman

The President
The White House
Washington, D. C.

P. S. I suggest for your consideration that track labor and probably shop labor, now on W.P.A., could be allocated back to the roads that have had to displace this labor to avoid bankruptcy.
For: The President
From: William O. Douglas

Re: Recommendations of President’s Committee on Railroad Legislation

The report submitted by your committee, dated March 24, 1938 consists of two parts:

(1) an emergency program, and
(2) a long range program.

In general, the proposals in relation to a long term program are sound, except as respects the jurisdiction of the Interstate Commerce Commission. The report and its recommendations, however, are not sufficiently concrete for immediate application as an emergency program, since the recommendations fall short of meeting the immediate crisis. The following proposals are therefore submitted:

I. Immediate (Emergency) Program

1. The highly serious condition of the railroad industry and of the financial markets at this moment would seem to require enactment at this session of Congress of emergency legislation authorizing, for an emergency period of eighteen months, advances to railroads which are not in receivership or bankruptcy. These advances should be made upon recommendation to the President by a Federal Transportation Authority (hereinafter described). They should be permitted in an amount up to $3% of the value of the property of the particular railroad as estimated by the I. C. C. The purpose of making such advances is to enable such railroads to meet their fixed charges. For the purposes of such loans, the statute should be so worded as to relax the present (R. F. C.) statutory standards for loans to railroads. The following standard is suggested.

Such advances should be made upon the recommendation of the Authority to the President on the basis that such advances will be made on the prospective earning power of such railroad with consideration to the character and value of the security offered and which in the opinion of said Authority offers reasonable assurance of repayment; or which will be in the public interest and for the preservation of orderly credit and the security markets.

2. The statute should also authorize the financing of rehabilitation expenditures upon the recommendation to the President by said Authority. These funds could be authorized for the purchase of securities (including, among others, bonds, debentures, junior securities such as income bonds and non-cumulative preferred stock, depending upon the circumstances of the respective roads) of such railroads as would agree to engage in rehabilitation activities, e.g., maintenance, rebuilding of right of way, purchase of equipment (including shop equipment and appliances). The amount to be allotted for the purpose mentioned in this clause 2 for the next twelve-month period should be not less than $800,000,000. Such monies should be allotted for expenditure only on that segment of any railroad as is certified by the Authority as (1) forming a part of a sound consolidated railroad system hereafter to be created, and (2) strengthening such railroad for purposes of building up deferred maintenance, acquiring additional freight cars, increasing tractive power, strengthening of road beds, structures and other facilities.
II. Long-range Program

The Legislation proposed under I, supra, should provide for a Federal Transportation Authority appointed by the President. It is believed that both the emergency aspect of the program, as well as the long-range aspect, can be more appropriately handled by a new independent one-man Authority rather than the three recommended. The Authority should report directly to the President and the Congress and should have an advisory Council, appointed by the President, consisting of all functional groups concerned with and dependent upon the American railroads, viz., representatives of management, investors, government, agriculture, labor, institutional investors, shipping interests, etc. The advisory council would, in effect, be an economic planning body vis-a-vis railroads.

The Authority would, in addition to the program proposed under I, supra, undertake comprehensive studies for making transportation facilities efficient and adequately revenue producing through consolidation, coordination and unification; propose methods for building up railroad traffic, as well as the reduction of operating expenses; propose methods for overhauling the existing rate structure and suggest possible devices looking to flexible rates.

The Authority should be authorized to enter into conferences with the carriers for the purpose of effecting consolidation plans. It should present recommendations with respect thereto to the President so that a comprehensive unification program may be presented to the next Congress. The Authority should give consideration in its recommendation to the feasibility and advisability of utilizing the power of eminent domain in effecting unification.

It would be well now to indicate in connection with any consolidation program that the right of railroad labor be given full consideration. They cannot be left to their own destinies as they are truly victims of economic change, for no fault of their own. In connection with possible labor displacement resulting from consolidation, the Authority should be directed to study the extent of such displacement (information not now available). In connection with plans for consolidation, the position of labor should be given ample recognition in the hearings and conferences. The principle should prevail that if labor is displaced for the benefit of any other interests affected, then the government should give adequate financial aid to the displaced labor.

III. Reorganization

As (1) no adequate reorganization plans can be adopted not based upon earnings, as (2) current earnings are too small to make possible such reorganizations, and (3) as the key to increased earnings is consolidation, there is (4), as to most roads, little to be gained by attempting reorganization until consolidation can be accomplished. Reorganization accomplished at this time would require additional reorganization at such time as consolidation becomes practicable.

However, it is desirable that the legislative program outlined under I, supra, contain provisions for dealing with the problem. The following is proposed:

That there be established a Special Railroad Reorganization Court with the bankruptcy powers relating to reorganization which are now vested in the District Courts. Such Railroad Court should be located in Washington. All carriers seeking to effect reorganization would file their reorganization petitions with the Reorganization Court and plans now pending before the I. C. C. and the District Courts would be transferred to that Court. As far as practicable, the existing machinery of Section 77 would be preserved, with modifications only where experience has demonstrated that unnecessary complications or delays or unworkability has resulted.
Thus, for example, the Court should be empowered to approve a fair and equitable plan without regard to the number of consents of the affected security holders. The criterion of fairness should be the present and reasonably prospective earning power.

The legislation proposed above should provide for government underwriting in connection with court reorganizations or in connection with voluntary reorganization designed to reduce the burden of fixed charges.

The I. C. C. would function in an advisory capacity to the Court, i.e., it would be expected promptly to render reports to the Court analyzing plans and recommending changed or new plans. But hearings on and approval of plans would be by the Railroad Court alone. There would be no divided responsibility. As at present under Section 77, any party in interest could propose a plan. But the Act setting up the Railroad Court would expressly direct interested Government agencies (R. F. C., I. C. C.) to propose plans and the Court would be directed, in the first instance, to propose a plan. Appeals from the Court would go directly to the Supreme Court.

Such a Reorganization Court should be a judicial tribunal (a "constitutional" court) and not a "legislative" court; for it is extremely doubtful whether an appeal will lie from a legislative court to the Supreme Court. If the court is a constitutional court, the result of establishing it, with the powers above suggested, will be as follows: (1) Consideration of reorganization plans can be concentrated in one body without the long delays resulting from hearings before the I. C. C. and the several District Courts. (2) There will be avoided the possibility of three appeals—one from the Commission to the District Court, a second from the District Court to the Court of Appeals, and a third from the Court of Appeals to the Supreme Court. (3) Prompt proposal of plans of reorganization will be assured. (4) All legal issues can be determined at one time.

WILLIAM O. DOUGLAS.
March 29, 1938

Memorandum to the President:

My comments on the report submitted by Chairman Splawn and Commissioners Eastman and Mahaffie follow:

In my opinion the Committee has given in brief compass a comprehensive statement of the nature of the transportation problem. Such a statement is necessary as a first step in working out a solution. The Committee’s proposals for the establishment of machinery for further study of these problems and for recommending solutions of them seem to me, on the whole, sound and worthy of adoption. The recommendations for temporary relief would, in my opinion, be a minimum program that should be immediately adopted in order that the railroad situation may become a factor working toward general business recovery rather than toward recession. While the proposals relating to loans by the Reconstruction Finance Corporation appear to be adequate to take care of the financial requirements of most of the roads, I question whether the inducement offered the railroads to increase their expenditures for new equipment is sufficient to result in as much new spending and employment as might at present be desired.

With regard to possible wage reductions as a means of relief, I concur in the Committee’s view that the mechanism already available for determining this question with full consideration to the interests of all concerned should be used and I hope that these interests may be able to agree upon such action as will be of the greatest immediate benefit to the general economic situation.

The establishment of the Federal Transportation Authority would provide a logical method for studying the transportation problem and promulgating a long-range program for all transportation. As to the Committee’s statement that the idea carried to its logical conclusion might involve the creation of a new department of the government to take over the conduct of various administrative duties in connection with transportation now scattered throughout executive departments, the merits of such procedure are of a debatable nature and require a thorough and careful study. The proposed Federal Transportation Authority might be given the duty of the study and investigation. I am in agreement with the Committee’s thought that the creation of such a department is of such magnitude as to require postponement of immediate action upon it.

The Federal Transportation Authority is given the duty of studying other transportation agencies and promulgating plans for coordination of transportation. The elimination of unnecessary transportation facilities is not only a question of operation, but it involves shippers and users of transportation. The Department of Commerce has special facilities and information, which should be consulted in reaching any decision as to what constitutes adequate transportation for an area.

Relative to Chairman Splawn’s separate expression that a reorganization of the Interstate Commerce Commission is desirable, particularly if it is given additional duties, I note there is a difference of opinion among the Committee. It is my thought that the problem should be answered by the Commission, as it best knows its ability to perform its duties under its present form of organization.

Perhaps if adequate methods can be found, the Federal Transportation Authority should be given more power to carry out provisions of Section IV of the proposed act and some method of requiring performance of the duty of rail carriers to ... take practical action.... as set forth in Section IV should be added; otherwise cooperation may or may not be effective as in the case of the Emergency Railroad Transportation Act, 1933.

(Signed) ERNEST G. DRAPER
Ernest G. Draper,
Assistant Secretary of Commerce.
Memorandum on the proposed report of a sub-committee of three on meeting the present situation of the railroads.

From: Will W. Alexander

The report deals with three general matters:

(1) Immediate relief. These proposals seem to me to be as satisfactory as is possible in view of all the facts set forth.

(2) The second deals with steps to be taken in a long-time program of relief. Here again it seems to me that the recommendations of the sub-committee are in accord with the best thought developed by authorities in this field, and if these steps could be taken promptly enough, they should bring the needed relief.

(3) The third set of recommendations has to do with machinery for carrying out the second. With some of these I am not satisfied. It is my opinion that a one-man Authority would be more effective than an Authority with three heads. It seems to me that the procedures proposed are very cumbersome and that under such procedure results will be discouragingly slow. It is my impression that this is a very critical situation, that we already know a great deal about it, and that the machinery set up should be such as to assure prompt action. Furthermore, I am afraid that the relations of the Authority to the Interstate Commerce Commission as proposed in these procedures may result in confusion and misunderstanding, and therefore slow up final action.

March 31, 1938
March 31, 1938.

TO THE PRESIDENT:

The recommendations of the sub-committee are not adequate to meet the needs of the present emergency. There is a failure to appreciate the depths of the present crisis, its effect upon the economic stability of the Country and the extent to which it retards business recovery.

The railroad problem is of such magnitude that it cannot be solved by private initiative. Those interested in the railroads have a right to rely on the leadership of the government in the development of a constructive program to stabilize the situation. The unsatisfactory conditions in the railroad industry have existed already too long. The railroads have had years of opportunity to put "their houses in order" and have failed to do so. Indications are that a rearrangement of physical facilities and the stabilization of the industry will not be done except under governmental compulsion.

The recommendations for "The Long-Term Program" are predicated upon an ineffective resort to persuasion as distinguished from the emergency requirements of compulsion. The functions of the proposed "Federal Transportation Authority" are to think about, study, plan and promote the essential elimination of wasteful transportation facilities. Such a program would require years to accomplish, if successful at all.

During the interim period a palliative is suggested. The proposed emergency relief is not sufficient to prevent further railroad bankruptcies. Even in those instances where the carriers could secure further financial aid from the government, the result would be to load them with a heavier debt burden and thus require eventually greater sacrifices in financial reorganizations. Such a program is not economically sound unless it is accompanied by a program contemplating immediate stabilization of the industry.

THE MINIMUM PROGRAM REQUIRED

A program should strike boldly at the causes of the trouble rather than a more alleviation of the consequences. The Government should first improve the earning power of the railroads by elimination of wasteful competition and, with faith in its ability to do so within a reasonably short period, guarantee the interest on the funded debt of the railroads not now in bankruptcy. Such a program would require as a minimum that:

1. The proposed "Federal Transportation Authority" should be directed to do the job, rather than to study, plan and promote.

2. More directive action is required. The Authority should be given authority to make orders reviewable only to a limited degree by the Commission. Its orders requiring consolidations and coordinations should not be set aside unless arbitrary or manifestly against the public interest.

3. The Authority should be directed to bring about as promptly as possible pooling of traffic and other forms of cooperative action as the groundwork for physical consolidations.

4. The physical consolidations, mergers or other unifications should follow as soon as it is practicable to work out the details.

5. Section 5 of the Interstate Commerce Act, in so far as it relates to consolidations, should be repealed.

6. As a substitute there should be enacted provisions which would empower the Authority to require pooling and other coordinations and eventually consolidations, with appropriate provisions for exchange of securities, etc.
Immediate Relief

If a program such as outlined above is adopted, contemplating a relatively short interval for the stabilization of railroad properties, the Government might well guarantee the interest on the funded debt of those carriers not now in bankruptcy. Government funds might properly be used also to aid in consummating consolidations and to make the necessary rearrangements of facilities.

Voluntary Reorganizations

As a part of such program, I would suggest that a plan be devised to facilitate voluntary reorganizations as distinguished from judicial reorganizations. Long extended bankruptcies are a hindrance to the national recovery. As an alternative to a judicial reorganization, it is suggested that thought be given to the enactment of appropriate provisions to facilitate a voluntary reorganization without resort to the complicated action required under Section 77.

I have not perfected my ideas as to the specific provisions but believe that such a statute (as a complement to Section 77) should be somewhat as follows:

1. In the event a carrier and 35% or 40% of the secured creditors as a group have agreed upon a plan of reorganization, the Court would be authorized under appropriate terms and conditions to suspend the remedies of the creditors for a period of one year to enable the consummation of the voluntary plan.

2. The agreed plan should be submitted direct to the Court for confirmation if approved by 66 2/3% of each class of the security holders affected.

3. The Commission or a division thereof could act informally in conference with the parties in an attempt to shape a satisfactory plan of reorganization without the requirement of a hearing, etc.

4. The Commission's further function would be to present to the Court its recommendations with respect to the plan in a capacity somewhat similar to that of the SEC under the proposed Chandler bill.

5. During such a period the debtor could continue to operate the property without the intervention of a trustee but if the agreed plan is not consummated within the one year period, the proceeding could be transferred to Section 77.

I have attempted to state my conception of the minimum requirements essential to meet the present emergency. If, however, such a program is not to be adopted, I have the following suggestions with respect to the sub-committee's program.

SUGGESTIONS RELATING TO THE SUB-COMMITTEE'S PROGRAM

A. The Long-Term Program

If the approach is to be a long-term program of persuasion on the part of the proposed "Federal Transportation Authority", I have two suggestions only:

1. It might be considered advisable to provide, as was done in the coordinator act, that a member of the Commission could be appointed as a member of the Authority and be relieved of his duties without the necessity of a resignation from that body.

2. The proposed statute provides that the Commission may, upon the application of the Authority, require pooling of traffic and other forms of coordination. The Authority should be given
the primary responsibility of issuing the order to be reviewed by the Commission, the burden of proof to be upon the opponents of the order. The initial responsibility for orders should not rest with the Commission. The effectiveness of the Authority in dealing with the carriers would thus be increased, inasmuch as it would have the power to require what it might not be able to do by persuasion.

B. Means of Immediate Relief

1. While the proposed liberalization of railroad loans by the Reconstruction Finance Corporation may be helpful in some instances, I do not believe it is economically sound to continue advances to carriers where there must eventually be a financial reorganization, unless simultaneous action is contemplated to stabilize the property, i.e., consolidations or coordinations with other properties to improve earning power. The process of piling up debt only increases the difficulty eventually of readjusting the capital structure.

2. Generally speaking, I do not believe that it is economically sound, from the standpoint of the Country as a whole, to guarantee interest on railroad bonds for a long period of years. The cause of the trouble should be corrected by improving earning power through the immediate stabilization of the industry. Government initiative and leadership alone can bring this about.

3. I concur in the thought that revisions of Section 77 are necessary. These, however, should not be confined merely to procedural changes, such as the establishment of a special bankruptcy court, but should also include changes of substance, particularly to require the dismissal of the proceeding after a specified period if a plan of reorganization has not been consummated.

4. A simplified procedure should be devised, as previously suggested, to make effective an agreed plan of reorganization without the necessity of a judicial reorganization under Section 77. It is believed that in some of the situations now in jeopardy, such a voluntary reorganization can be accomplished provided the machinery were made available to make it effective.

HENRY BROWN
MEMORANDUM

The purpose of this memorandum is to present on behalf of the railroads of the United States certain recommendations. For some time these railroads have been giving consideration to the problems that confront the industry, and particularly those which may be remedied by Federal legislation.

The railroads understand that their present unfortunate situation is intensified by the general economic conditions that prevail throughout the country, resulting in a decrease in traffic which is almost unprecedented.

Our recommendations are in two parts:

(A) What may be done immediately to relieve the present emergency, and
(B) Matters which will require study and consideration and which may be called a long-range program.

IMMEDIATE ACTION

(1) General Business Conditions

Such steps as are available to improve general business conditions, resulting in increase of traffic.

(2) Increase in Revenues

The revenues of the railroads can and will be improved by increases in rates wherever that is practicable.

It is recognized that as to some traffic, rates are limited by the presence of competitive agencies. Railways are now determining the extent to which depressed rates may be increased, and will make such increases where practicable; but it is known that they will be relatively small. To feel that railways must be given more freedom to exercise their judgment in fixing rates on traffic for which railway service is essential.

(3) Labor Costs

The railroads should have immediate relief in the way of decreases in labor costs.

Wage increases in August and October, 1937, came at a time when business was declining and, in our opinion, gave impetus to the general slump. It is not consistent or in the interest of re-employment to continue present wages, which are at the highest level in history.

(4) Loans from Reconstruction Finance Corporation

The existing statutes dealing with the authority of the Reconstruction Finance Corporation to make loans to railroads and to buy their obligations should be so amended as to constitute the Government lending agency, rather than the Interstate Commerce Commission, the sole judge of the advisability of such loans and purchases and the adequacy of security.
THE LONGER RANGE PROGRAMME

(5) Taxation

In the important field of taxation, the railroads suggest two measures of relief:

(a) The Revenue Act should be amended so as to exempt railroads from the undistributed profits tax.

(b) Additional taxes imposed by any State on account of the intrastate operations, or the corporate existence, of railroads engaged in interstate commerce, except to the extent such additional taxes may be paid from the current net earnings arising out of or reasonably attributable to such intrastate operations, should be declared an undue burden on interstate commerce and void.

(6) Equal Treatment of all Forms of Transportation

It is recognized that we are confronted not with a railroad problem alone but with a transportation problem, and that the public interest is paramount. Equality of treatment is a prime essential to any solution of the transportation problem. Congress should declare a national transportation policy which would insure equality of treatment. This policy has not been better phrased than by a recommendation found in the report of the Federal Coordination of Transportation to Congress for 1934:

"It is hereby declared to be the policy of Congress to promote, encourage and develop an adequate national transportation system embracing all necessary transportation service and facilities for the efficient handling of the commerce of the United States and for the national defense; to deal fairly and impartially with each mode of transportation, whether by rail, by water, by air, by highway motor vehicle, by pipe line or by any combination of any two or more of the several modes of transportation and to foster and preserve all such modes of transportation to the extent consistent with the development of an adequate national transportation system as above described."

The policy above outlined would require

(a) The discontinuance of Federal expenditures for the extension and the improvement of waterway and highway transportation where adequate rail transportation already exists;

(b) That highway and waterway carriers shall pay for the use of the highways and waterways a sum which would represent a fair return upon the amount of government expenditures for the improvement of such ways (this may call for State action to a certain extent). This principle, among other things, would call for the enactment of a law providing a system of tolls to be charged for the use of navigable waters other than harbors and the Great Lakes, in such a total amount as would represent a fair return upon the amount of money expended by the Government for the improvement of these waterways, plus the cost of maintenance;
(c) The application to all competing forms of transportation of the same quantity and quality of regulation, this regulation to be administered by the same body. Applying this principle, Congress should enact the Wheeler-Hamaspeck bill providing for the regulation of water carriers by the Interstate Commerce Commission; should enact the Pettengill bill repealing the long and short haul clause of the Fourth Section of the Interstate Commerce Act and should repeal those paragraphs of the law which prohibit railroads from engaging in the operation of vessels on the inland waterways and the Great Lakes; and

(d) The withdrawal of the Federal Government from participating in transportation in competition with private agencies. This principle calls for legislation which will result in discontinuing the operation of the Federal Sarge Line on the Mississippi and other rivers and provide for the sale or disposition of the properties.

(7) No Restrictive Regulations

Congress and the State Legislatures should refrain from enacting legislation the effect of which is to add to the expenses of operation without substantial benefit to the public interest. In this class are train limit bills, full crew bills, special limitation of hours of service not required for safety, and similar measures now being strongly urged by groups.

(8) Restatement of the Rate Making Rule

Section 15a should be rewritten so as to require the Commission in fixing rates to recognize the right of the carriers to a fair return upon the value of the property and so as to eliminate provisions in the law which give the Commission managerial discretion in the matter of fixing rates. The law should also provide for a carry-over of revenue from good to lean years.

(9) Consolidations

The railroads without at this time submitting a detailed plan providing for consolidations, recognize the importance of the question and the possibility of effecting economies through that method. They believe that some consolidations should occur, but they do not believe that consolidations should follow some pre-conceived, artificial plan. Consolidations should result from negotiations and the working out of economic law, bearing always in mind the public interest.

(10) Amendment of Section 13 of the Interstate Commerce Act

Section 13 of the Interstate Commerce Act should be so amended as to give the Commission greater power over State rates. Along this line, it is suggested that the Commission be given the right, in the first instance, when rates are being established, to require the States to conform and the Commission should have the power to suspend decreases in State rates if such decreases result in discrimination against interstate commerce.
(11) Land Grants

The railroads recommend

That Congress by appropriate legislation terminate
the right of the Government to use, or have property,
persons, mail, or express transported over land-grant-
aided railroads at rates less than those paid by the
public.

It is well known that through these concessions in
rates the railroads have repaid to the Government
many times the value of the land grants made in
aid of their early construction.

The losses by reason of land grant provisions fall
not only on land-grant-aided railroads but such
rates are of necessity equalized by competing lines.

(12) Reparation

It is suggested that the law be amended in accordance with suggestions
already made by the Interstate Commerce Commission providing suitable
statutes of limitation as to claims of shippers for repARATION.

(13) High Grade Crossing Elimination.

The elimination of highway grade crossings for the expedition of
vehicular traffic has become unduly burdensome to the railroads.

We recommend that the expense of all highway and railroad grade
crossing eliminations be assumed by government, and that railroads be
freed from this expense in the interest of reduced capital
expenditure, expense and tax burdens.

(14) Construction or Reconstruction of Bridges

In connection with the improvement of navigable waters, it often is
necessary to rebuild railroad bridges and the approaches thereto.
This expense is not occasioned by the railroads and results in no
benefits to them. Section 4 of the Act of March 25, 190c, entitled
"An Act to regulate the construction of bridges over navigable
waters" should be amended to provide that such contingent costs
will be made at public expense and not paid for by the railroads.

(15) Railroad Adjustment Boards

The Railway Labor Act should be amended so as to improve the procedure
before Railroad Adjustment Boards. To this end, it is recommended
that neutral permanent referees be provided for; that a definite
record be made of all proceedings and that the railroads be given
the right as labor now has to court review of decisions of the
Adjustment Boards. It is also important that suitable statutes of
limitation be included governing the presentation of claims.

We realize that the general problem of the railroads with
respect to the matters mentioned above are of interest to the Legis-
lative and Executive branches of the Government and to the public.
In view of this manifest interest, we suggest that these and other
matters that may arise should be considered jointly by agencies of
the Government and the railroads in an effort to reach a quick and
practical solution in accord with the best interests of the public.

On behalf of the Board of Directors,

Association of American Railroads,

J. J. Pelley, President.
Grand Lodge
BROTHERHOOD OF RAILWAY AND STEAMSHIP CLERKS,
Freight Handlers, Express And Station Employees
Brotherhood of Railway Clerks Building,
Cincinnati, Ohio.

Geo. M. Harrison
Grand President

Washington, D. C.
April 2nd, 1938

The President of the United States
The White House
Washington, D. C.

Dear Mr. President:

Pursuant to request of Secretary Mr. James Roosevelt I submit comments on report submitted to the President by Messrs. Spoon, Eastman and Mahaffie of the Interstate Commerce Commission, and my observations and recommendations on the "Railroad Problem".

At the outset it should be made clear that the railroad problem has been brought about primarily because of the drastic decline in railroad traffic and revenues caused by the general recession in business, and the heavy debt burden of the railroads resulting from the method pursued in financing the needs of the carriers. Should there be a revival of general business to the level existing early in the fall of 1937, the more distressing difficulties now confronting the railroads would disappear. Therefore, the problem should be approached from the standpoint of reviving general business activity and increasing the volume of railroad traffic.

Five recommendations and one observation are made by the Committee as "Means of Immediate Relief". Recommendations 1 and 2 propose that government funds be made available immediately to the railroads for the purchase of equipment, locomotives and cars, and for other purposes. Assuming that these recommendations were adopted, it is highly doubtful that the railroads would seek such loans. The carriers are now generally over-burdened with debt; to further increase this debt would aggravate their existing plight. The railroads are unable now to pay the fixed charges on existing debt. What the carriers need fundamentally is a restoration of credit. This can be brought about to the full extent needed in only two ways: through reduction in debt to be accomplished by reorganization of capital structure, or through a general revival in business with consequent increase of traffic and earnings. It is my considered judgment that the recommendations offered with respect to government loans to railroads would not afford the immediate relief needed. Further, the railroads now have a surplus of cars and locomotives (to handle present traffic) and it is not reasonable to expect they will borrow funds to add to this surplus equipment until there is an increase in traffic.

Recommendation No. 3 provides for the guaranty by the Federal Government of railroad bonds issued in connection with voluntary reorganizations of capital structures. Such guaranty would obligate the government to a possible maximum of 9 billion dollars. This proposal would make the government the railroad banker. The American public should not be asked to assume this risk.

Recommendation No. 4 provides for the elimination of land grant reductions on the movement of government traffic and would represent a small contribution toward increasing carrier revenues; particularly in the territory where major carrier difficulties exist. I favor this proposal.
While Recommendation No. 5 is in the nature of an observation on railroad wages, it should be definitely understood that the railroad labor unions will vigorously oppose with all the forces at their command any effort to reduce compensation of railway employees. I am indeed surprised that with all the information on railroad wages available to this Committee it should suggest that the carriers might be afforded "definite and positive relief" by slashing the indefensibly low wages of railroad workers. Such a move could result only in two highly undesirable results: The drying up of consumer purchasing power and the initiation of a general wage cutting campaign by all industry. What our country needs is more purchasing power. Relieving the carriers' difficulties by reduction of or deduction from railroad wages might well be likened to administering death producing drugs. This is a deflationary proposal.

The proposal in Recommendation No. 6 for the establishment of one court to have charge of railroad financial reorganizations would operate to expedite reorganization proceedings. The Interstate Commerce Commission is now overburdened with a complexity of duties and it could well be relieved of passing upon financial reorganization plans. Railroads now in bankruptcy are not an immediate problem. They can be reorganized with a reduction of fixed charges and plans have been or will be submitted, but there must be a revival of traffic and earnings to support even a reasonable amount of debt. Border line railroads could be voluntarily reorganized by amending the Bankruptcy Act to provide that when there is an agreement between the debtor railroad and the owners of two-thirds of the outstanding bonds, the courts be authorized to authenticate the plan of reorganization thereby depriving the selfish minority of its power to exact unreasonable consideration as the price of consuming reorganization programs.

The long term program recommended amounts to a proposal for the recreation of the office of Federal Coordinator of Transportation but under a new name to be known as the "Federal Transportation Authority"; the elimination of "financial abuses"; and the equal and impartial regulation by a single agency of the government of all forms of transportation.

Much good can be accomplished through the elimination of "financial abuses". This proposal should be followed up with such legislation as the facts and circumstances warrant. Railroad Holding Companies and other devices to escape existing laws should be abolished.

Many of the fundamental difficulties now confronting the railroads have been brought about in part because of the development of other forms of transportation and the severe and unfair competitive conditions resulting from such development. It is reasonable to say that there should be a fair field of competition for all forms of transportation with equal regulation. This highly desirable result could best be accomplished through a single agency of the Federal Government. Further, the Federal Government should refrain from the development of additional transportation facilities at the taxpayers' expense to directly compete with private industry. There are now more transportation facilities than the existing volume of traffic can support. Other forms of transportation operate with governmental aid. This policy should either be discontinued or all forms of transportation should be accorded equal treatment in this respect.
The proposal for a Transportation Board to plan and recommend "coordinations and consolidations" constitutes a highly objectionable venture into a new field of governmental activity. Reduced to a simple statement it means railroad management policies will become the responsibility of the Federal Government. While it is said the Transportation Board will not have authority to compel, it is clear the purposes are to be accomplished by coercion; this proving unsuccessful the Board will then recommend specific legislation to compel. Private industry and labor are not prepared to accept governmental interference to this extent. Aside from this highly objectionable principle, consolidation of railroads and the coordination of their facilities means the drying up of rail transportation, the loss of railway transportation service to countless communities and the elimination of some 200 thousand railroad jobs. What our country needs is more employment – not less employment.

Approximately 70% of the alleged economies to be realized from the projects would come about directly by the elimination of railroad employment. With railroad employment at an all time low, (about 900,000) it is difficult to understand how the further destruction of railroad workers' jobs will aid recovery.

Further, the proposal is objectionable because it contemplates that the government deny to all railroad employees who have attained the age of sixty-five years or more and who may be affected by consolidation or coordination projects, the right to work. It is proposed that the government shall take from the employee the only means available to him to meet the requirements of his existence. This proposition definitely cannot be defended unless an equally valuable substitute is given for the employment right destroyed. To force the arbitrary retirement of employees under the Railroad Retirement Act would not have been advocated with the full knowledge of the facts. In the first place the Railroad Retirement Act does not provide an adequate pension for all railroad employees. The average pension payable under these circumstances would not exceed $50.00 per month. Furthermore, it should be remembered that railroad workers have obligations to their families and their homes; I do not believe that any government can justify or defend a proposal which would deprive a working man of the only means he has of providing for himself and his family, in order to increase the gains of a corporation.

The adverse effect of forced consolidations and coordinations upon communities in general might conceivably result in the default of bonds now supported by taxes collected on railroad facilities, which would be abandoned as a result of coordinations and consolidations. Thousands of communities have been built to serve the needs of the railroads and businesses have been established depending upon railroad payrolls. It is not just and reasonable that the investments and the homes of the people of these communities be completely destroyed through arbitrary governmental action. Since there is no competition in rates paid for railroad transportation service, it is clear therefore that such competition as exists in the railroad industry arises primarily out of the service rendered, and if facilities are to be consolidated and coordinated, competition will be stifled if not completely destroyed.

Railway management and labor had ample experience with the Coordinator idea during the period 1933 – 1936 and both groups were in agreement on June 15, 1935, that the perpetuation of the experiment was undesirable. I am definitely opposed to the granting of any authorization to a Federal Transportation Authority to interfere with management policies. I think the establishment of a Federal Authority for the purpose of investigation and recommendation as to ways and means of improving the general transportation machine of the country might be beneficial. The scope of operations of the authority should be definitely limited however to broad general questions of transportation.
The recommendation that Congress repeal the provision of the Interstate Commerce Act directing the Interstate Commerce Commission to develop a general plan for the consolidation of railway properties has my endorsement. The carriers have experienced unnecessary financial difficulties because of their investment of surplus funds in the stocks of other railroads in anticipation of future consolidations. The only railroad consolidation that can be made on a sound economic basis and in the public interest is that which results from natural development. The authority vested in the Interstate Commerce Commission to pass on consolidation projects should be retained. Generally the proposal is too broad and would be a dangerous experiment.

At the outset I pointed out that the principal difficulties of the carriers have resulted primarily from lack of credit and insufficient volume of traffic. I believe this problem could be effectively solved by the Federal Government guaranteeing to the railroads for a period of three years a certain amount of net railway operating income, based on some fair test period, with the qualification that during the three years the railroads should expend and be allowed for maintenance not more than the maximum amount which each carrier expended during the same test period, due regard being given to changes in prices of materials and the cost of labor. Adequate provision should be made by the government, of course, in effecting the guarantee, to insure that the public's interest in the matter would be fully safeguarded.

The maximum contingent liability of the government if this suggestion were followed could not exceed 300 million dollars per year, and if the program should produce the effects which I anticipate it is quite possible that no real liability would be assumed by the government. If the plan were put into operation it would have the immediate effect of restoring the credit of the rail carriers generally. A tremendous increase in railroad employment would result from the railroads catching up on their deferred maintenance and huge amounts of materials and supplies would immediately be purchased; thus creating large demands upon the heavy goods industries which are sorely in need of revival. These industries in turn would add large numbers of employees to their payrolls. The rail carriers would soon be in a position to borrow such funds as they should need from private sources for equipment, additions and betterments to handle increased traffic. This is a proposal of genuine assistance not only to the railroads but to the heavy goods industries. The last recovery was based primarily upon the stimulation of activity in the consumer goods industries. There cannot be any lasting recovery without a revival of the heavy goods industries, which supply a large share of new employment. It will restore the credit of rail carriers; will restore their ability to buy materials and increase employment, and will tremendously increase their ability to buy from the heavy goods industries. It is quite possible that if this program were adopted it would furnish the necessary stimulus for a general revival of business activity and would pull the country out of the present recession. It is a program to increase rather than diminish railroad purchases, employment and general business.

Aside and apart from the other considerations stated the vital relation between the railroad-transportation service and the national defense should not be overlooked particularly at the present time.

Sincerely yours,

Geo. M. Harrison.
GRAY

TAMPICO

Dated March 25, 1938

Received 8:30 p.m.

Secretary of State

Washington

March 25, 6 p.m.

Conditions still continue quiet in the petroleum industry but those in banking and commercial establishments are becoming very serious. Foreign exchange transactions practically stopped by lack of rates. Very heavy demands on the banks for silver pesos have almost exhausted their supplies. Some local merchants refuse to accept paper currency. Embassy informed.

ARNSTRONG

EDA: EMB
Secretary of State,
Washington.

461, March 25, noon.
Reference my 454, March 24, 2 p.m.

The Senate yesterday evening rejected by 182 to 89 the Government's two financial bills and then adopted by only 156 to 137 the Senate Finance Committee's bill which gives the Government only the five billions in increased advances from the Bank of France.

The debate reminded me of the sessions last June when the Senate overthrew the first Blum Government. The bitterness and hostility towards Blum were even more marked this time. More than one Senator said to Blum in effect: "You are the real obstacle to the formation of a Government which the entire country desires; if you would only get out we could have such a Government in short order". Caillaux said that if they gave Blum the extra billions for the national defense fund they feared he would use these for current expenses and would thereby be enabled to stay in office for three months more, and that that was too much for the Senate. END SECTION ONE.

WILSON

SMS: WWC
PARAPHRASE. SECTION TWO OF TELEGRAM NO. 461 OF March 25, 1938, FROM PARIS.

The recent failure to form a Government of National Union was undoubtedly due to antagonism to Blum personally more than to the presence of Communists in such a Government, which latter reason was given to the public. However, we should not forget that it was only because of Blum's repeated insistence with his own party that the Socialists agreed to participate in a Government in which the Right parties were included. It remains to be seen whether they are prepared now to accept participation in such a Government if a Socialist is not at the head.

Generally, it appears to be thought that the movement towards a National Union Government is gaining ground, to be headed by Herriot. In my own opinion, however, it is questionable whether such bitterness and open class feeling as were manifested yesterday in the Senate do not reveal that the positions are still too far apart for such a Government.

This morning there is to be a meeting of the Cabinet to decide what course is to be pursued. It is expected that the Chamber of Deputies will meet this afternoon to consider the Senate bill. It would seem that there are two possible courses — Blum might have the Chamber reject the bill of the Senate and approve again the two Government bills, and then
then resign in the face of Senate hostility throwing the responsibility on the Senate for the situation, or Blum might ask the Chamber to accept the Senate's bill and be content to go along for a few weeks on the five billions which are provided in the bill.

END OF MESSAGE.

WILSON.
March 25, 1938
11:45 a. m.

Present:
Mr. Bewley
Mr. Taylor

HM.Jr: This is really just to say 'Hello'.

Mr. Bewley: This is just to say 'Hello'. I also had a short message from the Chancellor which I may as well tell straight away. The Ambassador, as you know, has suggested that there might be a return visit from the Treasury and the Ambassador suggested it might be official and the Chancellor said: if you chose to go over yourself that after the trade treaty he thought it would be better; that you would be sure to get a warm welcome if you chose to go.

HM.Jr: That's very nice. I will take it under serious consideration and if the Chancellor or Mr. Chamberlain get the things fixed so it looks all right for thirty days in advance, I might take a chance on it. I would love to go over there and sort of visit the club members.

Mr. Bewley: Yes. Yes.

HM. Jr: We could go around. I think it would be very nice.

Mr. Bewley: I think it would be a very good idea indeed.

HM. Jr: We might get the club members to get together over an English week-end some place.

Mr. Bewley: It might be done.

HM. Jr: Yes. Of course, the great difficulty is your people are always away in July and August.

Mr. Bewley: That is so. July might be possible, but August and September they are always away. I don't know. The Chancellor did suggest that the second half of October would be good for him.
HM, Jr.: That's out.

Mr. Bewley: That is impossible for you?

HM, Jr.: Yes. Where would they be in August?

Mr. Bewley: That I could not tell you. I don't know whether they have made their own plans at all, but if you were thinking of going it would be a matter of fixing up the time later.

HM, Jr.: I would not know until June.

Mr. Bewley: Quite. Yes.

HM, Jr.: What I wanted to say was this. If you had anything on your mind which was important, then I am going to suggest you come down in a couple of days and spend a day with me at Sea Island.

Mr. Bewley: I really have no message of any sort. As you know, the French position is absolutely as liquid as it could be. Nobody knows what is going to happen.

HM, Jr.: I did not know whether you had something that would take several hours.

Mr. Bewley: Oh, no. Oh, no.

HM, Jr.: Then I would say, give me a couple of days head start and then you come down. Didn't you come down once.

Mr. Bewley: Yes, I did.

HM, Jr.: If it is just a question of waiting until something boils over then ...

Mr. Bewley: That's it. The position is they wanted Trentham back and they asked me if I would come out again pending the appointment of some more permanent person -- come out for a year. I thought it would be nice. And they wanted me to come out before the French crisis became -- I mean before it reached its bursting point.

HM, Jr.: Or between crises?

Mr. Bewley: That's all that it is.
HM, Jr.: I don't know, but if it is a matter of talking out something or that you had some message, I would simply say let's wait until Monday or Tuesday.

Mr. Bewley: The only message I had was from the Chancellor and also Phillips wanted to send his best respects.

HM, Jr.: One of the things, is there any place -- I don't know whether I asked you this before -- in either England or Ireland where the water is warm enough, the salt water is warm enough to go in swimming?

Mr. Bewley: I should not think there would be many. Cornwall would be the best or off the coast of Cork, but I don't know, you might still find it chilly; never as warm there as here. It does not get very warm.

HM, Jr.: How about the Normandy coast?

Mr. Bewley: I would say that is probably warmer. I have never been there. I would say it is a bit warmer; I would not put it awfully hot.

HM, Jr.: Do they publish -- because we do -- the monthly maximum and mean temperature by months of various resorts?

Mr. Bewley: I would doubt it. That's sea temperature, not air?

HM, Jr.: I am talking about sea temperature.

Mr. Bewley: I have never seen it published.

HM, Jr.: Is Cornwall a pleasant place?

Mr. Bewley: Very nice place.

HM, Jr.: Very crowded?

Mr. Bewley: Depends when you go there. In August it's crowded. In June or July it wouldn't.

HM, Jr.: On account of the children it almost gets down to August is about the only month we can really be away.
Mr. Bewley: Oh, everywhere in England it is crowded in August.

HM, Jr: How about Ireland?

Mr. Bewley: You can places in Ireland. Oh, yes; that's all right.

HM, Jr: Don't they get the Gulf Stream there?

Mr. Bewley: They do, but I don't know whether the water is so much warmer there. I don't know whether it is 70 or not, but it always seems chilly to us.

HM, Jr: We don't think 70 is warm.

Mr. Bewley: I never took a thermometer in the water in England!

HM, Jr: Of course, the last few summers, the north coast of France has been very chilly, they tell me. You see, we had Honolulu last year.

Mr. Bewley: You won't get anything as warm as that.

HM, Jr: As a matter of fact, as far as the immediate thing is concerned, we don't know anything that is not in the papers. The foreign despatches of the New York Times gives you about everything. And of course, what will happen with Blum over the week-end, I guess nobody knows. We will just have to wait and see.

Mr. Bewley: Yes.

HM, Jr: He asked for this 5 billion francs and they didn't give it to him. Whether he's going to consider that sufficient rebuke or not, I don't know. Of course, in the last two weeks there has been tremendous movement of capital all over Europe.

Mr. Bewley: Yes.

HM, Jr: They sort of attacked the Swiss, Belgium and Holland and your own country.

Mr. Bewley: That all arose out of the Austrian coup, I suppose.
HM, Jr.: All. If we did not have the Tripartite, I don't know what would have happened, financially. It is just as though people have been testing different countries to see if they could take the shock and they did.

Mr. Bewley: Oh, very well.

HM, Jr.: Beautifully. Our economic situation is far different from when you were here before.

Mr. Bewley: Yes, I gather.

HM, Jr.: I gather that yours is also.

Mr. Bewley: Ours has not gone down -- our indices have not gone down, but unemployment has gone up.

HM, Jr.: But the world situation and the thing unfortunately for both of us, our indices have not been absorbing, well the last ten days, and I wish that they would even out, make a bottom of it.

Mr. Bewley: Oh, I suppose when your economic situation begins to improve, prices of raw materials will all improve.

HM, Jr.: Peculiar thing, with all this talk of war, that distinctly depressed our commodities and our stocks as well.

Mr. Bewley: Yes.

HM, Jr.: Up to two weeks ago it looked as though we had made a bottom of our commodities, but now it has been going down for sometime. But I am delighted to have you back.

Mr. Bewley: Thank you very much.

HM, Jr.: Because if we are going to have trouble, I would rather work with you than anybody they have had over here.

Mr. Bewley: It is very good of you to say so.
HM, Jr.: Fortunately the French have a very good man.  
Mr. Bewley: I have not met him, but I must.  
HM, Jr.: He's very good. He isn't around very much, but he knows what it is all about.  
Mr. Bewley: He knows. He's in New York, I suppose.  
HM, Jr.: Yes, but he knows what it's all about and he works at his job, if you know what I mean.  
Mr. Bewley: Yes.  
HM, Jr.: So that helps.  
Mr. Bewley: I saw a good deal of Butterworth in London. I think he is getting along very well with the Treasury. We all like him very well.  
HM, Jr.: His value is steadily increasing. As soon as I get back we will have a good talk. And, as I say, if anything does turn up -- I don't expect to be on the telephone every day, but bad news always travels fast.  
Are you going to bring your family over?  
Mr. Bewley: My wife is coming back in May. I don't think the boys are coming over.  
HM, Jr.: I am glad you are back.  

000-000
Secretary of State,
Washington.

465, March 25, 4 p.m.
FROM COCHRAN.

Paris exchange market was nervous this morning on news of Citroen and other strikes. Rate improved on belief cabinet would probably decide in this forenoon meeting to tender resignation as result of treatment of financial measures by Senate. After cabinet meeting ended franc again weakened, market understanding that Government was reconciled to accepting from Chamber this afternoon a ratification of the Senate's financial bill. Market has not taken too seriously Blum's promise to submit next week a bill of general financial reform. They feel that any successful reform must envisage and include repatriation of capital and that this is not possible under a Blum Government.

Bank of France statement issued yesterday showed that there remained available to the Treasury as of March 17 only one billion seven hundred thirty million francs of its fifteen billion credit with the bank. It is assumed
-2- #465, March 25, 4 p.m., from Paris.

assumed that this balance has been used up by this date, judging by drawings of past three weeks.

Reporter Gardey of Senate Finance Committee yesterday said that Treasury will need to borrow another one and a half billion francs before the end of March, three billion in April, 2.8 billion in May, 2.5 billion in June and eighteen billion for the ensuing six months. Assuming that the Chamber (?) (?) the bill as amended by the Senate limiting the new credit facilities to five billion francs this practically limits the expense money of the government to March and April. The life of the government is not necessarily guaranteed for that long since labor difficulties or dissention over proposals for a general financial program might conceivably cause an upset.

French control apparently gained some sterling today. Belga stronger on short covering.

WILSON

CSB
GRAY
Paris
Dated March 25, 1938
Rec'd 2:50 p. m.

Secretary of State,
Washington.

470, March 25, 8 p. m.

Reference my 461, March 25, noon.

Blum stated before the Finance Committee of the Chamber this afternoon that it had been decided at the Cabinet meeting this morning that the Government would ask the Chamber to approve the finance bill passed by the Senate yesterday giving the Government five billions in increased advances from the Bank of France and that the Government would present early next week to Parliament a financial program.

The Chamber this afternoon passed the Senate finance bill by a vote of 338 to 235.

The Chamber adjourned until March 29.
GRAY
London
Dated March 25, 1938
Rec'd 6:03 p. m.

Secretary of State,
Washington.

248, March 25, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. Clay, Economic Adviser to the Bank of England, said in the course of a luncheon conversation that he felt more gloomy than he could ever remember and there is no doubt that he, as are most others in responsible positions, profoundly fearful of the future due to the European political situation.

Two. As regards the British economic outlook Clay feels that the acceleration in armament expenditure announced last evening by the Prime Minister and reported in the final paragraph of my No. 245 of March 24, 6 p. m. will tend to check the downward trend of economic activity through its effect particularly on the steel and engineering industries. As regards shipbuilding, domestic construction passed its peak in February but the peak in naval construction would not be passed until December; naval construction was in fact
fact operating at capacity. Nevertheless, Clay expects unemployment to increase after the seasonal upturn is past; commodity prices had been sagging and might well continue to sag unless things change rapidly for the better in the United States; therefore, such industries as cotton and woolen textiles would not benefit by this armament pump priming unless a hectic armament boom similar to the munitions boom of 1916 and 17 develop, which he did not expect. At the same time he referred to the favorable revenue returns which given the lag in surtax and income tax collections virtually insured further good returns for the next two years. Nevertheless, he pointed out that the revenue returns were running for the current year sixty odd million pounds ahead of those for the last year of the World War and said "yet, look how little we are getting out of it in comparison."

Three. Clay said that hoarding was the only form of financial activity that has not been dampened down by the international situation. Gold sovereigns had been shipped here from all corners of the globe and the supply was exhausted but the demand continued. Even the demand for bar gold for hoarding by continentals in London was tremendous. Buying by the smaller central
central banks such as Holland and Switzerland had become great and as a result the Bank of England had not now on hand much more gold than in September last (see my No. 814 of December 30, 9 p.m.).

Four. Clay therefore saw no perceptible reason why the movement out of sterling and other energetical currencies into dollars should not continue unabated. The United States was after all the safest place of refuge in the world and European dollar funds might even go into American equities later in the year. Clay said that it seemed obvious that the administration was listening to two sets of advisors each with different ideas and attempting to satisfy both at the same time, with the result that it was not satisfying anybody; for his part he felt that unless a sense of confidence was speedily given to American business increased spending would be necessary and in the circumstances desirable.

Five. I referred to this week's Bank of England return showing a fall of pounds 9,900,000 in bankers' balances at pounds 109,000,000 and to the decrease in pounds 7,100,000 in the Bank's holdings of government securities.
securities which reduction seemed larger than necessary to neutralize additions of pounds 2,626,389 and pounds 18,515, to other securities and the reserve of notes and coins respectively. Clay confirmed the view reported in final paragraph of my No. 229 of March 18, 7 p.m. and previous telegrams that an expansionist policy is being pursued. He emphasized that this was confidential and said that this week's counter-movement was merely meant to confuse the market.

Six. Throughout our conversation Clay frequently referred to the European political situation in the most pessimistic terms and he gave me the sense that his attitude was fully shared by his colleagues in the Bank of England. It is symptomatic of this state of mind which is particularly prevalent in high places in the city that Clay felt that the Prime Minister should have come out for universal conscription.

Seven. Montague Norman was reelected Governor of the Bank of England for the nineteenth time. Sir Otto Niemeyer and Cameron Cobbold were elected directors thus increasing the number of executive directors by one. This is significant and it may well mean that Niemeyer
5-#248, From London, Mar. 25, 7 p.m.

Niemeyer will succeed Norman who is scheduled to retire in two years and Cobbold is thus being picked as a possible successor to Niemeyer.

KENNEDY

NPL
Secretary of State,
Washington.

251, March 26, 1 p.m.

FOR TREASURY FROM BUTTERWORTH

"The general attitude of the city is accurately reflected in the following excerpt from an unusually competent editorial appearing in today's FINANCIAL NEWS:

"The political outlook is inevitably uncertain - indeed to say that it is uncertain is to put a rather favorable interpretation upon it. There now seems to be little possibility of internal political crisis here but it is abundantly clear that France, now threatened by foreign troops on her Pyrenees frontier, is in a state of acute alarm and in the general anarchy of the Central European position anything can happen at any time. The economic outlook is also uncertain. The debate in the House of Commons on Wednesday provided no new source for optimism, and the market is still uncertain about the possible effects of an intensified rearmament"
rearmament programme upon private business. Wall Street has broken again. The week's news in fact is not of the kind that makes for market recovery. Both in the short run and in the long the market uncertainties are sufficiently great to make new investment a somewhat perilous procedure. Apart altogether from the investment implications of a political situation which threatens within the next few years to subject Europe to the risk of war, there is a tremendous number of economic imponderables. In a wide range of industries there is evidence of recession in activity and even those industries which are still working at full strength are beginning to feel a shortage of new orders. The "Economist" index of business activity which last autumn reached a peak of 113-\(\frac{1}{8}\) (1935 - 100) had by February fallen to 110. A fall of this magnitude is not serious but it is almost certainly significant. It is evident that there is at the moment a downswing of the trade cycle in progress. It may not be a very severe downswing as they go but it is a downswing and the indications suggest that it will go further. That is to say forces are at work which are tending to deflate employment and business activity. Partly they are international - emanating from America -
and are acting through commodity prices and hence exports. Partly they originate from the unwillingness and inability of British industry to embark upon new schemes of capital development.

These deflationary forces are being counterbalanced to some extent by the rearmament programme. To the extent that the rearmament programme is intensified and that its industrial base is broadened there will be corresponding inflationary forces at work. If the intensification were carried as far as it is being carried in Germany for example it would completely offset the deflationary cyclical influences and would enable profits and business activity to be maintained. The sort of level of rearmament expenditure at which the government is now aiming would probably suffice to balance the deflationary influences provided that the latter were not allowed in the meantime significantly to increase in strength. But at the moment the level of expenditure - and the proportion of it raised by borrowing - is probably insufficient wholly to counterbalance the downward swing of the trade cycle."

Foreign exchange market was featureless with small dealings.

KENNEDY

CSB
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France
DATE: March 26, 1938, 8 p.m.
NO.: 474

STRICTLY CONFIDENTIAL.

This afternoon I had a telephone conversation with Blum; he said that by the end of next week his financial program would be presented to Parliament. I asked Blum whether he believed the Senate would pass this program, and he said he doubted that it would. However, it is his intention to draw up the program which he believes is needed by the country. In doing this he will not take into consideration whether anyone is going to like it or what reception any particular quarter might give to it. He told me later on in the talk \[\text{redacted}\] in strict confidence that he expected this program would be his downfall.

I asked Blum whether ground was being gained by the program for a National Union Government. Most people he said were agreed that there should be a National Union Government. However, he said, the differences in conception among the political parties were so fundamental as to what should be done by such a government in domestic affairs and foreign affairs also that he thought the chances very remote that such a government could be formed.

Blum told me that he had received a great blow because of the recent strikes in the metallurgical industries of the Paris region. He had not been successful in his efforts of last night and most of today to try to bring about a settlement.
ment. Tomorrow he was going to try again, but he said he would be in an impossible position if he had not succeeded by Monday. He was told "to have some influence with the labor unions", he told me, but in the first days he had been in office the labor unions had called these strikes and they were not making it easy for him to settle the difficulties. I mentioned the conciliation (?) arbitration section of the labor code recently enacted and asked Blum whether the strikes were not contrary to its provisions; he replied that that section would cover the claim for higher wages, but that there was no law governing the question of new collective contracts in the industry to replace those which expire in June of this year. This latter point is largely responsible for the recent strike as the workers claimed that with regard to negotiating new contracts the owners were unreasonable and dilatory.

WILSON.
Note: Ribbon copies of the attached memo were sent to the Secretary of State and the Secy. of War - Attention: Col Strong (G-2) by letters of transmittal dated 3/29/38 - signed by Mr. W. C. Taylor as Acting Secretary.

mas.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 26, 1938

TO Secretary Morgenthau
FROM Mr. Haas

Subject: Current United States Trade with Japan and China
(Preliminary data)

United States trade with Japan during the first two weeks of March 1938.

(1) United States exports to Japan during the first two weeks of March 1938 were about 26 percent larger than during the first two weeks of February 1938, and about 19 percent larger than during the first two weeks of January 1938.

<table>
<thead>
<tr>
<th></th>
<th>1st week</th>
<th>2nd week</th>
<th>Total - first 2 weeks</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 1938</td>
<td>$4,513,000</td>
<td>$3,214,000</td>
<td>$7,727,000</td>
</tr>
<tr>
<td>February 1938</td>
<td>nil</td>
<td>6,112,000</td>
<td>6,112,000</td>
</tr>
<tr>
<td>January 1938</td>
<td>2,726,000</td>
<td>3,759,000</td>
<td>6,485,000</td>
</tr>
<tr>
<td>December 1937</td>
<td>1,694,000</td>
<td>5,218,000</td>
<td>6,912,000</td>
</tr>
<tr>
<td>November 1937</td>
<td>1,180,000</td>
<td>4,813,000</td>
<td>5,993,000</td>
</tr>
</tbody>
</table>

(2) The following items show large increases in our exports to Japan during the first two weeks of March 1938 as compared with our exports of these items during the first two weeks of February 1938. These six items also account for 91 percent of our total exports to Japan during the first two weeks of March.

<table>
<thead>
<tr>
<th>Item</th>
<th>March 1938</th>
<th>First two weeks of February 1938</th>
<th>January 1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton, unmanufactured</td>
<td>$1,681,000</td>
<td>$1,116,000</td>
<td>$1,533,000</td>
</tr>
<tr>
<td>Industrial machinery</td>
<td>1,505,000</td>
<td>985,000</td>
<td>851,000</td>
</tr>
<tr>
<td>Petroleum and products</td>
<td>1,397,000</td>
<td>547,000</td>
<td>1,958,000</td>
</tr>
<tr>
<td>Iron and steel manufactures</td>
<td>1,266,000</td>
<td>1,173,000</td>
<td>526,000</td>
</tr>
<tr>
<td>Paper base stocks</td>
<td>622,000</td>
<td>201,000</td>
<td>382,000</td>
</tr>
<tr>
<td>Automobiles and parts</td>
<td>597,000</td>
<td>494,000</td>
<td>/</td>
</tr>
</tbody>
</table>

1/ Not shown separately in January 1938.
The following items show sharp decreases in our exports to Japan during the first two weeks of March 1938 as compared with our exports of these items during the first two weeks of February 1938.

<table>
<thead>
<tr>
<th></th>
<th>First two weeks of</th>
<th>First two weeks of</th>
<th>First two weeks of</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March 1938</td>
<td>February 1938</td>
<td>January 1938</td>
</tr>
<tr>
<td>Fertilizer and fertilizer</td>
<td>$81,000</td>
<td>$248,000</td>
<td>nil</td>
</tr>
<tr>
<td>materials</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Copper and manufactures</td>
<td>52,000</td>
<td>214,000</td>
<td>$430,000</td>
</tr>
<tr>
<td>Tobacco and manufactures</td>
<td>1,000</td>
<td>289,000</td>
<td>nil</td>
</tr>
<tr>
<td>Electrical machinery and</td>
<td>nil</td>
<td>34,000</td>
<td>15,000</td>
</tr>
<tr>
<td>apparatus</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(3) United States imports from Japan during the first two weeks of March 1938 were approximately equal to our imports during the first two weeks of February 1938. They were 36 percent less than our imports during January 1938.

**United States imports from Japan**

<table>
<thead>
<tr>
<th></th>
<th>1st week</th>
<th>2nd week</th>
<th>Total - first 2 weeks</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 1938</td>
<td>$1,452,000</td>
<td>$2,431,000</td>
<td>$3,883,000</td>
</tr>
<tr>
<td>February 1938</td>
<td>1,553,000</td>
<td>2,327,000</td>
<td>3,880,000</td>
</tr>
<tr>
<td>January 1938</td>
<td>2,033,000</td>
<td>4,185,000</td>
<td>6,218,000</td>
</tr>
<tr>
<td>December 1937</td>
<td>2,159,000</td>
<td>3,406,000</td>
<td>5,565,000</td>
</tr>
<tr>
<td>November 1937</td>
<td>3,239,000</td>
<td>3,654,000</td>
<td>6,893,000</td>
</tr>
</tbody>
</table>

(4) The principal items of import maintained about their same relative position. Raw silk imports increased only 3 percent over the comparable period of February 1938 and were 33 percent less than such imports in January 1938.

<table>
<thead>
<tr>
<th>Imports during the first two weeks of</th>
<th>Silk, unmanufactured</th>
<th>Other imports</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 1938</td>
<td>$2,549,000</td>
<td>$1,334,000</td>
<td>$3,883,000</td>
</tr>
<tr>
<td>February 1938</td>
<td>2,468,000</td>
<td>1,412,000</td>
<td>3,880,000</td>
</tr>
<tr>
<td>January 1938</td>
<td>3,780,000</td>
<td>2,438,000</td>
<td>6,218,000</td>
</tr>
<tr>
<td>December 1937</td>
<td>2,937,000</td>
<td>2,628,000</td>
<td>5,565,000</td>
</tr>
<tr>
<td>November 1937</td>
<td>3,916,000</td>
<td>2,977,000</td>
<td>6,893,000</td>
</tr>
</tbody>
</table>
(5) Of the total of $3,683,000 of our imports from Japan during the first two weeks of March 1938, the following items account for almost all.

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Silk, unmanufactured</td>
<td>$2,549,000</td>
</tr>
<tr>
<td>Hats and hat materials</td>
<td>134,000</td>
</tr>
<tr>
<td>Fish scrap and fish meal</td>
<td>125,000</td>
</tr>
<tr>
<td>Cotton manufactures</td>
<td>102,000</td>
</tr>
<tr>
<td>Edible vegetable products</td>
<td>101,000</td>
</tr>
<tr>
<td>Fish</td>
<td>84,000</td>
</tr>
<tr>
<td>Silk manufactures</td>
<td>84,000</td>
</tr>
<tr>
<td>Menthol</td>
<td>72,000</td>
</tr>
<tr>
<td>China and porcelain ware</td>
<td>70,000</td>
</tr>
<tr>
<td>Pyrethrum flowers</td>
<td>66,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3,387,000</strong></td>
</tr>
<tr>
<td>All other</td>
<td>496,000</td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td><strong>$3,883,000</strong></td>
</tr>
</tbody>
</table>

United States trade with China during the first two weeks of March 1938.

(1) United States exports to China during the first two weeks of March 1938 were about 25 percent greater than during the first two weeks of February 1938. Exports to North China and Manchuria increased 32 percent and exports to Shanghai, South China, and Hong Kong increased about 23 percent.

United States exports to

<table>
<thead>
<tr>
<th>First two weeks of</th>
<th>North China and Manchuria</th>
<th>Shanghai, South China, and Hong Kong</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 1938</td>
<td>$ 734,000</td>
<td>$2,257,000</td>
<td>$2,991,000</td>
</tr>
<tr>
<td>February 1938</td>
<td>557,000</td>
<td>1,842,000</td>
<td>2,399,000</td>
</tr>
<tr>
<td>January 1938</td>
<td>1,116,000</td>
<td>2,114,000</td>
<td>3,230,000</td>
</tr>
<tr>
<td>December 1937</td>
<td>1,323,000</td>
<td>1,808,000</td>
<td>3,131,000</td>
</tr>
<tr>
<td>Whole month of March 1937</td>
<td></td>
<td></td>
<td><strong>$6,483,000</strong></td>
</tr>
</tbody>
</table>
(2) Leading export items to China:

(a) To North China and Manchuria:

<table>
<thead>
<tr>
<th>Item</th>
<th>First two weeks of March 1938</th>
<th>February 1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automobiles, parts and accessories</td>
<td>$193,000</td>
<td>$87,000</td>
</tr>
<tr>
<td>Tobacco and manufactures</td>
<td>134,000</td>
<td>nil</td>
</tr>
<tr>
<td>Petroleum and products</td>
<td>117,000</td>
<td>8,000</td>
</tr>
<tr>
<td>Cotton, unmanufactured</td>
<td>77,000</td>
<td>nil</td>
</tr>
<tr>
<td>Wood and manufactures</td>
<td>62,000</td>
<td>55,000</td>
</tr>
<tr>
<td>Iron and steel and manufactures</td>
<td>51,000</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>634,000</strong></td>
<td><strong>355,000</strong></td>
</tr>
<tr>
<td><strong>All other</strong></td>
<td><strong>100,000</strong></td>
<td><strong>202,000</strong></td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td><strong>$734,000</strong></td>
<td><strong>$557,000</strong></td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Item</th>
<th>First two weeks of March 1938</th>
<th>February 1938</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tobacco and manufactures</td>
<td>$528,000</td>
<td>$96,000</td>
</tr>
<tr>
<td>Automobiles, parts and accessories</td>
<td>443,000</td>
<td>322,000</td>
</tr>
<tr>
<td>Firearms and ammunition</td>
<td>387,000</td>
<td>381,000</td>
</tr>
<tr>
<td>Copper and manufactures</td>
<td>167,000</td>
<td>28,000</td>
</tr>
<tr>
<td>Ginseng</td>
<td>76,000</td>
<td>37,000</td>
</tr>
<tr>
<td>Aircraft and parts</td>
<td>52,000</td>
<td>292,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,553,000</strong></td>
<td><strong>1,156,000</strong></td>
</tr>
<tr>
<td><strong>All other</strong></td>
<td><strong>604,000</strong></td>
<td><strong>686,000</strong></td>
</tr>
<tr>
<td><strong>Grand total</strong></td>
<td><strong>$2,257,000</strong></td>
<td><strong>$1,842,000</strong></td>
</tr>
</tbody>
</table>

(3) United States imports from China and Manchuria increased about 15 percent in the first two weeks of March 1938, as compared with our imports during the first two weeks of February 1938. Imports from North China and Manchuria increased about 57 percent and imports from Shanghai, South China, and Hong Kong increased 4 percent.
### United States imports from:

<table>
<thead>
<tr>
<th>First two weeks of</th>
<th>North China and Manchuria</th>
<th>Shanghai, South China and Hong Kong</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>March 1938</td>
<td>$324,000</td>
<td>$559,000</td>
<td>$1,183,000</td>
</tr>
<tr>
<td>February 1938</td>
<td>207,000</td>
<td>826,000</td>
<td>1,033,000</td>
</tr>
<tr>
<td>January 1938</td>
<td>629,000</td>
<td>1,559,000</td>
<td>2,188,000</td>
</tr>
<tr>
<td>December 1937</td>
<td>541,000</td>
<td>1,905,000</td>
<td>2,446,000</td>
</tr>
</tbody>
</table>

Whole month of March 1937: $14,103,000

### (4) Leading import items from China:

#### (a) From North China and Manchuria:

<table>
<thead>
<tr>
<th></th>
<th>First two weeks of</th>
<th></th>
<th>February 1938</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March 1938</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Furs and manufactures</td>
<td>$78,000</td>
<td>$12,000</td>
<td></td>
</tr>
</tbody>
</table>
| Textile fibers and manu-
  factures               | 62,000             | 109,000                 |
| Non-metallic minerals and products | 55,000 | 2,000 |
| Perilla oil             | 48,000             | 39,000                  |
| Total                   | **$243,000**       | **162,000**             | **75%**       |
| All other               | **$21,000**        | **45,000**              | **25%**       |
| Grand total             | **$264,000**       | **$207,000**            | **78%**       |

#### (b) From Shanghai, South China and Hong Kong:

<table>
<thead>
<tr>
<th></th>
<th>First two weeks of</th>
<th></th>
<th>February 1938</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>March 1938</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tung (wood) oil</td>
<td>$325,000</td>
<td>$135,000</td>
<td></td>
</tr>
<tr>
<td>Edible vegetable products</td>
<td>82,000</td>
<td>73,000</td>
<td></td>
</tr>
<tr>
<td>Flax, hemp, ramie and manufactures</td>
<td>74,000</td>
<td>108,000</td>
<td></td>
</tr>
<tr>
<td>Other textile fibers and manufactures</td>
<td>125,000</td>
<td>112,000</td>
<td></td>
</tr>
<tr>
<td>Bristles</td>
<td>52,000</td>
<td>64,000</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td><strong>$658,000</strong></td>
<td><strong>515,000</strong></td>
<td><strong>77%</strong></td>
</tr>
<tr>
<td>All other</td>
<td><strong>$31,000</strong></td>
<td><strong>31,000</strong></td>
<td><strong>23%</strong></td>
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<tr>
<td>Grand total</td>
<td><strong>$689,000</strong></td>
<td><strong>$826,000</strong></td>
<td><strong>38%</strong></td>
</tr>
</tbody>
</table>
March 206,

mce
Sec'y Morganthau:
Do you approve
the purchase of these
high-priced planes
for the Coast Guard?

O.K.
Morganthau
Dec 31, 44
MEMORANDUM FOR - Acting Director of the Budget Bell

Last Friday, 18 March 1938, Assistant Secretary Gibbons and myself had a conference with Secretary Morgenthau, regarding the release of the reserve in the sum of $354,000, for the construction of 2-long range type airplanes (Appropriation: Replacement Airplanes, 1938). Secretary Morgenthau approved the plan of expending this money for 2-long range type airplanes, and told me to go ahead. To date, the reserve has not been released, and Mr. Mattingly of your Bureau has heard nothing about the matter. As you advised me sometime ago that you were merely awaiting Secretary Morgenthau's approval of this plan to release the reserve, it may be that you have received no official information to that effect. I would appreciate it very much if early action can be taken on the release of this reserve as, otherwise, it would seriously embarrass us in carrying along our aviation construction program, and may cause an increase in price.

R. R. WAESCHER
 Rear Admiral, U.S. Coast Guard, Commandant.

Copy to:
 Assistant Secretary Gibbons,
 Mr. McReynolds
 Mr. Mattingly
 Commander Gorman

RECEIVED
MAR 24 1938
BUREAU OF THE BUDGET
March 20th, 1938.

MEMORANDUM FOR MR. FORSTER:

Secretary Hull and Secretary Morgenthau transmitted to the President a draft of a message to Congress relating to a proposed settlement of the indebtedness of the Government of Hungary to the Government of the United States.

The President made some slight changes in the message and signed it. He returned the signed message to the Secretary of State, who in turn transmitted it to Secretary Morgenthau. I enclose the message hereewith for appropriate action.

Wm. H. MoReynolds

Wm. H. MoReynolds
Administrative Assistant
to the Secretary
My dear Mr. Secretary:

I have made the addition in the draft suggested by the President.

Sincerely yours,

Enclosures:

Message to the Congress of the United States, with enclosure; in duplicate.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.
Last paragraph as added by the President:

"In its simplest terms, the offer of the Hungarian Government is to repay to the United States the whole of the relief loan, but without payment of any interest thereon."

Only other change was to omit reference to the name of Secretary Mellon.
OUR NEIGHBOR HAS TAKEN MATTER UNDER ADVISEMENT. MAY NOT KNOW FOR SEVERAL DAYS. =

MISSY. 

813PM. 

309
GRAY
London
Dated March 28, 1938
Rec'd 2:17 p.m.

Secretary of State,
Washington.

255, March 28, 6 p.m.
FOR TREASURY FROM BUTTERWORTH.

As indicated in No. 252 of March 28, noon, the price of silver declined and there is reason to believe that it was fixed at 19 5/8 because that was the point at which Mexican selling orders could be avoided. India’s attitude has not yet clarified, both buying and selling orders were received. The fixing was larger than usual. Exchange movements were without significance.

KENNEDY
KLP

RECEIVED
MARCH 28, 1938
SECRETARY DEPARTMENT
My dear Mr. President:

I attach hereto the draft of a proposed message dealing with the removal of the tax exemption of public securities and salaries. This is the draft we received from the Department of Justice and which you saw and returned to Secretary Morgenthu.

I attach also an alternative for page 3. The change which we suggest on this page would make the sentence "The present unfortunate situation is the product of adjudication and adjudication can undo its mischief" read "The present unfortunate situation is the product of adjudication and adjudication can correct it."

As to page 4, two substitute drafts are attached numbered 1 and 2. The Treasury recommends to you substitute draft number 1 because it is the Treasury's position that this legislation should not be extended to outstanding bonds in view of the number of purchasers thereof who relied upon their tax-exempt status when they purchased them.

I understand that Mr. Jackson and Mr. Cohen think the income from tax-exempt bonds should be made taxable to the extent of considering such income in fixing the rate of tax on the bondholder's taxable income from other sources. I understand also that they would be agreeable to the message being silent on this point and the question being left to Congress. If that is desired, substitute draft number 2 might well be used.

Faithfully yours,

(Signed) Roswell Magill

Under Secretary.

The President,

The White House.

Enclosures

HO/1
Typed 3/26/38
I, therefore, recommend to the Congress that effective action to promptly taken to terminate the tax-exceptions of official salaries and of the interest on future issues of securities. The legislation should confer the same powers on the States with respect to the taxation of Federal bonds and salaries as is granted to the Federal Government with respect to state and municipal bonds and salaries.
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 and salaries as is granted to the federal government with respect to state and municipal bonds and salaries.
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 correct it. 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 longer exist.
If everyone agrees, send warm things, I will send a return message.
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 peping 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,

[Signature]

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 govern-
ments 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.
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 attend-
ing 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
longer exist.
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 3, 1938

To: The Secretary
From: Mr. Magill

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

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

Rum

Attachments.
Proposed Message on Tax Exemptions

In a series of cases culminating in the Pollock decision more than 40 years ago, the Supreme Court established the doctrine that the interest on state and municipal bonds and the salaries of state and municipal officials are not subject to the general Federal income tax. Similarly, the interest on Federal bonds and the salaries of Federal officials are not subject to state taxation.

The Sixteenth Amendment to the Constitution of the United States, finally approved in 1913, was proposed and adopted in order to put to rest any question of the power of the Congress to tax incomes without apportionment among the several States. The Amendment in terms gave the Congress the power "to lay and collect taxes on incomes, from whatever source derived." Literally, this broad language is sufficient to embrace all interest, including interest on state and local bonds; and all salaries, including salaries of state and local officials. Nevertheless, it has been persistently asserted that the exemptions considered to exist prior to the Sixteenth Amendment are still in existence despite the plain language of the Amendment. Consequently, the power there granted has never been fully exercised. The income tax acts themselves exclude from tax the interest on state and municipal bonds. There is no statutory exemption of official salaries, but court decisions have granted exemptions in some cases out of the great number which have been litigated. On the other hand, various limitations on the exemption have been expressed by the Supreme Court, and several Justices have strongly urged that it should be eliminated entirely.
Such exemptions, whether expressed or implied, tend to defeat the equity of the Federal and State taxing systems, by establishing a class of recipients of income, which is not subject to the burdens of taxation borne by other citizens similarly situated.

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

The subject of tax-exemptions for bond interest has been so thoroughly discussed that it need not be elaborated here. I shall merely use one illustration to show how widespread its effects may be. An investor whose surtax net income is $50,000 is taxed at 31 percent on the last $5,000 of this income, under the Federal tax. In the present state of the investment market, he can get about 3 percent interest if he invests in moderately long-term highest grade bonds of private corporations. Since the income from such bonds is fully taxable, this investor receives, after tax, about 2 percent on his investment. By purchasing a State bond of the highest grade, with the same maturity date, he can obtain a yield of 2.5 percent, against which no Federal
income tax is due. This illustration shows that, even for those who are only moderately wealthy, the saving by Federal tax exemption more than counterbalances the low yield of the tax-exempt bond, and therefore tends to make ineffective the progressive tax rates. At higher income levels the tendency is of course even more pronounced. A fair and effective progressive income tax and a huge, perpetual reservoir of tax-exempt bonds cannot exist side by side.

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

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

Exemption of salaries has the further disadvantage that it produces an apparently endless stream of litigation in attempts to discover whether a given case falls within the tax-exempt area as defined by the Supreme Court.
I, therefore, recommend to the Congress that effective action be promptly taken, either by statute or by constitutional amendment, to terminate these exemptions for the future. The legislation or amendment should confer the same powers on the States, with respect to the taxation of Federal bonds and Federal salaries, as is granted to the Federal Government with respect to state and local bonds and salaries.
Monday, March 28, 1938

The Spanish Ambassador called this morning and saw Mr. Taylor and Mr. Lochhead.

The Ambassador referred to the inquiry he made sometime previously regarding possible sales of silver by Spain and advised that the purpose of his visit was to announce that the Spanish Treasury is prepared to offer approximately 1750 tons (approximately 55 million ounces) of silver for sale. He advised that this silver was in the form of peseta coins probably at Carthena and that they could deliver them in New York within a period of approximately thirty to ninety days.

It was explained to the Ambassador that purchases of silver by the U. S. Treasury were usually in the form of bar silver of .999 fine and that there would be serious difficulties in handling an amount such as he stated due to the fact that the capacity of the refining companies was booked for about a year in advance.

The Ambassador was informed that we would take the offer into consideration and advise him as to our decision within two or three days.
U. S. Discontinues Buying Mexico's Silver on April 1

Markets to Be Watched Today For Effect of Treasury's Surprise Decision

American Firms Affected

Silver markets the world over will be watched today for the effect of the United States Treasury's surprise decision, announced yesterday in Washington and Mexico City, to discontinue purchases of silver from Mexico on April 1.

In Washington it was understood that this action is principally a diplomatic move in connection with Mexican expropriation of American silver. The action represents only a change in policy toward Mexico's silver policy, which is when total world production was 276,000,000 ounces last year, still controlled by the provisions of the Silver-ounce and total supply 465,000,000. Sales by the Treasury. The Treasury still must buy hoarders, principally India and China, constitute enough of the white metal to reach the statutory big source of the metal under present conditions with gold, and will simply have to do its thing. Of course, only a portion of American silver buying in other markets to the extent that American Smelting's silver business would be affected by a change in price abroad.

American Silver produced in 1937 more than the 55,000,000 produced in 1938, a major portion in Mexico. Howe Sound produced 4,350,000 ounces in 1936, also a major portion in Mexico. Cerro de Pasco, primarily a copper, zinc and lead producer, also turned out 12,640,000 ounces of silver in 1938, all in South America.

U. S. Smelting last year produced 21,500,000 ounces of silver, partly in this country and partly in Mexico and Canada.

What effect this move will have on the world price of silver, therefore, depends to a great extent on how Mexico does about it. President Cardenas yesterday issued a statement in which he said producers would cooperate in order to place the metal on the world market. If that happens, our government undoubtedly will buy Mexican silver in London, since it would be impossible to restrict purchases to silver identified as non-Mexican. On the other hand, Mexico may decide on some other scheme. It may buy the newly mined metal for the Bank of Mexico with paper pesos, or it may increase the minting of silver pesos. In such a case, part of the Mexican companies will be the same as they sold the production might be held off the market, in London only, since the Treasury pays the reducing rather than increasing the total world market supply.

For the American investor, this question is important, since it affects the numerous American companies which produce and sell their silver outside this country. Those which sell 5,000,000 ounces, or 15,000,000 altogether so far,
MEXICO CITY (AP)—The United States informed the Mexican government yesterday that it would not be worthy of the American and other foreign oil companies, which are the United States will cease purchasing Mexican silver after March 31.

The announcement was expected to have grave repercussions in Mexican financial and economic affairs, as it affects the nation's prime export and comes at a time when the government is wrestling with the problem of indemnifying former owners of the $400,000 worth of oil properties.

President Ivois Manifesto

The announcement was expected to have an immediate and adverse effect on the peso and the state governors are expressing concern. President Cardenas said:

"The government of the United States has announced that purchases of a portion of silver will be cancelled effective April 1. It remained to be seen how Mexican workers would react to the prospect of further sacrifices."

We desire that the nation, upon knowing the size of the total, and the necessity of the labor leaders have been promising serenity as it is an act done by the will of that government. We are prepared to avoid harmful repercussions from the decision of the United States Treasury. The country's agricultural production is insufficient to meet the needs of the nation. Difficulties with the government in order to produce large revenues have been encountered in selling production of silver to Mexico. The expropriated oil industry and the choking off of silver sales to the United States removes the major stabilizing influence upon the peso.

Urges People Retain Confidence

"It is nevertheless indispensable and to this end I exhort the entire nation to remain alive in their enthusiasm and confidence. American silver purchases for years have been in the national government and the government has built up the bank of Mexico's gold reserves and of their respective entities to keep silver running at a profit in the face of falling silver prices. At the same time the lute form, thus stimulating productive activities, has collected large revenues in the form of export taxes and handling charges on silver."

nullify or make more difficult our efforts."
U. S. to Stop Buying Silver From Mexico

Treasury Announcement in Washington Results in Appeal by Cardenas to People to Keep Calm

Oil Lands’ Seizure Linked to Decision

100,000,000-Peso Loan Announced to Provide Funds to Pay American Concerns for Property

By Jack Starr-Hunt

By Wireless to the Herald Tribune

Copyright, 1933, New York Times Inc:

MEXICO CITY, March 27.—With an appeal to the Mexican people to support his government in its present financial crisis, President Lazaro Cardenas announced today that the United States did not plan to make any more silver purchases from Mexico after April 1, when Washington’s agreement to buy silver will expire.

Secretary of the Treasury Henry Morgenthau jr., announced yesterday at Washington: “In view of the decision of the government of the United States to re-examine certain of its financial and commercial relationships with Mexico, the Treasury will defer continuance of the monthly silver purchase arrangements with Mexico until further notice.”

Mexico’s financial situation already had become problematical as a result of the Presidential decree of March 18 expropriating British and American oil properties valued at $400,000,000. The government has prepared plans to float an internal bond issue of 100,000,000 pesos, the proceeds of which would pay off the oil companies for their confiscated lands. The peso was quoted yesterday at 4.15 to 4.20 to the dollar.

Finance Minister Eduardo Suarez, who recently returned from Washington, where he had made arrangements for continued United States buying of Mexican silver, did not know of the Washington change of policy until last night, it was learned. After a midnight conference with President Cardenas early today, a statement calling on the nation to maintain confidence in its administration.

“We desire that, once the nation learns of this matter, that it should be judged with the necessary severity and justice,” Cardenas said.

“We are making an effort to devise such plans as may be necessary to avoid a harmful repercussion to this voluntary determination taken by the United States government.”

The President did not explain what plans he had in mind to overcome the admitted financial difficulties due to result from a diminishing oil and mining revenue. Mexico is the world’s largest silver producer, and mining is the country’s chief industry.

“It is indispensable,” he said, “and so I call on the nation to keep alive its attitude and confidence in the national and state governments, so that an absolute state of tranquility will be maintained in labor centers and that the maximum incentive toward unified and fruitful production may be maintained.”

Cardenas concluded his statement with an appeal on patriotic grounds to all institutions, organizations, officials and private citizens for support of his government, continuing the “wave of enthusiasm” shown in the large demonstrations last Wednesday indorsing his oil expropriation policy. The President has called on the individual state governments to support his new bond issue for the oil properties and his administration’s policies in general.

He has just concluded a week’s conference with executives of twenty-four states.

Cardenas’s appeal for calm and cooperation from labor was interpreted as an indorsement of the Federal Labor Board’s announcement last week that all strikes must be suspended during the present crisis.

The first industry to be affected by this new policy will be the American Smelting and Refining Company, which has had strikes in several plants and has been under constant threat of a general strike during the last three months. Another United States firm which apparently will benefit from the plan is the Mexican subsidiary of the American and Foreign Power Company, which had received notice of suspended strikes to be called in six of its plants on April 11.

Major Shift in Policy

MEXICO CITY, March 27 (AP).—Diplomatic sources said today that the effect of the reported cancelation of United States purchases of Mexican silver on Mexico’s economic situation might be negligible for the present, but was significant as indicative of a major shift in policy of the kindly tolerated extension to Cardenas’s three-year liberal regime by the United States.

The fate of the Cardenas government was said to rest on working out the difficult situation precipitated by the oil expropriation—a task made immeasurably harder, it was agreed, if United States support were withdrawn.

A close observer of the financial and economic situation, according to the Tribune, the Treasury would be able to absorb for some time surplus production in the coinage of silver pesos. There has been a great demand for “hard money” as a result of nation-wide loss of confidence in bills since the expropriation order and the subsequent suspension of foreign exchange. Bank of Mexico reserves of silver pesos have been reduced from 68,000,000 to approximately 60,000,000 pesos in the last week.

Financial observers said the Treasury would benefit from seignorage—the difference between circulation value of the peso and the cost of bullion and minting—amounting to about 60 per cent at the old rate of 3.60 pesos to the dollar before expropriation of the oil industry. However, it was said, the advantage would be lost if oil production should take another tumble tomorrow.

Cardenas announced the government might attempt to meet the present crisis by an extension of public works such as railroads, highways and irrigation, and by importing goods from the middle east at a cost of about $40,000,000.

A 100,000,000-peso “economic redemption” loan will provide for immediate issue of 50,000,000 pesos worth of bonds in denominations ranging from five pesos to 100,000, to pay for the oil properties. The remaining bonds for 50,000,000 pesos would be issued in 1939 and 1940.

The oil bonds carry no interest the first ten years and would be amortized in the second decade, when 4 per cent interest would be paid.

Former President Emilio Portes Gil, who broke with Cardenas a few years ago, headed a parade of political leaders subscribing to the bonds in advance of their issuance. He put his name down for a 100,000-peso bond, and his law partner, former Acting Secretary of Foreign Affairs Jose Angel Canclerio, subscribed for 5,000 pesos.

The President announced plans to have 50,000,000 pesos in silver pesos, and the remaining 50,000,000 in paper pesos, to be distributed among the various states. The new national silver currency would be in denominations of one, five, ten and twenty pesos.
U.S. STOPS BUYING MEXICAN SILVER; SEEN AS REPRISAL

POLICY TO CHANGE

Morgenthau Reveals a Move to Re-examine Mexican Relations

WILL BE BLOW TO REGIME

Manifesto of Cardenas Makes a Patriotic Issue of Oil and Silver Connection

Retaliation for Mexico’s recent actions against American interests was seen in a decision by the Treasury at Washington yesterday ending monthly purchases of silver from that country. Secretary Morgenthau announced the move was made “in view of the decision of the Government of the United States to re-examine certain of its financial and commercial relationships with Mexico,” the Secretary said, “the Treasury will defer continuation of the monthly silver purchase arrangements with Mexico until further notice.”

The announcement means that the dealings under which the Treasury buys about 5,000,000 ounces of Mexican silver monthly will not be renewed for April, but will expire at the end of the current month until further notice.

In addition to the monthly purchases, the United States had agreed in a special arrangement to take about 35,000,000 ounces of accumulated silver resources of the Mexican Government. How much of this silver had been taken up to the time of the decision to stop purchases was not disclosed tonight.

Ends Efforts for Harmony

The end of silver buying from Mexico terminates prolonged efforts by the present Administration to arrange its monetary relations satisfactorily with the southerly neighbor. It comes in sharp contrast to the statement issued jointly by Secretary Morgenthau and Eduardo Saurez, Mexican Secretary of Finance, on Dec. 31, to the effect that they had reached “a mutually satisfactory understanding on common problems before the two treasuries.”

That statement was interpreted here as an indication that the Treasury would lend its support to the stability of Mexican currency by assuring Mexico a market for its silver. On the other hand, Secretary Morgenthau pointed out that the silver purchases tended to stabilize the Mexican currency only to the extent that Mexico used the dollars it received for purposes consistent with a stable monetary system.

The head of the Treasury has insisted that arrangements with foreign countries for purchases or sale

Silver Buying to Cease

Special to THE NEW YORK TIMES.
WASHINGTON, March 27.—Secretary of the Treasury Henry Mor-genthau announced tonight that the Treasury will buy no more silver from Mexico after April 1 until further notice, thus withdrawing the support of the United States from Mexico’s currency.
of metal are negotiated from aury for domestic silver and of the monetary standpoint alone and her.
without consideration for other matters. On Jan. 24, when he was he could to maintain the silver pured if the Treasury might retail-chasing arrangements and emphasize on Mexico's sharp increases of its belief that the Mexican Government's nationalization of foreign duties on imports from the United States by stopping the silver buying from interested Americans, would ing, he replied, "We don't mix our interfering with the monetary af-
silver and other matters."

In view of these statements of policy by the Secretary, it is be-
He professed a desire for ex-
cluded that some of the uses: to exchange stability and said that a which the Mexican Government harsable price and a market for sil-
been putting the dollar credits re-er was all that Mexico wanted. He 
ceived for silver from the Uniteddenied that the Mexican Government States might have, been deemed profit to any great extent 
reason for getting the silver buying from the silver sales, declaring that agreements on purely monetarythe silver mined in Mexico was 
"British and American silver" be-

Any national policy or monetary cause it was largely mined by im-
measure which would be inconsistent from those nations. tent with sound and stable exchange The Treasury buys Mexican sil-
relations would strike a sour note ever at what is known as the "New 
with the Treasury since the goal of York price," which has hovered 
the Administration in monetary between 44 and 45 cents an ounce 
matters has been to maintain afor almost a year. This compares 
stable exchange situation which with 64.64 cents an ounce now paid 
would meet the requirements of the Treasury for newly mined American interests abroad and pro-domestic silver.

Since the silver held by the Treas-
In the same way that it can ex-ary has a monetary value of $1.39 
tend aid to nations willing to coop-er ounce, there is a considerable 
operate in the promotion of trade,ignorage or book profit to the 
through monetary stability and freeTreasuryn on these operations. In 
exchange, the United States can view of the relatively small amount 
withdraw its cooperation from of silver purchased from Mexi 
those which do not cooperate, or this amounts to no great item to 
which pursue policies detrimental to the Treasury.
table relationships, it was However, foreign silver purchases 
argued by those who sought to ex-have formed a large part of the 
plain the Treasury's course. silver-buying operations of the 

Señor Saurez made a special mis-Treasury since Dec. 21, 1933, in 
sion to Washington in December (which period 1.399,412,500 ounces of 
ensure a continuance of the silver-the 1,399,412,500 ounces purchased 
purchase arrangements which ex-was represented by silver bought 
ised last year, choosing that time from foreign countries under the 
for his visit because of the expire-Silver Purchase Act.

of the price paid by the Treas-
U.S.Suspends Mexico Silver Buying After Seizure of Oil

Step Announced on Eve of Hull Parley With Losing Firms.

Decision to Take Effect on April 1.

Cardenas Urges Nation to Be Calm as Peso Faces Crisis.

The agreement with Mexico was regarded chiefly as a "good-neighbor" act, although the fact that this Government was committed to the purchase of silver by the Mexican Government entered into its understanding with Mexico in 1933.

Observers in Washington, however, regarded it as highly significant that the Treasury's action came as a prelude to a conference today with Secretary of State Cordell Hull, of representatives of four American oil firms whose properties in Mexico were seized. The companies are the Huasteca Petroleum Co., the Standard Oil Co. of California, the Mexican Sinclair Petroleum Corporation and the Penn Mex Fuel Co.

Morgenthau Brief.

As a basis for diplomatic action the oil companies had already complained to the State Department against a "manifest denial of justice." President Roosevelt who, from his house at Warm Springs, Ga., had kept in close touch by telephone throughout yesterday with the Mexican and general foreign situations, would not comment on Morgenthau's announcement.

The latter's statement as issued from Sea Island, Ga., where he is vacationing, follows:

"In view of the decision of the Government of the United States to re-examine certain of its financial and commercial relationships with Mexico, the Treasury will defer continuance of the monthly silver purchase arrangements with Mexico until further notice."

Earlier in the day the Treasury had merely refused to deny President Cardenas' statement that the agreement had been abrogated. A department spokesman had admitted, however, that the Treasury had made no commitments for purchase of silver after April 1, when the agreement, in effect since January 1, expired January 31.

Policy Set in 1933.

The American policy under which Mexican silver has been purchased, had its origin in the early days of the New Deal. The original agricultural adjustment act, passed in 1933, authorized the Treasury to buy silver at higher than the market price. Advocates of this policy contended it would help raise farm prices and stimulate employment in the silver mining industry.

Then Congress passed the silver purchase act of 1934. It authorized the Treasury to buy enough silver to have $3 worth of the metal for each $1 worth of gold. It also authorized the Treasury to issue currency backed by silver at the rate of $1.29 an ounce.

The Treasury never reached the $3 silver purchase goal because of constant gold receipts.

The agreement with Mexico was regarded chiefly as a "good-neighbor" act, although the fact that this Government was committed to the purchase of silver by the Mexican Government entered into its understanding with Mexico in 1933.

An agreement that purchases would be continued was reached about last Christmas when the Mexican finance minister conferred here with Secretary of State Hull and Secretary of the Treasury Morgenthau. The arrangement became effective January 1.

Under the agreement, the Treasury made monthly purchases at the New York price of approximately 44% cents an ounce. The Treasury has always contended that the understanding merely was that this Government would buy some Mexican silver this year. Commitments were usually announced in the last week of the month preceding the one in which they were to be filled.

President Cardenas in his manifesto to the nation was reported by the Associated Press as urging miners and laborers to remain tranquil. He stated immediate steps would be taken to prevent the effects of this decision from reacting injuriously upon our economy.

Calls for "Serenity."

"We desire that, once the Nation learns of this fact, (the agreement's abrogation) that it be judged with the necessary serenity and justice, since it is an act executed by the United States Government."

"We have taken the necessary steps so that the funds derived from the exploitation of petroleum be used preferentially for the development and utilization of the industry, and for the amortization of the debt contracted with the nationalization of petroleum."

It is necessary to take into account also that the government of the United States has announced that the purchase of part of the New Deal silver, the original agricultural adjustment act, passed in 1933, authorized the Treasury to buy silver at higher than the market price. Advocates of this policy contended that it would help raise farm prices and stimulate employment in the silver mining industry.

Just what new market Mexico expects to find for her silver remained undetermined last night. The United States Treasury has been buying 5,000,000 ounces of newly mined Mexican silver each month, paying around $2,500,000 for it at the artificially maintained New York price. These transactions gave Mexico sizeable profits.

Meanwhile Vicente Cortes Herrera, Administrator of the expropriated oil industry, said he had inquiries from sources in the United States and Germany regarding purchases of oil. He did not specify the interested parties.
Wayne C. Taylor:
-- we told the Mexican Government that we were going to do it so they made you swing it. I agree with you that it was a little on the stupid side but...

HMJr: I think that they could have - well, I think they could have let us know they were going to do it.

T: I think it's probably on our Ambassador down there.

HMJr: Oh, you don't know?

T: Well, that's the way I'm guessing it. I talked to Herbert last night... Feis...

HMJr: You didn't talk to Summer?

T: Ah - no, because he had asked Herbert to ask us to release, you see.

HMJr: Oh, he had?

T: Yes. Which was the only thing to do under the circumstances.

HMJr: Oh, under the circumstances...

T: Yes.

HMJr: Yes. Yes.

T: But, from what I gather, why that's what happened.

HMJr: Uh huh. Uh huh.

T: And I also gathered that they're not too happy about our representation down there.

HMJr: No. No, but I thought the State Department was going to get out a simultaneous statement when we got out ours.

T: That was the idea, but the other fellow sprung it.

HMJr: Oh, I see. I see. Well, here we are, anyway.

T: Yes.
Now, can Archie give me the market?

He can.

Ah - the market on sterling is holding fairly quiet at 495 and three quarters.

Yes.

Francs are inclined to be a little bit easier and just holding over the 3 cent mark.

Yes.

They're ranging between three cents and 302.

Yes.

Not an awful lot - the market is inclined to be small.

Yes.

And no particular activity there. Now in the silver market in London - of course they're naturally looking around and wondering what's going to happen.

Yes.

The bond trade today perhaps is off about a cent and a quarter. And from my guess we would say that the market in London will probably be somewhere in the neighborhood of forty-three and a half cents possibly.

How much?

About forty-three and a half cents.

Now, am I talking for the record?

You're talking for the record at the moment.

I mean is the little red light on?

The red light is on.

Well now, before we make a price in New York I want the three of you - is White there?
L: White is here, yes.

HMJr: I want the three of you to think it over.

L: Right. Well, I thought that what we'd do here is to find out how London opened and what kind of offers we're having and then secondly, of course in New York there will be no Mexican silver available but as for — or tendered to us this morning.

HMJr: No, but these fellows may dump all their stuff on us today.

L: Well, you mean the other fellows? You mean....

HMJr: They don't have any silver.

L: Well, - oh yes, I think that anybody that has any spot silver will dump it on us today, there's no doubt about that. Of course, the question is I don't think there's an awful lot of spot silver left.

HMJr: What I'm thinking about is this: in view of what's happened I don't see why we don't drop both the New York price and the London price.

L: Well, of course I agree with you there that if — that in view of the way it's happened - the way the Mexicans say they are going to dispose of their silver — it does look rather hard if we just maintain a forty-five cent price. But that was the same question we've had before there, whether or not it isn't a good time to maybe reconsider the whole question of price.

HMJr: Well, we can't do anything....

L: But that is just the angle on it; it's pretty hard. But what we can do, we can be pretty careful in scrutinizing any silver that's offered to us, that it isn't Mexican. But of course there's no doubt that the people here can sell their spot silver and then buy Mexican silver for just a fraction thereof.

HMJr: Well, I — is Wayne there?

L: Wayne is right here, yes; we're in your office, Wayne, Harry White and myself.

HMJr: Well, I wish you fellows - now, what time would you make a price for London or New York?
L: Well, the' - the price for New - we will get the London price - it will be announced if they opened somewhere in around about half-past nine or a quarter of ten.

HMJr: Yes.

L: They may be delayed this morning. Our price here we don't announce until twelve o'clock.

HMJr: When would we have to make a London price?

L: Well we don't have to make any London Price.

HMJr: Well I mean, supposing they make us offers, when do we have to decide whether we accept them?

L: Oh well, we can just say - if we don't want to touch them we just simply let them make the offers and let let them lie on the table and don't reply one way or the other.

HMJr: Well, when would you do that normally, - about ten o'clock?

L: Well, I doubt whether - somewhere in around ten or eleven they'll be starting in making if this market is fixed - they will probably be starting in to make us offers, but of course we have not been in the habit of buying very much in London lately.

HMJr: Now look, the three of you talk this thing for a couple of minutes and let me talk to Magill in the meantime and I'll call you back again.

L: All right. You'll call us back then?

HMJr: You stay there.

L: Right. We'll stay here.

HMJr: Right.
Hello.

Archie Lochhead: Yes, Mr. Secretary. The general idea of White, Taylor and myself is that we should not let this market itself force us to let silver go out altogether, in other words that when London - we should be prepared to take a little silver in London if necessary, to steady the market if it got rather panicky.

HMJr: Oh I - well, I agree with you on that, but I don't think we can stay there and take forty-five cents until - an - ...

L: No, no, they agree on that, that the thing would not be indefinite, but that we should watch this market and not just simply pull out of sight and - they were interested in doing that but ....

HMJr: On the other hand if London was, say, forty-three...

L: Well, we don't know what it will be. The guess - I've - we've just estimated it, it may be somewhere around forty-three to forty-three and a half.

HMJr: Well, now what I suggest is this. When you people have got the London price...

L: Yes.

HMJr: ...before you do anything and after you've had a chance to talk it over, call me up.

L: All right. And when we have the London price, or in fact, when we have an offer from London.

HMJr: That's the point.

L: Because the price won't mean so much unless they really have stuff to sell.

HMJr: And, but - in any event, before you quote the New York price I want to talk to you.

L: All right. We'll do that, certainly. And if there's any - if London - when London fixes the price I'll wait a little while to find out whether or not they make any real offers.
Yes.

And then after that we'll get in touch with you.

Yes.

But the general feeling seemed to be that we just need to stand by to keep this market from getting panicky at all.

No, it wouldn't.

But, on the other hand, they don't feel that we should have to force - that the general appearance is that there could be some selling if they could make us change our price until we have a better time to consider it - calmly.

Senator King said, "My dear friend..." - I mean, not King, Wayne Taylor's Senator.

Wayne Taylor's Senator?

From Illinois.

Oh, from Illinois.

-I mean, Ham - Ham Lewis.

Oh, Ham Lewis, yes.

"My dear boy, I haven't kept the price at forty-five cents for two years just to let the whole thing go out the window."

(Laughs) Wayne is getting quite a kick out of that one.

Well, I mean, after all, my dear boy.

Yes. Well, that is a point. And we don't really think that in this day or two - the next day or two that there will be an awful lot of silver being offered. They'll talk a lot but they haven't got the silver to offer.

Yes.

So we'll probably have a chance to dicker very carefully.
HmJr: my back is turned, my God, isn't it terrible!

L: I know, they just simply let you go down there and as soon as you get down they pull the plug.

HmJr: And did the phone ring, the Associated Press, the United Press, the New York Times, all yesterday.

L: Well, they certainly sprung that one all right.

HmJr: Yes.

L: Mr. Taylor says don't think the phones weren't ringing up here too.

HmJr: Is Wayne -- are you all in agreement? --- Before you do anything in London you'll call me - before you do anything in New York you'll call me.

L: That's right. And they're all in agreement on that. The general feeling seems to be that if it doesn't cost us too much we ought to keep the thing a little steady there.

HmJr: I - I wonder if I should change doctors, seeing that my doctor's the son of Josephus Daniels.

L: (Laughs) Well, I'll tell you, I have an idea he'd operate for your appendix before he had the consultation.

HmJr: (Laughs) That's a good one. (Laughs) All right.

L: O.K., then. Well, then we'll let you hear from us.

HmJr: All right.

L: Goodbye.
Monday  
March 28, 1938  
11:54 a.m.  

HMJr: Hello  
Wayne: Yes.  
Taylor: Are you in my room?  
HMJr: Yes.  
T: Good. Well, I talked to the President — am I on the record?  
HMJr: Yes.  
T: I mean, I'm making a record?  
HMJr: You are.  
T: What?  
HMJr: Yes, you are.  

I talked to the President about a quarter past ten and told him what had happened and asked him whether he was willing to leave it to me to do the best we could under the circumstances and he said yes. So I told him I doubted whether we could continue to hold the world price up and he made no comment and he's left — he's left it entirely to me; he made no suggestions either. What's happened?  

T: Well, Archie will give you the dope on that.  
HMJr: Who?  
T: Archie, he's right here.  
HMJr: All right. Tell him to talk up a little bit.  
Archie Lochhead: Hello.  
HMJr: Yes, Archie.  
L: Ah — the silver in London after the fix for the first hour there were no offers.  
HMJr: Yes.  
L: In fact they were bidding at that price. Then just a few moments ago we've had a couple of small offers...
L: I've just got the final figures here now; they amount to a hundred and seventy-five thousand ounces...

HMJr: Yes.

L: At the fix.

HMJr: Yes.

L: Which would be forty-three eighty. Now those have just come in; up until now there have been no offers.

HMJr: Yes. Archie, what is the approximate difference between the price in London and New York?

L: One half a cent.

HMJr: A half a cent?

L: Yes. So at the fixing price of forty-three eighty it would be about forty-four thirty over here.

HMJr: Well, this is what I've got in my mind. I thought that we'd make the New York price forty-four cents.

L: Forty-four cents in New York.

HMJr: And say - ah - forty-three and a half in London.

L: Yes, approximately the New York price in London, that is, after making allowances.

HMJr: But not take more than a half a million ounces in any one day.

L: Not more than a half a million from London in any one day.

HMJr: Yes.

L: Well now, just in - before we're talking - I mean, before we make any further decision Mr. Taylor has an interesting call he just finished with the Spanish Ambassador.

HMJr: Yesterday?

L: No, right - just right now; he just left.
HMJr: Yes.
L: So I'll let him speak to you on that. Now, in the meantime, first of all, I'll give you the rest of the market. The stock market is up a fraction.
HMJr: Yes.
L: And the Government bonds are holding steady to a point or so better.
HMJr: And the commodities?
L: The Commodities are off slightly - off point one seven.
HMJr: Ah - The Times on Monday always carries what the forecast for the steel production is.
L: The steel production forecast, yes.
HMJr: Have you got it?
L: I haven't got it right here; we'll get it for you though before you finish.
HMJr: It's always in the New York Times, I mean...
L: Yes, but I mean I'm in your office and I haven't got the thing right here. I'll get hold of it while Mr. Taylor is talking.
HMJr: What?
L: I say I'll get hold of it while Mr. Taylor's talking to you.
HMJr: Thank you.
Wayne
Taylor: Hello.
HMJr: Yes.
T: The Spanish Ambassador came in.
HMJr: Can you talk a little louder, Wayne?
T: The Spanish Ambassador came in.
HMJr: Yes.
T: And said that as a follow up on his conversation with you he now was in a position to offer seventeen hundred and fifty tons...
HMJr: What I?
T: In coins — silver coins.
HMJr: Well, what does that mean in ounces?
T: Well, it's about fifty-six million ounces. Ah — he cannot make delivery until either thirty or ninety days.
HMJr: Yes.
T: In New York.
HMJr: Yes.
T: Also, you can't get it refined after he has made delivery for possibly another year after that.
HMJr: Why?
T: Well, the refineries are all jammed up with coins they're already working on.
HMJr: Yes.
T: So, we said that we would take it under advisement.
HMJr: Fifty-six million ounces?
T: Yes. And that — from any standpoint that we've been able to figure it they have at least that amount and probably more.
HMJr: Well, you'd better talk it over and think it through and then we can clear it — talk to me about it in the morning.
T: Ah — yes, it just appears — what we told him was that some of the difficulties involved about when would we get delivery and so on; we didn't tell him no on it but there is this amount that will appear somewhere unless they in the meantime.
HMJr: Well, how in the hell are we going to give them a commitment on that?
T: I don't see how we can.
HMJr: I mean, in the first place, I'm not going to give them a price today.

T: No.

HMJr: I've got to think that one over.

T: Yes.

HMJr: I've just got to think that over. - I suppose the fact that this Mexican thing - they want to hurry up now and sell it.

T: Now, of course, in addition to that why we have the Chinese thing, but of course you're familiar with that.

HMJr: Well, that runs how much longer?

T: We've got to make two more bids on China.

HMJr: Yes. Incidentally, I told Sumner Welles to send for the Chinese Ambassador and give him a little soothing syrup.

T: Yes.

HMJr: He thought that was a good idea. He said that he, most likely, was having kittens. Ah - what do you fellows think about my formula, for today?

T: Ah - we're doing a little figuring here.

(Short pause)

HMJr: Hello.

T: Ah - if we do reduce to forty-four....

HMJr: I can't hear you.

T: If we reduce to forty-four today...

HMJr: Yes.

T: Ah - with the Chinese thing unanswered...

HMJr: Chinese?

T: Chinese.
HMJr: Why Chinese?

T: Well, because we can't bid more - we can't bid more than that for them because we've always done it at the New York price.

HMJr: Well, are we bidding on them today?

T: No, not until the first.

HMJr: Well then, why worry about that?

T: Well, we had the feeling that you wanted to give advanced notice and take care of those boys before you did it.

HMJr: Well, I meant only as to quantity, but I...

T: Yes.

HMJr: I'd skip that now.

T: O.K.

HMJr: I'd just skip that.

T: Yes. Well, that was the only other thought that we had on it.

HMJr: Suppose - you might say, well, make it forty-four and a quarter on account of the London Market, but I just ...

T: No, no. Ah - we don't want to make it exact on the London Market.

HMJr: No, that's what I don't. And I...

T: Yes.

HMJr: I think that the whole picture has changed now; I've done nothing but think about this for a couple of hours...

T: Uh huh.

HMJr: And - ah - I mean, the State Department made me do something I didn't want to do and thought was unwise.

T: Yes.
Now we might, - there's no use kidding ourselves, this silver market is going to drop, that is, that due to an arrangement that we had like with Mexico and with China for a couple of years we've kept the price stable. Now, we can't keep it. And I'm not going to go through this thing and do the impossible, so I'm just going to change the thing and I'm going to drop it until we find where there is a bottom.

T: Ah - Harry is making faces; do you want to talk to him?

HMJr: I'd just as leave. I mean, I...

T: Yes.

HMJr: I know what Harry wants, he wants me to keep the thing - I can't hold this whole world market. I'd just as leave talk to him.

T: Yes. Well.

HMJr: I mean, I've done it now for two years...

T: Yes.

HMJr: But the State Department doesn't want me to do it any longer. They're willing to - on account of Mexico - to say, "To hell with our purchasing power in India for our cotton and to hell with China and all the rest of the thing and our own commodity price..." in order to help them do something that they should have done months ago. And then they're going to slap Mexico down and then they call up and say Friday night:"This is what we're going to do to you, now take it and like it," and then they let the Mexicans get the jump on us and announce it first. I mean, of all the cockeyed business I ever heard - if you want to do something to punish the Mexicans why do you call them up and give them soothing syrup and say, "Now, this is what we're going to do to you and we hope you like it." And then let them announce it first. - Instead of a joint statement of the State Department and ourselves. It's put me right out as though I were doing this thing.

T: Well, I don't think we get that impression here.

HMJr: What?
T: I don't think we have that impression here. Ah - the whole question now is the world price of silver. The Mexican thing, why, in our opinion hasn't got any bearing on it.

HMJr: What?

T: In our opinion the Mexican thing hasn't got any bearing on it.

HMJr: Well, how could it help, Wayne, they're going to force their silver on the market.

T: Ah - that's right. But it isn't going to be in any greater amount than it was before.

HMJr: Well, maybe yes and maybe no; we'll see. I mean, no one was worried about the price of silver and now from now on they're going to be and they've got reason to be and I'm not going to attempt to maintain it. To hell with it, that's the way I feel now.

T: I - we don't think you ought to feel that way about it.

HMJr: It's the way I feel anyway.

T: Yes.

HMJr: I'm not going to stand there and take this thing. The State Department were warned, they saw what's going to happen and I'm not going to have everybody - and for four years now I've taken the criticism for the whole administration and so - well, I'm not going to take it any longer. If Key Pittman isn't interested why should I be interested. Key Pittman says he's got no interest in the world market, it doesn't interest him at all.

T: Ah - we assume that he never did have much interest in it except...

HMJr: Oh yes, -God, read the speeches, what silver was going to do for the purchase....

T: Oh yes, we've - we're familiar with that, but what he really wanted was domestic stuff.

HMJr: Well, from now on, silver as far as I'm concerned is just like so much spinach.
T: Well, let's - there's a lot of head shaking going on.

HMJr: Well, all right. But Henry Morgenthau, Jr. has got to take it, and I'm not going to take it any longer.

T: Ah - your instructions are to say - bid forty-four today...

HMJr: And not more than a half a million ounces.

T: Well, not more than a half a million ounces in London or a half a million here? We've got to....

HMJr: I'd take a half a million in New York and I'd take a half a million in London.

T: Wait a minute. - Wait a minute.

(Short pause)

HMJr: Hello.

T: Yes.

HMJr: I'll take all they offer in New York.

T: Yes, well, that's the point there.

HMJr: I'll take all they offer in New York at forty-four, but in London I'll - forty-three and a half...

T: For a half a million ounces. Yes. Well, that checks.

HMJr: I mean, let me talk to Harry a minute.

T: Right.

Harry D. White: Good morning.

HMJr: Hello, Harry.

W: Hello. I'm sorry to trouble you with this matter.

HMJr: What?

W: I'm sorry that you had to start your vacation with this matter, it's most unfortunate.
I am too, but the State Department have always got to tell somebody in advance what they're going to do, they can never keep anything to themselves.

That's right.

And I'm surprised they didn't call up the English and ask their permission; then they'd have been running true to form.

Yes.

And - as I told them, that we weren't ready. Well, what did they expect them to do when they call up the Mexican Ambassador in Washington Friday night and tell him just exactly what they're going to do.

Well, I think you're a hundred per cent correct, but I don't think, and I'm sure you don't feel that way too, that you ought to let that influence your general consideration, the larger policy of what is an appropriate price for silver under the circumstances...

What is - what is an appropriate price, Harry?

Well, I should - I agree with your specific instructions; I think that's the way to proceed, but I rather object and I don't feel that you probably mean it when you say that so far as you're concerned silver can go to hell, because though you may be justified in being peeved at the State Department and the way they've handled this situation...

Well, who cares about - I mean, who is there that cares about the price of silver?

Well, all the more reason why it's up to you now. They've dumped it in your lap and...

If Senator Pittman doesn't care why should I care?

Well, except that Senator Pittman's interest never was the welfare of the country and that's the point of view with which you will agree you're considering the matter and Senator Pittman, sure, he doesn't - he never did care. All he cares about is the domestic price of silver and he sees a good opportunity now to wave the flag and whatnot and be on the band wagon so he says to hell with the world price of silver. But
the other repercussions are the ones that you will want to consider and it seems to me that that point should be evaluated in the light of the larger problem.

HMJr: Well...

W: And, though I can fully sympathize with the way you feel about the way the whole thing has been badly bungled up through no fault of yours, nevertheless I don't think that that should be too great an influence on your decision. If you still feel that way about silver a few days from now, after thinking it over, why all right, that's one thing.

HMJr: Let me ask you this.

W: Yes.

HMJr: As for today's orders, have you got any criticism?

W: No, I say that I'm in perfect agreement with that, perfect agreement.

HMJr: That's today's orders.

W: That's today's orders; I think that's the way to handle it.

HMJr: All right. Well then, as to my feelings, I'm entitled to my feelings.

W: Right, so long as ...

HMJr: I'm entitled to my feelings.

W: So long as the orders are today.

HMJr: (Laughs) So I can have my feelings as long as the orders are - are intelligent?

W: That's right. Mr. Taylor wants to speak with you.

Wayne Taylor: Hello.

HMJr: Yes.

T: On the steel a two point rise.

HMJr: How much?
T: Two points. Indicated rate thirty-four...

HMJr: What does that make it, thirty-four?

T: Thirty-four – ah – based on agricultural orders.

HMJr: Swell.

T: Meaning agricultural machinery, I take it.

HMJr: Ah – tell George – has the new business report come in yet, what I call my Black Book?

T: Yes.

HMJr: As they’re made out – send me down a – each one of those sheets as they come down; keep feeding me as the new orders come in.

T: I will.

HMJr: Do you know what I mean?

T: Yes.

HMJr: Now I tell you, Wayne, I just think it’s a God-damned outrage the way the State Department handled this thing and I don’t care who knows it.

T: Well, I’m not even commenting on that.

HMJr: What?

T: I’m not even commenting on that.

HMJr: The whole purpose...

T: Yes.

HMJr: ...of this thing was to – they said the only thing they had to stand on was that they – this was the only thing left that they had – to slap down Mexico, is that right?

T: Ah – I didn’t know it was as ...

HMJr: That’s what they told me anyway.

T: ... complete as that. Yes.
HMLJr: the only weapon they had. So they give
them a little laughing gas, get a nice feather bed and
try to put the fellows gently to sleep; and say,
"Now, you are going to take this thing and you can
like it." Well, they're smart, they're nobody

T: No, no.

HMLJr: any single time and they've
just got the jump on us.

T: No, we're in a nice position with our Latin American
policy until this is cleaned up, too.

HMLJr: This fellow, he was just amazing. He
was just amazing.

T: Yes.

HMLJr: As a matter of fact the telegram goes out to the
President Friday - and suppose - we didn't even
give him a chance to come back and say, "I don't
like this."

T: Uh huh.

HMLJr: Supposing Saturday morning I'd have gotten the tele-
gram, "No, I don't want this," then where would
those smart boys be over there? That just occurred
to me. That's why, I guess, he cross examined me
so. After all, the President's got to have twenty-
four hours to think it over. Supposing he'd had
come back and he said, "No, Morgenthau, you continue
buying in April," it would serve those fellows
jolly well right.

T: Well, it certainly hasn't been a brilliant performance.

HMLJr: Well, I

T: What?

HMLJr: Hello.

T: Yes.

HMLJr: Hello.

T: Yes.

HMLJr: Hello.
T: Hello.
HMJr: Are you satisfied as far as today's orders are concerned?
T: Yes.
HMJr: What?
T: Yes.
HMJr: All right. Ah - forty-four cents in New York and we'll take whatever they offer.
T: That's right.
HMJr: London, forty-three and a half limited to a half a million ounces.
T: Right.
HMJr: If you fellows - I won't call up again.
T: Right.
HMJr: Unless you want me to.
T: Right.
HMJr: Because frankly this doesn't help me any.
T: No, not a damn bit.
HMJr: But if you fellows - I'll leave it this way, if they put more than a half a million ounces to you and you think you should take it why you've got a right to call me back.
T: All right.
HMJr: How's that?
T: Perfectly satisfactory.
HMJr: How does Archie feel on the orders for silver?
T: He's all right on them.
HMJr: What?
T: He's all right on them.

HMJr: All right.

T: And I think we all must realize that they're starting the slide here.

HMJr: What?

T: I think we all must realize that they're starting the slide when we do this.

HMJr: No, we didn't start the ...

T: No, I said that the slide is starting.

HMJr: Pardon me?

T: That the slide is starting.

HMJr: You mean by putting this price down?

T: Yes.

HMJr: Well, I've had a couple of hours to think about it ...

T: Uh huh. And that - that doesn't bother you any why o. k.

HMJr: Well, the London price is forty-three eighty.

T: Yes.

HMJr: So they started it.

T: Oh no.

HMJr: Why not? - Well, they put a price on at forty-three eighty.

T: That's right.

HMJr: What?

T: That's right.

HMJr: They put the price down.

T: Yes. No, the point I was making is that it may not steady itself quite as easily as it has in the past.
HMJr: Well I don't expect it will.
T: Well, that's...
HMJr: And instead of my taking unlimited amount of silver and getting the criticism from all over and the only answer I had was when I felt in my heart - my intelligence that I could hold it at forty-five cents.
T: Uh huh.
HMJr: Well now I don't think I can.
T: Right.
HMJr: In fact I know - everything tells me that I can't hold it at forty-five cents. Now why have it the way we've had before there, I mean once before we had a spread between the Handy and Harman price and ours but I stuck knowing that I could pull it back to forty-five cents and I did.
T: Uh huh.
HMJr: Now I feel I can't.
T: O. K.
HMJr: I mean, after all - our agreement with Mexico - we - they kept the silver off the market and now what you tell me - with Spain coming along with fifty-six million ounces I think there's a time to stop on this thing.
T: Well, I think the Spanish thing is really more important in terms of immediate problem than the other one is, because...
HMJr: Well, the Spanish thing is just the last straw.
T: Yes.
HMJr: I - ah - Wayne, while I'm annoyed it has nothing to do with my judgement.
T: That's all right.
HMJr: My judgment tells me now is the time to drop it.
T: Oke ...
HMJr: And what I'm looking for is - I - so that you fellows can say I'd fight to hold it at forty cents.

T: Uh huh.

HMJr: See?

T: Yes.

HMJr: Wayne?

T: Check.

HMJr: Now, I'd fight hard to hold it at forty.

T: O. K.

HMJr: What do these other boys think?

T: Well, they're nodding with pleasure.

HMJr: Yes, I'd fight hard to hold it at forty.

T: Yes.

HMJr: But I think we ought to let it drop, if it will, to forty and then fight there.

T: Yes.

HMJr: What do you think?

T: Ah - it seems to be very agreeable.

HMJr: All right.

T: I've got one other thing to bother-you about. (Laughs) Ah - Secretary Ickes has notified the Banking and Currency Committee that he wishes to appear against the RFC bill.

HMJr: (Laughs) Oh, Wayne, that's awfully good. That strikes me as funny.

T: Well, it - that ought - may be so (laughing) but...

HMJr: (Laughing) Well, I'm so glad somebody else is getting it.

T: Yes.
HMJr: That's the first laugh I've had today.
T: Well, it - it's nice for you to have it.
HMJr: (Laughs) Well, that's so true to form.
T: Yes. And, so far as we've been able to guess - we haven't been able to check with Tracy, why he didn't check with anybody. Ah - in other words, he's doing it on his own time.
HMJr: Well, I - well, that's perfect.
T: Yes.
HMJr: I really - that's the first good laugh I've had.
T: Well, it - I'm glad you're pleased.
HMJr: (Laughs) Well, I really - the whole thing is so cockeyed...
T: Yes.
HMJr: That I'd either laugh or cry and I'd rather laugh.
T: Yes. Ah - you haven't any suggestions as to how to call him off, have you?
HMJr: Yes. I'd call up Jimmy and tell him that this is something his father wants and he should get busy.
T: Yes. - O. K.
HMJr: See?
T: Yes.
HMJr: And I think he ought to be slapped down and slapped down hard.
T: And slapped down with - ah - quite hard, I think.
HMJr: Very hard.
T: Yes.
HMJr: I mean I think it's up to Jimmy to call up his father and tell him so.
T: Yes. O.K.
HMJr: What?
T: Just a minute.
(Short pause)
T: Here's another laugh for you. Archie has made the happy suggestion that we might check with the State Department as to what their idea would be on the Spanish one.
HMJr: What's that?
T: As to what their idea was on the Spanish one.
HMJr: Archie says so?
T: What?
HMJr: Archie says so?
T: Yes.
HMJr: Yes, that's all right.
T: Right. Ah...
HMJr: If you wait a week there won't be any Government to check with over there; that's all right.
T: Yes. Ah - stocks up - big volume industrials here at twelve o'clock up seventy-seven hundredths.
HMJr: Good. I'm tickled to death about steel.
T: Yes. They rose up half a point. Utilities four hundredths.
HMJr: Well, unless you fellows have something that you can't handle I won't talk to you again until tomorrow morning.
T: All right.
HMJr: But if you're bothered, call me, but - I think that between you and Jesse - and Jimmy they ought to slap Harold Ickes down - God damned hard too.
T: All right. You're, in other words, - more strength to my arms?

HMJr: What's that?

T: More strength to my arm if I get in a row with him?

HMJr: I'll back you to the limit.

T: O. K. Goodbye.

HMJr: Goodbye.
Monday
March 28, 1938
4 p.m.

HMHJr: Summer Welles.
Summer Welles: Hello, yes.
HMHJr: Henry Morgenthau.
W: Yes, Henry.
HMHJr: Wayne Taylor is listening on the phone so he knows what I say.
W: Yes.
HMHJr: I called up to find out just how things were going.
W: Yes.
HMHJr: And Wayne told me about that statement that came out of your department around noon today.
W: Yes.
HMHJr: And that disturbed me very much.
W: I have already attempted to ... Stricken, so to speak.

W: I have attempted the best I can to get the Press straightened out on that. As I explained to Wayne, we can't officially now say that we have requested the Treasury Department to do that in view of the fact that it would obviously be construed immediately as a reprisal, which is what we want to avoid. As I told Wayne, as I was not handling the press conference myself I was really limited, myself, to reading the statement that you gave yesterday which gives the right tone to the whole matter.

HMHJr: Who did hold the press conference?
W: The Secretary of State.

HMHJr: Well, of course, I think the way the whole thing was held, I mean if I was of a suspicious nature it would look as though the whole thing was done to throw the on us, right from the beginning now. And that was - now I think that I've more than played
ball on the thing; I've done something against my better judgment.

W: Well, nobody could have done more than you have, and I...

HMQr: And - and, to make it look as though I was trying to do something against Mexico, well, I just don't think it's - it's fair.

W: Well, since I've spoken to Wayne I've seen three of the Press myself and I've spoken to our own man in order that the right slant can be given.

HMQr: Yes. Well, I think I am going to tell Gaston to tell the Treasury boys that we only did this because the State Department urged us to do it.

W: Well, Henry, I wish very much that you wouldn't do that. I think that we'll have to speak as a government. When you say in your statement of yesterday, absolutely correctly, that in view of the decision of the Government of the United States to reconsider certain of its financial and commercial relationships with Mexico that connects with the whole Government perfectly properly.

HMQr: I know, but I mean I - I took the statement just as it was written by the department and I've been scrupulously careful to play on the team.

W: Exactly.

HMQr: Ah - but, I'd like to get as good treatment also.

W: Well, nobody wants to see you get it more than I do. And I'm doing what I can in the matter. And I will ask the Secretary himself give out your statement (that) again and say that that represents the views of the Government and there's nothing to add to it.

HMQr: Well, if he would do that that would be satisfactory. But I'll really think I'll have to ask that he does that.

W: All right. I'll give him your message immediately and see that it's done.

HMQr: All I ask is - I don't say that it's one department or another but that it's the administration and if that's made clear I'm more than willing to abide by it.
W: Exactly. That's of course what should have been done today.

HMJr: But this thing of shrugging my shoulders as regards the State Department and acting as though - if it was just a monetary matter we wouldn't have done it.

W: I understand fully. He didn't mean to give that implication; the Press got it that way without his intending to say that.

HMJr: Well, I think just in plain fairness it's up to Mr. Hull to correct it.

W: Well....

HMJr: I'd do as much if the thing was reversed.

W: I'll talk to him immediately and ask him to see that that is done. I've been doing the best I can. I've had two of these refugee committees, one is in my office now.

HMJr: I know, but this - this is something - I know, we're all busy. But, I really, Summer, must ask Mr. Hull to do this just in plain fairness.

W: All right. I'll ask him to give it out himself that way.

HMJr: If you would and then would you let Wayne know?

W: I'll be glad to do that.

HMJr: I really would appreciate it; and, as I say, I'm willing to make no move and I'll tell Wayne that we make no hint - make no statement - we'll stick just by our guns and leave it to you.

W: All right. I'll ask him simply to reiterate your own statement and/say that speaks for the Government and there's (to) nothing to add to it.

HMJr: That's entirely agreeable because that's the way I entered into it.

W: Exactly.

HMJr: And when I say we - over at the Treasury we never give out little inuendos or anything else.
W: But it wasn't intended that way, it was misconstrued.

HMJr: I won't do anything; I'll leave it entirely to the State Department to correct it.

W: All right.

HMJr: Now, could anything be fairer?

W: That's fair enough. And I'll get in touch with Wayne later about it.

HMJr: Thank you very much.

W: Sorry, Henry.

HMJr: Thank you.

W: All right.
Monday
March 28, 1938
4 p.m. (Cont'd.)

Wayne Taylor: Hello.

HMJr: Yes.

T: Swell!

HMJr: What?

T: Just right.

HMJr: Could anything be fairer?

T: No, sir!

HMJr: What?

T: No, sir.

HMJr: Well, I'll stay that way and if they don't do it well then - ah - I'm still working for Mr. Roosevelt.

T: Right. Well, I - I was very sure that he had been doing something about it but I think that that was your suggestion is the only practical one because nothing had come out on the tape since then to correct the other impression.

HMJr: Well, - I could tell from Summer's voice it's difficult for him, but...

T: Yes.

HMJr: But he and I entered into an agreement and an agreement's an agreement.

T: Ah - I always understood so.

HMJr: Pardon me?

T: I always understood so.

HMJr: Well, I'd rather keep the Treasury's record clean even though we get stuck.

T: Right. No, I think that's exactly right, the way you have it now.
HMJr: Yes.

T: And, I'm sorry it happened, but it was...

HMJr: I was perfectly courteous, but I certainly couldn't have been more firm.

T: No, no. You did it just right.

HMJr: What?

T: You did it exactly right.

HMJr: You could hear what I said?

T: Oh yes.

HMJr: Well, supposing you give me a call around seven and let me know what happens.

T: Around seven?

HMJr: Is that a good time?

T: Ah - yes, that will be all right.

HMJr: Seven?

T: Yes...

HMJr: We go to supper about seven-fifteen here.

T: Uh huh. I'll call you from the house around seven.

HMJr: Yes. If you - yes, if you would.

T: Yes.

HMJr: And tell them to put you on direct, not through the switchboard. You know, Wayne, as I said, if I was of a suspicious character you'd think the whole thing was - looked as though it was thrown on the Treasury. And he said it wasn't to be a matter of reprisal, well what was it to be?

T: (Laughs)

HMJr: What?

T: Ah - I haven't got my dictionary here.
HMJr: Would you tell Gaston just what I told him?
T: I will.
HMJr: I mean, if it isn't a matter of reprisal what was the whole purpose?
T: Well, maybe Herbert's got a dictionary.
HMJr: No, but I don't get it.
T: Well, (laughs) that makes two of us who don't.
HMJr: Well, I just don't like the way Mr. Hull played it. I would tell Herbert Gaston what happened and -- and we can't correct it, it's got to be the State Department.
T: Right.
HMJr: See, he gave the impression that he didn't know anything about this ...?
T: Well, I'll read to you what it said.
HMJr: Please.
T: "Secretary Hull said that the suspension of Treasury Mexican silver purchases is primarily a Treasury function. Secretary Hull said that the question of purchases of silver from Mexico is essentially a concern of Treasury Department. He stated Treasury informed State Department of its decision to withhold further purchases before Treasury notified Mexican Government of this action."
HMJr: We informed them?
T: Yes.
HMJr: Well...
T: I was greatly disturbed about that and went into action.
HMJr: What?
T: I said I was greatly disturbed about that and went into action.
HMJr: You wait until — you wait until I do anything for the State Department again. I mean, it will be a long time before they get me to — so-called-cooperate.

T: Yes.

HMJr: Well...

T: Well, I think it will work out all right.

HMJr: I'll make you a bet it doesn't.

T: Ah — (Laughs) Well, I hope you're wrong, so that I'll make you a bet. (Laughs)

HMJr: Well, I'll bet you a nickel he doesn't — Mr. Hull does nothing.

T: All right, a nickel it is.

HMJr: Yes. I'll bet you a nickel.

T: Fine. I'll — I'll call you right back.

HMJr: Yes. And, what else? Anything on the Hill today, did they do anything on the Hill?

T: Yes, they passed the bill...

HMJr: What?

T: ...as to reorganization.

HMJr: They did what?

T: They passed the reorganization bill.

HMJr: Oh, grand!

T: Yes. Ah — forty-eight to forty-three.

HMJr: Well, that's grand.

T: Yes.

HMJr: Did they pick up any votes on that?

T: I think they picked up a few.

HMJr: Uh huh.
T: It was at first thought we had three votes and our record vote was forty-nine to forty-two.

HMJr: Well, that's grand - that's grand. Anything else?

T: Ah - no, I think that's about all.

HMJr: Well, if you don't mind calling me at seven.

T: Righto.

HMJr: You know what my number is here?

T: Ah - ...

HMJr: Brunswick LD-1.

T: LD-1?

HMJr: And you can reverse the charges when you're home; I can pay for it at this end.

T: All right.

HMJr: If that makes it any easier.

T: (Laughing) All right. That might.

HMJr: Well, ah - Brunswick, Georgia, LD-1.

T: Right.

HMJr: All right, Wayne.

T: All right, Henry.

HMJr: 

T: Yes.
GRAY
London
Dated March 28, 1938
Rec'd 7:45 a.m.

Secretary of State,
Washington.

RUSH.
252, March 28, noon.
FOR TREASURY FROM BUTTERWORTH.

Bullion dealers are receiving large silver selling orders from Mexico and are anticipating similar ones from India. Dealers feel that the United States would not have discontinued its direct purchases of Mexican silver and yet allow Mexico to ship to and sell in London, the United States ultimately purchasing the silver just the same. They also discount suggestion that American authorities may demand certificates of origin inasmuch as they recall failure of similar attempt in the matter of Russian gold in 1921.

In the circumstances a decided decline in the price of silver today and on succeeding days is generally anticipated. Naturally an indication of America's attitude is eagerly awaited.

KENNEDY
PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Tokyo, Japan

DATE: March 28, 1938, 1 p.m.

NO.: 211

CONFIDENTIAL.

A Bank of Japan official has confidentially informed the Commercial Attaché of the following shipments of gold:

On the SS KINKWA MARU, March 27, 20,000,000 yen
On the SS KOMAKI MARU, April 8, 20,000,000 yen
On the SS TITIBU MARU, April 9, 30,000,000 yen

This Bank of Japan official believes that the Department of Finance has already advised the Financial Commissioner of New York of these shipments, and that the latter will inform the United States Treasury with regard thereto.

CREW.
TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE March 26, 1938

TO Secretary Morgenthau
FROM Mr. Haas

Subject: The Business Situation, week ending March 26, 1938.

Conclusions

Business factors in this country, taken by themselves exclusive of European developments, continue to point to an improving trend following the stable base which has been estab-
lished over the past several months, with upturns in steel activity and building construction and, during the past week, a marked improvement in automobile retail sales, contributing to a strengthening of the domestic business situation.

The steel operating rate (Chart 1) has increased to 35.7 per cent of capacity, a new high since November, while increased operating rates in the near future are suggested by a general upturn in new steel orders. Construction in all categories is showing definitely more than seasonal improvement. Contract awards east of the Rockies showed a greater than seasonal rise during the first half of March, following their favorable trend in February, and building permits on the Pacific Coast during the first two months have confirmed this trend. A further improvement seems indicated by the continued heavy inquiry for F.H.A. loans, which has broadened to include large-scale housing projects.

At present, however, the favorable factors supporting the business trend in this country are forced to contend with unfavorable developments abroad, and the resulting trend of business over the coming months will necessarily represent a balancing of the two forces. The tense international situation arising from the German coup in Austria has thrown into the business picture a factor of great, but immeasurable, potentialities. By adding greatly to uncertainty over the business outlook, particularly since it has precipitated declines in world stock and commodity markets, it provides an added reason to businessmen for postponing new commitments and awaiting a clarification of the general outlook.

In recent months the business recession in the United States has constituted a drag on business activity in foreign countries. Now that we have apparently completed our adjustment and are ready to move ahead, the situation has become reversed, and business uncertainty abroad is constituting a drag on our own recovery.
The steel situation

The steel industry is currently providing a better undertone to business activity, with operations increased to 35.7 per cent of capacity representing the highest rate since last November. (Chart 1). The Iron Age this week reports that "probably for the first time since the first half of 1937 orders are running in excess of shipments." Production has gained a total of 7 points since the first week of March, largely because the arrival of spring weather has expanded the sale of farm implements and wire products in agricultural areas, while an increasing demand has come from a diversified list of consumers whose steel stocks are nearing exhaustion.

A further rise in output seems probable in coming weeks. The U. S. Steel Corporation, operating this week at 32 per cent of capacity, reports new orders during the week ending March 17 at the equivalent of 42 per cent. Trade reports indicate that the volume of orders during the current week is holding near the high level of the previous week.

The volume of steel buying from the automobile industry, which normally consumes more steel than any other industry, has apparently not yet shown any appreciable increase. Automobile production has declined slightly this week, when a seasonal rise was to have been expected, apparently because of a disappointing improvement in retail sales early in the month and a desire to reduce new car stocks. The reducing of dealers' stocks may be a prudent move to prepare for price reductions or the introduction of new models. Retail sales of automobiles during the sales period just completed, however, have risen sharply from the low levels of earlier in the month, according to reports in the trade.

Both factory and dealer stocks of new cars as reported by the General Motors Corporation on March 10 were very slightly below those on the same date in 1936, though substantially above the strike-depleted stocks of 1937. Used car stocks of 245,900 units on that date, however, compared with 232,200 units in 1936 and 214,200 in 1937.

The building situation

The volume of construction has continued to rise, improving further during the first half of March after showing a greater than seasonal upturn in February, with all categories sharing in the improvement. The Dodge figures on contract awards for the first half of March show a daily average not much below the
comparable figures for last year, totalling $7,858,000 as compared with $8,086,000 in 1937. Residential awards show a daily average of $2,807,000 as compared with $3,264,000 last year.

Data for the Pacific Coast, not covered in the Dodge figures, provide confirming evidence of an improved trend of construction. January and February building permits in this section were 4.4 per cent higher than in 1937.

A continued heavy inquiry for F.H.A. housing loans, which has broadened to include large-scale housing projects, provides further evidence of this trend. The aggregate value of home mortgages selected for appraisal during the week ended March 19 rose to a new high of $21,293,061, about 55 per cent of this representing homes to be constructed. The similar figure for last year was $16,879,710, though a strict comparison is not possible because of greater inducement under this year's plan.

Reports of larger buying by building material dealers, and reports that deliveries of linseed oil to paint makers in March are running 50 per cent heavier than in February, tend to indicate an increasing demand from the building industry.

It may also be significant that shipments of cement during February of this year showed a decrease of only 11.4 per cent from 1937, while production was 32.9 per cent lower. Stocks of cement at the end of February, as reported by the cement industry, were 2.8 per cent lower than a year earlier.

The railroad situation

With railroad earnings seriously depressed, and second grade rail bonds at new lows for the present century, the fear of further railroad receiverships and a further decline in railroad securities has a retarding influence on business recovery, while the resulting low level of rail equipment buying is tending to retard improvement in the steel industry.

The railroad situation provides one point of attack on the present business recession. In some quarters an upturn in the securities markets is expected to be first indicated by an improvement in railroad securities. There is no doubt that any practical method of providing immediate aid to the railroads, which would permit them to increase their expenditures for equipment and maintenance, plus a long-term program which would give people confidence that the railroad problem would in time be solved in a practical way, would have a strongly favorable effect upon business sentiment.
Influence of foreign situation

Developments this week have tended to confirm our apprehension over the effect of the recent turn in European affairs on our business outlook. A sharp break in our stock market was initiated on Tuesday when Great Britain announced a decision not to interfere with German aggression in eastern Europe, though other factors contributed to the severity of the decline. Commodity price indexes have receded to new lows, and reports have begun to appear indicating a retarding effect of European developments on business. Activity in the British textile markets, for example, has slowed down abruptly due to the rise in the dollar and the uneasy international situation.

The close relationship between the commodity trend in this country and recent international developments as reflected in foreign exchange rates may be seen by comparing the Dow-Jones commodity futures index, which is quickly responsive to changes in market conditions, with the trend of sterling exchange. (See Chart 2). A decline in sterling affects prices in two ways, (1) as an indication of further weakness in the international situation, and (2) through its effect in reducing the purchasing power of the countries of the sterling area for products from this country, while making it easier for them to undersell us in the export market.

As shown in Chart 2, the influence of recent events on sterling exchange and on commodity prices can be traced almost day by day. Sterling started to weaken and prices began to turn down from their previous rising trend around March 1, when the critical situation between Austria and Germany began to appear in the news. It was on this date that Germany stated its intention to protect the millions of Germans in Austria and Czechoslovakia by force if necessary. On the following day Great Britain announced an expansion of its defense budget to 55 per cent above that of the previous year, which brought heavy pressure on sterling and a decline in commodity prices. The invasion of Austria occurred on March 11, precipitating a general weakening of European currencies and a general decline in prices in the futures markets.

The importance of the foreign situation in the commodity price picture is shown by the fact that this influence is being stressed by companies engaged in international trade. The following quotation from the March 24th market letter of Volkart Brothers, an international cotton company with headquarters in Switzerland, explains this clearly:
The devaluation of the French franc, followed by the sharp devaluation of the Brazilian milreis, and more recently, the devaluation of the Mexican peso, have all contributed to the unsettling of world markets and the lowering of world commodity prices in terms of dollars. The announcement that Great Britain would increase her armament program caused the pound sterling to decline in relation to the dollar, and there are many international economic students of the opinion that the pound will decline further. While the Japanese Yen is a controlled currency, it is at the same time tied to the pound sterling, and should the pound decline further, it would mean that practically all of the major trading currencies would be in a relative, or lower, relationship to the dollar than existed in 1931/32, unless preventative measures are adopted. The devaluation or decline of any currency tends to lessen the purchasing power of the respective country, and whether that country be Mexico or Great Britain, its effect is registered directly or indirectly in American cotton prices.

During the current week, the trend of international developments has continued in a direction unfavorable to our business outlook. Political events in Czechoslovakia have been disturbing, with the unity of the government threatened by increasing strength of the German minority, and bonds of this country on European markets have broken sharply. The dollar has strengthened in foreign exchange dealings despite a break in the New York stock market, which would normally tend to weaken it. Continued foreign buying of our securities throughout the week, and a further movement of capital to this country, contributed to a strengthening of the dollar. The security buying and inflow of capital appear unfavorable both as indicating the uncertainty prevailing abroad and as further unsettling the price structure by causing a weakening in foreign currencies.

Depending as it does on unpredictable political developments abroad, the probable effect of the changed foreign situation upon our business outlook is not susceptible to definite analysis. The trend of commodity prices over the next several months should provide an important indication of the seriousness of the international situation as a factor in our business situation.
PARAPHRASE OF TELEGRAM RECEIVED
FROM: American Embassy, Paris, France
DATE: March 28, 1938, 11 a.m.
NO.: 475
RUSH
FROM COCHRAN.

This morning at 10:30 I called at the Bank of France. The Treasury had, by the evening of Friday March 25 utilized completely its fifteen billion franc credit with the Bank. The March 31 statement of the Bank of France (statement as of March 24) may not show complete exhaustion of the credit; however, it will indicate that by March 24 at least one and a half billion more francs had been drawn. Beginning with March 25 the Treasury is drawing on the five billion franc credit newly authorized.

The French control did not intervene in London on Saturday morning; however in New York it did purchase some seven million francs. This morning the market opened against the franc, and by the hour I visited at the Bank the control had sold 35,000 pounds and the rate had been permitted to move from 164 to 165 1/2. There is still slightly over two billion francs in the French stabilization fund, but it is not intended that under present circumstances any bold effort will be made to hold the franc at a fixed rate. The labor situation is the particular upsetting factor this morning. Over the weekend the number of strikers has in- creased.
creased. On the market the speech which Jouhaux, Secretary General of the Labor Confederation, made is interpreted as an open threat that labor will not hesitate to call a general strike and if now provoked will be more violent than in February 1934.

The Bank of France Governor, Fournier, is in daily contact with Blum, but Blum has not told the Governor or any other Bank official about his plans for a general financial program which he has promised to submit to Parliament by the end of this week.

At eleven this morning I called on Rueff at the Ministry of Finance. Rueff did not know either what Blum’s program will be, although he is constantly consulted regarding the situation of the Treasury and the daily business. Rueff said that Georges Boris and other immediate political friends and advisers of Blum are supposed to be working on the plan. It is expected, therefore, that the plan formed will be a political measure and maneuver of the Left Party.

My market contact said that by 11:15 the exchange market on the franc was nervous, but there was less pressure at that time than when the market opened this morning. My contact said that operators base their position upon the continuing hope that the financial program which Blum is to submit this week will be his downfall and that the eventual result will be a National Union Government.

END MESSAGE  WILSON.

EA: LWW
Secretary of State,

Washington.

490, March 28, 6 p.m.

Embassy's telegrams Nos. 463, March 25, 2 p.m., and 474, March 26, 8 p.m.

The Paris metallurgical strike has spread with occupation of additional factories. About 30,000 to 35,000 workers are now involved. No violence has occurred. Blum and his ministers held a series of meetings yesterday, first with representatives of the owners and later with leaders of the C. G. T. and the local metallurgical syndicates. No agreement was reached and further meetings are scheduled for this afternoon.

Jouhaux the veteran leader of the C. G. T. was prevented from addressing a public meeting on Saturday of some 10,000 members of the syndicates of the Paris region by the boos and cries of "action!" (for Spain) from his audience, though the members listened attentively to the Communist speakers who followed him.

Presumably in a reaction to this rebuff and feeling that he must take a stand more palatable to the extremists

Jouhaux
Jouhaux in a speech at Caen yesterday declared, "The heavy atmosphere which preceded the 6th of February 1934 is in the process of returning. If new violence should take place we would oppose it by the same means. If we should find ourselves faced with an organization for civil war as may be foreseen by recent events, our general strike would be an active one".

A curious aspect of the metallurgical strike is the unwillingness of any important labor organization to assume responsibility for it. Both the C. G. T. and the Metallurgical Syndicate obviously regard it as highly inopportune. The Communist HUMANITE charges that it was fomented by the local Socialist welfare organization "supported by Trotskyist elements", which charge the Socialists indignantly denied. Incidentally the Paris metallurgical workers are among the best paid labor elements in France. The published minimum wage, for example, at the Gnome Rhone aviation motor factory — one of those now occupied by workers — is 97 francs with the average well above that figure.

WILSON.
PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 29, 1938, 11 a.m.

NO.: 483

RUSH

FROM COCHRAN.

This morning at half-past ten I had a talk with the Bank of France. The control sold 35,000 pounds yesterday in defense of the franc. It acquired an equivalent amount of belgas, but in order to meet foreign commercial requirements of the French railways (including payment for British coal) the control was obliged to yield 100,000 pounds. The control thus lost 100,000 pounds on balance yesterday.

This morning by half-past ten the control at 163 7/8 had been able to buy 95,000 pounds. The following communiqué is partly responsible for calmer franc market:

Havas Agency has given out the following apparently inspired report: "Authorized circles state that contrary to certain press information the proposal for economic and financial recovery upon which Blum and his collaborators of the Ministries of the Treasury and the Budget are working will be conceived in a truly democratic spirit. Blum's plan will not contain any coercive measures and it can be immediately stated that neither exchange control nor a forced loan nor an embargo on gold nor a forced conversion of rente will figure therein.

END SECTION ONE.

WILSON.
PARTIAL PARAPHRASE OF TELEGRAM RECEIVED
SECTION TWO: No. 483 of March 29, 1938, from Paris

RUSH.

The plans will have a fiscal aspect to which Minister Spinasse is giving particular attention. It is indicated on this point that there is no question of an increase of taxes. Measures will undoubtedly be taken to relieve this or that branch of the economy which is particularly hard hit. The relief thus given will have to be compensated by other measures susceptible of providing equivalent resources. It is a question therefore in the full sense of the term of fiscal adjustments. Furthermore an important effort will be made toward reestablishing the unity of the budget. The proposals will no doubt be laid before the Chambers on Friday or Saturday. The Government will demand immediate discussion. It is said to be the intention of Blum to obtain a vote thereon before the Chambers adjourn for Easter vacation."

AGENCE ECONOMIQUE, after publishing the foregoing communiqué this morning, followed it with a statement that Blum, Spinasse, and Mendes-France had yesterday conferred with Fournier, Baumgartner, Rueff and Deroy, as they had done on preceding days. The impression might be from this that Blum is consulting these ranking technicians upon the proposal he is going to make. This morning I am told again that the situation is as it was reported in my telegram No. 475 of March
March 28 - i.e., that Blum’s political advisers are the only ones working on the plan. In the opinion of my technical friends, this weekend the Blum Government will be forced out on this financial proposal.

END OF MESSAGE.

WILSON.
Secretary of State,
Washington.

483, March 29, 5 p. m.
FROM GOCHMAN.

Reference ry 483, March 29, 11 a. m.

French control apparently has continued to gain foreign exchange on a little market. "With end of month approaching and money tight there is necessity for liquidation certain foreign holdings to protect francs.

Both French and American bankers in Paris tell me of the European concern over the American economic situation and of rumors of prospective dollar depreciation, private earnings, dangers to American insurance companies as a result of their heavy holdings of securities of railways which seem headed for receiverships, et cetera. Some Paris operators were today even considering selling dollars short against French francs.

Schacht is shortly to repay recent visit of Governor Janssen
Janssen of National Bank of Belgium. FINANCIAL NEWS, London, is starting the rumor that Paul Van Zeeland may return to the Belgian premiership in the not distant future.

WILSON

KLP

CSB
Secretary of State
Washington

261, March 29, 6 p.m.
FOR TREASURY FROM BUTTERWORTH.

Philips began the meeting at the Treasury today by asking about our attitude as regards the Mexican expropriation of the property of the foreign oil companies. I said that I understood from the Foreign Office that a long memorandum had been sent the British Ambassador in Washington and that discussions were proceeding there. Philips then said that he hoped this would result in a united front between the British and American Governments and he further inquired about the suspension of silver purchases from Mexico. In turn I read him the Secretary of the Treasury's statement quoted in today's radio bulletin and said this was the only information I had. Waley then said that Great Britain was not in a very favorable position to take retaliatory action against Mexico but that if oil were excluded from Great Britain's imports from Mexico the trade would be about in balance. The British Treasury is obviously very concerned
EDA - 2 - #261, March 29, 6 p.m. from London

concerned about the oil position in Mexico and definitely interested in our intentions with respect to silver. Incidentally the London financial press contains speculative editorials on the course of American action.

As regards France, Philips said that he did not expect the franc rate to move far from present levels as long as there was a reasonable prospect of the formation of a broadly based government. On the other hand, although everyone seemed to accept fully the need for such a government, its creation seemed to be as difficult to arrange today as it was some weeks ago. He reiterated that one could only "wait and see" and he also mentioned that Monick was still in Paris and that he had not seen him since the formation of the Blum Government.

Referring to the economic outlook in the United States Philips said that he gathered that London had its full complement of visiting Americans who were convinced that the United States was rapidly making its way into a real depression and that they were prepared to back up their opinions with arguments. He said that he sincerely hoped from every point of view that they were wrong. He then inquired about the progress being made
made in the matter of the tax bill, the railways, and utilities and said that for his part he still hoped that measures could be taken which would facilitate an upturn and he believed that a slight upturn might be on its way. As regards Great Britain he emphasized that the European political situation cast its shadow over everything. He admitted that the rate of activity and the amount of orders were now showing decided differences between industries which the projected speed up in armament activity would tend to accentuate. He went on to describe the position by quoting a remark made by Winston Churchill "when we were so fortunate as to have him as Chancellor of the Exchequer" that the situation was neither black nor white nor gray but piebald.

Philips obviously felt that the two great imponderables were the European political situation and the course of events in the United States and although he did not say it in so many words he felt that Great Britain was really in the grip of these circumstances. I might add that the fear is growing here that the United States is gradually embroiling itself in a depression -- with unforeseeable consequences both to itself
itself and the rest of the world.

I referred to the British Treasury's previous inquiries (paragraph four of my 168 February 28, 7 p.m.) regarding the Hungarian relief debt offer and read them the excerpt from the President's message contained in today's radio bulletin. They did not attempt to conceal their not inconsiderable interest in this development. Waley in particular inquired about the manner in which the President's message would be embodied in legislation and what my personal estimate was of its chances of passage. I indulged in no predictions.

Silver selling orders came mostly from India with limits of 18 3/8 pence. The price therefore was fixed at 18 3/8, thus avoiding the execution of most of these orders. The amount was not large. After fixing on covering the price rose to 18 3/8 and then came on offer again at the fixing price.

The franc has been bid all day due to end of the month covering. The belga has also been bid for the same reason and to such an extent that some gold may move to Belgium tomorrow.

There have been quite heavy offerings of dollars due mainly to causes connected with the continued weakness of the American stock market.

KENNEDY
Tuesday
March 29, 1938
11:54 a.m.

HMJr: Well how are the silver triplets?
Archie Lochhead: Well, (Laughing) the silver triplets are here.
HMJr: Yes.
L: Now, you have the London fix this morning.
HMJr: I have nothing.
L: No. Well, the London fix has an equivalent of forty-one point twelve.

HMJr: Forty-one twelve. Yesterday it was forty-three eighty.
L: Yesterday it was forty-three eighty. It’s two points - two and a half cents off, two points sixty-eight off.
HMJr: Yes.
L: Well, since the time they fixed it it has been very quiet over there...
HMJr: Forty-one twelve?
L: Forty-one twelve.
HMJr: Yes.
L: And since that time there have been a few odd dealings at slightly better prices...
HMJr: Yes.
L: ...working out about forty-one fifty-six.
HMJr: Yes.
L: Ah - very small, but that was a little bit - they thought a little bit of buying some Indian interests.
HMJr: Yes.
L: In this market there’s been nothing; we haven’t been offered anything.
L: Good.

L: And so it's just standing, waiting for the price to be fixed.

HMJr: Well, I'd make the price forty-three cents.

L: You want to come down the one cent on it?

HMJr: Yes.

L: Well, all right. Now, there was just a question in arguing there whether or not you wanted - if you were coming down toward the figure you wanted you'd go down as fast as you could?

HMJr: No. No.

L: I see.

HMJr: No, I don't, because if we come down at that rate maybe the London price might come up a little bit.

L: I see.

HMJr: See?

L: And if the London price did come up a little bit you're inclined to - to stand by it a little bit then, is that ....

HMJr: Well, I don't want to - I'm not going to force the price of silver down.

L: No, no, they wouldn't be forcing - I mean, this morning, it was just the question of whether you wanted to go down as fast as London went down or whether you wanted to go down progressively yourself.

HMJr: No, I - I've got - I've - I have no Treasury things to think about except that and I've given it a lot of thought.

L: Yes.

HMJr: And my thought is that let it go to forty-three and maybe - let's see what happens. I don't want to force it down.

L: I see. I mean, in other words, you'd be willing if the price would settle itself somewhere in this line, forty-two or forty-three, you're just as willing to
let it settle there as to any other price?

HMJr: Oh yes.

L: I see. And let the market determine its price.

HMJr: I want to see what they're going to do and I think that - the fact that we haven't had any offers this morning shows that the market in London is fairly artificial. But if I'd kept it at forty-four I think I'd be criticized.

L: I see. Well now, on this price of forty-three, we're setting a price of forty-three today, would you be willing to take some silver in London somewhere around say between forty-two and forty-two and a half?

HMJr: I'll leave that to you fellows, but I don't want to take more than a half a million ounces.

L: Not more than a half a million?

HMJr: No.

L: Well, I'll tell you, as long as we - as long we're only going down a cent I agree that I wouldn't want more than a half a million.

HMJr: A half a million ounces...

L: Yes.

HMJr: At what price and so forth, I'll leave that to the trio.

L: O.K. then.

HMJr: But now, I'd like to hear both Taylor and - and ...

L: White?

HMJr: Yes. - Director on monetary matters.

T: I see.

HMJr: And this is distinctly a research matter, not a - it's not clairvoyant, therefore I'd be more than willing to hear from Dr. White.

L: I see. Well, Dr. White is right here.
All right. Well, let's hear Taylor first.

O. K. (Spoken to men in Secretary's office: First he wants Taylor.)

Hello.

Yes.

I think we'll get a little at for - in London if we have it at forty-three, but that's all right.

Yes. Well, what I want to do is to have the minimum of disturbance.

Yes.

I don't want to add to it.

No. I think you could go to forty-two and still be - ah - ...

I think that's a little fast.

Well, suit yourself about that.

Well, I - I don't want to force it down ...

Yes.

A cent is an awful lot you know?

Yes.

Ah - I'd like to try it forty-three and see what happens, but not take more than a half a million in London.

Yes.

But take all offerings on this side.

Right. Ah - we think that they scouted around and got an awful lot of whatever was loose yesterday but there may be some more that will come in from the sticks today but - not very much, yet.

I'd watch the Canadians pretty closely...

Yes.
HMJr: ... what they do.
T: Yes.
HMJr: I'd like to hear what Harry has to say.
T: All right.
Harry D. White: Hello.
HMJr: Hello, Harry.
W: I think that your approach is the proper one. There is going to be some uncertainty and I suspect there may be a little more come in than the other men believe because they may feel that they don't know where you intend to settle it now.
HMJr: You mean a little more coming into New York or London?
W: Into London.
HMJr: Uh huh.
W: But, their judgment may be better than mine on that, but that would be my reaction to a price that was moving down. But in any case I think that the - your method of feeling your way very carefully - a cent at a time now, is the proper one, providing - I hope you haven't changed your mind about the base line.
HMJr: No.
W: Of forty cents.
HMJr: No.
W: Yes.
HMJr: I'm willing - I'm willing - ah....
W: I think that's very important; that's where I would want to make a strong plea..
HMJr: What's the French line, the general ... 
W: Ils ne passeron pas.
HMJr: No, the
W: The man line?
HMJr: What?
W: Well, (laughs) now, it's in Spanish.
HMJr: I thought it was in French.
W: Well, it was the line - well, the line, the line yes. Well, o. k., if that's it. I think your judgment as to the way it should be handled is better than mine; that's a question of bargaining unless -
HMJr: Mind you, / I may shift, but the way it's acted for two days at forty I'd try it; I'd try to hold it there.
W: Well, we'll get a chance to get a hearing if you're going to move from that base, I hope. I think it's important; that base I think is very important.
HMJr: I - I - the way I feel today I feel even more strongly than yesterday that I would try quite vigorously to hold it at forty.
W: Yes. O. K.
HMJr: I'd like to have a lot of silver on hand.
W: That's right. And there are other reasons too. Ah - below that would be pretty deflationary at a time when the world is deflationary in general and it cannot help but give it another push and in that respect it would look awfully bad...
HMJr: No, but we have to think of our "good neighbor" policy, Harry.
W: Well, that's "gone with the wind," Mr. Secretary. I think the whole episode is extremely unfortunate. But that's so much damn over the water.
HMJr: We have to think of our "good neighbor" policy.
W: That's right. Yes.
HMJr: I hope Mr. Taylor is smiling.
W: (Laughs) Not yet, (laughing) but he didn't hear. The machine isn't working right; our engineer here is a little bit off his count, he can't get the loudspeaker working.

HMJr: I see.

W: But I'll repeat what you said.

HMJr: Yes. Now, tell - let me talk to Archie and - and find out what our markets in London have been doing, please.

W: No, they had the wrong phone; they can hear now. I'll turn you over to Archie.

Archie: Hello.

HMJr: What are our own markets doing?

L: Well, our own markets on the stock market aren't behaving very well.

HMJr: They're not?

L: No. The stock market was off at eleven o'clock 2.90.

HMJr: Yes.

L: That brings the averages down to 104.35.

HMJr: I think they're gunning for that 100 mark.

L: Well, they certainly haven't got very much to go on it; I don't know whether they're gunning for the mark or gunning for a couple of gophers or what they're doing. The market turned weak abroad before our market opened.

HMJr: Yes.

L: And we picked it up from on the other side and no special news of course and one of them said, "Well, it's the Reorganization Bill passed and that," but other ones advised that it was just a general situation, that they're just feeling discouraged.

HMJr: I see.
HMMJr: I see.

L: Now, the bonds though, are holding very steady, they might be off a thirty-second here or there, but...

HMMJr: Well, I think the Government Bond Market has behaved beautifully.

L: It hasn't had a single shake today. Everything has been quiet and steady on it.

HMMJr: Yes.

L: And the Foreign Exchanges are also a little stronger against the dollar. Sterling is holding at about 497.75 and Francs about 305; a little steadiness there but not enough to show any capital going out at all.

HMMJr: Yes.

L: Now, Mr. Taylor wishes to speak to you.

HMMJr: O. K.

Wayne Taylor: On this Spanish thing...

HMMJr: Yes.

T: ah - I think that I would suggest that we wait one more day - we - I told him it would be two or three days.

HMMJr: What do you want to wait a day for?

T: Well...

HMMJr: "Good neighbor" policy?

T: What?

HMMJr: "Good neighbor" (laughing) policy?

T: Well, I'd like to see how this market acts for one more day.

HMMJr: Well, frankly, I don't see what that has to do with it.

T: Well, if we're going to buy a hell of a lot of silver I think we - yes ....
HMJr: Well, nobody's going to know that.
T: Yes.
HMJr: I don't see anything to keep the Spanish waiting.
T: Well, we'll - We'll tell him this afternoon, then.
HMJr: How much have you fellows decided on, how many million ounces?
T: Ah - five.
HMJr: Five?
T: Yes.
HMJr: Well, I think I'd tell him this afternoon because I don't see any sense in waiting.
T: All right, we'll tell him this afternoon on the basis of five million ounces - ah - ninety percent? Ninety-five is what we've done with some of the other boys apparently.
HMJr: Well, what I - I'd treat them as well as we have ...
T: Yes, the same as the others.
HMJr: Just the same as the others.
T: Yes. And then after the first shipment is on the way why ... 
HMJr: They can come around and we'll have a glass of Sherry together.
T: Yes.
HMJr: Even though Sherry is - is, what is it, Franco Sherry?
T: Well, (laughs) remember during the Prohibition days why we couldn't be too fussy (laughing) where it came from.
HMJr: That's right. No, I'd tell him today; I don't see any sense in waiting.
T: All right.
HMJr: Ah - I really don't.

T: Well, we'll tell him today then.

HMJr: I would.

T: O. K.

HMJr: Have the Chinese been around?

T: Ah - no.

HMJr: Uh huh.

T: They're having a bad time over in their own market.

HMJr: I've read the Times and the Tribune.

T: Yes.

HMJr: I think, considering what we did on the publicity I think we came off as well as we could expect - I read - I've got Monday's Times.

T: Yes.

HMJr: Monday's papers.

T: Yes, I do too.

HMJr: And they could - the only fellow that seems excited is Elmer Thomas; he now says we handle silver beautifully, but he never said that before.

T: (Laughs) Well, it's always nice to have a new rooster.

HMJr: Anything on the ticker on Jesse Jones' battle?

T: Yes. Ah - sounds as if it were going all right.

HMJr: Yes.

T: Because when Harold testified why he confined it to the fact that he had a swell engineering force.

HMJr: Oh.

T: And that they could probably use that engineering force to service whatever Jesse might be doing.
HMJr: I see.
T: So that's a lot better than it might have been.
HMJr: Yes.
T: Ah - Jesse said that naturally he had the approval of the President and Secretary of the Treasury and the Director of the Budget or he wouldn't be down there.
HMJr: I see. I see. Well, that's all to the good.
T: Yes.
HMJr: That's all to the good. Well, Wayne, I'm not going to call up again today unless there's something - that you fellows think that you want to call me.
T: We'll try not to.
HMJr: But I mean if you think it's important I don't mind, but I mean - but let it be important. But I'll not call.
T: Right. Herbert is here; do you want to talk to him?
HMJr: Who?
T: Herbert Gaston.
HMJr: Sure.
T: All right.
Herbert Gaston: Hello.
HMJr: Hello, Herbert.
G: Hello. Nothing new. The boys are just waiting to hear the silver price.
HMJr: Well, we made it forty-three cents.
G: Forty-three, yes.
HMJr: And anything on publicity or anything?
G: Not a thing. No.
HMJr: Not a thing.

G: No. I talked to - Duffield was asking me about this Jesse Jones thing and I gave him a good background.

HMJr: I didn't hear you.

G: I say Duffield was asking me about this Jesse Jones Glass bill and I gave him some good background.

HMJr: Yes.

G: Yes.

HMJr: Well, I hear Harold Ickes has got a swell - ah - ... Engineering force.

HMJr: Yes.

G: Yes. Yes. Yes. Well, there was some good engineering done, I guess.

HMJr: I'll tell you something funny if you'll switch off that - not the loud-speaker but the thing that does the record.

G: Yes.
At the request of Mr. Taylor the Spanish Ambassador called again this afternoon and met Mr. Taylor and Mr. Lochhead.

He was informed that the Treasury was prepared to forward a bid for 5 million ounces of silver .999 fine on the basis of 43¢ an ounce, delivered in New York, this bid providing for an advance of 95% of the value of the coins on arrival, the balance to be paid upon the final outturn after the coins have been refined. It was explained to the Ambassador that in view of the general upset conditions in the silver market the U. S. Treasury was not prepared to bid for the full amount he offered yesterday, but this first bid should be considered as an initial, or trial, transaction and after the first shipment was on board steamer we wished him to feel at perfect liberty to again call upon the Treasury for the purpose of asking for additional bids if he so desired. It was explained that the terms offered him were according to the current contracts of the U. S. Treasury Department and were as advantageous as the Treasury made to any other foreign Government. The Ambassador, after receiving this explanation, seemed to understand the situation.

As the Federal Reserve Bank of New York, fiscal agent of the U. S. Government, had no account, or way of authenticating cable messages with the Bank of Spain, the Ambassador agreed to forward their telegram containing the bid through his office. Later in the afternoon the cable from the Federal Reserve Bank of New York was delivered to him for transmission.
Bank of Spain,

Barcelona, Spain.

CONTINENTAL

We, as fiscal agent of the United States, will purchase from you up to approximately 5,000,000 ounces .999 fine of silver at the rate of 43 cents United States currency per ounce .999 fine, shipped in time to arrive in San Francisco and/or New York on or before June 30, 1938, on the following terms and conditions:

(a) 96% of cost of silver to be paid to you by us upon delivery of the silver to the United States Mint at San Francisco, and/or United States Assay Office at New York, and/or any other depositories designated by us.

(b) Final settlement to be made on the basis of figures established by United States Mint, and/or Assay Office and/or recognized American refineries.

(c) All arrangements for shipment including insurance to be made by you for your own account and risk and silver to be consigned to Federal Reserve Bank of New York at United States Mint, San Francisco, and/or at United States Assay Office at New York, and/or at any other depositories designated by us. All documents to be forwarded directly to Federal Reserve Bank of New York, New York.
(d) If you deliver silver coin or silver bars other than bars which are good delivery in the London or New York markets, you agree that we arrange at your expense and risk for melting and refining such silver into good delivery bars.

e) Your acceptance must reach us not later than April 5, 1938.

FEDERAL RESERVE BANK OF NEW YORK
Gray
Bombay
Dated March 29, 1938
Rec'd 3:30 a.m., 28th.

Secretary of State,
Washington.

March 29, 10 a.m.

FOR THE SECRETARY OF THE TREASURY.

American abrogation of the Mexican agreement to purchase silver caused ready market to drop yesterday from rupees 51-1 to 50-1 per 100 tolas and today opening at 11:30 a.m., expected to be at 44-4.

-WATERMAN

RR
Wayne Taylor: Well, how is silver?

T: Ah - well, we'll give you the markets first and then we'll give you the other things.

T: What?

T: Is it as bad as all that?

T: Oh, we did quite a lot of business for you here.

T: All right.

T: I'll give you Archie here.

T: Am I being recorded?

T: Yes.

T: All right.

Archie Lochhead: The stock market had a good volume on the first hour ...

T: Yes.

L: ...but managed to go up slightly...

T: Yes.

L: It's up - or rather, off only slightly; it's off point three six.

T: Yes.

L: And there's a fairly fixed market while of course, a lot of cross currents in it. The last news we have seems to be that they're steady - fairly steady.

T: Yes.

L: The Commodity Index is off point thirty-five.

T: Yes.

L: The Government Bond Market has sagged off - off around four to six thirty-seconds.
HML Jr: Yes.
L: Mr. Taylor will speak more to you about that.
HML Jr: Yes.
L: In the silver market the London Price I told you before was unchanged.
HML Jr: Yes.
L: Since that time they have been bidding the fixed price and occasionally some of them have been bidding an eighth over the fixed price.
HML Jr: Yes.
L: And there have been no offers at all come over here from London.
HML Jr: Good.
L: The Foreign Exchanges are quiet. Sterling inclined to be a little bit easier than four ninety-six and three quarters.
HML Jr: What about the Franc?
L: The Franc still holding 304.
HML Jr: Well, have you fellows made up your mind on the price?
L: Well, on the price of silver, we seem to be in agreement that it wouldn’t be worth while changing the price today.
HML Jr: No. I think it’d be of distinct advantage not to.
L: That’s it. Because as it stands just now we have no basis for changing the price on the London market.
HML Jr: Yes.
L: And if we did change the price we’d probably precipitate another crash in it.
HML Jr: No, I think there’s distinct advantage not to.
L: Right. Well now, that – we’re all in agreement on that.
HML Jr: Yes.
L: Now, Mr. Taylor wants to follow through on some of the other.

Wayne Taylor: Forty-three it is then?

HMJr: Forty-three it is.

T: Right. Now, the Chinese Ambassador was just in.

HMJr: Yes.

T: Ah ...

HMJr: Tell me....

T: What?

HMJr: If Gaston's around...

T: He is, he's right here.

HMJr: I'd release that forty-three cents as near to twelve o'clock as possible.

T: Right.

HMJr: See?

T: Ah - the Chinese Ambassador was in...

HMJr: Yes.

T: And said that they were very disturbed by the actions of the silver market.

HMJr: Yes.

T: And they had two propositions.

HMJr: Yes.

T: One was that it would be a great convenience for them if the next three bids that we made on the rest of that fifty...

HMJr: Yes.

T: ...could be at the old price.

HMJr: Yes.
T: The other is that they had another hundred million...

HMJr: Yes.

T: ...which they would like to sell...

HMJr: Yes.

T: ...so that they could be assured of a unified price for it.

HMJr: yes.

T: They were not so keen as to when the payment was made, but their whole computations for foreign exchange and various other things unfortunately have been based on the forty-five cent price.

HMJr: They unfortunately?

T: Unfortunately have been based on that. And they've been wanting to sell foreign exchange on the basis of counting on that. I told him that we had practically all situations as uniform. That we had always handled things on that basis and that with the weakness that developed in the London market, et cetera, it was - we realize that it was embarrassing for him - we had given him no assurances.

HMJr: Yes.

T: But that I would discuss the situation with you, both questions.

HMJr: Did you - incidentally, before I answer, did you have somebody make notes when the Spanish Ambassador called on you?

T: Yes.

HMJr: And you'll give me copies of those?

T: Yes.

HMJr: And also on the Chinese.

T: Yes.

HMJr: I mean, that's important enough that I should have a memorandum on it.
T: Right.

H MJr: Well, you tell the Chinese Ambassador that we're very sorry but we can't do anything different from what we are doing.

T: Right.

H MJr: We try to treat everybody the same.

T: Right.

H MJr: After all, it's most unfortunate but we think that the silver purchase policy of the United States has made it possible for them to dispose of these vast sums of silver, in fact unheard of I suppose any time in the history of the civilized world that there has been so much silver sold. And we've taken it steadily and we - we can't do anything more.

T: Ah - how about the extra hundred?

H MJr: Not until this expires.

T: Right.

H MJr: There! no - ah - I mean, how would I explain it to the public?

T: Ah - that's the question I was asking Herbert.

H MJr: And, after all, there may be any time I may be called on the Hill to explain and I think that right now - up to what I've done now I can explain to anybody, but, especially in view of just this deal we've made with Spain I don't see how we can justify treating China differently than we would Spain. I think we'd better just stick as we are.

T: All right. Now...

H MJr: I think we'd better just ... 

T: O. K. We'll talk about the hundred when the other is taken care of.

H MJr: Renew - reassure him that our interest in China hasn't changed; we're just as much interested as we ever were and will continue to/everything we can for him.
T: Right.

HMJr: But we can't give him any special treatment.

T: Well, I think I prepared him pretty well for that.

HMJr: Well, that's what I'd do.

T: Yes. Well, Bewley called up....

HMJr: Yes.

T: And he's coming in at twelve-thirty...

HMJr: Yes.

T: He wants to talk about what we're doing in silver.

HMJr: All right.

T: Have you any suggestions?

HMJr: No. And I wouldn't tell him too much either.

T: Phillips was also curious about it on the other end.

HMJr: Well, I wouldn't tell him too much.

T: I don't see how we can.

HMJr: Because we can't tell them anything now that we wouldn't tell to the public.

T: Yes.

HMJr: See? So, in fact I wouldn't tell them anything that isn't public knowledge.

T: Yes.

HMJr: Ah - you might/them this, that - is the British Treasury doing anything to help stabilize the silver market.

T: Right.

HMJr: But I'd be very careful, I wouldn't tell them anything about Spain, - Wayne.

T: No.
HMJr: In fact I wouldn't tell him anything that he can't read in the papers.

T: I can simply tell him that there are indications of rather heavy offerings appearing in his market.

HMJr: That's right. That the whole thing centers in his market.

T: Well that was about the approach that I was going to have to it.

HMJr: I think we've got to feel our way awfully carefully. I think you could tell him this, that we're still interested in silver and we hope they stabilize it at whatever level - as near the present level as possible, I'd say that.

T: Yes.

HMJr: That we're still interested in silver.

T: All right. Now, the bond market, - ah - which has acted extraordinarily well until today, started getting soggy and of course it had stuck up like a sore thumb with everything else breaking pretty badly. Some weakness developed.

HMJr: Yes.

T: The Fed has bought six.

HMJr: Yes.

T: And wondered whether we wanted to go fifty-fifty with them. I said I was talking to you in about ten minutes which was about that time.

HMJr: What's your hunch?

T: Ah - I think we'd better.

HMJr: What? Ah - I don't know - my hunch was...

T: Yes.

HMJr: ...that we ought to let them take care of it for a while. We may get loaded up awfully fast and - ah -

T: Wait a minute.

(Short Pause)
T: How would this be for an idea?
HMJr: All right.
T: That we let them alone until they restore their original bond position.
HMJr: Until they what?
T: They restore their original bond position.
HMJr: What is that, Wayne?
T: Well, they switched — did a lot of switching, you see.
HMJr: Yes.
T: All during the early part of — the last couple of months or so.
HMJr: Yes.
T: Yes. And it will be hard to express that to them but then if they could — if they have to have any new dough or increase their portfolio why then we’d go fifty-fifty with them.
HMJr: I think that’s much more sensible.
T: Yes.
HMJr: The way I feel is this, if — I certainly don’t want to see it get any worse.
T: Yes.
HMJr: And I think I’d put it something — the way you said — possibly this, that the last we knew the Federal Reserve Board wanted to take care of the Government Bond Market.
T: Yes.
HMJr: Ah — we’re pretty busy right now with gold and silver. Ah — take your suggestion that they get back to where they were.
T: Uh huh.
HMJr: When the time comes that they don't want to really support it, see?
T: Yes.
HMJr: Why, would they please let us know and then we'd take that under advisement and give them an answer.
T: Right.
HMJr: But in the meantime why it would be very pleasing to us if they would take care of it.
T: Well, that suits me fine.
HMJr: What?
T: That suits me fine.
HMJr: And - because, what I was thinking about is that the stabilization fund must be pretty full.
T: We'd have to call in some of our special twos to...
HMJr: I know, but after that....
T: Yes.
HMJr: ...where will we go?
T: That's right.
HMJr: And, I keep thinking of just a year ago this month - I think we bought a hundred million dollars in about ten days; then where were we? Now, I'm very anxious the Government Bond Market stay approximately where it is.
T: Yes.
HMJr: But, I'd also be very pleased if the Fed. would take care of it temporarily. But I'd make it very clear to them that we do want the Government Bond Market taken care of.
T: Ah - I can do that. I - I've already done that.
HMJr: And I would record it with - I'd make a record of it with Ransom.
T: I have.

HMJr: Yes.

T: But this other suggestion came from Burgess, not from Ransom.

HMJr: Well, ah - I - well, I'd cover it both ways.

T: Yes.

HMJr: I'd cover it both ways. Now, if there's any question in their minds why then give me a ring.

T: I will.

HMJr: And I'll step in and take care of it.

T: Yes.

HMJr: The last time I heard they were in a fighting mood and they wanted to do business.

T: Yes.

HMJr: Let's watch them once. But I still restate my position that I don't want any sharp break in the Government Bond Market if we can help it.

T: Right.

HMJr: But ...

T: Well, I'll tell them that we're counting on them.

HMJr: Yes, and I wouldn't be mealy mouthed...

T: Yes.

HMJr: ...about telling them to get back to where they were. No - they kept telling us that they were selling their longs and buying shorts so that they could take care of the situation.

T: Well, they've been going all right. And Burgess - I mean, Ransom did not make the suggestion to me.

HMJr: Well, that's all right.

T: Yes.
HMJr: But if there's any hesitancy on their part you let me know.

T: I will.

HMJr: Now, you didn't tell me whether you had any offers from London, did you?

T: We had no offers from London.

HMJr: Yes.

T: No, that — that market's apparently acting pretty well.

HMJr: Incidentally, if the broad tape yesterday carried any considerable statement as to what Ickes said or what Jones said tell the girls to copy it and send it down to me.

T: I will.

HMJr: And then — I told Harry White that he ought to get every week a copy of George Haas' business review.

T: Yes. I talked to George this morning about that point that he made in that last report.

HMJr: Yes.

T: I think that that sterling figure is obviously something to watch.

HMJr: Yes.

T: But there is nothing in there yet that we need be greatly disturbed about.

HMJr: Well, after all, I take it that when Harry — we sent Harry up this big statistical job of getting our competitive position in America — what I call our three point competitive position...

T: Yes.

HMJr: Harry's keeping that up to date.

T: Yes.

HMJr: How far behind is he on that?
(Short pause)

T: The average is a month and a half behind but that he can make adjustments there so you'll have practically a current position even though the statistical data is not complete.

HMJr: - date and then give me a little memo on it.

T: All right.

HMJr: And then, after all, it's his responsibility.

T: All right. He'll get one down to you as soon as he can.

HMJr: Well, that's all right. And - ah - I've got nothing else; I don't know what - if - I'm going talk to Kieley and I've got to talk to Greenbaum in New York, and by that time I can get the twelve-fifteen. I have nothing else and I won't call you fellows unless you've got something to call me.

T: All right.

HMJr: How's that?

T: Ah - they'll probably all be here because it's raining.

(Laughs)

HMJr: (Laughs) Well, I've got nothing and I'm going to try my best not to call you in the afternoon.

T: Just a minute. - Ah - Herbert says that we wired that release on prices as you suggested to the President last night and are proposing to release it on Monday unless instructed to the contrary - unless instructed to the contrary.

HMJr: All right. Is Herbert there?

T: Yes.

HMJr: Let me talk to him a minute and while I'm doing that tell Archie to try to get the twelve-fifteen prices.

T: Right.
Herbert: Good morning.
HMJr: Hello, Herbert.
G: Hello.
HMJr: Are we fairing all right in the world of publicity?
G: I think we are.
HMJr: Uh huh.
G: They're not doing us any damage. One of the boys noted Alsop and Kintner's column which said that a Treasury big wig suggested a Human Resources Board and Human Resources program and Sandy Kline said that looked to him like something the Secretary had said to Alsop and Kintner and was he the man who favored this. And I said yes he was.
HMJr: For a bald headed Secretary of the Treasury how can I be a big wig?
G: Well, I didn't understand the big wig; I didn't know that was suggested to you.
HMJr: Uh huh.
G: Ah...
HMJr: After all, just because the last Secretary of the Treasury wore a toupee is no reason that I should.
G: (Laughs) That's the way - that's the way they conceal the source.
HMJr: I see.
G: Yes.
HMJr: It's marvelous.
G: Yes. Ah - Well, all I saw in the papers about Ickes and Jones was that Ickes said that he had a fine engineering staff and he hoped that Mr. Jones would give him a chance to cooperate.
HMJr: Well, my money's on Jones.
G: Yes. Yes.
HMR: That's about I've got.

G: All right.

HMR: Did anybody see Stewart McDonald's figures yesterday? As to what they were?

G: I don't know. I spoke to Miss Chauncey right after I went out of this office yesterday and she said she hadn't got McDonald's figures yet but she would call up and try to get them to send to you.

HMR: All right.

G: I don't know whether she got them or not.

HMR: All right.

G: Archie now has those figures.

HMR: Please.

G: Twelve-fifteen.

Lochhead: The market has turned and gone up now.

HMR: Yes.

L: It's just point forty-five.

HMR: Yes.

L: And that's against off thirty-six.

HMR: Is our silver out - statement out? at

L: Ah - the silver statement will be/twelve-fifteen; we never release it before twelve-fifteen and lately it's been a quarter of one.

HMR: Oh.

L: Now, the other thing is the Commodities also have cut their loss; the Commodity increase is off twenty-one against off thirty-five.

HMR: What about commodity-futures?

L: Well, they're off point twenty-one.

HMR: Uh huh.
L: Against off thirty-five, at the eleven o'clock.

HMJr: Yes.

L: The volume of the stock market is holding up strong—nine hundred and ten thousand at the end of the first two hours.

HMJr: Well, when the market closes send me a little telegraphic review, will you?

L: I'll do that.

HMJr: See?

L: I'll do that. Now, just one second. I think Harry White has something he wanted to say.

(Short pause)

Harry White: Hello. I was talking to Delano...

HMJr: Talk a little louder.

W: I was talking to Delano.

HMJr: Yes.

W: And he mentioned...

HMJr: Which Delano?

W: The fellow in the Housing...

HMJr: Housing?

W: Preston Delano.

HMJr: Irving Delano?

W: Preston.

HMJr: Preston, yes.

W: And he stated that he was a little bit skeptical about the significance of McDonald's figures on the increase of loans.

HMJr: I see.
W: He said that their figures show tentatively a decline that about equals the increase of McDonald's figures.

HMJr: I see.

W: Now, I didn't investigate them any further and I don't know how much there is in it. If you are interested in it I can find out and let you know. But - since you indicated ...

HMJr: - I wish you would.

W: I'll find out what there is in both cases.

HMJr: Yes, I would.

W: And break it down and let you know. All right, I'll turn you back to Archie.

HMJr: What else you got?

L: Well, I don't think there's anything more now.

HMJr: All right.

L: And, as I say, we'll send those close by telegram.

HMJr: All right.

L: O.K.

HMJr: Goodbye.
The Chinese Ambassador called today and saw Mr. Lochhead and Mr. Taylor.

The Ambassador first referred to our current agreement to purchase 50 million ounces of silver from China, in lots of 10 million ounces, at two week intervals, under which 30 million ounces still remain to be purchased.

He stated that the recent decline in the silver market was the cause of great concern to the Chinese Government, as their sales of foreign exchange depended on the receipt of the price of 45¢ for the silver which they sold to the U. S. Treasury. The purpose of this first inquiry was to ask that favorable consideration be given to their request that the price of 45¢ be applied to the purchase of the 30 million ounces still outstanding under our agreement.

It was explained to the Ambassador that in making purchases of silver the Treasury found it necessary and desirable to apply the one price to all purchases made on the same day and it was extremely difficult to see how an exception could be made in the present case.

The second point that the Ambassador brought up was the fact that the Chinese Government would still have approximately 100 million ounces of silver for sale and it would be a great help to them if they could arrange for the sale of this silver at the present time in order that they might be assured of the proceeds which had to be used for the protection of their exchange. He said that they were not so anxious to receive payment for the
silver immediately but did wish to know just what they would get for the silver, the delivery of which might extend over a period.

The Ambassador was informed that both these points would be discussed with the Secretary of the Treasury and an answer given him as soon as possible.
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\(\text{\textit{A/ Revised}}\)
Secretary of State,

Washington.

491, March 30, 1 p.m.

Blum's financial program is still shrouded in secrecy. It will be discussed in meetings of the Cabinet tomorrow and Friday and introduced in the Chamber on Friday afternoon for examination by the Finance Committee, with a debate taking place on Saturday.

Some people assert that the program will be far-reaching in radical character, providing for greater government control of industry and banking and requesting full powers in certain specified fields. Others maintain that Blum is too shrewd a politician to present a program which could not be accepted by the Radical Socialists and which would therefore precipitate an open break in the Popular Front. However this may be, the concern manifested by the Radical Socialists gives weight to the view that the program will be a bold one.

Even if the Radical Socialists in the Chamber could be brought to accept an extreme program, it is certain that the
the Senate would reject it. In this connection it is of interest to note that the leading article in this morning’s POPULAIRE, the Socialist party organ, violently attacks the Senate stating that that institution is "outworn" and an "anachronism", and that it should "be done away with", without "breaking things up" if possible, but with "some disturbances" if this is necessary.

It seems likely as this situation develops that the political crisis which was recently postponed will come to a head within the next few days.

(END SECTION ONE).

WILSON

CSB:
PARAPHRASE OF SECTION TWO OF NO. 491
of March 30, 1938, from Paris

I am told by a friend in Blum's entourage that Georges
Boris is playing a leading role in the preparation of
Blum's financial program. Boris is well known to me and
I am familiar with certain of his views; about a year ago
he told me he was sure that exchange control would have to
be taken up by France not as a measure supporting in itself,
but simply because it would have to be adopted to protect
the franc because of the impossible burden of rearmament
and public debt charges. Just a few days before Boris was
appointed as Blum's Director of Cabinet, in the Finance
Ministry, I had lunch with him. At that time he reiterated
the same views to me. He added that he felt the time was
much nearer when exchange control would have to be
applied in France.

END MESSAGE.

WILSON.
GRAY
London
Dated March 30, 1938
Rec'd 4:18 p. m.

Secretary of State,
Washington.

RUSH

269, March 30, 7 p. m.

STRICTLY CONFIDENTIAL FOR TREASURY FROM BUTTERWORTH.

The following is sent with the approval and upon the authorization of the Ambassador: The leading bankers of the city dined at the Embassy last night and a full and frank discussion of Anglo-American economic and financial problems ensued. The following were among those present: Wardington of Lloyds, McKenna of the Midland, Beckett of the Westminster, Campbell of the National Provincial, Kindersley of Lazards, Villiers of Barings, Rothschild of Rothschilds, Hugh Smith of Hambros, Dalziel of Higginson, Whigham of Flamings, Lords St. Just and Catto and Rodd of Morgan Grenfell, and Pearson, chairman of the Stock Exchange.

The purport of the discussion may be briefly but accurately summarized as follows:

One. There is no doubt that the city is profoundly fearful of the trend of present events in the United States.
States. With one exception, all of those present are convinced that unless action is taken in the near future to reverse this trend, we and consequently the rest of the world are headed for a depression of major proportions. They are fully aware of the decisive role which America plays in world markets through its purchases of rubber, tin, coffee, sugar, et cetera, and the fact that their own and Europe's prosperity generally is directly or indirectly linked with the purchasing power of the countries which produce those raw materials. Given the political situation in Europe, they regard America as the only country having a free economic will — in a sense that its economic and financial policy need not be dictated by the political relations which it has with its neighbors, and they are perplexed and disturbed that the initiative making for the downward economic trend should therefore be coming from the United States.

They feel that it is imperative that an effort should be made to ameliorate America's internal strife and restore confidence. Confidence was in fact the word that resounded throughout the evening and at one
one point in the discussion the appeal for a restoration of confidence took on the nature of a plea.

The plea was to the effect that the President, as the first citizen, was the only person in the United States in a position to take a large, not to say magnanimous, view; that it was up to him to give the lead and to refrain despite some justifiable provocation from speeches criticising business men as a class even though the criticism might be in the wording directed against "a few". McKenna in particular gave his impressions obtained during his trip last autumn and his views were representative of the others'. He prefaced his remarks by saying that he had friends in the United States who were as enlightened and honest as any people he knew in the world and he had for them the greatest respect; that they were profoundly hurt and resentful at what has been said and what they took to be implied against them. McKenna said these feelings of apprehension and antagonism had been and could be aroused but in the end the persons concerned could not be coerced. These feelings, he said, were general and accounted for what he termed
termed the spenders' strike -- a strike called into being not by arrangement but by a spontaneous reaction. He went on to say that the economic man of Adam Smith no longer existed and he blamed our Government economists for not realizing the change which had occurred; that buying power certainly in terms of heavy industry was fairly closely held and that cooperation was an essential element of modern life under any system of government. He pled therefore for an attitude and for measures which would make for the restoration of a sense of confidence within the United States. And with no little skill he maintained that the alternative was chaos; that in the end the laboring man looked for a full dinner pail, and as a former politician, he said, he knew he would blame those in power if, after a reasonable period, his way of life was not made normal.

It might be reiterated that this aspect of the discussion was conducted in a dispassionate and friendly fashion and there is no doubt that those in the positions of responsibility in this country are profoundly fearful of the effect which a depression in the United States will have on them and the rest of the world.
world, and for this reason those who are the most sympathetically disposed to the aims of the new deal are equally fearful that the trees are now obscuring the view of the wood.

Two. The discussion touched briefly on the question of loans to such European countries as Italy, and it was entirely clear that the British banking community had no desire nor intention of making any such loans at the time.

Three. The question of war debts was raised by Kindersley and it was obvious that all of those present were decidedly interested in the question. They were anxious to be assured on two points: (one) whether the failure of the British Government to pay on its war debt is importantly resented by American public opinion and therefore is a significant factor in Anglo-American relations; (two) whether there is a willingness on the part of the administration to grapple with this problem should the British Government desire to make an offer. The fact that the President had sent the Hungarian relief debt offer to Congress was noted. The sense of the discussion was that the majority of those
REB

6-#268, From London, Mar. 30, 7 p.m.

those present favored action on the part of the British Government at a reasonably early date, and it is likely that they will make their influence felt in facilitating such a move.

KENNEDY

CSB
Mr. McReynolds:

I read this to H. M. this morning and he instructed me to send you a copy of it. A copy has also been given to Mr. Taylor.
Memorandum for
The Secretary of the Treasury

That is an amazingly interesting letter written by the cement man in 1934. If you want to arrange a conference with some of the leading cement people, I would be glad to have it.

F. D. R.
Mr. Bolton called me at 10 o'clock today.

Business had practically come to an end in Europe; none was being done at all in any market and he thought the world depression was spreading, if anything, and rather rapidly. As far as Europe was concerned there was, of course, a special reason for all this: the situation in Austria and in Germany, and it was quite apparent that Holland, Switzerland and Hungary, besides Czechoslovakia, were alarmed about the question of national safety. Although one might not read so much in the press about it, some people claimed, he said, that the war scare was growing in Europe.

Bolton then inquired how "this Mexican business" was going. He had not been able so far to discover any signs of Mexican silver sales in London. Naturally, the London silver market was worrying about the question of discrimination against Mexican silver. I referred him to Secretary Hull's recent comment to the effect that words such as discrimination, reprisal or retaliation were entirely out of place. Mexican silver was now on all fours with all and any kind of foreign silver produced in countries with which no special arrangements had been made. One of the requirements for foreign silver to be eligible for purchase by our Treasury for forward delivery had been and continued to be that such silver was refined in this country, for the obvious purpose, of course, of thus giving assistance to our refining industries. If Mexican silver could comply with this requirement, it would be purchasable here for forward delivery the same as Peruvian or
Chilean silver, for instance. If the producers in Mexico preferred to make use of their refineries in Mexico, that silver could be sold in this market only for spot delivery (that is within 24 hours of the date of contract) or else it could be sold in the London market for forward delivery.

I asked what the situation was in France and Bolton replied that the political situation there continued to be extraordinarily confused although it appeared gradually to be working out. The general feeling in London was that Blum would fail to get support for his new financial program and that, in that case, he would probably have to resign by Sunday or Monday. Developments would then depend on who was willing to take up the reins of government. Daladier was now being mentioned as a likely candidate who might succeed in forming a central government with the support of about 90 per cent of the parties on the right. Socialists would probably not join, nor, of course, the communists, so that a government of national union, for which hopes had been so high, did not seem to be in the picture at the moment. A Daladier government of the center and the right would probably appeal to the capitalists and might induce them to repatriate some of their funds. Whether, however, it would bring about internal order and peace was a difficult question to answer just now. Nevertheless, such a government would be a stronger and a better government. What Blum’s new financial program was, nobody knew but it probably did not matter anyhow because everybody now, and including Blum himself,
was beginning to realize that Blum was disliked and unwanted. We spoke of gold movements and I mentioned that the first Japanese shipment of a total of three, aggregating 60,000,000 yen, had left Tokyo for San Francisco early in the week. Russian gold, Bolton said, was arriving in London rather spasmodically and weekly receipts averaged less than a million pounds.
Secretary of State,
Washington.

272, March 31, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

Extremely quiet conditions prevailed in the foreign exchange market today and both the franc and dollar reopened steady.

Silver was fixed at 18-13/16 with India a buyer. After fixing the future rate rose an eighth.

KENNEDY

CSB
Paris
dated March 31, 1938
Rec'd 2:53 p.m.

Secretary of State,
Washington.
506, March 31, 7 p.m.
Reference my 491, March 30, 1 p.m.

The Cabinet meetings scheduled for today and tomorrow to consider the Government's financial program have been postponed until Saturday. Various reasons for postponement are given, such as the necessity of devoting the Government's energies to a settlement of the strike situation. It is not unlikely, however, that the real reason is that the Government has not yet been able to reach a definite decision upon matters to be included in the financial program.

It is generally taken for granted that the Blum Government will be out of office by the first part of next week either by resignation of the Radical Socialist ministers when they first obtain full information of the content of the financial program or by an adverse vote in the Senate. The political dopesters are busy as usual with the composition of the next Government. Most of them believe that Daladier will head it and that it will be composed mainly of Radical Socialists, like the last Chautemps Government.

END SECTION ONE.

WILSON.
PARAPHRASE OF SECTION TWO.
Telegram No. 506 of March 31 from Paris.

It is appalling to note the atmosphere of indecision, apathy, confusion and incompetence surrounding the entire governmental and political scene. Of late more than one Frenchman has told me that today it is humiliating to be a Frenchman.

The strikes in the metallurgical industry continue in the meanwhile. One or two factories have started work again, but in others there have been new strikes. I had a talk with a director of the Comite des Forges who has been negotiating with the Government and with the labor unions looking to strike settlement. In his opinion the demand for higher wages clearly should be dealt with under the provisions of the recently voted section of the labor code. However, he said, not only is the law being ignored, but there is no enforcement of decisions in labor disputes rendered by the courts and arbitrators appointed according to law. This director told me that spokesmen for the strikers made no bones about declaring that if the Government will agree to send airplanes to Spain the workers would be willing to return to their jobs and to work longer hours.

END MESSAGE.

WILSON.

EA: LWW
PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France
DATE: March 31, 1938, 4 p.m.
NO.: 503
FROM COCHRAN.

French exchange market today witnessed wide variation of rates on very thin trading. In addition to purchasing of francs for end of the month commercial needs, I understand there has been considerable selling of sterling by Paris curb operators who have been hard hit by recent decline in international securities and have been obliged to liquidate these and make up losses thereon. Today's strength in French rentes is attributed almost solely by market observers to the continuing hope that Blum's premiership will shortly end. Bank of France statement as of March 24 showed additional drawing by Treasury of 1,320,000,000 francs on its credit, bringing total of this item to 14,590,000,000. As previously reported the balance of the 15,000,000,000 francs was utilized on March 25.

At noon today I had a talk with Professor Charles Rist; he told me he anticipates an early collapse of the Blum Government. He said he hopes for the good of the political situation that the Chamber as well as the Senate will turn down
down Blum's financial proposals. Such action by both
the Chamber and the Senate would deprive Blum of
the argument that it is only the archaic Senate which
opposes his progressive plans. It should also deter him
from endeavoring to head another Popular Front Government
in the circumstances facing France today.

END SECTION ONE.

WILSON.
PARAPHRASE OF SECTION TWO.
Telegram No. 503 of March 31, 1938, from Paris

Professor Rist does not think that there will be a National Union Government; he believes in the first place that there are no executive leaders in the Extreme Right parties who could add anything to a government; in addition, difficulties with the Communists would result from the inclusion of such Extreme Right leaders as there are. He said he hoped that the new government would be manned principally by Radical Socialists, preferably with Daladier as Premier, in which some Socialists would be included perhaps with Blum as Minister for Foreign Affairs and some moderate Right members, such as Paul Reynaud.

Professor Rist believes that there would be a genuine and large capital repatriation if the new government would show only the slightest understanding of the actual situation and give flight capital only the barest opportunity, instead of keeping on with the policy of threatening and punishing those who have exported their funds.

With regard to international affairs, Rist is particularly bitter against the German Government. It is easy to understand this, since Rist has been very active in the post-War reconstruction of Austria. Also, in both Austria and Czechoslovakia, Rist is connected with important banking interests.

END MESSAGE.

WILSON.

EA: LWW
March 31, 1938  
(Sea Island)

(Note: This is the typewritten statement the way the Secretary wrote it in his own hand.)

Called the Pres. at 6:20 P.M., as I had an idea I wished to convey to him. We spoke for nine minutes.

I asked him if he had made up his mind as to what he was going to do about the R.R. situation. He said he had not thought about it for 4 or 5 days; that Pelley and Harrison of the R. R. had asked him to give them until this Sat. to make a report to him.

I said I have a suggestion to make. When I spoke to you last Monday you said you simply would forward the 3 man I.C.C. report to Congress and dump the whole thing in their lap. I think you ought to do something more constructive. I said you will remember some months ago when you thought you were going to have a department of Public Works, you asked me what I thought of Jesse Jones for that Cabinet Post. I told you I thought it a good idea.

I am now suggesting that you put it up to Jesse Jones and dangle the cabinet post of Transportation before his nose, provided he can get the legislation thru. At once the President said, "That is a very good idea. I like it". I said let Jesse do the gum shoe work on the Hill and see if he can get a separate bill thru. I said after all nothing ventured nothing gained. The President said he would not take the job on a bet. That he considered it the most difficult job in the country. But he agreed that Jesse would be good at it. The President definitely liked the idea. He asked me if I had seen his letter on dictators. I said I had not. He said its good - read it.

The President said he was feeling fine. That he had worked on the tax exempt letter. He did not think it would have a bad effect in the market, did I? I said no one could tell. He asked how is the market? I said still going down. He said common stocks will soon be cheap enough for us to buy some. I said joking will you buy Public Utilities. He answered, laughing, Commonwealth and Southern at 80¢ looks pretty cheap.

He really sounded in a grand humor.
If the President will go thru with this idea I think it will be very well received by the whole country. The people will say at last the President is going to do something constructive for the R. R. and the whole transportation question.

We must get our own house in order, if we are going to continue our leadership for liberalism.
down. He said common stocks will soon be cheap enough for us to buy some. I said joking will you buy Public Utilities. He says, laughing, Common Wealth and Standard at 80¢ books pretty cheap.

He really sounded in a grand humor.

If the Pres. will go there with this idea I think it will be very well received by the whole country. The people will say
at last the Pres. is going to do something constructive for the R.R. and the whole transpotation question. We must get our own house in order if we are going to continue our leadership for liberalism.
Called the Pres. at 6:30 P.M. as I had an idea I wished to convey to him. We spoke for 20 minutes.
I asked him if he had made up his mind as to what he was going to do about the R.R. situation. He said he had not thought about it for 20 days. That Kelley & Harress of the R.R. had asked him to give them until this last to make a report to him.
I said I have a suggestion to make. When I spoke
to you last Monday you said you simply would forward the 3-man I.C.C. report to Congress and dump the whole thing in their lap. I think you ought to do something more constructive. I said you will remember some months ago when you thought you were going to have a Department of Public Works you asked me what I thought of Jessie Jones for that Cabinet Post. I told you I thought it a good idea. Now you suggest that you put it up to Jessie Jones and ask for the Cabinet Post of Transportation before he makes a move. Provided he can get the legislation, I think it a very good idea. I like it. I said let Jesse do the same else I said let Jesse do the same else I said let Jesse do the same else I said let Jesse do the same else I said let Jesse do the same else I said let Jesse do the same else I said let Jesse do the same else I said let Jesse do the same else I said let Jesse do the same else
4, the job in a bit. That he considered it the most difficult job in the county. But he agreed that Jesse would be good at it. He said he was a good idea.

He asked me if I had seen his letter as dictators. I said I had not. He said it was good news.

The Pus said he was feeling fine.

That he had worked on the tax account letter. He didn't think it would have a bad effect on the market. He asked me how is the market? I said still going...
Wayne Taylor: Hello, Henry.

HMJr: What's going on?

T: Well, I'll just give you Archie to give you the markets here.

HMJr: I don't hear awfully well.

T: I'll give the market - give you Archie to give you the markets.

HMJr: All right.

Archie Lochhead: Hello.

HMJr: Yes.

L: The stock market is up a little bit.

HMJr: Yes.

L: Up about point six nine.

HMJr: Yes.

L: The volume isn't as large as yesterday.

HMJr: Yes.

L: They seem to fear - try to hesitate a little bit trying to feel a little bit optimistic but I don't think it's a real upturn yet.

HMJr: All right.

L: The commodities are off again slightly.

HMJr: Yes.

L: Off point one three.

HMJr: Yes.

L: That brings it just under fifty.

HMJr: I see.

L: The bond market is inclined to be under pressure again.
HM Jr: Yes.
L: It's off about two to six points.
HM Jr: I see.
L: I understand just before I came in that they've totalled - bought a total of about five million dollars.
HM Jr: I see.
L: Of that a million is an order that we sent up, our regular order.
HM Jr: I see.
L: In the foreign exchange it's very quiet and nobody wants to do anything in Francs because the deliveries are all for Monday.
HM Jr: I see.
L: The silver market in London raised their price up to the equivalent of forty-two-0-four.
HM Jr: Uh huh.
L: That's against forty-one eleven yesterday. And ...
HM Jr: There isn't much argument about keeping it at forty....?
L: No argument at all because they haven't even tried to offer their silver at the higher price.
HM Jr: Well, then we'll just hold it at forty-three.
L: Just hold it at forty-three.
HM Jr: Very good.
L: All right. Now, that's all I have here and I'll turn you back to Mr. Taylor.
Wayne Taylor: Hello.
HM Jr: Yes.
T: I've had several conversations with Ransom this morning ...
You have?

He, in turn, has had them with Harrison. And they're in good agreement about keeping this market strong and if it wants to turn to let - to help it up, you see?

I didn't get that.

If it wants to turn - help it along.

Good.

They're working all right on that.

Yes.

And we're keeping pretty close touch there and Ransom is standing by all right, and I gather that Harrison is to.

Well, if we need any help from the - if they need any help from the Treasury - ah - I agree with you it's important to keep that up.

Yes. Well, I didn't tell Harrison that, but I - or Burgess, but I did tell it to Ransom good and strong. Now, on your tax estimate...

Yes.

...as at the close of last night...

Yes.

Seven hundred and sixteen four twenty-three.

Seven sixteen.

Yes.

And how much...?

As against an estimate of seven forty-four five hundred.

How much is that off?

Twenty-eight.
HMJr: I see. Ah - seven sixteen is as at the close of what day?

T: Last night.

HMJr: Oh, well, that's all right.

T: Yes.

HMJr: We'll get to seven twenty anyway.

T: Ah - ought to.

HMJr: Yes. All right.

T: And I told the Chinese Ambassador about today's decision...

HMJr: Yes.

T: And I'm going to talk to him tomorrow about the rest of it.

HMJr: But, Wayne, -

T: Yes.

HMJr: Here's an idea. I'd be glad to buy five million of the two and half bonds under par for the stabilization fund. - We could use that income there.

T: Yes.

HMJr: Think that over.

T: Yes.

HMJr: See?

T: I don't think it makes much difference where we buy it, Henry.

HMJr: No, but I...

T: Yes.

HMJr: I wanted to put back five and a half million in that fund.

T: Yes.
HMJr: For the income.
T: That would be the last two and halves?
HMJr: Yes.
T: Yes. Yes.
HMJr: They're under par now. - Hello.
T: Yes.
HMJr: I say I - we've got fifteen million worth of bonds in that account now...
T: Yes.
HMJr: ...and then we'd have twenty.
T: Yes.
HMJr: We would just hold it there.
T: Yes. Ah - I think that's all right; I'd just as soon wait a month or two on it though.
HMJr: Well, I'm just giving it to you, I'm not giving it to...
T: Yes.
HMJr: I thought that if we had to/something, see?...
T: Yes.
HMJr: I'd take five million and put it in that account...
T: Yes.
HMJr: When you get ready to make the decision.
T: Right.
HMJr: See?
T: O. K.
HMJr: But I'm going to leave that to you - hello?
T: Yes.
HMJr: I mean, I - we could leave it just as it was, as long as the Federal Reserve will be active and watch that thing there's no use our stepping in.

T: That's right.

HMJr: But if we have to I would take up to five million of the long two and halves for the stabilization.

T: Right.

HMJr: Are you all in agreement?

T: Ah - that's - they say that's the best place to put it.

HMJr: All right. Now, - ah - then we'll keep the price at forty-three.

T: Yes.

HMJr: What else?

T: Well, I think that's about all I want to bother you with.

HMJr: Well, just tell Archie to send me a cable after the market closes.

T: Right.

HMJr: And - I won't call you; if there's anything important you call me.

T: I will. I'm having that loan meeting this afternoon.

HMJr: Oh.

T: And ...

HMJr: I'd have Herbert watch the publicity on that.

T: Ah - to see that there isn't any.

HMJr: Well, I mean, not to get caught in the cross currents.

T: Yes.

HMJr: See?
T: Yes.

HMJr: Huh?

T: Right.

HMJr: And tell Jesse when you see him alone that the best laugh I've had down here was his picture in the Tribune looking down his nose at Harold Ickes.

T: (Laughing) All right. I haven't seen it but I bet it's good.

HMJr: In yesterday's Tribune.

T: Yes.

HMJr: I mean he's kind of sitting back and looking over - down his nose at Harold as much as to say, "You so and so."

T: Right.

HMJr: It's wonderful.

T: Well, I'll have to get it.

HMJr: Get it. In yesterday's Tribune.

T: Right.

HMJr: Now, may I speak to Herbert a minute?

T: Ah - Herbert isn't here.

HMJr: Well, when is he releasing that statement?

T: Ah - he's - the other one? It's been released.

HMJr: Oh. I see. All right. That's been released?

T: Yes.

HMJr: All right. I have nothing else.

T: All right. Goodbye.

HMJr: Goodbye.
MEMORANDUM

March 31st, 1938.

The Secretary, over the telephone today, directed Mr. McReynolds to prepare and have ready for him next Monday a memorandum relating to the creation of a new executive department to be known as a Department of Transportation; this memorandum to be accompanied by a draft of bill to accomplish the establishment of such a department which would contain a statement of the functions and jurisdiction of such a department.

The Secretary stated that all types of transportation would be included under the jurisdiction of the department in contemplation.
March 31, 1938

MEMORANDUM

TO: Mr. Morgenthau, Secretary of the Treasury

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

No developments of particular significance in the unemployment and relief situation were recorded during the past week. WPA employment continued to rise but less rapidly as many states have already reached quota limitations. For the week ending March 26, WPA employment amounted to 2,394,856, or 37,979 more than the previous week. Pennsylvania, New York, Michigan, Illinois, and Missouri reported the largest increases over the previous week although the gains were very general throughout the country.

I am also attaching estimates we have recently completed showing the net total number of households and persons receiving public relief, works program, and emergency employment by months during the past five years. A separate table shows the data by program or agency in detail for the month of January 1938. The net totals make allowance for duplication between the various programs.

The persons figure represents the net total number of people in the households benefiting from relief or employment under the several programs. The persons figure is much more significant than households as a measure of the trend of dependency in the population.

You will note that the peak number of persons provided for during the past five years amounted to 27,606,000 in February 1934, during the CWA period. The low point was reached in September 1937, when 15,887,000 persons were benefited. In January of this year 17,514,000 persons were provided for.
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March 18, 1938
## WORKS PROGRESS ADMINISTRATION

**Estimated Net Number of Households and Persons Receiving Relief, Work Program Employment and Emergency Employment During January 1939**

**By Programs**

Continental United States

(OOO omitted)

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<th>Agency or Program</th>
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<td>Net Grand Total</td>
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**A/** Does not equal the sum of the totals shown for individual agencies and programs because allowance has been made for duplication.

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Division of Research, Statistics, & Records
March 31, 1939