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## TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Tuesday, April 26, 1938.  
4-25-38

Press Service  
No. 13-10

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 3/4 percent notes of Series C of the Commodity Credit Corporation closed at the close of business Monday, April 25, for the receipt of cash subscriptions.

Cash subscriptions placed in the mail before 12 o'clock midnight, Monday, April 25, will be considered as having been entered before the close of the subscription books.

The subscription books will close at the close of business Wednesday, April 27, for the receipt of subscriptions in payment of which Series B Collateral Trust Notes of the Commodity Credit Corporation, maturing May 2, 1938, are tendered. Any such subscriptions placed in the mail before 12 o'clock midnight, Wednesday, April 27, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of cash subscriptions and the basis of allotment will probably be made on Friday, April 29.

—oOo—

REB

PLAIN

London

Dated April 26, 1938

Rec'd 4:15 p. m.

Secretary of State,  
Washington.

RUSH

341, April 26, 8 p. m.

FOR TREASURY FROM BUTTERWORTH:

Armament expenditure hung like a pall over the House of Commons throughout the Chancellor of the Exchequer's budget speech this afternoon.

War preparations will require 343 million pounds of which 253 million pounds will be raised by taxation and 90 millions by borrowing under the defence loans act (my 58, February 11, 1937). The total expenditure of **1003 million** pounds for the fiscal year which began April 1st is larger by 81 million pounds than last year. Since income tax is collected a year late and surtax two years late the natural expansion in revenue will make up 51 of the required 81 million. Simon decided to obtain the remaining 30 million by doubling the duty on tea, which hits all sections of the population particularly

REB

2-#341, From London, Apr. 26, 8p.m.

particularly the poor; increasing the already high duties on light oils and gasoline; and raising the income tax rate from 5 shillings to 5 shillings and sixpence in the pound, a rate equivalent to 27-1/2%. However, industry (repeat industry) is to be virtually unaffected by the rise through an offsetting adjustment of the wear and tear allowance. Likewise the tax rate on the first taxable pounds 135 will remain the same thus leaving unaffected, for example, a single man with an income up to pounds 290 and a married man with one child with an income up to pounds 460. In announcing his decision to increase taxation Simon emphasized that the total armament expenditure for the five-year period will be "a good deal more" than anticipated; that more supplementary estimates of expenditure for the fighting services will have to be made during the year; that the peak of armament expenditure will not come until "next year or perhaps the year after"; and that having regard for the future he "would not be doing his duty by taking the easier course" of borrowing instead of increasing taxation. Incidentally I had a word with Montagu Norman after the speech who said that he was "devilish glad that

REB

3-#341, From London, Apr.26,8p.m.

that Simon had done the right thing and taxed instead of borrowed". However, the House of Commons did not seem altogether to share the Governor's sense of grim satisfaction. Simon gave the impression of carefully avoiding any prognostications as to the course of economic activity and his estimates of revenue returns from such sources as stamp duties pre-suppose a maintenance of the present level. Simon repeated the formula used in recent budget speeches that the equalization fund continues to show a profit."

Simon also revealed that for war storage purposes purchases of wheat, sugar and whale-oil have already been made. The quantities were not revealed but 10 million pounds is to be voted for these and "other purchases during the year where secrecy is less essential" and for certain other measures. Incidentally the Governor of the Bank of England also commented caustically on the recent depreciation of the franc and expressed indignation at "this ramp".

KENNEDY

CSB

APR 28 1944  
 RECEIVED  
 DEPARTMENT OF THE TREASURY  
 WASHINGTON, D. C.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 26, 1938, 5 p.m.

NO.: 653

RUSH

FROM COCHRAN.

Reference my 651, April 26, noon.

Market continued to take a good amount of sterling from the control with latter very gradually strengthening the franc rate (160.20 at 5:00 p.m.). Forward franc more offered. French rentes and shares irregular. Balga stronger with Guaranty trying to acquire the last three million required for the fifty million belga French Railway repayment (see my 636, April 23, 4 p.m.). Swiss buying sterling, presumably to use on Argentine loan transaction (see my 636, April 23, 4 p.m.)

At noon today I had a brief talk with Marchandean and Rueff. This afternoon by telephone I also spoke with Rueff again. Both of these officials state that their objectives are "to improve economic activity and to achieve Treasury equilibrium". However, at the present time, they can give no details to supplement the general lines of the communique which they have already given out. Continuous sessions of governmental officials charged with working out those details are held, at which Marchandean and Rueff are present, and they have not

not completed their task. Today they are laboring under very heavy pressure preparing for the departure on Wednesday afternoon of Daladier and Bonnet on their visit to London.

Re the last sentence of my telegram No. 652 of April 26, I repeat my belief that the French Government will try to get financial assistance (?) through the equalization fund (reference: my 645 of April 25) ~~or~~ through financing by London of French purchases of war materials to be repaid over a certain period of time. It is not to be expected that any further announcement or even any final conclusion of the general plans of the Government will be forthcoming until the Government sees the accomplishments of the London visit.

Wilson.

EA:LWW

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Wilson.

WNL:AV

RECEIVED  
APR 28 1938  
TREASURY DEPARTMENT  
Office of the Secretary  
Building located at the Treasury

GROUP MEETING

April 26, 1938.  
9:45 A. M.

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

H.M.Jr: Good morning, stranger.

Gibbons: Am I a stranger?

H.M.Jr: You weren't here yesterday.

Gibbons: I wasn't here yesterday; I was in New York yesterday.

H.M.Jr: Herman?

Oliphant: Nothing.

H.M.Jr: Good. Herbert?

Oliphant: (Inaudible - something about Mr. Cox.)

H.M.Jr: Keep right on it.

Oliphant: Mention it every day.

H.M.Jr: (To Mr. Gaston:) Go ahead.

Gaston: The Association of Business Paper Correspondents here are very insistent that they have a press conference with somebody on the subject of cement and the rejected cement bids. They either want a conference or they want an outright refusal to hold a conference. I don't believe there is much we can tell them about the cement situation.

- H.M.Jr: Well, I simply would tell them this: That we're in the process - we've just rejected these bids and we're in the process of formulating new bids, and that there isn't anything to tell - that is all.
- Gaston: The Iron Age wants to ask a series of questions. I haven't seen them yet, but I think what they want to know is just what was the reason for rejecting the bids.
- H.M.Jr: Well, let Peoples see them.
- Gaston: You want to let Peoples hold a conference with them?
- Oliphant: Hold a press conference on the stabilization fund - on negotiating that agreement.
- H.M.Jr: Well, that's hard. That's hard. What do you think, Herbert?
- Gaston: I just don't know whether there's anything to tell them or not.
- H.M.Jr: There isn't.
- Gaston: I don't believe we ought to hold any conference.
- H.M.Jr: All right. Supposing the Iron Age says I'm a so-and-so - then what?
- Oliphant: It's still Iron Age, speaking for the Steel Institute.
- H.M.Jr: I think we'll have to sit it through and hope when we come out we'll come out on the right end.
- McReynolds: Harry Collins is on his way over here to tell me what he has - the details - definite information.
- H.M.Jr: (Over telephone:) Admiral Peoples, three thirty. What else, Herbert?
- Gaston: Nothing else. Our bill seems to have been a record yesterday on price.
- H.M.Jr: Yeah. Harry, I was told yesterday by George Harrison that one Eccles thinks there is going to be a big flood of gold coming this way. What do you think?

White: I think so.

H.M.Jr: You think so too?

White: Sometime within the next six months.

H.M.Jr: Give me a memo, please.

White: Yes sir.

H.M.Jr: Have you any social engagements tonight?

White: No sir.

H.M.Jr: I may work with you on this. Will you keep these (printed sheets) please, until later. Mrs. Morgenthau's work - and I'll take the work - and if she doesn't I'll have you at eight thirty. I'd go over your plans for your organization.

White: Something that's a little out of the immediate responsibility, but I'm mentioning it in case it hasn't been brought to your attention. I understand you're going forward with some investigation of steel prices, and it's come to my attention and knowledge, from other sources that there is - although that is a rumor; it's not a fact - that there is an arrangement which has already been made between the President and John Lewis that nothing be done about steel prices .....

H.M.Jr: The President and what?

White: John Lewis.

H.M.Jr: That he .....

White: Nothing will be done about steel prices - that it was under those conditions that United States Steel signed up with the C. I. O. Now I can't verify the facts of that at all; I'm merely passing it on as gossip.

H.M.Jr: Well, these committees are working on the stuff, and I am perfectly willing, frankly - going to let them slide for the time being - for the next ten days, because I've got stuff to do that's Treasury responsibility, and I when I get a chance one of these days, I'm going to ask the President

if he wants a Price Board and let him appoint somebody to take it. I just haven't got the time to do it. I mean, I don't consider it as important as when we started. Maybe it's much more important for the President to decide if a million dollars is going to run up the prices - going to again squeeze off the housing program the way it did last time. I mean, it was our own Government in competition which ran the prices up so on lumber, that we are partly responsible for squeezing this thing. We are going to do it all over again. What's the sense of running up competition when we're going to be in direct competition with people like Stewart McDonald and Nathan Straus. You're going to have Ickes and others fooling around with one item.

White: In other words, you're going to shift the item to a committee?

H.M.Jr: Yes, because somebody gave us those figures on the price of lumber - running the price of lumber up, and what's the use of fooling around with individual items if you have in mind two big programs developing, which are going to come out in a headon collision? That's the way I feel. But I mean, if those committees are working, let them work - see if we can find a berth for them.

Haas: They are making pretty good progress.

H.M.Jr: That's all right. Let them work.

George?

Haas: I have nothing this morning.

H.M.Jr: George, have you got anybody in your place that knows anything about bank examinations?

Haas: Ah, the best man I've got is Henry Murphy.

H.M.Jr: What does he know about it?

Haas: He knows something about it.....

H.M.Jr: What?

Haas: Well, he has the general theoretical background of banking; he's worked in a bank and managed the portfolio in one of the largest banks in Detroit before he came down here.

H.M.Jr: Think he could contribute anything on it?

Taylor: I think he would be useful.....

H.M.Jr: Then let him come in at ten thirty, will you, George?

Haas: Uh-huh.

Taylor: ..... particularly from the standpoint of the portfolio standpoint, which they are going to discuss.

H.M.Jr: And George, just a general impression - I thought your weekly business review was more bullish than the material in it justified. That is my impression.

Haas: Well, I think in listing the tables there were more favorable than were unfavorable. The unfavorable - there may be enough to overshadow the other one. I think you're right, in reading the thing through. That's the difficulty in preparing a case. I'll look it over again.

H.M.Jr: I just wanted to give you my feeling, for what it's worth. I thought it was more bullish than the facts in it justify. Take another look at it, will you?

Haas: Yes.

H.M.Jr: Wayne?

Taylor: This is the suggested agenda Mr. Upham and I prepared. There are really only two things they concentrate on. They want to talk about it for any length of time, you may get some .... (inaudible) .. .... other aspects.

H.M.Jr: (Over telephone:) Have Berkshire here at ten fifteen. Berkshire.

All right. We'll just kind of ease our way into it.

(Side conversation with Mrs. Klotz.)

(Nods to Mr. Gibbons.)

Gibbons: Did McIntyre speak to you about Senator Hughes of Delaware wanting to change the Collector of Internal Revenue? He finally went in to see the President, after talking to Jim Farley and Jim Halloway. Mac (McIntyre) wanted me to talk to you about it. I'm going up to see the old Senator. The President, I suppose, told him, "I'll go along with you."

H.M.Jr: Customs?

Gibbons: No, Collector of Internal Revenue. He's been talking about it for a year. I told him just to send in another name and if the President wanted to appoint him..... But we can't remove him unless we prefer charges.

H.M.Jr: Everything else all right?

Gibbons: Did you see Oliphant's opinion on inviting Senator Copeland to go up to Alaska on one of our Coast Guard boats?

H.M.Jr: I haven't seen it.

Gibbons: We're justified in doing it.

H.M.Jr: We've already done it.

Gibbons: Well, the invitation is to be signed by you.

H.M.Jr: It's legal?

Gibbons: So Herman says.

McReynolds: I sent it along. I guess Miss Chauncey's got it.

Taylor: Did you give him a one-way ticket?

Oliphant: Let him down - we let him down.

H.M.Jr: What are you going to do, feed him to the white bears up there?

Bell: He'll have to find out about red salmon so next year when he speaks in the Senate he can talk more generally about it.

H.M.Jr: O. K. All right. (Nods to Mr. Lochhead.)

Lochhead: The french franc continues to be steady at 3.11 - working on both sides - sold in the markets, but not very much activity. Sir John Simon is making his budget speech this morning. It's going to take about two hours, they say, and don't know just how they're going to get the money. With regard to gold, Japan is shipping another five million dollars in gold, shipment to start immediately - makes about thirty-five million dollars total, they have shipped.

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

Bell: I again want to bring to your attention the limitations on the kind of public debt you can issue. We can issue March 31, a billion seven hundred thirty-one million dollars of bonds, and taking out about four hundred million to assign the United States Savings bonds between now and next March will leave you a billion three hundred million dollars of additional bonds that you can issue between now and next Congress, and you have up to December 15, a billion seven hundred million dollars of notes maturing, and you may want as much as a billion dollars in cash, so that all you can put of that total in bonds is a billion three.

H.M.Jr: What is the total of bonds?

Bell: You've got plenty of note issues.

H.M.Jr: How much are the total bonds?

Bell: Twenty-three billion dollars outstanding, and you have an authority of twenty-five billion dollars - twenty-three billion, two hundred sixty-three .....

H.M.Jr: How much?

Bell: Twenty-five billion dollars. Then you have authority of twenty billion of notes, certificates, and bills - six billion balance left on that.

H.M.Jr: How much did I ask additional, five or ten?

Bell: How much should you ask for? Last time I brought it up you said you didn't want to ask this Congress for anything. You thought it would scare everybody.

I think if you're going to ask for additional authority, the thing to do is to combine the bonds and notes, making a forty-five billion total, rather than separating the bonds and notes. I think if you ask for an additional five billion, which will run it up to fifty, everybody will say you're anticipating the debt to go to fifty.

H.M.Jr: Will we have to fix up a bill?

Oliphant: Yes, a bill.

White: Does that include .....

Bell: There are six billion dollars of additional notes that can be issued, and I've taken off, say, oh, eight hundred million dollars between now and March would give you a total of five billion three hundred million dollars of additional note issues - eight hundred million dollars covering the unemployment compensation and old age reserve.

H.M.Jr: Well, Dan, fix me up a note and statement; I'll go up on the Hill. You - have you got a statement there?

Bell: No. I'll have to make up something.

H.M.Jr: Well, fix it up. That ought to be very easy.

Oliphant: We can have it by tomorrow.

H.M.Jr: Well, fix it up and Dan and I will go up on the Hill and I'll see.

Bell: It's Ways and Means and Senate Finance Committees.

H.M.Jr: Well, I'd better see. That's Pat Harrison, isn't it?

Bell: Yeah - and Doughton are the leaders.

H.M.Jr: Those two.

Bell: And if you want to add any other leaders, I don't know.

Oliphant: It does go to Senate Finance?

Bell: Yes.

H.M.Jr: Well, we could ask for five minutes to go up to the meeting on this tax bill tomorrow if we want to get something through. When they meet tomorrow morning at 9:30 "would they see us for five minutes?"

Bell: You mean the full Committee?

Oliphant: That would be the Conference Committee.

McReynolds: Of both Houses?

H.M.Jr: Of both Houses.

Bell: Well, that is just the Conference Committee.

H.M.Jr: Well, you see, both the Republican and Democratic leaders of the Senate and House is the easiest way for us. With Pat Harrison and Doughton it is all right, and explain it to the Republican members and they'll shoot it through. Anybody got a better way of handling it?

Taylor: I think the question of whether that Conference Committee can talk about anything except .....

H.M.Jr: Well, I'll ask them. I'll ask Magill to ask them, if you'll be ready tomorrow morning. Can you be ready?

Oliphant: Oh yes.

H.M.Jr: I'll ask Harrison. Who's Chairman of that Committee, Harrison or Doughton?

Bell: I don't know.

H.M.Jr: I'll find out.

Bell: I should think the first conference might take place between you and Doughton and Harrison.

H.M.Jr: That's what I'll ask them. I'll ask them, but it ought to be done fast.

Bell: Yes. Well, any time, just so we get it through before the end of the session.

H.M.Jr: Well, you haven't got much time. You have it ready today and I'll ask them.

Bell: All right.

H.M.Jr: But I want a memorandum explaining it.

Bell: All right.

H.M.Jr: O. K.?

Bell: It's all I have.

H.M.Jr: Glad you brought it up.  
(Nods to Mr. Upham.)

Upham: There's nothing. Smythe seems to be fully in over there ....

H.M.Jr: Is Smythe .....

Upham: .... and working full steam, yes.

H.M.Jr: Mac?

McReynolds: (Nods "No.")

H.M.Jr: Any after thoughts?

Olipphant: I probably should have mentioned that Lee Liquor bill that in effect puts us back in the prohibition .....

H.M.Jr: I thought that was called the Oliphant bill.

Olipphant: That was the Oliphant opinion. Lee put it in the Senate tax bill and Magill was going to undertake to get it out, but apparently it's going out on the understanding that we pass a separate bill.

H.M.Jr: What did you rule that's got them all upset?

Olipphant: Just what it said.

H.M.Jr: What's that?

Olipphant: That we wouldn't undertake to go in .....

H.M.Jr: Excuse me.

(Over telephone:) Hello. Hello Randolph. What's worrying you? Go ahead. Oh. Ohhhhhh. Well, that's a horse of a different color - entirely. Yeah. Yeah. Yeah. Yeah, and ask them to make bids on these bonds at one thirty.

(Remaining portion of conversation with Mr. Burgess at 10:05 a. m. attached hereto.)

April 26, 1938.  
10:05 a.m.

W. R. Burgess: Hello, Henry.

H.M.Jr: Good morning.

B: I think we've finally got this - this bond sale on Friday straightened out.

H.M.Jr: Go ahead.

B: Well, I'm embarrassed, for one thing, because I find one of these fellows reported the name to me erroneously.

H.M.Jr: Oh.

B: It was the Panama Railway Company.

H.M.Jr: Oh!

B: Just as bad, but it's ....

H.M.Jr: Well, that's a horse of a different color.

B: Yes, although it's - it's wholly owned by the Government.

H.M.Jr: Entirely. Yes.

B: Well, I'm terribly sorry about getting the name wrong.

H.M.Jr: Yes.

B: But I relied on - on one of the most reliable dealers, but he got it from - from a security house.

H.M.Jr: Yes.

B: In transit the name got twisted.

H.M.Jr: Yes.

B: Now, what happened was that about lunch time they called up a number of dealers. It was at least four - and asked them to make bids on these bonds at 1:30.

H.M.Jr: Yes.

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- B: And then they got the various bids of those who - who bid; some of the dealers wouldn't bid under those circumstances. Of course, it went throughout the country, these fellows trying to get firm - firm bids from their customers, so that they could bid for the block with the steamship - with the railroad company. And then quite late, after getting firm bids for 15 or 20 minutes, and so on - after 40 minutes or so, these fellows called the dealers back and - and told one dealer that he'd bought them; well, he said he hadn't bought them, because he only gave them to him firm for 15 minutes.
- H.M.Jr: I see.
- B: Well, then they shopped around and kept on the wire and - and made a pretty terrible mess of it for a couple of hours, and finally sold all the direct Governments to Childs, and the Federal Land Bank bonds to Solomon. So ....
- H.M.Jr: How many directs did they have?
- B: They had - just a minute, I've got the whole list here - six, seven, eight, nine, - about nine and a half million.
- H.M.Jr: Nine and a half ....
- B: Yes.
- H.M.Jr: ... Governments.
- B: And about one and a half of Federal Land Banks.
- H.M.Jr: Yes.
- B: Now, I've got their statement.
- H.M.Jr: Yes.
- B: They were listed in their statement, evidently, under - under two headings: a fund for the construction of vessels, a reserve fund; and a fund for taking care of depreciation and depletion and worn-out equipment ...
- H.M.Jr: Yes.

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- B: ... and so on. And evidently in those two funds they had these Governments. Some of these actual ones are listed in Poor's Manual - in Poor's Manual on the thing. So they had the bonds all right, and they have sold them.
- H.M.Jr: Yes.
- B: But they - they did it like you would work with a hacksaw.
- H.M.Jr: Well, you don't know who was giving the orders for the Panama Railway?
- B: Yes. It was Newton, who was the Treasurer, and Rossbottom, who's the - the Vice President in charge of this office.
- H.M.Jr: Ross - ?
- B: Wrigley, the fellow who - the President, is, I understand, in the Canal Zone.
- H.M.Jr: Yes, but who was giving the orders?
- B: Newton.
- H.M.Jr: Newton. N-e-w-t-o-n?
- B: Yes. Mr. Victor M. Newton is the Treasurer.
- H.M.Jr: Victor M.
- B: Yes.
- H.M.Jr: And he was giving - he was handling the orders.
- B: Yes.
- H.M.Jr: Victor Newton.
- B: Now, also, Rossbottom, the - the first Vice President.
- H.M.Jr: Yes.
- B: Thomas H. Rossbottom.
- H.M.Jr: Yes.

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B: Who is evidently his superior, - talked with some of the dealers himself.

H.M.Jr: First Vice President.

B: Yes. Now, I gather that Wrigley, the President, is in the Canal Zone ordinarily.

H.M.Jr: Well, this is Army, isn't it?

B: This is Army, yes. Woodring is on the Board. He's one of the directors.

H.M.Jr: Yes. Well, now - well, this gives me a lead, and I'll call up Woodring and tell him what I think.

B: I think that's the - the procedure.

H.M.Jr: Yes.

B: I told these dealers I'd protect them individually . . .

H.M.Jr: That's right.

B: . . . and I haven't told you any names of dealers.

H.M.Jr: No, I don't know anything.

B: So you just got it from the air.

H.M.Jr: That's right.

B: (Laughs)

H.M.Jr: Got it through the Communications Commission.

B: That's right. Through your mysterious sources.

H.M.Jr: Right.

B: Well, I'm sorry we got it wrong the first time.

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

B: But it really wasn't our fault on that.

H.M.Jr: Something tells me - the ring in your voice, now that you know it's a Government agency, sounds entirely different.

B: (Laughs) Well, I'm a little relieved myself.

H.M.Jr: Hal Hal Hal

B: It sounded awful funny to me.

H.M.Jr: Yes. All right.

B: All right, Henry.

H.M.Jr: Good-bye.

B: Good-bye.

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Oliphant: It isn't funny since it's a Government agency.

H.M.Jr: Well, we'll talk about that some other time.

McReynolds: Rosbottomis their New York man.

H.M.Jr: Thank you all.

MEMORANDUM

April 26th, 1938.

Messrs. Rosensteel and Sack, of Shenleys, called on the Secretary at 10:20 a. m., to request that the Treasury propose the imposition of a larger increase in lieu of the 25¢ a gallon increase in taxes on distilled spirits, now included in the Tax Bill about to be reported out of conference. The reason given was that so small an increase could not be passed on to the consumer. It would, therefore, have to be absorbed by the industry; as a result of which the weaker sections would be unable to continue to operate at a profit.

The Secretary stated that the Treasury had done all it could to prevent the imposition of the additional 25¢ a gallon tax and he could not, therefore, consistently propose a higher tax. Consequently, he declined to make any effort to comply with Mr. Rosensteel's request.

Mr. Rosensteel also pointed out the serious results to the price structure in the liquor industry if the additional 25¢ a gallon tax is permitted to be imposed without at the same time imposing a similar floor tax on stocks already distilled. The Secretary suggested that he take that matter up with Stewart Berkshire and attempt to get the necessary adjustment made in Congress.

Mr. McReynolds and Mr. Berkshire were present at the conference.

April 26

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Request for Legislation Regarding Limitation  
on Bond Issues

With reference to the contemplated request to Congress for legislation eliminating the limitations on the proportion of bonds to notes that can be outstanding, I am wondering whether it may not be wise to postpone the matter at least until next year.

The only justification for requesting the legislative change seems to be that it would give the Secretary greater flexibility in his financing program. The Secretary may wish to take advantage of the low interest rates now prevailing and undertake to finance next year's requirements with bonds rather than notes. But the amount of bonds that can be issued under present limitations is only about 2½ billions, one half billion of which must be reserved for savings bonds. It may be felt that 2 billions do not provide sufficient leeway and therefore removal of the 25 billion limit is called for.

Against this consideration must be weighed the following:

1. The action might have a bearish influence on Government bond prices.

Realizing that the statutory limit permits issues of approximately 6½ billions of notes and bills, but only 2 billions of bonds, the market would conclude that the Treasury intends to accomplish its new financing (or a portion of its re-financing) through bond issues rather than through notes or bills. The expectation of increased bond issues in preference to note and bill issues may be a depressing factor on Government bond prices.

2. It may stir up criticism against the Treasury financing policy.

The request may give opportunity for the numerous critics of Treasury financing to air their criticism in Congress. They may repeat and elaborate upon the theme that the Treasury is "whipsawing" the bond market by driving up bond prices, etc. The critics might say that the reason the Secretary of the Treasury is asking for new legislation is because he anticipates a weakening of Government credit in the near future and wants to issue bonds before it is too late. The expression of such views with Congress as a sounding board can do no good at this time.

3. Is it necessary to obtain new legislation now?

The only justification for requesting a change now in the legal limitation of bonds versus notes and bills would be the intention of the Treasury to issue more bonds within the next year. But it would seem that during the next year the financing were better done with bills and notes than bonds.

(a) The Treasury can, of course, borrow at a lower rate of interest if bills (or notes) are used.

(b) Short-term financing helps to promote a low cost of borrowing for private industry. Bills tap the liquid resources of banks. Notes do so likewise though to a lesser degree. The Treasury (and the Federal Reserve Board) have ample powers for maintaining those liquid resources at a high level, and therefore increased issues of bills and notes need not greatly increase the interest rate.

On the other hand, a larger proportion of the investments in bonds comes from private individuals, insurance companies, etc. The Government has no direct control over the volume of their savings; it cannot increase them as easily as, not as much as it can excess reserves. The smaller the investments of these institutions and private individuals in Government securities, the more are they forced to seek investment in private enterprise and in the construction of capital goods.

(c) It may be claimed that it is desirable to take advantage of the present favorable bond market and issue bonds this year even though bills can be sold at extremely low rates. If bills or notes were sold now, the Treasury might be confronted two or three years from now with interest rates which are much higher than the present ones on bonds as well as bills.

The validity of that position in my opinion is open to question. Unfortunately the subject can be treated adequately only in a longer memorandum (which we shall be glad to prepare if you are interested). At this point I would merely like to suggest that the decision to request new legislation be postponed until you are satisfied that the advantages outweigh the disadvantages.

*H. D. White*

April 26, 1938  
10:16 a.m.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

Jesse Jones: Hello.

H.M.Jr: Jesse?

J: Good morning.

H.M.Jr: How are you?

J: Swell. You made a good sale of Commodity Credit bonds.

H.M.Jr: It wasn't bad.

J: It was fine.

H.M.Jr: It's good merchandise.

J: Yes.

H.M.Jr: That's the way to sell them, Jesse.

J: That's right. Well, that's fine.

H.M.Jr: You know - got to go through the regular machinery ...

J: Yep.

H.M.Jr: ... that's been perfected over years.

J: Well, that's fine.

H.M.Jr: Ah - Jesse.

J: Yes.

H.M.Jr: I'm glad you called, because I don't know what you've got in your strong box over at R.F.C., but if you've got any of those bridge bonds or anything else ....

J: I'm working awfully hard to get 'em.

H.M.Jr: ... I'd put 'em - I'd put the pressure on to sell them.

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J: Yes, I'm trying awfully hard to get them, but we haven't got them yet; we've got to refund the issue.

H.M.Jr: Well, because the first to 15th of June - I want to keep that for the Treasury.

J: First to the 15th of June.

H.M.Jr: Yes.

J: All right, fine.

H.M.Jr: See? I want to keep that for ....

J: Well, I've got - I'll bear that in mind.

H.M.Jr: So you've got the rest of this month.

J: All right.

H.M.Jr: See?

J: First to the 15th of June.

H.M.Jr: Well, I'll put it - I mean I wouldn't - I - I - I never gave a look at the calendar - I mean I wouldn't want you fellows to come out on the 15th. Well, let's say - I'll put it this way to you. I'll - I'll keep from the 6th to the 20th of June inclusive.

J: All right, and if I do anything big I'll call you first anyway.

H.M.Jr: I mean - yes - but from the 6th to the 20th inclusive.

J: All right, 6th to the 20th of June.

H.M.Jr: And then we'll - we'd - we'll do our offering on the 6th.

J: The 6th. Did you ....

H.M.Jr: Wait, I'll change that - let's see - 6th to the 18th inclusive.

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J: 6th to the 18th.

H.M.Jr: 6th to the 18th, you see.

J: All right.

H.M.Jr: That gives me two weeks.

J: Yes.

H.M.Jr: That gives me two weeks.

J: Did you see the President yesterday?

H.M.Jr: Yes.

J: Anything mentioned about railroads?

H.M.Jr: Not a word.

J: Uh-huh.

H.M.Jr: What do you know about railroads?

J: Well, I had a meeting with Wheeler on Saturday and I'm going to have another one today at noon - at two o'clock.

H.M.Jr: Uh-huh.

J: With him and - and Lea, of the House Committee, and ...

H.M.Jr: Ah ...

J: ... just to talk about seeing what we can do at this session; if anything, in the way of - I don't think anything big can be done, but we may get some little something. And I just wondered whether ....

H.M.Jr: Well, are you - have you given up any idea of a bill?

J: Well, I want to talk; that's what I want to talk about with these fellows.

H.M.Jr: I see.

J: See, Lea is Chairman of the Committee in the House.

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- H.M.Jr: Gosh, I - you know, Jesse, if this Congress goes home without doing something about railroads, I'm just going to be sick about it.
- J: Yes.
- H.M.Jr: And so's the country.
- J: All right, I'll - I'll - I'll use that as my cue.
- H.M.Jr: I mean the country is just going to be sick about it. I mean we can sit around here and talk about pump-priming and all the rest of that stuff.
- J: Yes.
- H.M.Jr: And - but the railroad transportation and the allied industries that go with it...
- J: Yes.
- H.M.Jr: .. if they don't see some silver lining, I think it's going to be one of the most discouraging things to the country I know of.
- J: Yes.
- H.M.Jr: That's the way I feel.
- J: Well, I'll - I'll ....
- H.M.Jr: And I'll tell you something; by God, we've got to have something like it, because - ah - ah - just between us, I - I haven't got any good news, ...
- J: Yes.
- H.M.Jr: ... Jesse.
- J: I see.
- H.M.Jr: But if we could do something so the people knew where we were going on this railroad thing, I think it would make the difference - I really do - of day and night. Now, that's the way I feel.
- J: Yes. Well, I'll talk with you after I've had this meeting.

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H.M.Jr: Because I - as I say, there's - if there's something in sight which can cheer me up ....

J: Yes.

H.M.Jr: But if - if we could - if we could get this thing ....

J: That would be a definite step.

H.M.Jr: What?

J: That would be a definite step.

H.M.Jr: Most important.

J: Yes. I'll use - I'll use that as my cue.

H.M.Jr: O.K.

J: I'll call you later.

H.M.Jr: I wish you would.

J: Thank you.

H.M.Jr: Good-bye.

April 26, 1938.  
10:30 a.m.

H.M.Jr: Hello.

Operator: Mr. Jones. Go ahead.

H.M.Jr: Hello.

Jesse  
Jones: Hello, Henry.

H.M.Jr: Jesse.

J: Yes.

H.M.Jr: Mr. Rosenstiel is in my office - of Schenley's,  
Distillers.

J: Yes.

H.M.Jr: And he came down on this question of increase in  
taxes on liquor, see?

J: Yes.

H.M.Jr: And in his conversation he said that the industry  
can't borrow any money.

J: Yes.

H.M.Jr: And he wants to borrow 20 million dollars.

J: Uh-huh.

H.M.Jr: I said, well, if he wants to borrow 20 million  
dollars, he can go over to see you and you've got  
it and if he's got a solvent business he can borrow  
it.

J: Yes.

H.M.Jr: Is that right?

J: Ah - in - in part.

H.M.Jr: Well ...

J: I'll be glad to see him, Henry.

H.M.Jr: All right.

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J: And then I'll talk to you about it.

H.M.Jr: Now, what time do you want to see him?

J: Well, I think it will be about four o'clock.

H.M.Jr: Just a minute.

(Aside:) Four o'clock?

He'll be at your office at four o'clock.

J: Fine. Rosenstiel.

H.M.Jr: Yes, President of Schenley's.

J: Fine.

H.M.Jr: But I'm going on the theory that anybody that's got a legitimate business,...

J: Yes.

H.M.Jr: ... a solvent business - I don't want him to say he can't borrow money.

J: Fine. Send him over.

H.M.Jr: Is that right?

J: Yes.

H.M.Jr: O.K.

J: Fine.

## RE BANK EXAMINATION POLICY

April 26, 1938.  
10:30 a.m.

Present: Mr. Taylor  
Mr. Upham  
Mr. Gaston  
Mr. Smyth  
Mr. Davis  
Mr. McKee  
Mr. Crowley

H.M.Jr: All right, Wayne, where are we?

Taylor: Well, I described to you very briefly what the two points were that I thought you could start discussion on. One was this classification and the other is how to handle your bond account.

H.M.Jr: And you kept all the experts out?

Taylor: Yes, temporarily. Thought we would make a little faster progress if you listened to the heads of the agencies, and so on, and then went on from there, because their feeling is that it is going to be comparatively easy for them to come to an agreement in principle, and then they can tell the heads of their staffs what those agreements are and say, "Go ahead and work it out." Isn't that about right?

H.M.Jr: All right. Let's go around the room, start with Mr. Crowley.

Crowley: I always seem to get myself in the wrong location.

Well, as far as we're concerned we're perfectly willing to sit down with the other two agencies and work out any determination of the "slow" item, but to do it with the understanding that that item is not to be criticized and not give these bankers any reason for using that as an excuse for forcing liquidation. We are opposed to changing the policy of bank examinations. In other words, we don't want to go backwards on bank examination, we think we should go forward. And personally I don't believe that there is any justification to a lot of the complaint and the criticism on bank examinations. Now, these bankers have always used the bank examiners as the Tribune used the tax law this morning, as an excuse. More or less - kind of on a sit-down strike. I don't believe that there is

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any great difference of opinion between the three Federal agencies on what should be done in that particular matter.

On the bond depreciation, we are willing to go along and ignore bond depreciation in the higher bracket securities, providing that we can have a constant improvement in the type of securities that are in these banks and that these banks are not permitted to speculate in and out of the market. Where a bank is speculating in and out of a market, we don't feel that they should be given the benefit of their loss on securities. In other words, they should be penalized and the market should be followed down. Where a bank is in a good position, has good liquidity and good management, and has bought their securities for investment, I think we are substantially in accord. We do feel that on the matter of profits on securities, where they are sold at a profit, it is nothing more than writing up inventory, and that those profits should be earmarked to take care of depreciation; otherwise, there is no way in the world that you are going to discourage bond speculation.

That's substantially our position in the matter, and we're glad to let our technical men sit down with the other fellows and work out a program.

H.M.Jr: All right. Federal Reserve?

Davis: Shall I?

McKee: You speak your piece, or do you want me to speak my piece?

Davis: I'll speak mine. It's coming this way, John.

McKee: All right.

Davis: We have talked this over for some time on the Board. In general we favor meeting with the other agencies as soon as possible and working out the technical points of agreement. I believe, like Leo, that on general principles it isn't so difficult to get an agreement as it may be when we come to working out the point in words.

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In our general discussion the Board members have indicated they are in favor of eliminating the "slow" classification in examination reports and working out a method of providing special comment on loans that need special comment.

On bond depreciation, the Board has indicated informally that it believes the practices should be uniform among the three agencies, that they should put less stress on current market quotations in the high grade bonds, always provided that you're not sacrificing safety in your examination policy for a change.

Now, we're just talking about examination policy, and Wayne, you didn't refer to or raise the third point that we mentioned yesterday; that is, the Comptroller's regulations as to investment in securities, so I'll not raise that at all.

Taylor: I was including that in how you handled your bond account, or intended to.

Davis: That's all I want to say.

H.M.Jr: All right. McKee?

McKee: Mr. Secretary, I have felt for many years - and I am not predicating my statement or thoughts on so much present-day conditions as the effect the type of examination that has continued by the various agencies has had in accelerating a depression. I arrive at that deduction by - the first evidence of a depression is always the market. The first evidence of losses in the bank usually come through market depreciation. And when it appears in abnormal amounts, it excites the bank, the directors, and has a tendency to restrain them from continuing credit as well as making available additional credit. And as it goes along, as the history of that for the various depressions has gone, it appears to have made its impressions on these bankers to the extent that they ultimately force liquidation at the worst time for the good of the public.

Now, my approach to this thing is that it is something I think should have been corrected years ago, and we

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have always missed the boat because the time to do it is when you're on a level that you can do it with improvement. We appear to be there now.

And the point that I'm interested in most is the type of an examination that classifies all assets - not appraise just the notes and price the bonds, but that treats all assets in the same fashion. What I mean by that is that if you're going to classify notes you should classify bonds.

They'll tell you that the ordinary examiner is not equipped to classify bonds. I say that he is just as well equipped to classify bonds based on statements that the banks should have in their files on those bonds, as he is to pass on a line of credit of a local merchant based on a financial statement.

Now, if you'd take that system of examination you would eliminate all bond depreciation except those that are in default, and I think we'd all agree that that should be charged off - the difference between book and market. Now, that is just exactly what you do with a fellow that is in receivership. And a note - in classifying the asset you try to arrive at the recovery value of the note and put the balance of it in the loss.

Now, I'm satisfied that, by the right kind of direction by the supervising heads, that kind of a method can be installed in the examinations of the banks of this country, and I only recommend it if and when you give that opportunity to a banker to consider his securities always at book, unless they are in default, with the proviso that he sets up an earmarked reserve for a stated percentage - we'll say, for the sake of argument, 20 percent, and maintain that account at all times, if he wants to use his non-recurring bond profits for other expenses, bonuses, dividends, salaries. Now, if he will reserve those as they accrue until he has built up that kind of a reserve, we'll have something in this country that we have never had before, and that is adequate reserves for bond depreciation without the impairment of capital.

Now, it is with that approach that I think, Mr. Secretary, unless - you go into the history of this

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thing and there have been attempts at times like this to try to adjust the medium of bank examination, and they haven't been satisfactory, and unless we have a program of a change, I think it is dynamite to play with it now, because you're going to attract the attention of smart money to banks and they are not going to believe what anybody says about how good the banks are; they're just going to use their own judgment and they're going to run that money from one institution to another, and God knows what kind of a situation we might arrive at - a lot worse than we've got today.

- H.M.Jr: You think we're on the right foot in what we're trying to do here?
- McKee: My approach is to change this examination for the future on a classified basis. I mean as long as they're good, they're good; if they're in default, they ought to be taken out. And you ought to maintain your profit from bond sales as a reserve for just such losses when they occur.
- Taylor: Which must be earmarked and out of which no dividends or anything else can be paid. That's the ....
- H.M.Jr: Well, I don't know whether everybody's in agreement. But that's what you feel.
- McKee: That's right.
- H.M.Jr: You feel evidently very strongly.
- McKee: That's right.
- H.M.Jr: Anything else?
- McKee: No.
- H.M.Jr: Now shall we go to the Comptroller's office?
- Diggs: Mr. Secretary, we of course are for uniformity in examinations. We think that would be very desirable - if all the banks could be examined with the same yardstick.

We very definitely do not believe that the "slow"

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column should be abandoned. It might be changed in name. But we feel that the banks of the country want to know the condition of their banks, and National Bank Examiners place into that column now loans which are questionable - "additional collateral," "further information desired," and many other things which they are instructed to do. We believe the bank wants to know about those loans. We do not think it would be desirable to take it out.

We have no objection to changing the name, if a better name can be found. If it isn't changed or even is left as it is, we think that all examiners in all departments should have the same regulations as to what is placed in that column.

We do not believe that the examiners have been too severe in their examinations. You probably know the figures for 1934. At that time we showed 27 percent of the loans in the "slow" column, and after our regulations were changed, following the meeting of '34 here, which you opened, that dropped in '35 to 16 percent in the "slow" column. In the last half of '37 it dropped to under 10 percent in the "slow" column. So we do not believe they have been too severe. It comes down pretty well, as we see it, to the human equation in the examiner. Some of them are probably a little hard and others may not be hard enough.

On the question of investments, we do not think that any greater latitude should be given to the banks in the purchase of securities than they now have. I think what's happened during the past few months has shown that, if anything is needed, probably they should buy higher grade bonds, because the banks that are in trouble are those that have bought the ones that are not in the upper brackets.

On the writing off of depreciation, we of course think that should be done on all defaulted bonds. And the question of setting up a reserve - it seems to me that that might be a policy, but as for making a rule, we doubt if it could be enforced - how we can do it. It's a policy as to what the banks can do with their profits on bonds and other profits; I think it is

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purely a policy matter.

Crowley: May I ask a question?

H.M.Jr: Sure.

Crowley: Certainly, Marshall, if you allow them the depreciation you've got a right to say what they're going to do in the way of building reserves, so that you can make them build a reserve. Now, they can put it in the profit account if they wish, but you can make them transfer it right back to a reserve account before you allow them to take this depreciation. You don't under your law; you've got the right to specify the manner and the type of examination and your way of arriving at a valuation of the security or of an asset.

Diggs: But my thought is that you can't tell the bank everything they're going to do, that you can't run it for them.

Crowley: No, but I think you can do this. You certainly can stop these fellows - they're making more damn money now on security profits than they're making off their loan and discount account. And if you analyze your big banks, you'll find that to be correct. And that was never the intention of an investment fund.

H.M.Jr: Well, I gather this is where we get down to a difference of opinion, and that's the point we're trying to iron out, aren't we?

Are you through?

Diggs: Yes, sir.

H.M.Jr: Smyth, got anything?

Smyth: No, sir.

H.M.Jr: Cy?

Upham: No.

Taylor: (Nods nothing)

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H.M.Jr: Well, there is still this difference of .... Upham's given me this agenda here, which looks good.

I mean we study the "slow" classification of loans:

"A. Should the 'slow' column be abandoned?

"B. Should the 'slow' column be renamed, and if so, what title should it be given?

"C. If renamed, should the type of loans listed be the same as now? If not, how changed?

"D. Are bank examiners too severe in their classification of loans as slow?

"III. The treatment of investment securities by examiners.

"A. Should banks be given a greater latitude in the securities they may purchase?

"B. How should securities be valued by the examiner -- cost or market price or what?

"C. How should market appreciation and depreciation be treated?

"D. Should any special restrictions be placed on profits from the sale of securities?"

Well, I gather from what Taylor told me that you fellows wanted to see me, some of you, alone without your staff. As the agenda - we haven't come to an agreement; I don't want to force one. But if you - what I would suggest is, you people have all got able people; let's lock them up in a room and let's have them come in with a majority and minority report. Maybe it'll be a unanimous opinion. Let's lock them up.

Davis: That's what you'll have to do.

Crowley: That's right.

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H.M.Jr: Now, I would say this, that when they're ready I'm ready. But let's lock these boys up and ....

Who would you (Diggs) designate?

Diggs: Mr. Folger.

H.M.Jr: Folger. He's all right. And the Fed?

McKee: Paulger.

H.M.Jr: P-o-l- ?

McKee: P-a-u-l- ...

H.M.Jr: F.D.I.C.?

Crowley: John Nichols.

H.M.Jr: I'd say just lock them up. And they can use this agenda. Cy can go in every once in a while and give them spirits of ammonia.

Crowley: I think that's the way to do it.

H.M.Jr: I'd lock them up.

I tell you, I'm going to ask - as chairman I'm not going to express any opinion; the only thought I had was this: when you get something I thought I'd invite a few bankers in, big and little, that I have confidence in, and show them this before we shoot it. Now, take a fellow like Tom Smith, a fellow like Jeff Coolidge, maybe a fellow from New York, say, "Here is this plan." I can show it to them in confidence. "What do you think?" I mean they're all interested and they're all good sound fellows. I don't know, I've never asked them how they feel on this thing. But they have shown their interest in the Government. And just bring them in and say, "Now here's the program; what do you think of the thing?" I mean because I don't pretend to be an expert on banking regulations. But those fellows are making their living at it.

Crowley: They operate good banks.

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- McKee: Mr. Secretary, do you disagree to the fact that this thing should be kept just as quiet as it can, because if it does get much publicity it's going to make everybody conscious that we're sitting down here worried about banks.
- H.M.Jr: I don't think - that doesn't start that way.
- McKee: What?
- H.M.Jr: You see, all we're sticking to is, first, what the President said in his message. Just trying to carry out the spirit of what he said in his message, and that's all. I was very careful of what I said yesterday. I have a press conference twice a week. But I think what I said was all right. Did you (McKee) see it, did you think so?
- McKee: I haven't seen it. I looked at the headline in the Wall Street Journal, but I didn't read it carefully.
- H.M.Jr: Well, I simply said that we were going to study this thing. But nobody said anything about being worried about banks.
- McKee: Well, the interpretation - the erroneous interpretation placed on everything at this time is the thing that worries me a little.
- H.M.Jr: I think if you people would be willing to let Gaston do the talking - I think he could handle the Treasury press men so that it wouldn't get out. I mean we're pretty successful in getting out the sort of thing we want - do it openly, tell all the regular men what it is.
- McKee: As far as I'm concerned, I'll do no talking about it because I'm afraid of it.
- H.M.Jr: All right. Well, I don't have to see them again until Thursday morning. I don't see them in between.
- I think that would be the thing to do. But hell, all I'm going to insist on as chairman - I don't want - I'm not just going to sit back and say, "Well, we can't get them together." They've got to get together. Somebody's

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got to give way. Now, I'm not pretending to say what's the right way.

Crowley: I don't think, Mr. Secretary, that when you get these technical men together there's going to be any great difference of opinion. I think they'll come back here with a report. And what you want - we don't care about the language you use - what you want is the thing carried out, and what the President wants is a unification of spirit.

H.M.Jr: That's right.

Crowley: I don't doubt but what they can get together. And they'll get together better themselves than if we sit around with them, and they sit around with their tongues in their cheeks and not express themselves. We can keep out of it, let them bring a report back, and then we can take it afterwards.

H.M.Jr: Well, they can go wherever there is a nice good room and plenty of sunlight.

Taylor: I think they'd work better in the dark.

H.M.Jr: Want to say something, Wayne?

Taylor: Yes.

H.M.Jr: What?

Taylor: There was one point brought out yesterday - also some difference of opinion - that had to do with the question of marketable securities and so on. The Comptroller's office takes the position that that is a question of law and that cannot be changed without an amendment of the law. I get the impression that the Federal Reserve Board didn't entirely agree with that. Is that right, Chester?

Davis: Well, in our - we think that is a point which should be thoroughly explored. I wouldn't go so far as to say we disagree with the legal opinion, because I've had no legal opinion. However, it's been studied from the legal standpoint, but we have never approached it from that angle before. The thing that should be examined on that is this question: Do the Comptroller's regulations force the investing banker into too close a

dependence on and relation to the stock market ticker in handling his bond account? Now, that - I wouldn't express an opinion; I think it should be examined.

H.M.Jr: Why not put that on the agenda?

Taylor: It should be in there.

Davis: I think it is in there. I think you've got it in there.

H.M.Jr: Well, Cy, you're going to ride herd on these fellows for all of us. It's your responsibility to see that they meet, see that they get plenty of water and food, but that they keep going.

Upham: Well, of course, they have other things to do. They can't just - Folger, for instance, couldn't go in a - when you say "lock him in a room," you don't mean that.

H.M.Jr: I mean this. They could devote exclusively to this problem half a day.

Upham: Might do that.

H.M.Jr: Couldn't they?

Diggs: Yes.

McKee: We can furnish our representative as many days and many half-days as you want, because I think it's important.

H.M.Jr: Well, why not say this, that they meet every afternoon at two o'clock and work as long as they can. That gives them their morning free for routine.

Davis: That's right.

Crowley: That's a good arrangement.

H.M.Jr: Let them work from two on as long as they can stick it out. How's that, huh?

Davis: I think this morning that will give a little time for each agency here to talk - sit down and talk with their

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men before they go into the meeting. I think they should do that.

H.M.Jr: Any other suggestions, Cy?

Upham: No.

H.M.Jr: As you represent us, if they get into any trouble, we'll expect you to step right in, do a public service.

Upham: Thanks.

H.M.Jr: When they do come to an agreement, I want to show the thing to some fellows that have got to make their living by it.

Davis: I think, Mr. Secretary, that when you're getting your bank advice, don't confine it altogether to the large banker, who has a method of handling his bonds and investments.

H.M.Jr: Well, maybe you can give me the names of a couple fellows.

Davis: I think, John, it would be a good idea to take a cross-section and get some men who are really familiar with the little country bank problem and what he's got to do.

H.M.Jr: Well, you can give me the names of a couple fellows.

Crowley: I'd like to suggest that when you get ready for your conference with the bankers, call Bill White, of New York, who is President of the State Bank Supervisors.

H.M.Jr: Good idea. White's a good man. And I thought I'd bring down Broderick too, because Broderick's been all through the mill on this. What? He'd have a kind of savings - no, you don't examine savings banks, do you? He's a good fellow.

Crowley: We have savings banks.

H.M.Jr: We can keep it down, not get it too big; but I think get half a dozen to ten fellows. Because I don't want to shoot on this, and I think it's always good

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to show these fellows what you're going to do anyway in advance; then if they like it, they'll sell it for you. So I think White - that's a good idea.

All right, gentlemen. Thank you.

Davis: Thank you.

Agenda for Meeting of Banking Agency Heads April 26, 1938  
with Secretary Morgenthau

I. Why this meeting is being held.

- A. The President's message of April 14, 1938.
- B. The long-recognized necessity for coordination of banking agencies on examination policy.

II. The "slow" classification of loans.

- A. Should the "slow" column be abandoned?
- B. Should the "slow" column be renamed, and if so, what title should it be given?
- C. If renamed, should the type of loans listed be the same as now? If not, how changed?
- D. Are bank examiners too severe in their classification of loans as slow?

III. The treatment of investment securities by examiners.

- A. Should banks be given a greater latitude in the securities they may purchase?
- B. How should securities be valued by the examiner -- cost or market price or what?
- C. How should market appreciation and depreciation be treated?
- D. Should any special restrictions be placed on profits from the sale of securities?

April 26, 1938.  
11:24 a.m.

H.M.Jr: Hello.

Operator: Mr. Franklin is at lunch until one o'clock our time. They said they might be able to reach him at lunch.

H.M.Jr: I'll talk afterwards. Get the Secretary of War. I'll take it afterwards.

Operator: All right.

11:25 a.m.

H.M.Jr: Hello.

Operator: Secretary Woodring will not be in his office today.

H.M.Jr: Well, leave word I want to talk to him when he gets back.

Operator: They say we might reach him at home.

H.M.Jr: No.

Operator: All right.

H.M.Jr: Ah - let me see - get me General Craig, will you?

Operator: All right.

H.M.Jr: General Craig.

Operator: Right.

11:26 a.m.

H.M.Jr: Hello.

Operator: General Craig is away for the week.

H.M.Jr: Gosh. All right. Well, leave word I'll talk to Woodring tomorrow.

Operator: All right.

April 26, 1938.  
2:13 p.m.

H.M.Jr: Hello.

Operator: Mr. Franklin.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello.

P. A. S.  
Franklin: Hello, is this Mr. Morgenthau?

H.M.Jr: Talking. Mr. Franklin.

F: Yes.

H.M.Jr: On third investigation, we find that we had one third of the name right; that it's the Panama Railway Company.

F: Oh, Panama Railway Company.

H.M.Jr: Yes.

F: Oh.

H.M.Jr: And the people up in New York - Federal Reserve was very much embarrassed to think that they told me it was the Panama Pacific Steamship.

F: Yes.

H.M.Jr: It was the Panama Railway Company.

F: I don't see how they got them mixed up.

H.M.Jr: I don't either, but they did. And that was the concern, and I've now got to get in touch with the Governor of the Panama Canal Zone, ....

F: Yes.

H.M.Jr: .. who is President of that railway.

F: Yes.

H.M.Jr: And find out what the hell he was doing.

-2-

F: Are they - are they keen about selling their bonds?

H.M.Jr: I don't know. They must have been awful keen to do it the way they did it.

F: Well, they were very keen and very short in their sale.

H.M.Jr: And very stupid.

F: Well, that was too bad.

H.M.Jr: But thank you for your cooperation.

F: Well, I'm very much obliged to you and I'm sorry I couldn't be of any assistance.

H.M.Jr: Well - and you're sorry you didn't own the bonds.

F: Yes, I'm very sorry I didn't own the bonds or anything else.

H.M.Jr: All right. Thank you, Mr. Franklin.

F: They could last forever.

H.M.Jr: All right.

F: All right, much obliged to you.

H.M.Jr: Good-bye.

April 26, 1938.  
2:19 p.m.

H.M.Jr: Hello.

Louis Johnson: Hello, Mr. Secretary.

H.M.Jr: How are you?

J: Just fine. How are you, sir?

H.M.Jr: I'm alive.

J: Sorry I don't see you more frequently.

H.M.Jr: That's mutual. Mr. Johnson, the reason I'm calling is this. Something happened on Friday which disturbed me very much, and that was an action taken by the Panama Railway Company, which, as far as I can tell, is more or less under the War Department. Is that right?

J: Its stock is all owned in the name of the War Department. Mr. Woodring votes it. He's President of it.

H.M.Jr: Right. Well now, let me tell you what they did. Friday, about one o'clock, they offered to five different brokers eleven million dollars worth of Governments.

J: Good Lord!

H.M.Jr: And asked for bids, and said that they had to have bids in five minutes. Ah - eleven multiplied by five - that made 55 million. And that went all over the country and it just knocked the bottom out of our Government bond market. And of all the stupid things that I've ever seen in my life, that is the stupidest. Now, the man that they tell me was in charge is a man by the name of Victor Newton - was Treasurer; and a man by the name of Rossbottom, the first Vice President. And they say that those two men handled this thing. Now, it seems to me if a subsidiary, so to speak, of the War Department is going to sell eleven million dollars worth of Governments, they might ask the Secretary of the Treasury, "is this a good time to sell it?" See?

J: May I be just utterly frank with you and off the record a minute?

H.M.Jr: I'm being very frank and off the record with you. You can call a spede a spade.

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J: About last August, the White House got an anonymous letter about the letting of contracts there for stevedoring, and it was referred directly, either by the President or Jimmy at his direction, to me.

H.M.Jr: Yes.

J: I investigated it, found that this had been going on with some sort of a preference for a number of years.

H.M.Jr: Yes.

J: I wrote the President a memorandum in which I called attention to the un-American spirit of that and the lack of proper safeguarding of the Government's interest in the method of handling it; then told him that in the course of the checking I had found four or five other things.

H.M.Jr: Yes.

J: That was a direct communication and request to me. I handled it as that.

H.M.Jr: Yes.

J: It came back to - it came back to the War Department, to the Secretary, with a letter I was sent a blind copy of, directing that the situation be changed, ...

H.M.Jr: Yes.

J: ... saying there was a vacancy on the Board, and a White House suggestion that I be put in in the vacancy.

H.M.Jr: Yes.

J: That letter was very much resented over here, got me in bad with the Secretary; he's never mentioned Panama Railroad in my presence since. I'm not on the Board. And so with that background - I agree with you thoroughly that this is the craziest thing here to do, but I don't know anything I can do about it under the present set-up, Mr. Secretary.

H.M.Jr: Well, the reason I'm calling you is - I asked for the Secretary or the Acting Secretary.

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J: Well, I - I am the Acting Secretary.

H.M.Jr: Well then, I ....

J: All right, then, we'll talk upon that basis.

H.M.Jr: Well, now I'm going to talk official.

J: All right, sir.

H.M.Jr: I'm saying as Secretary of the Treasury that I protest vigorously the method that the Government bonds were handled by an agency of the United States Government, and that I am asking that an investigation be made and find out why Mr. Newton and Mr. Rosbottom handled it in that way; and I think they should be sent for, and I'd be glad to tell them face to face what I think of them.

J: Well, I think you're right and I'll start that now.

H.M.Jr: That - that I'm asking you as Acting Secretary of War.

J: All right, sir. That - that will be checked into now.

H.M.Jr: And if they come down and they will be brought over here, I would like to see them and ask them what they mean by handling Governments in that way. And we haven't recovered from it yet. And incidentally, it may again give the people in Wall Street a chance to give the Government the laugh, and we'll be made the laughing stock in Wall Street.

J: Oh, well, that ...

H.M.Jr: And I - I told - I told the President about it.

J: Oh, you have done that?

H.M.Jr: I didn't know who it was at that time.

J: Well, I tell you what I - if the President would say to me, "You investigate this," believe me, you'll get the story.

H.M.Jr: Well, all right, I will ....

J: You aren't - you aren't going to get the actual story,

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you're going to get a whitewash, if <sup>it</sup> is otherwise handled.

H.M.Jr: All right, I'll call the President and ask him to direct you.

J: All right, sir.

H.M.Jr: How's that?

J: All right, sir. Then we'll get to the bottom of it. I agree with you off record now on your indignation. You're entitled to it. I'd have a lot more than you're showing.

H.M.Jr: Yes. Well, I don't want to - not - no use getting burned up. I mean people like that, if they haven't got a good explanation, should be fired.

J: Well, sir, if - will you do that? Then I'll get this - this full story and let the chips fall where they will.

H.M.Jr: Right.

J: Yes, sir.

H.M.Jr: Thank you.

J: Thank you, Mr. Secretary. Good-bye.

April 26, 1938.  
3:56 p.m.

H.M.Jr: Hello.

Operator: Mr. Johnson.

H.M.Jr: Thanks. Hello.

Louis  
Johnson: Mr. Secretary.

H.M.Jr: Talking.

J: The President called me. This is Louis Johnson.

H.M.Jr: Yes.

J: I called New York and immediately got my ears knocked down by their telling me that the War Department as such had nothing to do with this, it was Mr. Woodring personally who held the stock.

H.M.Jr: Oh for Heaven's sakes.

J: I told them then that in the name of the President I ordered Mr. Newton and Mr. Rossbottom, one or the other, to communicate with you on the phone and fix an hour to come down.

H.M.Jr: Yes.

J: I called over about ten minutes, fifteen minutes ago to see if they had called you; they had not.

H.M.Jr: Well, they ...

J: Then I took the call from Wayne Johnson, their attorney. Mr. Rossbottom went to the office of the \$16,000-a-year counsel of this company.

H.M.Jr: Who is - who?

J: Wayne Johnson.

H.M.Jr: Wayne Johnson. I know the name.

J: He called me and tried to give me an argument that they were responsible for this money, that they had these

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commitments of a million four, I think he said, per month to pay on these ships; that they made about \$800,000 by selling them the way they did; that it was their responsibility, they would have been held responsible if they had held them and the bonds had gone down, they'd have to have taken a-loss.

H.M.Jr: Yes.

J: I wanted to give you their story. Wayne Johnson wanted to call you or come to see you in lieu of these two, and I told him that the orders of the President were that Mr. Newton and Mr. Rossbottom should report and I saw no occasion for his, Mr. Johnson, being there.

H.M.Jr: Yes.

J: And I hope you'll talk to them pretty frankly.

H.M.Jr: Well - ah ...

J: Because they ignore - they ignore the country as a whole in arriving at their own little petty problem.

H.M.Jr: Well, I frankly - I just - I mean I'm not running the War Department, but if I held a - the stock of a corporation and - I'd wonder what .....

J: Well, frankly, that's just exactly what they told me. I was afraid of that when I was talking to you, because of .....

H.M.Jr: Well, why should I call them down? It's up to the Secretary of War.

J: The President wants you to tell them.

H.M.Jr: What should I ....

J: Wants you to dress them down. That's what he said.

H.M.Jr: I can do it.

J: And so I've ordered them to report to you on the telephone making a .....

H.M.Jr: All right.

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J: ... an appointment to come down.

H.M.Jr: I'll - I'll take care of it.

J: All right, sir.

H.M.Jr: I got right to the President.

J: Yes, you certainly did. He called me personally.

H.M.Jr: All right.

J: All right, sir, I think you'll get some action over here on those .....

H.M.Jr: Let's see, that's Rossbottom and what's the other?

J: Newton.

H.M.Jr: And Newton.

J: Victor Newton and Rossbottom.

H.M.Jr: O.K.

J: All right, sir. Good-bye.

H.M.Jr: Thank you.

April 26, 1938

The Secretary had as luncheon guests today Mr. Eccles, Mr. Davis, Mr. Taylor and Mr. Upham.

Mr. Eccles stated that the Open Market Committee is coming for a meeting this week-end and that prior thereto he would like to go to the White House and ask the President about letting the Federal Reserve portfolio of Governments decline. Mr. Eccles thinks it would be a mistake for them to let the portfolio decline at this time and Mr. Morgenthau agreed. Later, Mr. Eccles modified that position by stating that they can't let their portfolio decline unless they find that to maintain it will require paying a premium on securities acquired.

Mr. Morgenthau agreed with him that if the Open Market Committee found it necessary to pay a premium for bills and notes, it might give them an excuse for letting the total decline. Mr. Eccles said that so far they have been replacing their maturities but on almost a no-yield basis. They have sold more than \$100 million in bonds the last few weeks.

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Mr. Eccles said that he is disturbed by the necessity of making all of their purchases through five New York dealers who profit magnificently thereby. He said that if there is to be banking legislation this year, he may want to ask Congress to permit the Federal Reserve to have direct dealings with and buy securities directly from the Treasury. He said that the New York dealers are building up their portfolios at this time when, as a matter of fact, they profess to find it difficult to fill the orders that they receive. He said they always buy when the market is going up and sell when it is going down, thus emphasizing the movement in both directions. They do not cooperate with the Government in the regulation of the market for stability. Mr. Morgenthau and Mr. Taylor ventured the opinion that the dealers were only engaged in operating their business as a business and for profit. Mr. Taylor pointed out that the Federal Reserve had made about \$5 million of profit this year on their portfolio and suggested that this was a good deal more than the dealers had made probably. Mr. Eccles said that he found it very nice to have a profit on their portfolio but, after all, that was not their motive in managing the open market fund. Mr. Taylor pointed out that the dealers have suffered losses also.

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Mr. Morgenthau told Mr. Eccles and Mr. Davis the story of the market operations of the Panama Railway last Friday, which they had not heard. He explained that the Panama Railway, a wholly Government-owned corporation in the War Department, had, without consultation with anyone in the Treasury, offered in the most unbusinesslike way possible some \$11 million of Government securities to the market. They telephoned five dealers asking for bids and the resulting market activity was on the basis of an offering of \$55 million instead of \$11 million. They finally disposed of the bonds and "took the bloom" off the market. Fortunately, on this particular day the market could stand and indeed needed some knocking off, but if the action had been taken on almost any other day, it would have been disastrous to the Government market.

Mr. Eccles spoke of the action of the Treasury in letting \$50 million of bills run off last week and agreed that things had run along pretty smoothly and the Government bond market had not gotten out of control and that the problem was not so desperate by reason of the first week's activity but would become increasingly so as the weeks went on. He said that he did not really oppose the

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Treasury proposal to let \$50 million run off weekly but had just seen the problem ahead and had wanted to bring it into the open. He said the New York bank felt much more keenly than he did.

The Secretary suggested the possibility of issuing on May 15th a \$200 to \$300 million block of three or five-year RFC ~~notes~~. Mr. Eccles and Mr. Davis both thought that looked good at first blush and would help their position and offset the \$50 million weekly bill run-off. They thought it might be done without attracting too much public attention to that feature of it also.

Mr. Morgenthau said that he had told the President this week that business indices do not look so good and he sees nothing in the immediate future to help the situation. Mr. Eccles said that inflation is not catching on and that it will not. The spending is not proceeding speedily enough. He stated that what brought him to approve the spending program was the fact that he saw the President was not going to do anything about wages and fixed costs. To remedy the discrepancies and lack of balance of farm prices, the purchasing power of the farmer, and unorganized labor, he thought it was necessary "to put something in at the bottom." He had urged WPA help be made available to the railroads and

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to house builders. That would put people to work faster and bring expenditures more quickly. He also urged that WPA abandon the means test and take on a greater number of clients.

Mr. Morgenthau said that he had urged the President to revive the CWA under Hopkins rather than renew the PWA under Ickes. He said that they can start faster and can stop any time. The President's reply was that he would not go back to raking leaves.

Mr. Eccles said that when he and Mr. Morgenthau see the President, he would like to take up this subject as well as the Federal Reserve portfolio. Mr. Morgenthau said that he would be very glad to have Mr. Eccles and the President discuss it but that he wouldn't do anything but listen. He said he had done all that any human being or friend could do in the three days before the President sent his message to Congress. Mr. Eccles said that he had favored the third barrel when all other proposals had failed.

Mr. Morgenthau asked Mr. Davis why he thought the prices of commodities continued downward even after the President's announcement. Mr. Davis replied that he did not think the situation in commodities could be cured by monetary means.

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He pointed out that as he had said before when the \$300 million was deesterilized, he did not expect very much from that action. It might hold the line until the psychological effect could be translated into real catching on of inflation. He predicted that if things continued as they are now, we would have 60% wheat in the fall. Mr. Morgenthau referred to visits he had had with a dean of an agricultural college who has travelled up and down the Atlantic coast and who finds among the farmers a good deal of criticism in the AAA. Mr. Davis said that is partly the fault of Congress because of amendments they insisted on putting in. Mr. Eccles supplemented Mr. Davis' statement by pointing out that it is important to recognize that manipulation of monetary factors is not enough, and that he has taken that position probably for a year and more.

Mr. Morgenthau spoke skeptically of the Ickes' testimony on the Hill this morning that he is now ready to go ahead with 2900 PWA projects. Mr. Morgenthau compared them to two-year old orders on the books of a business man. He said that there will be no spending on the public works until fall and that people now recognize it.

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Mr. Davis and Mr. Eccles agreed that the market for Governments has been well taken care of and any apprehensions they might have had with respect to the retirement of \$50 million of bills weekly have disappeared.

Mr. Eccles said that the Open Market Committee expects him to sound out the President on their portfolio before the meeting on Friday. He and Mr. Morgenthau went to the Secretary's office at the conclusion of the luncheon to telephone Mr. McIntyre for an appointment with the President.

Upm

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Weekly WPA Employment  
Series - Table 1

EMPLOYMENT ON WPA PROJECTS, BY STATE

UNITED STATES AND TERRITORIES

Weeks Ending: April 23 and April 16, 1938

(Partly Estimated - Subject to Revision)

State	Number of Persons Employed		Increase (+) or Decrease (-)
	Week Ending Apr. 23, 1938	Week Ending Apr. 16, 1938	
GRAND TOTAL	2,545,124	2,532,448	+ 12,676
CONTINENTAL UNITED STATES	2,542,978	2,530,255	+ 12,723
Alabama	39,149	38,380	+ 769
Arizona	9,378	9,267	+ 111
Arkansas	35,394	35,553	- 159
California - Total	95,141	95,766	- 625
Northern	50,485	51,113	- 628
Southern	44,656	44,653	+ 3
Colorado	28,133	27,732	+ 401
Connecticut	21,889	21,776	+ 113
Delaware	3,297	3,324	- 27
District of Columbia	8,146	8,133	+ 13
Florida	32,595	32,511	+ 84
Georgia	42,155	42,398	- 243
Idaho	10,898	11,198	- 300
Illinois	199,134	199,572	- 438
Indiana	92,535	92,013	+ 522
Iowa	32,978	32,597	+ 381
Kansas	35,925	35,863	+ 62
Kentucky	54,407	52,920	+ 1,487
Louisiana	31,808	31,636	+ 172
Maine	7,922	7,307	+ 115
Maryland	12,196	12,090	+ 106
Massachusetts	105,351	106,007	+ 344
Michigan	130,191	132,848	+ 3,343
Minnesota	50,220	53,479	+ 741
Mississippi	31,136	31,116	+ 20
Missouri	91,067	90,636	+ 431
Montana	19,148	18,850	+ 298
Nebraska	28,816	28,318	+ 498
Nevada	2,476	2,523	- 47
New Hampshire	8,503	8,708	- 145
New Jersey	91,538	91,732	- 194
New Mexico	9,988	10,015	- 27
New York City	157,842	157,947	- 105
New York (Excl. N.Y.C.)	54,499	53,690	+ 809
North Carolina	33,049	32,712	+ 337
North Dakota	13,610	13,888	- 278
Ohio	223,532	219,859	+ 3,673
Oklahoma	62,343	61,470	+ 873
Oregon	16,764	16,720	+ 44
Pennsylvania	226,553	228,642	- 2,089
Rhode Island	13,672	13,356	+ 316
South Carolina	32,159	31,613	+ 546
South Dakota	15,496	15,871	- 375
Tennessee	32,063	31,739	+ 324
Texas	80,712	79,663	+ 1,049
Utah	10,205	10,190	+ 15
Vermont	5,089	5,060	+ 29
Virginia	23,098	23,172	- 74
Washington	45,931	46,726	- 795
West Virginia	42,906	42,748	+ 158
Wisconsin	70,236	69,827	+ 409
Wyoming	4,645	4,588	+ 57
Hawaii	2,146	2,193	- 47

April 26, 1938

2:45

HM, Jr spoke to the President over the phone and said "The Panama Railway Company sold the bonds and the man in New York is Fisher Newton, Treasurer, and I called up Louis Johnson, who is Acting Secretary of War, and he said he would be delighted to have them down and ask them. So if you would tell them to do it. He thought he would like to have word from the President. And it was even worse -- they offered it to five brokers so it looked as though they were selling \$55,000,000 and it went all over the country and in New York it's gotten out and they are giving the Government the horse-laugh." The President asked who Newton was and the Secretary said, "He is Treasurer of the Panama Railway Company with office in New York. The President said, "I have never heard of him. I will find out about him." The President's next comment was "I am glad it was the Army and not the Navy."

April 26, 1938

SMALL HOME MORTGAGE INSURANCE

During the week ending April 23, mortgages selected for appraisal numbered 5,076 and amounted to \$22,994,647. For the corresponding week of 1937, 3,796 mortgages were selected for appraisal in the amount of \$16,017,136.

Of the mortgages selected for the week, 2,551, or 50.3 per cent, covered new homes to be constructed and during the week construction was started on 1,355 new small homes.

LARGE SCALE PROJECTS

The attached table gives as of April 23, the name and location of the 16 projects valued at \$15,300,000 in operation as of that date, the additional 22 projects valued at \$17,300,000 under construction, and the 22 projects for \$24,800,000 on which financing had been arranged as of that date. Financing arrangements were completed on 4 of these projects totalling \$4,000,000 during the week ending April 23.

Applications for insurance were received the past week on 25 projects in the amount of \$7,800,000.

PROPERTY IMPROVEMENT LOANS

More than 1,900 lending institutions are now reporting notes covering advances made for improvement to existing properties or for new construction, and during the week ending April 23, 6,705 notes were accepted for insurance totalling \$3,160,958.

71

FEDERAL HOUSING ADMINISTRATION  
WASHINGTON, D.C.

WEEKLY VOLUME OF FHA INSURING OPERATIONS

For 1936 and corresponding Period of 1937

HOME MORTGAGES SELECTED FOR APPRAISAL

<u>Week Ending:</u>	<u>1936</u>		<u>1937</u>	
	<u>No.</u>	<u>Amt.</u>	<u>No.</u>	<u>Amt.</u>
Jan. 8	1,258	\$ 5,483,184	1,987	\$ 8,888,600
" 15	1,804	8,881,200	2,288	9,888,880
" 22	1,711	7,889,978	2,187	9,447,127
" 29	1,888	8,180,840	2,272	10,081,713
Feb. 5	1,988	8,871,898	2,308	9,721,188
" 12	1,988	8,787,108	2,701	11,088,008
" 19	2,218	10,088,800	2,788	11,784,089
" 26	2,778	13,100,280	2,838	11,747,884
Mar. 5	3,889	17,613,408	3,244	15,888,800
" 12	4,470	20,886,711	3,408	14,178,880
" 19	4,887	21,888,081	4,088	16,879,710
" 26	4,888	22,888,219	3,478	14,870,848
Apr. 2	4,713	21,414,848	3,817	18,388,438
" 9	5,087	23,848,108	3,818	18,414,088
" 16	4,483	20,388,489	3,421	18,234,428
" 23	5,078	22,884,887	3,788	18,017,188

FEDERAL HOUSING ADMINISTRATION  
WASHINGTON, D.C.

WEEKLY VOLUME OF MORTGAGES ACCEPTED FOR INSURANCE

<u>Week Ending:</u>	<u>1936</u>		<u>1937</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Jan. 8	943	\$4,035,500	1,462	\$5,821,275
15	1,101	4,542,900	1,756	7,241,815
22	1,068	4,445,500	1,767	7,438,500
29	1,329	5,501,500	1,880	7,860,250
Feb. 5	1,099	4,431,000	1,811	7,424,100
12	1,172	4,649,900	1,778	7,410,850
19	1,194	4,837,100	1,869	7,702,650
26	1,033	4,350,200	1,867	7,524,500
Mar. 5	1,589	6,905,400	2,291	9,092,500
12	1,705	7,601,400	2,135	8,947,600
19	1,883	8,288,400	2,398	9,781,500
26	2,290	9,990,900	2,497	10,298,380
Apr. 2	2,642	11,601,700	2,602	10,856,395
9	2,947	12,703,400	2,598	10,661,655
16	3,256	14,330,625	2,660	10,919,110
23	3,751	16,514,000	2,922	12,089,160



**FEDERAL HOUSING ADMINISTRATION COMMITTEES**  
**Cumulative through April 30, 1955**

STATUS	NAME OF PROJECT	LOCATION OF PROJECT	NO. OF FAMILIES UNITS	CAPITALIZATION	AMOUNT OF MORTGAGE
<b>In Operation - Projects Completed</b>					
		<u>City</u>	<u>State</u>		
000-00001	Colonial Village, Inc.	Arlington	Va.	878	\$ 878,000
000-00002	Colonial Village, Inc.	Arlington	Va.	462	1,480,000
000-00003	Falkland Properties, Inc.	Silver Spring	Md.	178	1,100,000
000-00004	Falkland Properties, Inc.	Arlington	Va.	236	806,800
000-00005	Brentwood Village	Washington	D.C.	428	2,080,000
000-00006	Falkland Addition	Silver Spring	Md.	301	1,918,000
002-00001	Shawing Co. of Dundalk	Baltimore	Md.	272	1,084,688
002-00001	Chicago Falls Housing Corp.	Chicago Falls	Mass	198	877,000
150-00001	Chester Crest	Fleetwood	N.Y.	278	1,802,840
004-00001	Elm Terrace	York	Pa.	42	182,864
005-00001	Headville Housing	Headville	Pa.	202	1,002,000
005-00001	Country Club Apartments	Greensboro	N.C.	84	471,000
005-00002	University Apartments	Durham	N.C.	114	628,000
075-00001	Limwood Colonial	Indianapolis	Ind.	29	220,000
085-00001	Green Tree Manor	Louisville	Ky.	282	1,297,000
092-00001	Crosscott Housing	Crosscott	Ark.	122	640,124
18				5,624	\$12,942,192
<b>Loans Closed - Under Construction</b>					
000-00007	Second Buckingham Community	Arlington	Va.	160	\$ 644,828
000-00008	First Buckingham Community	Arlington	Va.	510	2,220,000
000-00010	Third Buckingham Community	Arlington	Va.	200	841,600
002-00002	Dwight Landing	Annapolis	Md.	96	390,000
002-00003	Northwood	Baltimore	Md.	288	1,227,820
021-00001	Madison Court	Brewster	N.J.	270	1,212,000
180-00003	North Limited Div.	Essexdale	N.Y.	168	1,010,000
180-00004	Sprague Limited Div.	Essexdale	N.Y.	128	797,000
018-00001	Second Garden Bay	Jackson Heights	N.Y.	210	1,081,000
004-00002	Northcott Apartments	Brunklin	Pa.	114	648,000
061-00001	Limited Division Housing	Atlanta	Ga.	178	808,000
053-00003	Myrtle Apartments	Charlotte	N.C.	72	406,000
053-00007	Maligh Apartments	Raleigh	N.C.	114	725,780
053-00004	Twin Castles	Winston-Salem	N.C.	124	640,000
053-00008	Cameron Courts	Raleigh	N.C.	147	706,000
061-00001	Gilman Courts	Kidwood	Va.	155	820,800
071-00001	Oranville-Hayne	Chicago	Ill.	196	897,700
073-00002	New Albany Housing	New Albany	Ind.	40	120,000
073-00003	South Limwood Colonial	Indianapolis	Ind.	66	325,220
055-00001	Wachusett Village	St. Louis	Mo.	264	2,012,000
115-00001	Oslo's Manor	Dallas	Tex.	96	421,771
114-00001	River Oaks	Houston	Tex.	124	780,000
21				5,971	\$12,544,208
<b>TOTAL PREMIUM PAYING MORTGAGES</b>				<b>24 Projects</b>	<b>\$27,164,780</b>
<b>Financing Arranged</b>					
017-00001	Forest Corporation	Hartford	Conn.	21	\$ 128,600
*000-00009	*Northolt Homes	Greenbelt	Md.	10	42,780
001-00002	General Economy	Economy	N.J.	169	648,000
001-00003	English Village	Cranford	N.J.	80	328,000
001-00004	London Housing	London	N.J.	294	1,200,000
001-00006	Maligh Corp.	Atlanta City	N.Y.	80	398,000
014-00001	Oranville Village	Buffalo	N.Y.	229	1,074,000
018-00002	Third Garden Bay	Jackson Heights	N.Y.	270	1,303,000
018-00003	Queens Boulevard	Long Island	N.Y.	240	2,298,000
*100-00002	*Glenwood Apartments	Yonkers	N.Y.	287	1,798,000
100-00003	Larchmont Gardens	Larchmont	N.Y.	284	2,178,000
004-00003	28th Street Corporation	Upper Mersey	Pa.	429	1,900,000
004-00004	Park Plaza	Harrisburg	Pa.	117	625,000
004-00005	Small Home Hygiene Corp.	Philadelphia	Pa.	112	608,000
004-00006	Marygate Housing	Upper Mersey	Pa.	30	120,972
005-00002	Barrywood	High Point	N.C.	60	302,000
051-00002	Larchmont	Sorfolk	Va.	172	816,000
051-00003	Leighton Court	Kidwood	Va.	22	411,000
051-00004	Waterloo Apartments	Portsmouth	Va.	70	302,800
043-00001	Levee Glenhwy Village	Colonus	Ohio	260	1,262,000
121-00001	Glen Gardens	Los Angeles	Calif.	1,040	2,200,000
127-00001	Madison Park Housing	Seattle	Wash.	204	1,290,000
22				2,722	\$22,622,722
<b>Additional Commitments Outstanding</b>					<b>\$ 2,480,000</b>
19					
<b>TOTAL COMMITMENTS ISSUED</b>				<b>78 Projects</b>	<b>\$29,089,220</b>

\* Construction now in process.  
 1/Includes 1 project for \$1,160,000 refinanced.

Division of Economic and Statistics  
 Operating Statistics Section

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 26, 1938, noon

NO.: 652 FROM COCHRAN. RUSH.

This morning at half-past eleven I called at the Bank of France. This morning at 160.50 to the pound trading began in the franc. Instructions had been given by the French Treasury to the control that by noon the rate should be brought near 160.30. At the time I ~~was~~ called at the Bank, half-past eleven, the rate had been moved to 160.40, 175,000 pounds having been taken by the market.

The control lost 225,000,000 francs through the operations of the stabilization fund yesterday when it brought the franc from around 166 to 160.50. Most of this amount was spent after reaching a level of 161. From statistics it was apparent that the market had been a comparatively narrow one and that last week firm opposition by the control could probably have stopped the speculative drop in the franc without it having cost too much.

Daladier's written declaration mentioned my 649, April 25, 6 p.m. as given out after the Cabinet meeting at noon was followed by only a brief communique after the meeting of the Council of Ministers in the evening to the effect that the latter had, after explanations by Daladier, unanimously ratified the plan for economic and financial

recovery

- 2 -

recovery which had been examined during the forenoon by the Cabinet. It had been anticipated in some circles and certain journals that a more definite elaboration of the program would be made on this occasion or appear this morning. So far nothing else has been communicated.

END SECTION ONE.

WILSON.

RECEIVED  
APR 28 1933  
TREASURY DEPARTMENT  
U.S. DEPARTMENT OF THE TREASURY  
WASHINGTON, D. C.

EA: LWV

PARAPHRASE OF SECTION TWO, NO. 652 OF APRIL 28  
1938 FROM PARIS.

Yesterday's recovery on the market is attributed to Daladier's statement in part of the press; however, the general opinion is that this in itself was too indefinite to be of much help except to give some assurance that there was no dissension in the Cabinet and that the stabilization fund had been responsible for the real improvement in the franc. From observation of the market this morning, operators seem to have been convinced by the movement of the French franc in recent days that at a quotation of around 160.50 sterling is a good buy.

Most confidentially I have been given to understand that the decision to push back the franc energetically yesterday was entirely the Minister of Finance's, Marchandeu. It appears that no Government official wants to advocate depreciation of the franc to 175 to the pound since they obtained very specific information about certain bankers spreading the report that there would be such depreciation; the Government officials do not want the risk of appearing as defending such bankers.

END MESSAGE.

WILSON.

EA: LNW

April 26, 1938

3 p. m.

Ambassador Bullitt was here. Wanted me to explain what our attitude was towards the French franc. He tried his best to get me to take the position that Paul Reynaud does: that the franc should be permitted to float, seek its own level, and that Paul Reynaud believes that if that happens that, after it seeks its own level, capital will return to France.

I said, I am very sorry; that neither the Treasury, the Federal Reserve Bank of New York or the State Department agreed with that theory and we believe that the best thing for France and for the United States would be to have them put on the same kind of rules and regulations that we have, which would stop the flight of capital from France; that if they followed the theory of Paul Reynaud and allow the franc to float, he asked me what I would do and I said I believed I would have to tell the French that they had broken the agreement of the Tripartite and that the English would take the same position. He said, Well, do you want the French to continue to lose gold? I said, No; it's bad for them and it's bad for us, but I just can't understand why the French don't put on rules which would stop the flight of capital.

It was quite evident that Bullitt was impressed with the so-called Reynaud theory of letting the franc seek its own level. He said, Suppose it does go to 200 francs to the pound-sterling. I said, Well, we just can't sit here and permit it. And he said, Why? and I said, What the Tripartite has done, it has stopped countries from using competitive devaluation as a weapon with which to get trade. I said, The Italians got away with bombing civilian populations in Ethiopia and they set the style. They are bombing, now, civilian populations in Spain and China. If we permit France to get away with permitting her franc to continue down to nothing, it will set a style and other countries will follow suit and we just cannot permit that.

Bullitt said he was convinced and that he had got the information that he wanted.

He then said, Tell me about Bonnet's speculating in the franc. I said, All I know is that the Indo-Chin keeps an account with a bank in New York and this bank

-2-

informs us that they were always right in their operation in the franc and this only took place while Bonnet was Minister of Finance, so the natural inference is that Bonnet was interested in this account, although we can't prove it. He said, That's all that I want because, he said, sometime when Bonnet is riding on his high horse, Bullitt said, 'I can hint that I know about this and it will be useful to me for trading purposes.' So I said, If you want to use high-class blackmail, it's up to you. He said, 'I have used it before and it's proved to be very useful.'

oOo-oOo

April 26, 1938

~~278~~

79A

My dear Mr. President:

I am inclosing herewith a photostat of memorandum I have received from Admiral Peoples which is self-explanatory.

Faithfully yours,

The President,  
The White House.

RHINEBECK, N. Y. P. O. (NEW)



TREASURY DEPARTMENT  
PROCUREMENT DIVISION  
WASHINGTON

~~771~~  
79B

PUBLIC BUILDINGS BRANCH

PLYING, QUOTE THE ABOVE SUB-  
BUILDING, AND THESE LETTERS PB- 8A

April 25, 1938

MEMORANDUM:

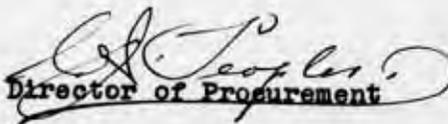
To: Secretary of the Treasury

From: Director of Procurement

Reference is made to your telephone call regarding the stone to be used for facing the proposed new Post Office building at Rhinebeck.

As previously arranged, stone from the old Kip-Beekman House is to be used for the Post Office so far as the condition of that old stone would permit. For the remainder of the facing of the building it is proposed to get stone from the various fence walls, etc., that exist in great quantities all over Dutchess County.

No new stone whatever is to be used for facing on the new Rhinebeck Post Office.

  
Director of Procurement

FEDERAL RESERVE BANK  
OF NEW YORK

80

OFFICE CORRESPONDENCE

DATE April 27, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

J. W. McKeon

BANK OF FRANCE

Mr. Knoke called Mr. Cariguel at noon today to advise him that francs were steady here at around 311 and the market very quiet. Futures, however, seemed to be under pressure. He had heard of one 30-day transaction going through this morning at 6 points discount for the equivalent of 23% per annum. 90-day francs were quoted 10 points discount for the equivalent of about 13% per annum.

Cariguel reported that he had had a bad day and lost about £2,000,000 in exchange today after losing £1,500,000 yesterday. Under present conditions no technique would be of avail; all he could do was to stand up or retreat. He did not look for anything to happen one way or the other until after the London Conference, and the promised decrees began to come out early in May.

JWMcK:LWK:KW

RECEIVED

MAY 15 1938

RECEIVED  
MAY 15 1938  
FEDERAL RESERVE BANK  
OF NEW YORK

MB

PLAIN

London

Dated April 27, 1938

Rec'd 2:31 p.m.

Secretary of State,  
Washington.

345, April 27, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The increase in the British income tax to 4 shillings 6 pence in the pound came as <sup>c</sup>painful surprise to the City which had expected the income tax at least to remain unchanged. Despite declines in over the counter tradings last evening and at the opening this morning security markets have not been unduly weak. In fact towards the close a general rise occurred and prices ended the day at about pre-budget levels. There is being manifest elsewhere a characteristic acceptance of the necessities of the situation. This feeling is accurately portrayed in the opening paragraph of the editorial in the NEWS-CHRONICLE "A school boy was once asked what he thought of his headmaster. He replied that he was 'a beast, but a just beast'. That will exactly express the feelings of the British public about Sir John Simon's budget." The titles of the editorials tell their tale: "Facing the cost" "Paying

while

2- No. 345, April 27, from London.

while we can" et cetera. Even the Socialist DAILY HERALD states "In face of enormous pressure to put all the deficit upon the shoulders of the future Sir John Simon has however had the courage to call at least a partial halt. He has decided that since ninety million pounds of the deficit incurred as a direct consequence of armament expenditure has been financed out of loan and since future supplementary charges are to be financed in the same way the balance of thirty million pounds shall be met out of taxation. That is a wise decision."

The MANCHESTER GUARDIAN: "the financial picture the Chancellor presents is a desperate one and calls for desperate remedies. We cannot have rearmament without ... tears and with the prospect of even worse years to come -- worse both in the scale of expenditure and in the capacity to pay taxes -- the Chancellor was wise not to resort to subterfuge to rabbits from the Treasury's hat. We may need those later. What should give us pause is not the present measures but the outlook ahead and where the ever-mounting expenditure will lead when the capacity to pay cheerfully has gone from us."

The TIMES: "This will not be a popular solution but it may at any rate claim the virtue of courage. If it

errs

3- No. 345, April 27, from London.

errs it errs on the side of candor. It certainly does more than would be achieved by a more extensive recourse to borrowing to make the country realize the truths of rearmament. The cost of it is not greater than the country can bear and it will be born without flinching so long as the necessity persists. Sir John Simon has been influenced by the desire to keep as large a proportion as possible of his borrowing power in reserve to meet the still higher demands of next year and the year after when the expenditure on defence is expected to reach its peak."

KENNEDY

CSB:

0211379

1951 78, 7

1951 78, 7

1951 78, 7

MS

GRAY

Paris

Dated April 27, 1938

Rec'd 2:35 p.m.

Secretary of State,  
Washington.

661, April 27, 6 p.m.

FROM COCHRAN.

Franc was first traded today at 160.20. Losing fair amount at this rate control let it slide to 161 and then intervened to bring it back to 160.15. Forward franc weakened to discount of 3 1/8 for one month sterling and 5 for three months. Swiss still buying sterling and selling French francs. Paris market atmosphere is not good.

Operators feel that control is purposely keeping franc steady pending visit of Daladier and Bonnet in London where it is expected they will explain difficulty of holding franc in view of heavy armament costs and will seek aid therefore.

Local press repeats without comment stories from London newspapers to the effect that French move in strengthening the franc resulted from representations made to French by British authorities on the ground that last week's decline in the franc contravened the tripartite

2- No. 661, April 27, from Paris.

tite agreement. Financial news criticises British for dictating advice on the franc rate unless they are able through a loan to help France maintain the present level. Local observers look for heavy pressure on the franc if negotiators return empty handed financially from London. Sentiment perturbed further by request of Government employees for more pay because of increased cost of living which may lead to renewed labor unrest or heavier burden on the Treasury.

(END SECTION ONE).

WILSON

CSB:

RECEIVED  
APR 28 1933  
LIBRARY DEPARTMENT

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 661  
OF APRIL 27, 1938, FROM PARIS.

At half-past five I called at the Bank of France; the French control by that time had yielded in foreign exchange 320,000,000 francs. On Tuesday a total of 255,000,000 francs was spent in defense of the franc. My Bank contact had told the Bank's Governor that there was no technical measure which could be used by the stabilization fund in the present circumstances to overcome the franc's present weakness. In the last conversation which Fournier had with Daladier before he left for London this afternoon he passed on this information. The Prime Minister asked what would be recommended by Fournier, and the latter advised that the budget be balanced. Daladier told Fournier that he personally was in favor of increasing the country's production rather than have the taxes increased. Fournier emphasized the possibility of raising the 20 or 30 billion francs required by the Treasury this year through industrial expansion.

Constant recommendations have been made by Daladier's advisers against his endeavoring to get financial assistance in London on this visit. However it is not yet certain whether Daladier will take this advice. Those who feel that

- 2 -

that it will not be possible to get financial aid from the British at this time are convinced that if the French Government itself would but show more initiative and confidence inspiring ability in rectifying the situation, the British would be quick to give the French Government a loan.

END MESSAGE.

WILSON.

EA: LNW

RECEIVED  
APR 28 1919  
TREASURY DEPARTMENT  
U.S. DEPARTMENT OF THE TREASURY  
WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: April 27, 1938, 6 p.m.

NO.: 346

FROM BUTTERWORTH.

FOR TREASURY.

In accordance with instruction, I passed on a discreet version of the pertinent parts of telegrams No. 645 and 653 of April 26 from Cochran to Waley. The latter said he appreciated being informed. Waley expressed the hope that the visit of the French Prime Minister and the French Foreign Secretary would be primarily a diplomatic occasion and not a financial one. He said that the Chancellor of the Exchequer would not participate actively in the discussions since he was still engaged with the debate on the budget. Financial questions will be discussed, of course. It was hardly appropriate to have Bonnet to carry on any such conversations, as these would have to be primarily between the two Prime Ministers. While Waley could not say definitely, it was certainly likely that they would be connected with other matters. It would probably be "a horse deal" as a matter of fact. Waley told me that for his part he was just as glad that the responsible negotiator would not be Simon because he had

- 2 -

a great deal more confidence in the ability of Chamberlain to horse trade with Daladier or anyone else than he did in Simon.

The French control has given decided support to the franc today and kept the rate between 160 and 162. It lost a considerable amount of sterling. Furthermore, the futures moved out, one month being bid at 3 3/8, three months at 5 1/2. The demand for coin also increased.

KENNEDY.

RECEIVED  
APR 27 1938  
TREASURY DEPARTMENT  
Office of the Assistant  
Secretary in Charge  
EA: LNW

## GROUP MEETING

April 27, 1938.  
9:30 A. M.

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

H.M.Jr: Mac, what about the Panama Pacific Railway thing?

McReynolds: It's a corporation, totally Government owned.

H.M.Jr: A little louder.

McReynolds: It's a corporation, totally Government owned - stock all held by the Secretary of War. He appoints the Directors to operate it - officers and directors. He, ah - then one share - qualifying share is held by each director by assignment when they are appointed, and they operate not only the railroad and the steamship company, but various concessions on the Canal Zone. But it is just an operating corporation for the business of the Panama Canal.

H.M.Jr: How much money do we supply them with?

McReynolds: We only supply them with money on subscription to stock. Of course, they take in - through their operations, revenue they take in they spend and turn over profits to the Panama Canal.

H.M.Jr: Are there any profits?

McReynolds: Sometimes there have been.

H.M.Jr: Supposing there is a deficit?

McReynolds: The Government would subscribe to more stock.

H.M.Jr: How much have they subscribed to?

McReynolds: I'm getting an estimate upstairs. Danny's place upstairs is making up a statement.

H.M.Jr: (Over telephone:) Secretary of War Woodring. No one else will do, please.

All right, Mac, what else?

McReynolds: I have nothing but just this list of - revised list of buildings that gave me last night - said he had assigned everything, - signed by the Assistant Postmaster. It's up to date. It's the up-to-date list prepared by the Post Office and Procurement.

H.M.Jr: Who's Ramsey Black? I never heard of him.

McReynolds: I never heard of him either.

Gaston: Ramsey Black? He's Third Assistant Postmaster, succeeding the man that died.

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

Upham: You asked me to bring in this memo from Herman this morning on the U. S. H. A.

H.M.Jr: (To Mr. Oliphant:) Now what's the purpose of sending me a memorandum like that? What am I going to do with it? What am I going to do with a thing like that?

Oliphant: (Reads memo - remark inaudible.)

H.M.Jr: Yeah, but sometimes the information is very embarrassing. I mean, you give it to me - what am I going to do with it?

Oliphant: Well, I thought you were raising a question on it.

H.M.Jr: I didn't raise a question. The President of the United States writes the Comptroller that he should do this, and you write me and I don't - after reading it twice, I don't get - are you saying that .....

Oliphant: The ruling is sound.

H.M.Jr: Yeah.

Oliphant: The ruling is sound.

H.M.Jr: But I mean - you've never given me an opinion before on any action taken - on the action of the Comptroller of the Currency. It's out of the ordinary. I was just wondering why.

Oliphant: I thought you had raised a question. But it was mentioned here in the staff meeting - a question was raised about it.

Upham: I think the other morning you did refer to having seen something about it in the paper.

Oliphant: And asked about it.

H.M.Jr: (Telephone conversation with Secretary of War Woodring at 9:34 A. M. is attached hereto.)

April 27, 1938.  
9:34 a.m.

H.M.Jr: Hello.

Operator: Secretary Woodring.

H.M.Jr: Hello.

Harry Woodring: Hello.

H.M.Jr: Harry?

W: Yes.

H.M.Jr: Henry Morgenthau.

W: Yes.

H.M.Jr: Harry, I don't know whether Louie Johnson had a chance to tell you about my conversation with him and the President yesterday.

W: No, I just got in this morning.

H.M.Jr: Well, I - I wanted to take a minute to tell you.

W: Yes.

H.M.Jr: On Friday the Panama Railway dumped on the market 11 million dollars worth of Government securities.

W: Yes.

H.M.Jr: And completely disturbed the Government market, and knocked it down, due to the asinine way in which they handled it. They offered it to five brokers, and each broker thought he had an order for 11 million dollars.

W: Ah-ha.

H.M.Jr: I find that you're the sole stockholder.

W: Yes.

H.M.Jr: I asked for you yesterday; you weren't there. I spoke to Johnson and Johnson said that he couldn't do anything about it without the President, so I called the President and the President called Johnson and told him that he

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wanted Rosbottom, the Vice President, who handled this thing, to come down and see me. He's going to be here at 10:30 this morning. Hello - hello - hello.

Operator: Operator.

H.M.Jr: We were cut off.

Operator: Oh, I'll get him right back.

H.M.Jr: Hello.

W: Hello.

H.M.Jr: We were cut off.

W: Yes. Yes.

H.M.Jr: Well now, I was simply bringing it to the attention of the Acting Secretary of War, and I don't particularly enjoy calling down one of your subordinates.

W: Yes.

H.M.Jr: But this was the orders of the President, and I wanted to let you know that this man is going to be here at 10:30, and if you cared to send a representative here at this time I'd be very much pleased to have you do so.

W: Rosbottom is coming to your office at 10:30?

H.M.Jr: At 10:30 this morning.

W: No, I think that's all right.

H.M.Jr: But I'd be glad - I'd be more than pleased to have you have a representative here.

W: No. No, I think that's all right.

H.M.Jr: What?

W: I think that's all right.

H.M.Jr: Yes.

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- W: Well, what you want to do is to find out, don't you, about what - how it was handled.
- H.M.Jr: I want to know why - how it was handled, and why he handled it in that most unusual ...
- W: Yes.
- H.M.Jr: ... manner.
- W: Now, all I know about it - I got a report from them.
- H.M.Jr: Yes.
- W: That is, we have a committee - a Finance Committee.
- H.M.Jr: Yes.
- W: At the last directors' meeting there was nothing said about selling Government bonds.
- H.M.Jr: Yes.
- W: And I had no knowledge of it; only I got a report after it was done, saying that the Finance Committee had voted to sell these bonds. We have to pay for these three ships ....
- H.M.Jr: Yes.
- W: ... in the course of, perhaps - well, we have a payment due now and - about four hundred and fifty thousand, and then a couple of weeks or a week later we have the same amount all now through up until August.
- H.M.Jr: Yes.
- W: And this report that came to me said that the Finance Committee had decided that they had better sell those bonds now because of the high profit in it, of course. Now, I didn't know in which way - in any way that they had offered them, only that they told me that they had offered them to one broker rather than - I got the impression - rather than putting them on the market.
- H.M.Jr: No, they handled them in - in - according to our fiscal agents, the Federal Reserve of New York - that they don't

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know when anything has been handled in as stupid a way or in a way that disturbed the market as much as they did it.

W: Humm!

H.M.Jr: Five different brokers had an order, were asked to bid on 11 million dollars worth of bonds, and they wired all over the country for bids, so it looked ...

W: Yes.

H.M.Jr: ... as though they were selling 55 million.

W: Yes, I see. Well now ....

H.M.Jr: And it - and - and it disturbed the market. It so happened that that day they could take them, but they - most any other day of this year they couldn't have.

W: Yes. What - what did it do to the market?

H.M.Jr: Well, it just knocked the top off and it hasn't recovered yet.

W: Humm!

H.M.Jr: And ...

W: Now, I know this, that they had offered it to the Bethlehem Shipbuilding Company, tried to get them to take the bonds in exchange - instead of cash, you know.

H.M.Jr: Yes.

W: Tried to offer them to them. But - but just what the story was on that I'm not certain. I think maybe they - the Bethlehem said that they would accept the bonds at prices quoted on the exchange the day before, and I think these other people, Childs, took them, didn't they? - do you know who it was took them?

H.M.Jr: Childs.

W: Childs - I think Childs took them at a higher price.

H.M.Jr: But they offered them, I believe, ....

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W: Well, that's the bad part, offering them to five different brokers. I see the point.

H.M.Jr: As a matter of fact, since the Russians offered a million pounds sterling the day after the tripartite, - this was the second most stupid way any money has been handled since the Russians handled that thing about three years ago.

W: Yes. You ....

H.M.Jr: But the bad part about it is, the Street all knows that it's an agency of the Government and we're all getting the horse laugh.

W: Yes.

H.M.Jr: Just gives them something else to roll along their tongues.

W: Yes. You'll see Rosbottom at 10:30.

H.M.Jr: I'm seeing him, but I - I didn't - I wanted to give you a chance to send your own person here.

W: No, I think that's all right, because ....

H.M.Jr: I mean I thought ...

W: ... I didn't have any knowledge of it before it was done, so I think that's all right, just to ....

H.M.Jr: Well, the normal way was, I would have filed my complaint with you and let you handle it.

W: That's - yes.

H.M.Jr: But this is the President's order, ...

W: Yes.

H.M.Jr: ... that he should come to see me.

W: Well, that's all right.

H.M.Jr: I wanted to make it - be sure that you understood.

W: Yes. Quite all right.

H.M.Jr: Thank you, Harry.

W: Good-bye.

H.M.Jr: He didn't know about it.

McReynolds: He doesn't even mind.

H.M.Jr: What?

McReynolds: I say, apparently he doesn't even mind.

H.M.Jr: At least I've cleared myself. Herman, let me - may I have that.

(Mr. Oliphant hands H.M.Jr. memo, which he reads for a minute.)

H.M.Jr: You see, Herman, you - you - in this thing, you are criticizing the Comptroller of the Currency - and maybe you're right. You say, "I understand that bonds of local housing authorities are the only ones singled out for special treatment by the Comptroller of the Currency." The natural question is "Why were they singled out?" The answer is, "Because the President of the United States directed that he do so."

"In all other cases the standards provided in the Regulations of February 15, 1936, are applied by the bank examiners to the securities included in the banks' portfolios." In other words, this is being treated a special way. The natural inference is, why?

Oliphant: That is for your personal information, and I understood you made the inquiry.

H.M.Jr: No. You know nothing here is personal - I mean, it just can't be.

Oliphant: ... part of the process of keeping you fully informed.

H.M.Jr: "The ruling makes no mention of the eligibility of the balance of the issue. As a matter of fact, 90% of the issue ordinarily would be purchased by the USHA and offered eventually for sale to the public. If these bonds are to enjoy the same market advantages as the 10% of the issue included in the Comptroller's ruling, it would appear necessary for the Comptroller to broaden his ruling when such an offering is made."

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Well now, the point that I raise - what I got from this was that if this ruling could apply to ten it should also apply to the ninety. Is that your opinion? Huh?

Oliphant: That's as good a reason for it, yes.

H.M.Jr: Now, on that, "New Deal Experts act to stimulate housing - remove ten per cent borrowing restriction." Are you (Bell) familiar with it?

Bell: In a general way only.

H.M.Jr: What I'm trying to get at is this: In this room - we're all here. I think that Straus was very much in error when he got the President to write this letter which he did.

Oliphant: I didn't know about it.

H.M.Jr: Cy, am I correct?

Upham: Right.

H.M.Jr: Now Straus got him to write this letter, and if the ten per cent is removed - and I want to get - at least, I'm thinking about it - to get the Comptroller to reverse himself and withdraw the rule, and then it's up to him to decide, and should he rule that localities can buy a hundred per cent of the securities of the U. S. H. A. - or can they buy nothing.

Upham: Banks can buy it.

H.M.Jr: Banks. See what I'm getting at? The thing that - since I have this thing, should I say to the President, "Should I withdraw this letter?" Then the Comptroller will say, "No, I made that ruling."

Upham: He thought, in addition to the President's request, that they were eligible for purchase, but he didn't do it just because the President requested it. He thought they were all right. In addition to that.

H.M.Jr: That may or may not, but I mean - Oliphant makes an excellent point, but it's embarrassing to me, knowing that the President wrote this letter, and I think it's a very stupid ruling. I mean, what you say is, the banks can't buy on the ninety per

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cent but they can buy the last ten.

Upham: Well, the U. S. H. A. only asks for a ruling on the ten per cent. They didn't ask .....

H.M.Jr: That's like you say a man pleads guilty - he is committed for ten years, and asks to have it recommitted - he says, "I only want to have my sentence recommitted for one year." "If you didn't do the crime, why do you ask to be let off only for the last year?"

Upham: They didn't feel the ninety per cent bond would be marketable, and they asked the Comptroller to rule that this ten per cent would be marketable. The ten per cent bond seemed better than the ninety.

H.M.Jr: We're in it now - I'm going to ask, as long as we're in it, and I'm going to keep Mr. Oliphant's memorandum because if this thing - if we have to advance a hundred per cent, see, then I'm going to have you (Upham) informally tell the Acting Comptroller I want him to re-examine this whole question, and should he tell the banks that they can buy a hundred per cent of the securities or not. See?

Upham: (Nods "Yes.")

H.M.Jr: And keep both Mr. Oliphant and me informed because I - I think that .....

Oliphant: Like Foley to sit in?

H.M.Jr: Yes.

McReynolds: Foley's entirely familiar with the whole background on that because Foley and I spent hours with the administrator over there on this question of that ten per cent, and its relationship and its position with respect to the ninety.

H.M.Jr: You see my position, Herman?

Oliphant: Well, I ----

H.M.Jr: Go ahead and talk to me.

Oliphant: I don't know any other basis on which to operate except to keep you fully informed. I think the records being made up in the Treasury will never need to be apologized for.

H.M.Jr: Quite true, but I think if you look up your records you'll find that this is most likely the first time that you've written an opinion on a ruling of the Comptroller.

Oliphant: But there's been no other occasion.

H.M.Jr: Yeah. There might be if we looked at them. Might find plenty.

Oliphant: Well, no other occasions on which you made inquiry.

H.M.Jr: Well, I don't remember, but evidently I must have - based on that. Evidently I did, but I have no recollection of it, because I just can't - (to Mrs. Klotz) I wish you'd, just to satisfy my curiosity, look through, will you, and see what I did or didn't say. It must be within the last ten days.

Oliphant: First or second day after you got back.

H.M.Jr: Huh?

Oliphant: First or second day after you got back.

H.M.Jr: So, well now - how are we going to leave it. You are going to look into this bill.

Upham: (Nods "Yes.")

H.M.Jr: And see where we're at.

McReynolds: And find the legislative history on it.

H.M.Jr: And I also would like a copy of the letter that the President wrote. And who's going to find out about this bill?

Upham: I'd be glad to.

H.M.Jr: Well, does Foley know about this bill?

Olipphant: I think he does.'

H.M.Jr: Clear through you?

Bell: No, it did not. I was a little surprised at that bill on a hundred per cent. I thought that the ten per cent they were talking about that the United States would advance that ten per cent and then allow the localities to reimburse it later on or at the end of the construction period.

H.M.Jr: And in discussing it with Straus I said, "That's perfectly silly." I said, "We'll advance it; we'll never get it back. Why not give them the whole thing?" That's an impossible plan. The way to do it is waive the ten per cent. "We won't turn the stuff over to the community until we get the last ten per cent, and that is the way I want it." I said, "Well, that makes sense to you, but if you really want to get it, give them the whole thing.

Now, while we're on bills, who knows the status of Ickes' bill - Public Works?

Bell: I only know that it's - there's a draft in the hands of the Appropriation Committee. They had a hearing Monday, I think, with Ickes and Woodrum. They told me it went off very well, and they thought they were going to get the bill through without any earmarking, but he advised me that there was a provision in that bill that would permit these loans without interest, and I expressed surprise and he said, "Oh, I'm sure it's there."

H.M.Jr: Who's your informer?

Bell: Cliff Woodrum, Chairman of the Committee.

Olipphant: That was the discussion we had between - Ben Cohen etc., was in there - that it was no use - no point in its being in, and....

H.M.Jr: Now, did the President mention it in his message?

Bell: Yes.

Olipphant: Well, it's harmless, and nobody will take advantage of it.

Bell: Well, I think Woodrum would like to have it out of the bill. He says it's there now, and he's going to talk to the President about it.

H.M.Jr: Well, you say it's harmless. I disagree with you, and I pointed out to Jimmy Roosevelt that if you're going to do business, why not let's go to Thomas Currency.

Bell: It's a bad principle.

Oliphant: That's the way it stands; nobody would use it, but it's open to the charge that you're trying to abolish it.

H.M.Jr: I think it's fraught with danger - I think it's full of danger.

McReynolds: There's a public statement from Woodrum about it in which he mentioned the interest on loans and in which he said it is confined to forty years.

H.M.Jr: Will you find out. And the reason I didn't know about it - the particular reason I'm bringing it up, it isn't the way the bill was explained to me last, that four fifty for grants and five fifty for loans. It's now the way it was before you and I argued with the President. It now stands, a billion loans and four fifty, grants. There's nothing in there that the aggregate should not exceed a billion dollars. In other words, we didn't get a thing.

Bell: I didn't know that.

H.M.Jr: The way I saw it somewhere - billion dollars for loans, four fifty, grants, and not the way the President agreed with you and me, that the aggregate should not exceed a billion.

Bell: Make any difference what form it went out, it should not exceed a billion.

Oliphant: It didn't?

Bell: He allocated it in his message.

H.M.Jr: A billion for loans and four fifty for grants, and in the aggregate it should not exceed a billion, and I think that's the way it was in his message.

In the bill I don't think it is limited to a billion. And if the bill is that way, I thought Bell and I might write the President a note calling his attention to it. Today.

Bell: All right.

H.M.Jr: What?

Bell: All right.

Oliphant: So it's to be five fifty for loans and four fifty for grants.

H.M.Jr: No, no. According to the understanding that Bell and I had, it would be a billion for loans and four fifty for grants, but in the aggregate they could not do more than a billion dollars worth of business.

Bell: In other words, if they made grants at four fifty .....

Gaston: It's all in the President's message.

H.M.Jr: Now, the last time I saw Foley he said they couldn't do that for legal reasons, and, therefore, they were drawing it four fifty for grants and five fifty for loans. I said, "That isn't the way the President meant, but if that's the way it stands, it's a little better for the Treasury." He said, "No, for legal reasons they can't get it that way," and therefore, they are going to have four fifty and five fifty, but instead of that, I see it's going to be a billion and four fifty. I'd just like to know. We're talking a lot of money.

Are we together now?

Bell: Well, I thought that Mr. Ickes, in talking to me yesterday morning, indicated that the billion was in his mind because he was a little worried about them earmarking a part of the billion dollars for Rural Electrification loans.

H.M.Jr: How much?

Bell: He said, I think, "If we don't do something before this bill is Housed, that they will earmark part of this billion dollars for Rural Electrification loans. There's quite a drive on it for that, and

he wanted to know whether Jones could make those loans, or allocations for the loans. He talked about a billion dollars.

H.M.Jr: Between you and Oliphant, will you see where we're at? Ed Foley .....

Oliphant: I'll get it and give it to Dan.

H.M.Jr: I don't know whether I spoke to you about it before, but this is for Bell and Oliphant too. I would very, very much like to get into the Hopkins bill the following paragraph:

"Funds made available by this act may be used, in the discretion of the President, for aiding self-help and cooperative associations for the benefit of unemployed and under employed in the production of goods and services."

Bell: Well, I haven't seen any bill since the President's message, authorizing direct relief which is a provision under which the present self-help organization is carried out.

H.M.Jr: Well, what I wanted to make sure, myself, is the self-help here in Washington and the self-help in Baltimore, Richmond, or any place else, can get money.

Oliphant: Or concede to that little Montana thing, or anything of that sort.

H.M.Jr: Will you ...

Oliphant: I'll take care of it.

H.M.Jr: I'm very much interested in that.

Oliphant: I'll see that it gets in there.

H.M.Jr: Just to break the tension a minute, I got a letter from a Judge of the Supreme Court by the name of one Mr. Lauer, and he says here that, "We contemplate a trip to Europe again this summer. Mrs. Lauer is fearsome and nervous that her last year's experience may be repeated this year, even though I shall be most careful that a full declaration is made of all purchases from abroad. Were we subjected on our arrival to treatment similar to last year's, all benefit which I hope will accrue to Mrs. Lauer from her 'cure' while

abroad will be lost. How can we be assured that our experience of last year will not be repeated, and because of what happened last year her return to this country this year be made the more unpleasant? A contemplation such as this, harbored over the summer, would go far to undo any possible benefit from the summer's vacation. Is it not possible that when we return from our European trip this summer the government's interests may be safeguarded by some more considerate and gentlemanly representatives than those we encountered last year?"

- Magill: Such as Gibbons.
- Gaston: I've got a better scheme - let Mrs. Klotz go with them and save the expense sheets.
- Klotz: Thank you.
- H.M.Jr: And all they did last year was to pay a \$10,000.00 fine on arrival. Mrs. Lauer had a \$1500.00 watch under her glove that she forgot all about.
- Klotz: You know how it was discovered? An informer sent a picture of the watch and they showed her the picture and out came the watch.
- Gibbons: You know how she goes on the bench with him and tells him what to do. You know that the higher courts have reversed him several times. She sits on the bench with him and tells him what to do.
- Oliphant: He's a nice old fellow. He's one of the nicest fellows in New York.
- Klotz: Is he, really?
- Oliphant: Oh, surely. He's fine.
- Gibbons: But he's just under her thumb - it's a very pathetic case, on his part.
- H.M.Jr: You (Gibbons) say it's pathetic, and you (Oliphant) say he's a grand guy.
- Oliphant: He's one of the most important influences in law reform in New York.
- H.M.Jr: But it doesn't begin with the customs.
- Oliphant: It doesn't begin at home.
- Gibbons: He had a case reversed and she wrote a lot of notes on the edge of the case.
- Oliphant: I admit, I knew him before he was married.

H.M.Jr: Now, Mr. Gaston, you talk on Thomas Currency.

Gaston: There have been some rumors going around - we had one letter from a man up in Boston that he'd seen an item in the paper that we were - a reporter called up Al Hall from a Congressman's office and cross questioned him about the thirteen hundred tons of currency paper that they were ordering. He had a very firm idea that was being ordered so we could print greenbacks on it.

Bell: Congressman Taylor made a speech on that.  
shall

H.M.Jr: Well, I/refer those matters to the President's economic advisors. I'm having lunch with them today.

Gibbons: Who's that?

H.M.Jr: What? Well, you read the papers. The President's having lunch with Mr. Ford and his economic advisors.

Upham: Mr. Ford's or his.

H.M.Jr: The President's economic advisors. Is everybody going to rush for papers, like when they complained about Ken magazine? Five Cabinet members tripped over each other rushing to the news stand to get a copy.

McReynolds: In the Post this morning, under this Coffee Cup column they've got a predicted interview .....

H.M.Jr: Will you (Gaston) see that I get my "coffee" served.

Gaston: Yes sir.

Gibbons: Mr. Secretary, on this housing thing, I read coming down on the train day before yesterday, somebody, before the Housing Committee said that sixty-seven per cent of all the property between fourteenth street and Brooklyn Bridge, east - from the East River and Madison Avenue, were in tax arrears, and thirty six per cent of the people are on relief. Most desperate thing you've ever read, in this testimony.

H.M.Jr: Harry?

White: Might be of interest to comment on the British deficit which, as you know, is planned to be about six hundred million dollars. But if you make the figure comparable on the basis of population it would equal about a billion six, with the United States, and that billion six must be regarded in the light of the fact that they don't anticipate in the figures any reduction in business activity and that they are in no sense in a depression, so here you have a country that's undertaking a deficit - a very large deficit - without a recession, in the hope possibly of postponing one.

H.M.Jr: And the moral?

White: The moral is that ~~that~~ probably a balanced budget isn't as angelic as it is usually considered. "If you can only copy the British you will be perfect."

H.M.Jr: I am raising Mr. Chamberlain by at least three million dollars.

White: I think you're doing well.

H.M.Jr: I mean, I'm just raising him at least by three million dollars. The question is, can he see me?

White: Not for a while.

H.M.Jr: I am just - our deficit on that basis - on the population - is just three times Chamberlain's.

White: Yes, but we are not in a state of prosperity in the first place, and in the second place we've got 2.8 times the population.

H.M.Jr: But still based on the population, if their's is a billion six ours is just three times that.

Bell: Third place, we haven't got a gun at our head.

H.M.Jr: What do you mean, "gun at our head?"

Bell: Well, I mean.....

H.M.Jr: It's interesting - I mean, it just shows I'm three times as good as Mr. Chamberlain on that basis.

(Nods to Mr. Lochhead.)

Lochhead: The British bond market went down this morning one to two points on the news of that budget.

H.M.Jr: How much worse off are we on that?

White: Well, they're at the highest point in their history in physical production.

H.M.Jr: On a physical production basis.

White: There is no way of comparing it. Their national income this year will be probably around - well, last year, about thirty-seven billion dollars.

H.M.Jr: How many per population? Do a little figuring - you translate it.

White: You want me to do it now? I'll give it to you on the other figures.

H.M.Jr: Magill's going to do the other tax bill - they're going to .....

White: Well, all right. I can do some quick figuring.

Magill: You may be interested - I was just looking at it this morning. A man with ten thousand dollar income, married and no dependents, our total Federal tax is four hundred fifty-eight dollars. The British is nineteen hundred sixty, under this new .....

White: Of course, that isn't the only significant figure. Even that fact in it needs to be supplemented by a control tax.

H.M.Jr: I want something - if Magill .....

White: I'll give him what I've got.

H.M.Jr: Talk to Sharp<sup>(2)</sup> direct. I'd like to have something on it.

What other good news you got?

White: I thought that would fill the day.

H.M.Jr: All right. George?

Haas: I have nothing.

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

Gibbons: (Nods "No.")

Lochhead: Nothing for me.

Oliphant: Groups made some of those comparisons on taxes.- they were publicized yesterday - between England and America.

H.M.Jr: Dan. Dan, would you mind just looking up here a minute please. When we talk about gold we can use - you've got twenty-nine there and twenty-seven here.

Bell: There is a difference in dates, see - one day behind. We can use this.

H.M.Jr: Which is the one? I mean, supposing five million comes in from Japan - is that where it is added in?

Bell: Yes, and it will go down in here when this date comes along.

H.M.Jr: Why will it go down?

Bell: It will go both places. This is a current thing and this is the date of the clearance - one day behind.

H.M.Jr: This is anticipated and this is actual. Couldn't that come off? But this means, as of the twenty-fifth we've got twenty-seven, and this one, twenty-six, would be a day later than the twenty-nine.

Bell: You see, this is put on as of the same date as the Federal Reserve balance.

H.M.Jr: The point is, we've got around thirty million dollars. Will you stay behind a minute? I didn't know this would last so long.

(Nods to Mr. Upham.)

Upham: Perhaps I should have told you we sat until six last night behind locked doors.

H.M.Jr: Fine. Make any progress?

Upham: Yes, I think the heads - the supervisors are probably farther apart than the heads of the agencies so in that sense we aren't as far along as we are in the morning.

H.M.Jr: When will you meet again?

Upham: Today. Two o'clock.

H.M.Jr: Honestly, all I could do was control myself with Crowley yesterday. He was just furious that Smythe was pressed in; that is, he said, "How can I keep up the morale of my office; my people aren't allowed to come in, but Diggs can bring in Smythe." I said, "Well, Smythe is here at my request." Then he walked up and down the room - "I'm going to resign in July." All I could say was "Whoopie."

McReynolds: Why didn't you say, "Why wait until July?"

H.M.Jr: No, all I could keep from saying was "Whoopie." This is what I thought maybe somebody could do. He was counting on filling the vacancy of O'Connor, and did he expect to have that job?

Upham: I don't know.

H.M.Jr: He's furious that Diggs is here. See, I mean, for some reason or other, he figured that the O'Connor influence was through and that he could do whatever he wanted to do; and then he made the most amazing statement. He said the Smathers bill was partly written by his General Counsel in cooperation with some of the people in O'Connor's crowd without his knowledge.

Oliphant: Well?

H.M.Jr: I'm just passing .....

Oliphant: Who is his General Counsel?

Upham: Birdzell.

H.M.Jr: Oh.

Oliphant: That's the reason I couldn't understand the other day. You said there was no contact between Jefty's office.

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H.M.Jr: And he's wild that Diggs is still here and that we put a strong fellow like Smythe as his assistant, and we've just gummed his whole game. I'm giving it to you for what it's worth.

Upham: I think he'd like to see the Comptroller's office in the F. D. I. C, both the Comptroller's office and the Treasury, and him the head of it.

H.M.Jr: Well I - I'm afraid he's going to resign.

Upham: You'll be interested to know, because of that, three men - Folger, Bulger, and Nichols - just the three heads - and they asked me to sit with them .....

H.M.Jr: Who?

Upham: Folger, Bulger, and Nichols.

Bell: I thought you said Folger, Folger, and Nichols.

H.M.Jr: Sounds like Kelly, Kelly, Kelly, a law firm in New York City.

Gibbons: You've got two bachelors - want to get rid of one.

H.M.Jr: This is very serious for Cy.

Upham: Well, I don't know whether I can remember the rest of this sentence or not. There was a fourth person, one of Mr. Crowley's braintrusters that came along with Nichols, so he packed our meeting yesterday morning.

H.M.Jr: Who was the braintruster?

Upham: His name is Tucker. He's a smart boy - he's all right. But if we start a "town meeting" of that kind and each one brings one or two with him we'll never get through. There's too much talk even with three, but I think it will be all right.

H.M.Jr: Well, as they say, gradually get little pieces here and there.

Upham: Tom Smith will be here Friday morning between trains if you are interested.

H.M.Jr: I think not.  
Thank you all.

April 27, 1938.  
10:21 a.m.

H.M.Jr: Hello.  
Clifton Woodrum: Yes, Henry, how are you?  
H.M.Jr: Oh, I'm all right, how are you?  
W: Well, I'm better since we got this baby out of our laps.  
H.M.Jr: I see. You had quite a lot of little things, didn't you?  
W: Oh, a lot of them, yes. Henry, Magill told me that you'd like to talk to me about a matter and ...  
H.M.Jr: Yes.  
W: When do you want to see me?  
H.M.Jr: Well, I just want - can I chin a minute with you over the phone?  
W: Yes.  
H.M.Jr: I want to get your advice if you think we ought to introduce this this year, see? We'll need it pretty badly.  
W: Well, I don't know enough about it to say.  
H.M.Jr: Yes. Well, what would be your convenience? I'll do ...  
W: I can see you now, I can see you when you want to. I won't be here tomorrow, I'm going ....  
H.M.Jr: Well, I got an appointment at 10:30 and after that I'm free.  
W: Well, how long will it take you on that appointment?  
H.M.Jr: Oh, fifteen minutes.  
W: Well, why don't you get through - when you're through with that appointment, you all come down.  
H.M.Jr: All right.  
W: You want me to go up there or do you want me to ....

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H.M.Jr: No. No, we'll come up and ...

W: I'll be in 186.

H.M.Jr: Well ...

W: I mean I'll be at my main office.

H.M.Jr: 186.

W: Yes - well, my main office is 217.

H.M.Jr: ~~217.~~ Well, supposing we say we'll be there sharp 11:15.

W: All right.

H.M.Jr: Sharp 11:15.

W: Yes, I'll be glad to see you.

H.M.Jr: How's that?

W: All right.

H.M.Jr: Thank you.

W: Yes.

April 27, 1938.  
10:30 A.M.

H.M.Jr: Hello  
O: Dr. Burgess.  
H.M.Jr: Hello  
Burgess: Hello Henry.  
H.M.Jr: Randolph  
B: Yes.  
H.M.Jr: Would you refresh my memory on that deal with Panama.  
B: Yes.  
H.M.Jr: I'm going to see the fellow in two minutes.....  
B: Yes.  
H.M.Jr: .....and I just want to refresh my memory.  
B: Yes.  
H.M.Jr: Go ahead, will you?  
B: Ah well - it was on Friday last.....  
H.M.Jr: Yes.  
B: ....ah - at 1:30 Friday afternoon.  
H.M.Jr: Yes.  
B: Ah - they asked - ah - at least four dealers to submit bids to them for a list of 11 million of government and Land Bank bonds.  
H.M.Jr: Yes.  
B: Ah - then the dealers promptly began to get bids from their customers so they had a basis on which to make bids.  
H.M.Jr: Did they give them any time limits?

B: Ah - they wanted it at 1:30 and they didn't call them until - ah - about lunch time. Some of them got calls at quarter past one, some at one.....

H.M.Jr: I see.

B: ....and some at 12:50 - along in there.

H.M.Jr: I see.

B: Now the whole market sagged a bit. Ah - they got in a number of bids; some of them refused to bid - Discount, for example, refused to bid on that.....

H.M.Jr: I see.

B: ....on that basis, because it was a foolish thing to do.

H.M.Jr: Yes.

B: And - ah - but they did get bids from a number of dealers.

H.M.Jr: I see.

B: They went into a meeting apparently and about forty minutes later began calling up dealers saying, "You bought so and so"; the dealers said, "Oh no we haven't - we gave you bids from 15 minutes". (Laughs).

H.M.Jr: I see.

B: (Laughs) Well then they - they get the number of wires going and finally sold the bonds to Childs and to Solomon.

H.M.Jr: Yes.

B: But the whole thing, of course, - ah - upset the market a good deal; I wouldn't say seriously but it - but it was a foolish way to do it.

H.M.Jr: I see. Well thank you.

B: All right.

H.M.Jr: How are the bonds to-day?

B: They're a little firm to-day - they're up two or three four thirty-seconds.

H.M.Jr: Good. Thank you.

B: There'll be a little buying I think.

H.M.Jr: Thank you.

B: Yep.

H.M.Jr: Goodbye.

RE PANAMA RAILWAY SALE OF GOVERNMENTS

April 27, 1938.  
10:30 a.m.

Present: Mr. Bell  
Mr. Rosbottom  
Mr. Smith

H.M.Jr: Mr. Rosbottom, being held responsible by the President and Congress for the Government bond market, I was very much disturbed the way your organization went about selling \$11,000,000 worth of Government securities on Friday. And I so reported to the Acting Secretary of War, and he asked me to take it up with the President, which he did, and the President sent word to me that he wanted me to see you. I told Mr. Woodring this morning that I don't like to see people of other agencies and I felt that if I was displeased and I let the Secretary of War know that, it was up to him to do as he saw fit. But this is the way the President wanted it done, so on that basis, why, you're here.

And if you are so inclined to tell Mr. Bell and me why you handled those 11 million dollars worth of bonds the way you did, why, I'd like to know about it.

Rossb'm: Well, I'll be very glad to tell you. Our company started about 25 years ago to create a fund for the construction of ships. At that time we purchased railroad bonds that were legal for investment savings of New York, Connecticut, and Massachusetts, which were the highest type of bonds; we made purchases from year to year. Those securities were in the hands of a Committee on Securities of the Board of Directors. The present Committee on Securities consists of Mr. Frederick Osborn, Chairman, Mr. Wayne Johnson, and Mr. F. Bayard Reeves. With the approval of the President, we entered into a contract with the Bethlehem Shipbuilding Company last April, a year ago, for the construction of three ships which would cost us about \$14,000,000. The payments were to be made after the ships were started, on the basis of a million and a half dollars every four or five weeks, depending on the progress of construction of the ships. We have made payments of approximately two million dollars out of our cash to take care of those payments, and from now on we will need at least three times \$40,000

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every four or five weeks.

We didn't figure at the time that we made the contracts that we would be called upon to make payments as rapidly as that. But the Bethlehem Company, because of failure to agree with the Navy Department as to the date of construction of some torpedo bombs and cruisers, put their entire force on our three ships, so they're just going like wild fire.

At the last meeting of our Board of Directors, at which the Secretary of War was present, I advised the Board that we had about reached the limit where we could make these payments out of our cash and that it would be necessary for the Committee on Securities, or the Directors, to take action on it in the direction of selling some securities. Just last Wednesday I wrote to each member of the Committee on Securities giving them the list of the securities that we have, the Treasurys and the Federal Land Bank bonds, and asked them to arrange for a meeting at which they would determine what they wanted to do. In that memorandum I told them that the Bethlehem Shipbuilding Company had stated at one time that they might take over some of the bonds in lieu of cash and sell them for our account. That, of course, would be on the basis of the bid price instead of the asked price. They weren't anxious to do that at all; they wanted the cash.

So, at a meeting of the Committee on Securities, held on Friday in Mr. Wayne Johnson's office, the Committee decided to authorize the officers to dispose of this \$11,000,000 of Treasury bonds and Federal Land Bank bonds. I got back to the office shortly before 12 o'clock and had our treasurer call up Childs and Devine, both specialists in Government securities, and Solomon Brothers & Hutzler, and asked them to give us the prices at which they would be willing to take all or any part of the different securities we had. About half past two the bids were submitted to me and the bid of Childs was the highest - 1/32 and 1/64 in each instance, except in those cases where it was exactly the same as the others.

And under the authority given me by the Committee on Securities, I sold the securities to Childs, except the Federal Land Bank 4's, which we sold to Solomon Brothers

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& Hutzler.

H.M.Jr: Well, of course, the method that you used was so out of the ordinary - and I was told by the Federal Reserve that you asked four dealers to bid.

Rossb'm: No, three.

H.M.Jr: Well, they told me four.

Rossb'm: No, three.

H.M.Jr: And as a result of that they sent out wires all over the country - well, if you say three - so they were asking for bids on \$33,000,000 worth.

Rossb'm: Yes, we got bids from only three of them.

H.M.Jr: And it looked as though suddenly somebody wanted to sell an awful lot of ...

Rossb'm: Government securities.

H.M.Jr: ... Government securities. And it just so happened that that was the day that we announced we were only going to sell \$50,000,000 worth of bills instead of a hundred, so we had a very strong market; but if you had picked almost any other day and used that method of selling them, you might have even disturbed the market more than what you did. And there were all kinds of rumors around and it just knocked the bloom off the Government market. And I've seen a lot of boners pulled in Government agencies, but since the Russian Government dumped a million pounds sterling on the market the day after we agreed to the tripartite agreement, I haven't seen anything equal to what you people did, and ....

Rossb'm: Well, we - the Committee on Securities felt they had this definite dollar obligation to the Bethlehem Shipbuilding Company, and the thing was to get cash, and the only cash ....

H.M.Jr: Well, you didn't need the \$11,000,000 on Friday.

Bell: Tell me why you didn't sell the bonds as and when you had to make your cash payments.

Rossb'm: Well, we thought of that also. In the first place, I

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.. called up Devine three or four days before, to find out if this was a good time to sell Government bonds. He said his idea was that the Government bond market would remain at its present level for the time, and he then expected a drop. I told that to the Committee on Securities. The Committee then felt, "Well now, if we just sell a million and a half dollars today and then a million and a half dollars next month, why, our company will suffer the loss, if there is any loss, and depreciation between the high prices of that day and the prices that we get afterwards."

H.M.Jr: But supposing the prices go up a point.

Rossb'm: Well, we don't lose anything; we haven't lost anything.

Bell: Suppose you'd sold them in January, on the same theory.

Rossb'm: It wasn't a question of speculating.

H.W.Jr: But supposing two months from now they're selling two points higher.

Rossb'm: Well, you never can get the highest, can you? Never get the highest price.

H.M.Jr: But you sold them on the theory that you were getting the highest prices.

Rossb'm: No, because they'd been higher than that.

H.M.Jr: But instead of asking a dealer - the advice of a dealer who has to make his money out of dealing in Governments, why didn't it occur to you that you might ask the United States Treasury or our fiscal agents, the Federal Reserve of New York, and ask their advice?

Rossb'm: Well, as a matter of fact, I don't believe that ever occurred to any of us.

H.M.Jr: Well, that's my complaint. My complaint is, here's a wholly-owned subsidiary of the United States Government, and they want to sell \$11,000,000 worth of United States Governments, or guaranteed Governments, and they don't

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ask the advice of either the Treasury or our fiscal agent, and they ask the advice of some dealers in Government bonds, and then they handle it in a way that it goes all over and it makes - and that all of these things have to be sold. I've never, since I've been here, for four years - I've never known of a transaction handled by a Government agency or a privately owned agency - handled in this way. Never known that they asked it. Unknown as far as I know. Mr. Burgess tells me he never heard of a transaction being held in that way. And if you had done it a week before that way and handled the thing, you might have knocked the market off one and two points.

And as I say, I don't - I simply filed my complaint with the Secretary of War, but the President wanted me to tell you this direct, so I'm doing it. And that's that.

But my own feeling is, I think we ought to look around - and how many more agencies have got a lot of these Government bonds? And I think they should trustee them with us, because I don't think - if that's the way they're going to handle them, how do we know ....

Bell: Got any more?

Rossb'm: No.

Bell: That's all you got.

Rossb'm: They were purchased by the same Committee on Securities. Whenever we have any excess of cash, we put the cash in Government securities.

Bell: Who are the gentlemen on this committee? What's their connection?

Rossb'm: Well, Mr. Wayne Johnson, also General Counsel of the company; Mr. Frederick Osborn - he was selected by the Secretary of War as a director.

Bell: But what is his business outside of the company?

Rossb'm: I think he's handling his own personal affairs. Very wealthy man, interested in conservation.

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- H.M.Jr: Son of William Church Osborn.
- Rossb'm: And Mr. F. Bayard Reeves, selected by the Secretary of War. He's the Counsel for the All-America Cables, or was at the time he was selected.
- H.M.Jr: But here's the Treasury and the Federal Reserve of New York, and our advice wasn't asked.
- Rossb'm: Well, these three members decided - they have always decided what to buy and what to sell.
- Bell: That's the reason I asked the question as to connections of these gentlemen. I wonder why a Federally-owned corporation needs to go outside of its own bailiwick to get advice on the investment of really Government funds? Why shouldn't the Federal Reserve Bank at least ....
- H.M.Jr: Stupidest thing I ever heard of.
- Bell: ... give that advice as to how to invest Government funds?
- H.M.Jr: Why do they need three outsiders and a couple Government bond dealers to tell them how to handle our own securities by a corporation owned by the United States Government?
- Rossb'm: Well, I'm sure it never occurred to any of the members of the Committee on Securities to take it to the Federal Reserve Bank or the Treasury.
- H.M.Jr: But Mr. Bell makes a very good point. Why should a wholly-owned corporation need an advisory committee on how to invest your securities? Is that a statutory committee?
- Rossb'm: No, that's a direct action of the Board of Directors. The Board of Directors is responsible. This is a committee.
- Bell: We handle about three billion dollars of Government funds through Government trust funds, do our investing without outside advice. But I think if you had taken that to the Federal Reserve Bank, the advice you would have gotten would have been to sell those securities

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over a period of a week at a million dollars or two million dollars a day, and you would have gotten much better prices than you did. The market was surging up; you stopped it right in its tracks when you offered them all.

H.M.Jr: You killed the market.

Bell: I think you lost several points by offering them all at once.

Rossb'm: That was the action of this Committee on Securities, and we just obeyed their orders.

Bell: I don't think you got very good advice, if you're paying them for it.

H.M.Jr: Pardon me?

Bell: I said they didn't get very good advice, and if they're paying for it it's not very good.

H.M.Jr: Well, they're paying Wayne Johnson.

Rossb'm: Yes.

H.M.Jr: How much does he get as General Counsel?

Rossb'm: \$10,000 a year.

H.M.Jr: Well, that's how I feel. I think you people ....

Rossb'm: Yes. I'll tell the Committee just the way you feel about it. Don't know what can be done now.

H.M.Jr: Well, that's the way I feel, and as I say - and I think you agree with me, don't you (Bell)?

Bell: Yes, I ....

H.M.Jr: You've been in the Government how long?

Bell: 27 years.

H.M.Jr: Ever know one that happened like this in 27 years?

Bell: No, sir.

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H.M.Jr: It's unique, isn't it?

Bell: Yes, sir.

H.M.Jr: There you are. As I say, the last time - and the only other time something like this happened was when the Russian Government did it; they dumped a million pounds sterling on us, and that's a - just like that we were offered a million pounds sterling.

Bell: I think the Panama and possibly the Waterways Corporation - they're the only corporations in the Government that don't operate through the Treasury. The other agencies are Bill Myers' . . . .

H.M.Jr: Well, the whole set-up, Dan, is most unusual. I mean this whole - I wish as Director of the Budget you'd look into it.

Bell: Quite an old organization.

H.M.Jr: I know, but I think it's a most unusual set-up.

Bell: Don't even have the money on our books. The Treasury doesn't keep the cash.

H.M.Jr: And why all the cash shouldn't come in to us and shouldn't be reappropriated every year the way everything else is . . . .

Rossb'm: We never get any appropriation from Congress.

Bell: They're operating on revenue, paying us a dividend. You haven't this year, have you? You're going to use your earnings this year on your ships.

Rossb'm: I hope so. No, we expect to pay a dividend - part of the dividend anyway.

Smith: This fiscal year - this next fiscal year.

Bell: What is it, five percent?

Rossb'm: Yes.

H.M.Jr: All right, sir, thank you for coming down.

April 27, 1938.  
12:06 p.m.

H.M.Jr: Hello

O: Governor Harrison

H.M.Jr: Hello

Gov.  
Harrison: Hello Henry?

H.M.Jr: Yes, George?

H: Yes sir, how are you?

H.M.Jr: I'm wonderful.

H: Good. Good, fine. Henry, I got a Personal and Confidential cable from my friend Norman.....

H.M.Jr: Oh yes.

H: .....that I'm.....

H.M.Jr: Oh good old Bobby?

H: (Laughs) Yes, that I thought I would just tell you privately because I don't suppose Jesse will believe me but he refers to the recent protest of the British Government against the expropriation of oil fields in Mexico.

H.M.Jr: Yes.

H: And then goes on to say that he has the banks and other financial houses in London to make sure that the **facility** for the purchase of Mexican oil are not granted by the London market.

H.M.Jr: Oh.

H: In other words, - ah - the government having taken a firm stand on the expropriation.....

H.M.Jr: I see.

H: ....he's asked the banks not to finance the importation of Mexican oil, see?

H.M.Jr: Ah-ha.

H: But after all I just want to let you know that.

H.M.Jr: Gosh.

H: And I've got a call in for Sumner Welles. I thought I'd just tell him.

H.M.Jr: Oh you're going to tell Sumner.

H: Yes.

H.M.Jr: O.K.

H: Yes sir.

H.M.Jr: Thank you very much.

H: First rate.

April 27, 1938.  
12:23 p.m.

H.M.Jr: .....about ten minutes past ten to ask when the Tax Bill would be out.

Marvin H.

McIntyre: Yes.

H.M.Jr: Well Magill said definitely it won't get out until the middle of the week.

M: Of this week.

H.M.Jr: Next week.

M: Well they just - ah - Fred Vinson just called me a minute ago and said they were going to have it all out of the way before Friday.

H.M.Jr: Ah - the - ah - we've got to do a little helping on the drafting, see.

M: Ah-ha.

H.M.Jr: What?

M: I see.

H.M.Jr: And it's kind of difficult.

M: I imagine so.

H.M.Jr: And so I don't think that we can help giving them the figures because the President said he didn't want it out.

M: Ah-ha.

H.M.Jr: Do you get it?

M: Yep.

H.M.Jr: Now if there's any change, let me know.

M: O.K.

H.M.Jr: But the way the thing stands, the bill-drafting and the Treasury experts - ah - have such a difficult job it's doubtful whether it will be out until the middle of next week.

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M: I get you exactly, Henry.

H.M.Jr: Do you see what I mean?

M: Yes.

H.M.Jr: And if there's any change why let me know.

M: Yes. Yes.

H.M.Jr: O.K.?

M: I'll let you know this afternoon.

H.M.Jr: All right.

M: Thank you.

April 27, 1938.  
12:26 p. m.

H.M.Jr: Hello.

Operator: Gordon Rentschler.

H.M.Jr: Right.

Operator: Go ahead.

H.M.Jr: Hello.

Gordon  
Rentschler: Hello there, Henry. How are you?

H.M.Jr: All right. You sound as though you were in Europe.

R: No. Pretty nearly. I'm sitting right up here in New York.

H.M.Jr: Well, I mean, I don't hear you very well.

R: You don't?

H.M.Jr: Yeah.

R: Ah, wait, I've got ah - wait until I see if we can get a better connection. I can hear you perfectly.

H.M.Jr: Well, go ahead, I hear you better now.

R: Ah, all right now?

H.M.Jr: Yeah.

R: Ah, how've you been?

H.M.Jr: Wonderful.

R: Not too good?

H.M.Jr: No, I said wonderful.

R: Oh, wonderful, oh, well that's fine.

H.M.Jr: Sure.

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- R: I ran out on you. I went down South and picked up a couple of kidney stones; then took a month or two to get over it.
- H.M.Jr: You picked up what?
- R: A couple of kidney stones.
- H.M.Jr: Oh, for heaven's sake! Where'd you find those?
- R: Well, I found them down in Cuba. I just, ah ....
- H.M.Jr: Oh.
- R: And after I got rid of ~~that~~, why I took a while to get over it.
- H.M.Jr: I wondered what had happened to you because I hadn't heard from you.
- R: That's exactly it, but I just <sup>about</sup> -/the first of this last week is the first time that I've even been back on the telephone.
- H.M.Jr: Oh, for heaven's sakes.
- R: Got a couple of "docs" bossing me and so that isn't so easy.
- H.M.Jr: Yeah.
- R: But, ah, we never got to finish all our talks on our friend, the tax bill, and I guess you're damned glad we didn't.
- H.M.Jr: Well, ah, I ....
- R: But there's one - one matter that's come up this morning that I understand that the Conference people have now agreed again to this duplication on the transfer tax.
- H.M.Jr: I don't know a thing about it.
- R: Well, they, ah - I don't - I imagine that that must come along with Treasury regulations in the tax bill, doesn't it? Why don't you take a look at it?
- H.M.Jr: Well, I can.

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- R: Ah, what that does, Henry, in a nut shell, is this: We have a customer who probably travels all over the world, or may be a, a ah, woman, or may be an older man, or may be anybody. It might be a fellow like yourself.
- H.M.Jr: Yeah. May be a child in arms.
- R: Yeah, but he says, "Now here, ah, I want to buy a thousand shares of steel."
- H.M.Jr: Yeah.
- R: And instead of putting that in the name of the individual customer, we put that in the name of our nominee.
- H.M.Jr: I see.
- R: Now, as long as that - ah, and of course, in the face of that change of ownership the tax is paid.
- H.M.Jr: Uh-huh.
- R: Now, ah, when that stock is actually sold by that owner .....
- H.M.Jr: Yeah.
- R: .... of course, the tax is paid.
- H.M.Jr: Uh-huh.
- R: But we don't want to pay a tax when it goes from the name of, ah, Mr. Jones, to our nominee company.
- H.M.Jr: I see.
- R: And then when it's sold again, because there's been no real change in ownership.
- H.M.Jr: Well, I'll ask Magill what he ...
- R: What it really means to us is that it is a facility that we can give to a great number of our customers, and if there's any question whatsoever.....
- H.M.Jr: Yeah.
- R: .....as to people hiding their identity by using a nominee .....

H.M.Jr: Yeah.

R: Ah, then by all means we ought to be will' - well, we are not only willing, but we'd be glad to be required .....

H.M.Jr: O. K.

R: ..... to give the name of the actual .....

H.M.Jr: I - I understand. I know what it is now.

R: ..... as we now have to do it.

H.M.Jr: I know what it is now.

R: We just don't want to pay that double tax - if you will be good enough to take a look at it.

H.M.Jr: O. K.

R: I think that they rather feel, ah, as nearly as I can get it, that this is something that the Treasury wants.

H.M.Jr: Well, I don't know, but I'll find out.

R: Well, if you can do that, it'd be very very helpful.

H.M.Jr: Well, I'm making no promises.

R: Well, I don't want any promise from you, young fellow; all I want to do is get your eyes on it.

H.M.Jr: All right.

R: I'm very much interested in seeing what you did on gold while I was loafing.

H.M.Jr: Yeah. Well, we'll talk .....

R: Right now - say fellow, we're getting back now to where we ought to have been in the first place.

H.M.Jr: Well, we'll talk about it sometime.

R: All right. Well, that's a good job.

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H.M.Jr: Take care of yourself.

R: Well, all right. When are - when you coming to New York?

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

R: Let me know the next time. They won't let me out for a while, but if you let me know when you come up we'll sit down together.

H.M.Jr: Fine.

R: All right. Good luck to you.

H.M.Jr: Fine.

R: Bye bye.

H.M.Jr: Bye.

April 27, 1938.  
12:45 p. m.

Jesse  
Jones: Well, how are you?

H.M.Jr: Will you sell me a railroad?

J: I will - what? Yeah. Are you dated up for lunch.

H.M.Jr: Unfortunately, I am, Jesse.

J: I wanted to come over and - ah - chat.

H.M.Jr: I'd like to - I'm free tomorrow.

J: Well, I'll be in New York tomorrow.

H.M.Jr: Oh.

J: The, ah ....

H.M.Jr: Oh.

J: You going to have any time this afternoon?

H.M.Jr: Well, ...

J: Few minutes. I'm not so particular, except I wanted to talk to you about the railroads a little bit, and ....

H.M.Jr: Uh-huh.

J: And ah, not - maybe I can do it Friday just as well.

H.M.Jr: Uh-huh. Kind of a bad day for me. Ah, if - if it's pressing, I can do it; if it's not pressing ah .....

J: Well, it is not pressing.

H.M.Jr: It's not?

J: No. It is not pressing.

H.M.Jr: It's ah ....

- 2 -

J: Just - what I was going to say now - I can say this much now.....

H.M.Jr: Well, say - say it now.

J: Ah, I had, ah, a pretty harmonious meeting .....

H.M.Jr: Yeah.

J: .... and when I got into things that we couldn't, ah ...

H.M.Jr: Yeah.

J: .... ah, obviously couldn't solve, why, ah, I just cast those aside for the time being. See?

H.M.Jr: Yeah.

J: And we got them to agree on some of these things, and, ah, there's no disposition not to go along and do the things that we did - we agreed to do.

H.M.Jr: Uh-huh.

J: And, ah, my thought was - ah - get what we could get and then, button up the belts and, ah, try for something else a little later.

H.M.Jr: Any chance for a Transportation Department?

J: They don't - there's no objection by Wheeler or Lee.

H.M.Jr: (Coughs.) Pardon me.

J: Sam Rayburn's opposed to it.

H.M.Jr: Oh, really?

J: Yeah. Sam, ah - he didn't come to this meeting; he didn't think he ought to.

H.M.Jr: Yeah.

J: Because Lee is Chairman of the Committee.

H.M.Jr: Yeah.

J: And, ah, I thought he was probably right about it.

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H.M.Jr: Uh-huh.

J: But I've talked to him about this thing, and he - ahhh - he's against it - I've never just sat down and gone to the mat with him - but, ah, I'll have plenty of time to do that.

H.M.Jr: Have you still got time before they go home?

J: For that - for that Department?

H.M.Jr: Before Congress goes home?

J:  I doubt if that could be created before Congress goes home.

H.M.Jr: I see.

J: Ahhhh, I doubt if it could. Ahhh, if we could get - ah, enthusiasm on Sam's part, and, ah - ah, Wheeler's part we might do it.

H.M.Jr: Uh-huh.

J: But, that, we didn't go into much actually, because I don't believe the Commission would like it.

H.M.Jr: Uh-huh.

J: I don't believe that the railroads would like it, and, ah ....

H.M.Jr: Well.

J: But anyway, I'll talk with you maybe Friday?

H.M.Jr: Yeah - what time? I ....

J: Whatever time suits you.

H.M.Jr: Well, you, ah - how, how ....

J: If you're open for lunch, I'll come for lunch.

H.M.Jr: Ah - O. K.

J: That - that's a - a convenient time, and besides I would like to have you to lunch.

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H.M.Jr: All right. All right.  
J: All rightie.  
H.M.Jr: Ah ...  
J: How's the market today?  
H.M.Jr: Ohhh, a little bit better.  
J: Uh-huh.  
H.M.Jr: Ah - one o'clock?  
J: One o'clock, Friday.  
H.M.Jr: Yeah.  
J: Fine.  
H.M.Jr: All right.  
J: Thanks.  
H.M.Jr: Thank you, Jesse.  
J: All right.

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April 27, 1938.

MEMORANDUM FOR

The Secretary of the Treasury

Subject: Panama Railroad Company

The Panama Railroad Company was incorporated in 1849 under the laws of the State of New York for the purpose of building and operating a railroad across the Isthmus of Panama. Its incorporators were American citizens. It was later sold to a French Company, concerned with the building of a canal across the Isthmus. In 1904, before actual construction work on the Panama Canal was started by the United States, our Government secured control of the capital stock of the railroad company, which it now owns completely. The capital stock amounts to \$7,000,000 and is held in the name of the Secretary of War, except one qualifying share held by each member of the board of directors, numbering 13, including the Secretary of War. All directors are officers of the Government except five. The Governor of the Panama Canal is President and the railroad is operated as an adjunct to the Canal; at the same time carrying on its operations as a common carrier.

The railroad operates on its revenues. No appropriations whatever are made for it by Congress. It declares annual dividends, which are deposited in the Treasury of the United States. For many years such annual dividends have amounted to around \$700,000.

The railroad owns and operates the Panama Steamship Company and its other enterprises include commissaries, quarters, cargo handling activities at harbor terminals, hotels, fueling plants, and telephone system on the Canal Zone and certain real estate in the Republic of Panama.

The gross revenue of the railroad (exclusive of subsidiary business activities) during the fiscal year 1937 amounted to \$1,609,744; operating expenses were \$1,333,404; net revenue, \$276,340 - an increase of \$70,941 over the previous year.

Business operations on the Isthmus, carried on by the railroad company, yielded a profit of \$1,358,595 for the fiscal year 1937.

The steamship line operates at a loss, the deficit for 1937 being \$212,206. However, this steamship line carries freight and passengers for account of the Panama Canal and other departments of the Government at material reductions from tariff rates, which reductions, it is reported, amounted to \$533,262 in 1937.

AWB

Bureau of the Budget,

April 27, 1938.

The Panama Railroad Company was incorporated in 1849 under the laws of the State of New York for the purpose of building and operating a railroad across the Isthmus. In 1904, before actual construction work on the Panama Canal was started, the United States Government secured control of the capital stock of the Panama Railroad Company which it now owns completely and has operated the company since that date through a board of directors appointed by the Secretary of War, who holds all the stock of the company except the qualifying shares of the directors. By Executive order of May 9, 1904, the President of the United States directed that the general policy of the railroad be controlled by the United States and that the road be made an adjunct to the Panama Canal, at the same time carrying on its operations as a common carrier. Since that time the corporation has established and operates various business activities upon the Isthmus incidental to the construction, operation, and maintenance of the Canal. Thus the United States Government is conducting the business activities relating to the Canal enterprise under two distinct organizations: first, the Panama Canal, which is a direct branch of the Government; and second, the Panama Railroad Company, which is a Government-owned corporation.

*Mrs. Klotz*



TREASURY DEPARTMENT  
WASHINGTON

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April 27, 1938

TO THE SECRETARY:

In order to complete the records it was determined today by Mr. Taylor, and cleared by you, that the rate to be applied on the obligations of the United States Housing Authority which the Treasury will purchase on April 28 in the amount of \$1,000,000, will be 1/2 of one per cent.

*SWB*



## TREASURY DEPARTMENT

WASHINGTON

April 27, 1938.

MEMORANDUM TO THE SECRETARY:

In compliance with your request there is attached a copy of the statement which was read this morning by Senator Harrison in his conference with you on the matter of amending the Second Liberty Bond Act so as to combine the limitations of 25 billion dollars on the authority to issue bonds and 20 billion dollars on the authority to issue Treasury notes, Certificates of Indebtedness, and Treasury bills.

Senator Harrison called Senator Glass while we were there and explained the matter to him. Senator Glass said he saw no objection to the Treasury's policy and thought it should have the authority requested.

Senator Harrison then told the Secretary he thought he should discuss the matter with Congressman Doughton, on his return to the city, and start the legislation in the House and he saw no difficulty except that the Republicans would naturally take this opportunity to ask a great many questions on fiscal policies.

*SWB*

DEBT

April 26, 1938

The Act of February 8, 1935, amending the Second Liberty Bond Act, as amended, limited the amount of bonds to be outstanding at any one time under the provisions of that Act, to an aggregate of \$25,000,000,000 and the amount of Treasury notes, certificates of indebtedness and Treasury bills to be outstanding at any one time to an aggregate of \$20,000,000,000.

The following statement shows the amount of public debt obligations issued under the Second Liberty Bond Act, as amended, and outstanding as of March 31, 1938 and the additional amounts which the Secretary of the Treasury may issue under the authority of that Act:

Bonds:

Total amount that may be outstanding  
at any one time . . . . . \$25,000,000,000

## Outstanding as of March 31, 1938:

Treasury bonds . . . . .	\$20,927,262,250	
U. S. Savings Bonds (maturity value) . . . . .	1,503,900,000	
Veterans Adjusted Service bonds . . . . .	<u>2,572,837,750.00</u>	<u>21,261,632,156.00</u>

Total additional amount of bonds which may be issued under present limitation . . . . .		<u>1,786,330,843.60</u>
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Notes, certificates of indebtedness and Treasury bills:

Total amount that may be outstanding  
at any one time . . . . . \$20,000,000,000

## Outstanding as of March 31, 1938:

Treasury notes . . . . .	\$11,322,211,050	
Certificates of indebted- ness . . . . .	771,565,000	
Treasury bills . . . . .	<u>1,906,223,950.00</u>	<u>11,999,999,000.00</u>
Total additional amount which may be issued under present limitation. . . . .		<u>\$6,307,630,950.00</u>

**Recognition**

Total public debt obligations which may be issued under the Second Liberty Bond Act, as amended, and be outstanding at any one time . . . . .	\$45,000,000,000.00
Total outstanding as of March 31, 1938 . . . . .	<u>37,159,979,206.40</u>
Total amount which may be issued under present limitation . . . . .	<u>7,840,040,793.60</u>

The total combined amounts that may be issued under the two limitations are, I believe, sufficient for the present but the division as between bonds and notes and certificates of indebtedness and Treasury bills should be adjusted in order to give the Treasury more latitude as to the kind of securities it can issue. In the months of June, September, and December, 1938, the Treasury has maturities of Treasury notes aggregating more than \$1,600,000,000 face amount and it will probably be necessary during this period to raise additional cash between \$500,000,000 and \$1,000,000,000, making the total financing during the next eight months period, exclusive of Treasury bill operations, of more than \$2,600,000,000. It may be highly desirable, from the standpoint of the public debt program in the Government security market, for the Treasury to meet the maturing notes and to raise whatever additional cash is necessary or a major portion thereof through the issuance of additional Treasury bonds, rather than through the issuance of Treasury notes. After reserving \$250,000,000 to meet the current issues of U. S. Savings bonds, only \$1,500,000,000 would be available for further bond issues under the present limitation. This might not be sufficient to meet

the Treasury notes in this respect.

I should like to emphasize that we are not asking for an increase in the total limitation on the aggregate of the public debt obligations which may be outstanding at any one time under authority of the Second Liberty Bond Act, as amended, but we are asking only for a consolidation of the present limitations on the two classes of securities mentioned in that Act so as to give the Treasury greater flexibility in its financing operations.

DWB/gm

April 27, 1938.

To: The Secretary

From: Mr. Shoup. *CS*

## British and American Tax Comparisons.

At Mr. Magill's suggestion, I submit herewith some comparative data on British and American taxes (chiefly income taxes):

The individual income tax payable by a married person with two children under the British rates proposed by the Chancellor of the Exchequer in his recent budget speech is compared below with the individual income tax payable under the present United States law. The comparison is in terms of effective rates (that is, the amount of tax, divided by the amount of net income):

Net Income	British effective rate	United States effective rate
\$ 3,000	3.9% .....	0
10,000	18.0% .....	3.4%
25,000	30.4% .....	9.3%
50,000	40.8% .....	17.2%
100,000	50.0% .....	32.0%
500,000	63.9% .....	60.7%
1,000,000	66.3% .....	67.8%

The United States figures do not include any State income tax. From 2 to 5 per cent must be added to include the net additional burden imposed by the individual income tax of New York State, for example (after allowing for the deduction from gross income that the Federal Government grants for State income taxes paid), except that no New York tax at all is due at the \$3,000 level in this illustration.

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Comparisons such as these, however, can give only a rough idea of the relative burden of the two systems. A true comparison would require elaborate research. The chief difficulty is that what the British call taxable income is not the same as what the United States or New York State call taxable income. The British exclude certain items that we include; and they differ from us in the deductions that they allow. Differences in price levels also complicate the comparison.

Some comparisons--also necessarily rough--with respect to taxes, debt, and national income follow:

1. If Americans paid in taxes to the Federal Government the same proportion of the national income as the British will pay to their national government in the coming fiscal year, they would pay over \$10 billion (instead of \$6 billion, as they will pay according to the last published budget estimates).

2. Even if all national and local taxes are taken into consideration, the Americans pay about the same percentage of their national income in taxes as do the British - at least no greater. The percentage is about 23.

3. The interest on the national debt in the United States amounts to 1.5 per cent of our national income while the interest on the British national debt amounts to 4.3 per cent of their national income.

CA

Eccles Recovery plan, left at the White House when  
HM, Jr and Eccles saw the President.

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April 27, 1938.

OUTLINE OF NEXT STEPS IN THE RECOVERY PROGRAM

The Outlook for the Next Six Months

1. No sign of an early upturn. When production was last at current levels (in 1931 and 1934) industrial maintenance and new plant and equipment expenditures were nearly \$5 billion less than in 1937. No reason to expect upturn in railroad and utility expenditures.

Mildly favorable factors.

- (a) Residential housing increasing but small and below last year. Contracts awarded in the first half of April 38 per cent below '37 corresponding period; building permits outside N. Y. in March 28 per cent below last year.
- (b) Moderate increase in deficit but not substantial. W.P.A., C.C.C., roads, P.W.A., U.S.H.A., revenues.

Unfavorable.

- (a) Inventories \$5 billion higher at year end than in 1935.
- (b) Dwindling backlogs of unfilled orders and uncompleted projects.
- (c) Consumer credit liquidation
- (d) Agricultural and foreign prospects
- (e) Stock prices high in relation to probable earnings.

Necessary to speed up expenditures in next six months to prevent further deterioration.

1. R. F. C. Loans for R. R. equipment-- no legislation required.

- (a) Up to January 1, 1939, equipment delivered before June or September 1939.
- (b) 100 per cent of cost
- (c) Long maturities as safe
- (d) 3 per cent
- (e) Interest beginning one year after date of loan.

**2. Further Stimulation of Residential Construction.**

**W. F. A. common labor contribution to private builders -- requires legislation.**

- (a) 10 per cent of appraised value of new construction
- (b) On housing units appraised at \$5,000 or less
- (c) Limited to contracts let this calendar year and started after May 1st

**Socially beneficial, powerful stimulant, no cost to Government.**

**3. R. F. C. Loans for New Utility Expenditures - No legislation required**

- 1. Favorable terms
- 2. Limited period
- 3. Assist in lowering rates for private financing and refunding.
- 4. No loan to municipal power plants

**4. Speeding Up of Ordinary Government Spending after New Fiscal Year Starts**

- (1) Supplies
- (2) Public buildings
- (3) Armaments

**Desirable because of critical business situation in summer and because other parts of program will be well launched in second half of fiscal year.**

April 27, 1938. <sup>Page 151</sup>

## NEXT STEPS IN THE RECOVERY PROGRAM

### The Outlook for the Next Six Months

1. On balance the probabilities favor no significant upturn in the next six months. Unemployment is still increasing and retail sales are declining. The index of production remains below 80 as contrasted with the 1937 average of 110. When the index was last around 80, in 1931 and 1934, the yearly volume of maintenance and new plant and equipment expenditures of mining and manufacturing amounted to \$3 billion, or \$2.7 billion less than in 1937. Utility and railroad expenditures are being curtailed.

Residential housing expenditures are increasing but the magnitude is small. F. W. Dodge residential building contracts awarded in the first half of April were 38 per cent below the first half of April 1937. The volume of new residential building permits outside of New York in March was 28 per cent below March 1937.

No significant increase under the present program in Government expenditures can be reasonably expected. W. P. A. has about reached its peak; C. C. C. and public roads expenditures will be maintained; P. W. A., depending as it does upon local initiative, will be slow in getting under way; the same is true of U. S. H. A. On the other hand, revenues will continue to fall off so that net expenditures will increase moderately, though not to the levels of 1934-1935.

As against the mildly favorable factors of housing and government expenditures must be offset the strong deflationary effects of

the process of working off inventories, of the completion of orders for heavy durable goods carried over from last year, of the liquidation of consumer credit. The agricultural outlook is depressing. The foreign economic situation is deteriorating.

Manufacturers, wholesalers and retailers entered the year with \$5 billion more inventory than they had two years previously. Then sales were increasing; now they are declining. It will be months before inventories are worked down to comfortable levels for industry as a whole. Witness the automobile industry with its still large bank of parts. The process of working off inventories involves losses, involves a failure to pass along money received from consumers, and involves a stoppage of production and new buying by producers. The working off of a billion dollars of inventories subtracts as much from the money stream as is added by a billion dollars of new construction, the most we can expect this year.

Under the stimulus of reduced down payments and longer terms there is evidence that consumer credit reached a high level in late 1937. The process of working this off will be a drag throughout the year.

Stock prices are high in relation to probable earnings in 1938, This is a potentially dangerous situation as a further fall in stocks would have depressing psychological repercussions.

A survey of various important elements in the current and immediately prospective situation yields, therefore, no basis for easy optimism for prospects in the next half year.

2. In the light of the above considerations every effort should be made to increase the total volume of public and private expenditures in the next six months to prevent a further deterioration in the business situation.

How Additional Expenditures May be Made

1. E. F. C. loans for railroad equipment. The E. F. C. has the power to purchase adequately-secured equipment trust certificates upon such terms and conditions as it may determine. Loans made for maintenance or purchase of equipment need the approval of the I. C. C. as regards maturity, but do not require a certification by the I. C. C. that the railroad in question, on the basis of present and prospective earnings, may reasonably be expected to meet its fixed charges, as do loans to railroads for other purposes.

It is suggested that for a limited period the E. F. C. announce itself prepared to purchase new equipment trust certificates:

- (a) covering 100 per cent of the cost of new equipment,
- (b) maturing in twenty years in the case of freight cars, fifteen years in the case of steam locomotives and passenger cars, and ten years in the case of complete streamlined trains and Diesel electric engines,
- (c) at a 2 per cent interest rate,
- (d) interest beginning one year after date of loan.

Arguments in Support of Proposal

(a) An offer on less favorable terms would not interest the better railroads that can now sell equipment trust certificates on a 4 per cent basis or better. On an offer such as outlined above, they could hardly afford not to anticipate part of their future requirements.

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(b) In the present conditions of railroad finances, equipment trust certificates constitute the most secure type of loan that can be made to the roads.

(c) In no other way could the Government induce as much total expenditure and employment at as little cost to itself. It has been carefully estimated that to handle the volume of traffic consequent upon full recovery in three years' time would necessitate the purchase of  $2\frac{1}{2}$  billion dollars worth of equipment.

(d) Any anticipation of these requirements would provide both employment and buying power now, and help mitigate the almost inevitable bottlenecks in the future.

(e) It is important to limit this offer to equipment purchased in the comparatively near future, as otherwise roads will hold back. The stipulation that the equipment must be contracted for in this calendar year to be delivered before June 30, 1939, in the case of freight cars, and September 30, 1939 in the case of locomotives and streamlined trains, appears to be reasonable. This type of work could be begun almost immediately, as contrasted with some other elements of the recovery program.

#### E. Further Stimulation of Residential Construction

The volume of private low-cost residential construction continues disappointingly low. If it is to grow to become a significant force

making for a sustained revival, additional stimulus appears necessary. This could be provided by an amendment to the Relief Appropriation empowering W. P. A. to supply W. P. A. common labor equal to 10 per cent of the appraised value of new low-cost residential building free to the builder. This offer should apply only to units appraised at \$5,000 or less, the contracts for which are awarded between, say, May 1st and December 31st of this year.

This proposal would

- (a) stimulate a socially desirable type of activity
- (b) give a substantial fillip to private residential building expenditures this year, when they are most needed
- (c) not involve any cost to the Government

The possibilities of aiding in railroad maintenance through the use of W. P. A. labor might be studied. A precedent exists in Canada.

3. E. F. C. Loans for New Utility Expenditures.

As in the case of the railroads, the E. F. C. could make loans for new expenditures for a limited period on very favorable terms. Although it is true that many operating companies are heavily bonded and that they are not now in need of new capacity, still an offer on favorable terms for a limited period should induce many companies to anticipate their future requirements and modernize or replace old equipment. Moreover, the offer by the E. F. C. to loan for such purposes at lower rates than now prevail should have the effect of bringing about a reduction in

-2-

the open market rates and hence permit private borrowing and refunding on more favorable terms. Refunding at lower rates reduces the burden of fixed costs, enhances the outlook for profits, and brightens the prospect for securing equity money, the greatest need of the utilities.

In addition to the considerations mentioned above an offer by the R. F. C. to loan money for new equipment for railroads and utilities on very favorable terms for a limited period would permit the replacement of obsolete and high cost equipment by modern low cost equipment. Psychologically, it should have the effect of strengthening the confidence of investors and of adding billions of dollars to the market valuation of the securities of railroads and utilities.

As a supplement to this program it would be helpful if it were announced that the F. W. A. would make no more loans for the construction of municipal power plants.

4. Speeding up of ordinary Government spending at the beginning of the new fiscal year

Much can be done through the Director of the Budget, the Procurement Division of the Treasury, and the various Government departments to vary the rate of current expenditures and to anticipate the purchases of necessary supplies. Work on public buildings can be speeded up. There should be some possibility of concentrating a larger part of the armament program in the first half of the fiscal year.

Anything that could be done to throw ordinary expenditures into the first half of the fiscal year would be extremely worthwhile both because of the business situation in the summer may be critical and because

the other elements of the program will result in a stepping up of expenditures in the second half of the fiscal year.

## DEPARTMENT OF STATE

*Memorandum of Conversation*CONFIDENTIAL

DATE: April 27, 1938.

## SUBJECT:

Recognition of the conquest of Ethiopia;  
loan to China.

## PARTICIPANTS:

The Chinese Ambassador, Dr. Chengting T. Wang;  
the Under Secretary.

## COPIES TO:

S, A-B, FE, PA/H, PA/D, Eu, EA

\*\*\* 1-100

The Chinese Ambassador called to see me this morning.

The Ambassador stated that he had received a confidential telegram from his Foreign Minister in which Dr. Wan requested him to ascertain if this Government would give informally and confidentially to the Chinese Government its views as to the attitude which China should assume at the meeting of the Council of the League of Nations on May 9 in regard to the recognition of the conquest of Ethiopia by Italy. I replied to the Ambassador that this Government of course appreciated the friendship and the confidence which was

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request for our advice, but that I felt that the question was one which had such far-reaching implications and which was of such importance that only the Chinese Government and the responsible authorities of that Government could possibly determine such a question and that, consequently, it would seem to me impossible for this Government to give any advice in the matter. The Ambassador seemed to expect this reply and made no comment.

The Ambassador then went on to say that, as he had told the President, the Chinese Government had ample munitions and military supplies to last until the end of this year; that the friendly policy adopted by the United States Treasury with regard to the purchase of Chinese silver had made it possible for the Chinese Government to obtain sufficient United States exchange to pay for the military supplies which they purchased here, but that this situation of course could not continue after the first of the year and they were therefore considering ways and means of obtaining financial assistance in the American market. The Ambassador told me that negotiations were under way and would probably shortly be concluded for a loan to the Chinese Government by American banking interests of from ten to twenty millions of dollars, which sum would be expended for the purchase of military supplies in this country. The Ambassador did not advance the names of

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these banking institutions, nor did I question him.

The Ambassador then went on to say that his Foreign Minister had also informed him confidentially that the Chinese Government was informed that the Government of Japan was considering in the near future requesting President Roosevelt to offer his good offices with a view to bringing about peace between Japan and China. The Ambassador inquired whether any such approach had been made to this Government. I answered that no approach of any kind along these lines had been made by Japan to this Government, nor by any responsible or authorized agency or representative of the Government of Japan. I said that of course, as the Ambassador knew, there were a great many individual Japanese both in this country and elsewhere who apparently on their own initiative had advanced such a suggestion, but that the Government of Japan itself had never indicated any such desire on its part. The Ambassador then inquired what the attitude of this Government would be if Japan did make such an approach. I said that necessarily the President would inquire of the Government of China what its views might be. The Ambassador stated that he believed that if this question arose and if an inquiry was then made of the Government of China, the Government of China would refuse to discuss the possibility of any peace negotiations unless Japan withdrew all of her military forces from Chinese territory.

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and this, the Ambassador felt, was not possible for some time to come. He gave me clearly to understand that except on some such prerequisite as this, China was so encouraged by the military situation that she would be unwilling to consider the discussion of peace terms.

Before he left the Ambassador said that he himself - not his Government - had been considering the possibility of "capitalising American sympathy for China" by the flotation in the United States of a so-called liberty loan for China in the amount of fifty million dollars in issues ranging from twenty-five to one thousand dollars, at a low rate of interest and with as collateral the Chinese customs and the salt tax. He inquired, in the event that the Government of China wanted to go ahead on this plan, whether the Government of the United States would have any objection. I told the Ambassador that this was a matter concerning which I would desire to consult some of the high officials of this Government before expressing any opinion. I told him that I assumed that he had considered the probability that if the Government of China took such action as this, a very large section of American public opinion would feel that this was counter to the spirit, if not to the letter, of existing neutrality legislation and that pressure would be brought in order to have the neutrality legislation invoked. I inquired also, telling

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him that this was simply a snap judgment, whether he did not think it likely that if this action were taken the Government of Japan would declare that a state of war existed in order to bring about the automatic operation of our existing neutrality legislation so as to shut the doors to such financing in this country on the part of China. The Ambassador said that these ideas had not really occurred to him, but that he felt the sympathy of the people of the United States for China was so great as not to make this danger a very real one. He mentioned in passing that the Government of China had received altogether \$10,000,000 in cash from the United States for the prosecution of the war through individual contributions and that of this amount he estimated \$2,000,000 came from purely American and not Chinese sources. I told the Ambassador that I would be happy to see him again within a few days and give him a more considered reply to the last inquiry he had made of me.

U:DW:RW

April 27, 1938.

My dear Mr. Jones:

The Secretary has asked me to acknowledge the copy of your letter of April 23rd, which encloses a reprint of an address recently delivered by you over the radio. He has noted this, and the copy of your letter to State Banking Commissioners, etc.

Sincerely yours,

H. S. Klets,  
Private Secretary.

Honorable Jesse H. Jones,  
Chairman of the Board,  
Reconstruction Finance Corporation,  
Washington, D. C.

GTF/dbs

✓  
C O P Y

164

**RECONSTRUCTION FINANCE CORPORATION**  
**WASHINGTON**

April 23, 1938

JESSE H. JONES  
CHAIRMAN OF THE BOARD

Gentlemen:

I enclose copy of an address that I recently delivered over the radio in which I spoke about bank lending, bank examinations, examiner criticism, etc.; also copy of a letter which I am today sending to the various State Banking Commissioners.

I am aware of your respective responsibilities with reference to bank supervision, and it is my well-considered opinion that a uniform examination by your several agencies, and where possible state banking authorities, will contribute materially to releasing credit.

I know something of the effect on bank management of examiner criticism with respect to items criticized, or to which special attention is called by the examiner.

I appreciate that criticism is often necessary, but where a bank has ample capital funds, and is not inclined to over-extend its lending, criticism of its loans and investments should be avoided where possible.

The RFC is prepared to cooperate in any constructive program with respect to bank examinations.

Sincerely yours,

(signed) Jesse H. Jones

Chairman

Honorable Marriner S. Eccles  
Chairman, Board of Governors  
Federal Reserve System  
Washington, D. C.

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

Honorable Marshall R. Diggs  
Acting Comptroller of the Currency  
Treasury Building  
Washington, D. C.

✓  
COPY

**RECONSTRUCTION FINANCE CORPORATION**  
**WASHINGTON**

165

JESSE H. JONES  
CHAIRMAN OF THE BOARD

April 23, 1938

Dear Mr. White:

I enclose copy of an address that I recently delivered over the radio in which I spoke about bank lending, bank examinations, examiner criticism, etc.

I am aware of the respective responsibilities of all bank supervising authorities, and it is my well-considered opinion that a uniform examination by all authorities will contribute materially to releasing credit.

I know something of the effect on bank management of examiner criticism with respect to items criticized, or to which special attention is called by the examiner.

I appreciate that criticism is often necessary, but where a bank has ample capital funds, and is not inclined to over-extend its lending, criticism of its loans and investments should be avoided where possible.

The RFC is prepared to cooperate in any constructive program with respect to bank examinations.

This letter is being sent to all State Banking Commissioners and to the Federal Reserve Board, the Federal Deposit Insurance Corporation and the Acting Comptroller of the Currency.

Sincerely yours,

(Signed) Jesse H. Jones

Chairman

Mr. William R. White  
Superintendent of Banks  
State of New York  
Albany, New York

SPEECH

of

JESSE H. JONES

*Chairman, Reconstruction Finance Corporation*

Arranged by

The Washington ~~Star~~

Broadcast Over

The Blue Network

of

The National Broadcasting Company

Monday Evening, April 18, 1938

Washington, D. C.



I wish to discuss business and credit. The decline in the purchase of consumers' goods—the things we need and use every day—caused an accumulation of inventories by the merchant and the manufacturer that has resulted in widespread unemployment. The manufacturer cannot continue to produce what he cannot sell, nor can the merchant buy unless he sells. So until these inventories are reduced, employment will not likely pick up.

In discussing credit I have in mind credit for all purposes—for business, for industry, for agriculture, and for building. As you know, the Reconstruction Finance Corporation was created in 1932 for the purpose of lending to banks, insurance companies, mortgage loan companies, Federal land banks, joint-stock land banks, agriculture, railroads, etc. March 9, 1933, just five days after President Roosevelt was inaugurated, our law was supplemented, and has been amended and supplemented many times since then, expanding the scope of RFC operations to meet varying conditions. The March 9, 1933, law was the most important of all. It made it possible for us to save the banks by buying their preferred stock, capital notes, or debentures.

Aside from advances to other governmental agencies by direction of Congress, we have authorized \$9,404,000,000 in loans and investments, including bank capital. \$1,760,000,000 of these authorizations were later cancelled, the applicants finding they did not need the money, or that they could get it elsewhere. \$6,900,000,000 has actually been disbursed, and \$4,934,000,000, or more than 71%, repaid. This vast sum of money went directly or indirectly to every class of our citizenship and represents hundreds of thousands of individual loans.

Industry was aided by direct loans and through aid to banks that enabled them to extend credit and to grant extensions to their borrowers. Agriculture was aided through loans on commodities—cotton, corn, wool, mohair, tobacco, peanuts, prunes, dates, figs, raisins, and naval stores. More than 3 million separate loans have been made to the producers of farm commodities. These loans have been largely through the Commodity Credit Corporation, and average less than \$500 to each borrower. Several hundred million dollars was loaned through Federal land banks, joint-stock land banks and regional agricultural credit corporations. Probably 20 million depositors in closed banks were aided through RFC loans. Almost every line of business has been helped by the RFC and we were getting along fine until last Autumn.

Our collections in 1936 and 1937 exceeded our disbursements by almost a billion dollars, so by the latter part of 1937 it looked as though we could withdraw from the lending field. Accordingly, on the 18th of last October President Roosevelt directed that we accept no more loan applications.

But due to the continued recession in business, the President authorized us to start lending again February 18th of this year. Since that time we have approved \$12,191,716 in industrial loans, and have applications, definite and tentative, for approximately \$70,000,000 more of this character of loans.

With the approval of the President, Congress has just amended our Act again by passing the Glass Bill which empowers us to lend to public bodies, States, municipalities and political subdivisions, for the construction of useful public works projects. This is a restoration of authority which we had prior to the establishment of PWA, and under which we have loaned \$300,000,000 in addition to buying \$600,000,000 of such loans from PWA.

The Glass Bill also broadened our powers so that we may lend on longer maturities. This authority will be particularly helpful in industrial loans for plant construction and new equipment—in other words, in extending long-time credit to industry.

The objective of the law and of the President and Congress is to aid business through increasing employment, and our loans will be made with that in view. The law requires that loans must be secured, but may be upon such terms and conditions and for such length of time as, in the opinion of our board of directors, are appropriate to the particular application.

While our purpose will be to make business and industrial loans that will maintain or create work, we will not feel authorized to make such loans unless in our opinion the borrower will be able to pay the money back. Too much debt and inflation of values were the principal causes of the 1929 collapse, and prudent borrowing is just as essential as prudent lending. It does no good to lend a man or a business money which he will lose. It merely postpones the inevitable readjustment of his affairs. This does not mean that we are not making every effort to lend to deserving borrowers, particularly where employment will be maintained or increased. We try to find a way to authorize every such loan for which we have an application.

Apparently many people believe the Glass-Steagall amendment to our Act permits us to lend on a different basis of security than heretofore, and that a billion and a half dollars has been especially allocated by the Congress for this purpose. The facts are that this amendment did not change the security provisions in our Act, nor did it increase our available credit for lending.

Ours is a revolving fund and fluctuates daily with our receipts and disbursements. At present our unused borrowing authority is \$1,416,000,000 for all purposes, and this is a great deal of money, so don't be afraid it will give out. We have more than a billion and a half dollars of sound assets, and collections from these may also be loaned. The greatest amount we have ever had outstanding at any one time was \$2,700,000,000.

In addition to lending for all other purposes, we will lend for carrying inventories, thus enabling manufacturers to anticipate trade requirements with the assurance that they will not be forced to sacrifice their products to pay for the cost of production. We will bring to the manufacturer the same assistance and same assurance in this respect that we give to the producers of farm commodities through commodity loans. Loans on inventories, like loans on commodities, will necessarily require the inventories to be warehoused, or so segregated as to permit an enforceable lien, unless of course the borrower is able to give other acceptable security.

We will lend for the construction of needed business buildings, where the project seems sound and credit is not otherwise available.

The Securities and Exchange Commission Saturday, April 16th, issued new regulations intended to simplify the registration and distribution of securities, particularly small issues of established enterprises. The Commission stated that these regulations will tend to reduce the registration expenses and save time for the registrant.

To aid in the legitimate distribution of such securities where they appear to be sound and will increase employment, we will consider lending to private bankers and underwriting bankers when the loans can be properly secured. We will not buy the stock of any private business. Usually when there is a demand for investment capital that promises a fair return, it is forthcoming, and no doubt this will be true again as business improves.

There is a widespread impression that many who are entitled to credit cannot get credit from banks and other private lending institutions. No one knows the extent to which this situation actually exists; but whatever legitimate demand there may be for credit, the RFC is prepared to furnish, preferably in cooperation with banks and bankers.

In this effort we would like for every bank in the United States either for the account of the RFC, or for the joint account of the bank and the RFC, to make its lending facilities available to those of its customer-depositors who feel they are being deprived of credit.

We want to make it perfectly clear that we are not competing with the banks, but want to cooperate with them in providing credit where there is a demand which for any reason the banks cannot meet.

We would like for banks to go into the problems of such depositors with a view to ascertaining whether they are entitled to credit, even though the loan be one which the bank would not feel justified in making.

Where the bank finds that the loan can be so secured as reasonably to assure its repayment, but is of a character the bank feels it should not make, we would like for the bank to take the borrower's application and forward it to the RFC agency of its district, with such comments or recommendations as the bank may feel justified in making. Our application blanks will be mailed to the banks as soon as they are ready.

We greatly prefer that the bank take a participation in the loan, sharing proportionately with the RFC in the security and in repayments.

We will, where the bank wishes us to do so, allow it to carry the entire loan with a definite commitment from the RFC to take over, without recourse on the bank, that part of the loan which the RFC underwrites. The underwritten portion of the loan will be taken up at such time or date as may be agreed upon when the loan is made. For this commitment the RFC will accept a part of the interest, without additional charge to the borrower. This will afford the bank a profitable investment for its loanable funds convertible into cash at any time.

I am convinced from our experience that if the banks would go into the problems of more of their potential borrowers, they would be able to work out many good loans, loans that would be profitable to them and to the borrower—loans that would create employment and stimulate business.

The loans might run for a longer time than bankers ordinarily wish to make, but our banking laws permit long-time loans, and they are eligible for borrowing at the Federal Reserve should the bank need to borrow.

We at the RFC very often find that by requiring a borrower to secure standby agreements and subordination of liens from existing creditors, or the conversion of either or both of these into the capital stock of the borrower, we are able to make well-secured loans that result in setting a business on its feet again.

It frequently takes careful and painstaking study of an applicant's situation to help him rearrange his affairs, but his banker should be as interested in doing this as his Government.

I am aware that banks do not like to make slow loans, or loans which the bank examiners soon class as slow, but the fact that a borrower needs money which he cannot pay back except over a period of five or ten years is no reason why a bank should not make a real effort to assist him. Long-time loans should always be amortized in accordance with the borrower's projected ability to pay, and there is no reason why a bank should not carry in its assets a proper amount of loans of this character. Banks carry bonds which in theory they expect to sell when they need the money, but which in practice, when the need arises, they usually cannot sell except at a loss which they can ill afford to sustain. So why should they discriminate against a well-secured, amortized industrial or real estate loan that is a sound legal bank investment?

In speaking of bank examinations, the Comptroller of the Currency, the State banking commissioners, the Federal Deposit Insurance Corporation, and the Federal Reserve Board, each of which is charged with the responsibility of examining banks, should agree upon a uniform examination. Their examiners should be instructed not to criticize, or call particular attention to loans that are qualified investments under the law, if the loan is sound, or properly secured, unless the examiner finds that the bank has too large a percentage of its assets in a particular character of loan. Calling special attention to a loan by the examiner usually has the same effect on bank management as if the loan were criticized.

If these agencies are unable to agree and to cooperate in the examination of banks, they should be required to do so by legislative action.

In fairness to bank examinations, it is proper to say that entirely too many bankers tell their applicants for loans they cannot make the loan because the examiner will criticize it, instead of being frank with the applicant and explaining why he is not entitled to the loan, and trying to help him work out his problem. Frankness is a virtue too seldom employed.

With our very liberal banking laws and the fact that deposits are insured, making extreme liquidity unnecessary, there should be ample credit for every legitimate purpose. Banks are bulging with loanable funds.

I am well aware that banks want to lend, and suggest they try to fit their lending policies to the credit requirements of today, rather than yesterday.

The recent meeting of "little business" in Washington with Secretary of Commerce Roper served to create the impression that "little business" is being denied credit. The line of demarcation between little business and big business is not easy to determine, so the term "little" can only be treated as relative.

With the exception of a few large loans, the average amount of our industrial loans has been \$54,760. Thirty-one per cent of all our industrial loans have been for \$10,000, or less, 21% range from \$10,000 to \$25,000. Four out of every five of the banks in which the RFC has capital are little banks. In more than 2,500 of these banks our investment is \$25,000, or less. In another thousand it ranges between \$25,000 and \$100,000. In only 250 banks do we have as much as \$500,000 invested.

I mention this because some people feel that an application for a small loan does not get the same attention that an application for a large one gets, when, as a matter of fact, it gets much more, but the press does not regard a small loan of sufficient news value to publish.

The same principles apply to business, regardless of size, and the employment problem is the same. The little borrower employs relatively the same number of people as the big borrower, no more and no less. We give special consideration to the smaller units in business and industry that need to borrow, and would appreciate the cooperation of banks in this effort.

So much has been said about fear that we have all become imbued with the idea that something is wrong with the country, when, as a matter of fact, we have never had a greater abundance of everything needed for a really high standard of living than we have now. The basis of prosperity is confidence. We must have confidence in our country and confidence in our Government, and if we demonstrate that confidence by action, better business will follow.

## WORKS PROGRESS ADMINISTRATION

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

HARRY L. HOPKINS  
ADMINISTRATOR

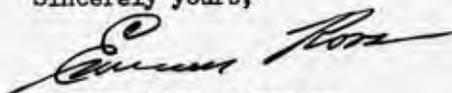
April 27, 1938

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

Dear Mrs. Klotz:

Attached is the weekly memorandum on  
employment and relief.

Sincerely yours,



Emerson Ross, Director  
Division of Research,  
Statistics, & Records

*Handwritten notes:*  
 copies of this  
 being sent  
 to head today  
 of Mrs. Klotz  
 mch  
 4/28/38

WORKS PROGRESS ADMINISTRATION

WALKER-JOHNSON BUILDING  
1724 NEW YORK AVENUE NW.  
WASHINGTON, D. C.

HARRY L. HOPKINS  
ADMINISTRATOR

April 27, 1938

MEMORANDUM

TO: Mr. Morgenthau, Secretary of the Treasury  
FROM: Emerson Ross, Director  
Division of Research,  
Statistics, & Records

WPA employment for the week ending April 23 amounted to 2,545,000 persons, an increase of 150,000 since the week ending March 26 and 41,000 since April 9.

The local relief rolls appear to be leveling off or declining slightly in an increasing number of localities partly because of the transfer of relief cases to WPA and partly as a result of seasonal influences which permit the closing of many partial or supplementary cases with the advent of warmer weather. In some localities where seasonal industries are important a pick-up in private employment is also helping the relief situation.

The industrial areas, however, are not experiencing any widespread improvement in private employment. An estimated decline of 50,000 in non-agricultural employment occurred between February and March according to the Bureau of Labor Statistics. Normally a seasonal increase of 200,000 - 300,000 would be expected during this period.

It is estimated that currently about 800,000 persons are receiving unemployment compensation benefits. The completion of benefit periods, which have a maximum duration of 16 weeks, is a factor in the relief outlook for the coming months.

April 27, 1938.

Dr. Feis came in to see the Secretary to-day at 12:30. He asked whether the Treasury Department would not arrange to have Congressional hearings on the Hungarian Debt.

Mr. Morgenthau promised to see Mr. Doughton and suggest that hearings be held and also tell him that he would be willing to come up and testify favorably.

## GROUP MEETING

April 28, 1938.  
9:45 A. M.

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

H.M.Jr: Where's Danny Bell? I'll do this first. (Over telephone.) Congressman Woodrum, of Virginia, please. Cliff Woodrum.

We can do this other. Magill?

Magill: I've got this.

H.M.Jr: Well, you follow the Chinese. We have the Chinese coming in at three. White, you - is there a commitment running out?

Lochhead: Yes, on Saturday we make our difficult last slide. I have a cable from Nicholson - rather interesting at this time, but it's probably just one of his cables.

H.M.Jr: You never did answer me about the Russian thing. (Reading cable.)

Bell: (Enters the room.)

H.M.Jr: Hello, Dan.

Bell: Good morning.

H.M.Jr: I had another check - I checked on the 'phone last night. I want you to listen to this, Dan.

(Telephone conversation with Congressman Woodrum at 9:48 a. m. is attached.)

April 28, 1938.  
9:48 a. m.

H.M.Jr: Hello.

Operator: Congressman Woodrum.

H.M.Jr: Hello.  
Congressman  
Clifton

Woodrum: Yes, Mr. Secretary.

H.M.Jr: How are you?

W: Fine, thank you, sir.

H.M.Jr: Ah - Wood' - Mr. Woodrum, I'm calling up on a matter in regard to your relief bill.

W: Yes sir.

H.M.Jr: In which I happen to have a, ah, particular interest.

W: Yeah.

H.M.Jr: Ah, that is to do with, ah, so-called Self-Help movement.

W: Yes.

H.M.Jr: Are you familiar with the one in Richmond?

W: Not very.

H.M.Jr: Well.....

W: Not very familiar with it.

H.M.Jr: Well, you know there's one there, and we have one here in Washington, and what we'd like to get is about fifteen words in the bill which would read something as follows:

W: Uh-huh.

- 2 -

H.M.Jr: Ah, I mean - ah - "Funds made available by this Act may be used for aiding Self-Help and cooperative associations for the benefit of the unemployed or the under employed persons."

W: Yes.

H.M.Jr: Now, how do I go about, ah...

W: Well, I think what we should do, we should have somebody, ah, present that idea, and give just a little brief statement on what it is.

H.M.Jr: Uh-huh.

W: We ought to have, ah - that hasn't been gone into so far, in the hearings at all.

H.M.Jr: Well how about if we have, ah, Miss Amy Guy come up from Richmond.

W: Sure.

H.M.Jr: How would that feel?

W: Sure - ah - of course, Richmond is in my District, and that puts a personal ....

H.M.Jr: Oh.

W: .... touch on it. I'd rather divorce it from anything that I'm personally interested in.

H.M.Jr: Well, ah.....

W: But, you see, if - it looks like I'm putting - they'll say that I'm putting language in there to help something in my own state.

H.M.Jr: Well, how about if we have somebody from the District?

W: I think that would be very much better - somebody that could just speak on the thing from a national aspect.

H.M.Jr: All right.

- 3 -

W: Give us a little brief information about what it is and the purpose of it. Now what does Hopkins say about that?

H.M.Jr: Well, ah, - uh - Mr. Oliphant called up Aubrey Williams.

W: Uh-huh.

H.M.Jr: And he's enthusiastic for it.

W: He is?

H.M.Jr: Yes.

W: Well, why don't you get, ah - get Mr. Oliphant to arrange to have Aubrey Williams and somebody - whoever you pick upon, come over and give us about ten or fifteen minutes on it?

H.M.Jr: Ah, when would you like that?

W: Well, - ah, our hearings are set up pretty close - I expect it would have to be Monday sometime.

H.M.Jr: Well.

W: Ah, if - if whoever has charge of arranging it would call the clerk of the Committee he would set a time for them. We've got a pretty close schedule but we'll fix it in all right.

H.M.Jr: Would you?

W: Yes, indeed.

H.M.Jr: You know they're doing awfully good work, and - ah, ah - I think it's an economical way to take care of, ah ....

W: Well I, I think - I think it is too, and I - just from what I know about it, which isn't as much as I'd like to know, I think it's very very desirable. Well, I'd be glad to have it, but we ought to have something to base our action on, you see.

H.M.Jr: All right. Well that's - I tell you what we'll do. Ah - I'll ask somebody from the Hopkins office.....

- 4 -

W: Yeah.

H.M.Jr: ..... to get in touch.

W: To get in touch and .....

H.M.Jr: With the right party.

W: ..... if you'll arrange to have someone come down with them .....

H.M.Jr: Fine.

W: .... and, ah, if they'll take it up with the clerk - they know how to do that - then arrange for a little short hearing.

H.M.Jr: Fine.

W: Glad to do it, sir.

H.M.Jr: Thank you, boy.

W: All right, sir.

H.M.Jr: Thanks.

H.M.Jr: Better call Aubrey, hadn't I, myself?

Oliphant: And just give him the ball, yes sir.

H.M.Jr: Does that sound all right to you?

Bell: Uh-huh.

H.M.Jr: (Over telephone:) Aubrey Williams, please.

They can take somebody from the Washington Self-Help to go up there.

Oliphant: He'll be satisfied when you report your talk to him - his attitude.

H.M.Jr: (To Mrs. Klotz:) If you have that retyped for me I'll ..... (inaudible)

Klotz: Omitting those.

H.M.Jr: Copy one for me, one for Mr. Bell, one for Mr. Oliphant.

(Over telephone:) Hello.

Operator: They expect Mr. Williams in a few minutes. He hasn't come in yet.

H.M.Jr: Thanks. As soon as he comes in.

Operator: All right.

H.M.Jr: Now, we (Mr. Bell) go up on the Hill at eleven o'clock. We have an appointment with - eleven fifteen - with Doughton.

Bell: Eleven fifteen.

H.M.Jr: Did they tell you?

Bell: They probably couldn't find me.

H.M.Jr: (To Operator:) Remember, I told you to tell Mr. Bell we were going to go up on the Hill this morning. Mr. Taylor and Mr. Bell - I said tell them when I got that appointment from Doughton's office. No, when I got the appointment I said, "Notify Mr. Taylor's and Mr. Bell's office."

Quite sure. All right. Check - maybe it was Miss Carr. All right.

Ah, Mr. Feis came in yesterday to see me and he wants - there's a feeling back and forth they'd like us to have a hearing on the Hungarian debt thing, and I agreed that I would take it up, so will you have something in hand about it?

Bell: Today?

H.M.Jr: In case they ask us, see, when we see Doughton. It has to start, you see. So I told them - I mean back and forth, back and forth, and so forth. It reminded me I'd read that story somewhere, Herbert, about the editor of the New York World.

Gaston: Yes. Kintner used it the other day about

H.M.Jr: Fellow kicked this reporter out, and down the stairs. Chapin said, "I refuse to be intimidated that way. You go back and interview that fellow again." So the State Department refuses to be intimidated - they are going to send me back up again. Feis didn't think it was funny. (Laughter.) So I - I thought it was very affable.

Bell: Anyway, I saw in the paper where they decided to enter into a treaty with Nicaragua to settle that little item of five thousand dollars. Anybody in the Treasury been in touch with that?

Oliphant: Yeah. It was in the hearing of the Committee. The effect of the treaty would be to supercede the law that controls ..... No objection if they want to get a treaty.

H.M.Jr: Well, what'll we do about it?

Bell: What shall we do about it?

H.M.Jr: Yeah.

Bell: I don't know - don't know what is being done. It was just a little paragraph in the paper.

Oliphant: It will go to the Foreign Relations in the Senate I think.

H.M.Jr: Well, anyway you raise the question - Taylor's responsible for all the State Department has to do with finance, customs, and all trains going West, so will you look it up?

Taylor: This is that weekly collective income tax of Nicaragua.

Bell: Offset against the foreign debt of Nicaragua to this Government.

H.M.Jr: (To Mr. Magill:) You're coming in - you're following the Chinese.

Magill: Yes sir.

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

Magill: Do you want these figures on the British-American income tax? (Hands H.M.Jr. sheets - 2.) That first sheet shows the amount of tax; the second, the amount of percentages.

H.M.Jr: Well now - ah - we had a discussion last night - what about all the other state taxes and all that?

Magill: That's covered on the second page.

H.M.Jr: I think I'll take my time in looking at that.

Magill: No, I wouldn't do it now.

H.M.Jr: I'd like to read it carefully.

Magill: Mr. Doughton called up this morning and wanted to know what you were coming up about.

H.M.Jr: Will he have other people there?

Magill: I don't know. He didn't say.

H.M.Jr: But he knows?

Magill: He knows.

H.M.Jr: Swell. Anything else?

Magill: No. I'm working on that matter we will talk about this afternoon.

- 5 -

H.M.Jr: (Over telephone:) Hello. Ask Chief Wilson to send me up the time the President leaves, or tell me on the phone what time the President leaves tomorrow. O. K.

(Conversation with Mr. Aubrey Williams at 9:57 a.m. attached.)

April 28, 1938.  
9:57 a. m.

Operator: Mr. Williams.

Aubrey  
Williams: Hello.

H.M.Jr: Aubrey.

W: Yes.

H.M.Jr: Henry Morgenthau.

W: Yes, Mr. Secretary.

H.M.Jr: How are you?

W: I'm fine, thank you, sir.

H.M.Jr: Aubrey, Herman Oliphant told me he talked to you about that little amendment on the Self-Help.

W: Yeah.

H.M.Jr: And I gather that you'd like to see that in?

W: Very much, I think.

H.M.Jr: Good. Now, I called up Cliff Woodrum and spoke to him a few minutes ago, and he said that it's fine; he'd like to see it in.

W: Good.

H.M.Jr: But, he said he'd like to have it presented by your organization, plus someone, ah, from the Washington Self-Help rather than from the Richmond, because he says that's his District, and he doesn't want to make it so personal.

W: Yeah.

H.M.Jr: And he said if you people - now that I've called him - would ask his clerk to put it on for Monday, you would - you'd have it - give it ten or fifteen minutes on Monday.

W: Yeah.

- 2 -

H.M.Jr: But inasmuch as you're handling the bill, I got the distinct impression he'd like you people to ask for it.

W: Well, that's all right.

H.M.Jr: Now I've - he knows I'm for it; he said he's for it.

W: Good.

H.M.Jr: Ah ....

W: That's fine.

H.M.Jr: Now, ah.....

W: Well, now, who would come up from the Washington Co-op? Could Mrs. Morgenthau come?

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

W: You'd rather not - well, who else?

H.M.Jr: Well, I - I'll check with them.

W: You - you'll let me know - you, ah, you'll let him know, will you?

H.M.Jr: I'll let you know, because ....

W: All right.

H.M.Jr: ....you're going to ask - you will ask for the appointment?

W: Yes, I will.

H.M.Jr: Because you're handling the bill, aren't you?

W: Yes.

H.M.Jr: And, I'll get in touch, and before noon today - ah, oh - sometime during the day I'll either phone you or drop you a note.

W: Well, that'll be fine.

- 3 -

H.M.Jr: But - but can I leave the rest to you now?

W: Yes. And, ah, if I want anything more - if Cliff thinks anything more - ah - you ought to be in it, I'll call you.

H.M.Jr: That's right. Well, I - I've expressed my interest - told them I thought it was good; I'd like to see it.

W: Yep.

H.M.Jr: Ah, and he says he's for it; he thinks it's good.

W: Well that - that's grand.

H.M.Jr: But he said he'd - he'd put it on for Monday if you people ask for it.

W: Yeah.

H.M.Jr: And, we - we'll furnish somebody who is familiar.

W: All right. Thank ....

H.M.Jr: How's that?

W: Thanks very much, Henry.

H.M.Jr: Thank you.

W: Goodbye.

H.M.Jr: Now -

(Telephone rings.) Hello. Thank you. Eight o'clock tomorrow night.

(Side conversation with Mrs. Klotz.)

(Nods to Mr. Oliphant.)

Oliphant: I sent to Bell my memorandum on the status of Ickes' legislation. (To Mr. Bell:) Did it come to you?

Bell: I haven't seen it yet; it's probably upstairs on my desk - in my basket.

H.M.Jr: Well, now, in that - you don't know?

Bell: Not yet.

H.M.Jr: You can tell me when we go up together.

Bell: Yes.

H.M.Jr: I see in the paper - I'm rather surprised - that Admiral Peoples is on the Hill asking for sixty million dollars for two or three post offices for every Congressman.

Gaston: Two for every district.

Bell: That includes sixty million on the banks. I knew that was coming; I think they had a conference yesterday at the White House with Admiral Peoples, Woodrum, Harry Hopkins, and Ickes. I think the sixty million was discussed.

H.M.Jr: Will you have Ickes tell you .....

Bell: I'll find out.

H.M.Jr: Will you?

McReynolds: (Inaudible:) My understanding - the President - they merely called him.

Bell: The Chairman of the Committee didn't think they had a chance in bringing out a twenty-five million dollar public building bill and getting by with it on election year.

H.M.Jr: (Side conversation with Mrs. Klotz.)  
Herman?

Oliphant: That's all, I think.

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

Gaston: I ----

H.M.Jr: (To Mr. Oliphant:) I think when they go up you might have Hester go with them, just to .....

Oliphant: When they go Monday?

H.M.Jr: Monday.

Oliphant: Yes, I'll have him watch it; then he can keep his eye on it.

H.M.Jr: Please.

Gaston: I talked to Mr. Magill and Oliphant yesterday about this question of tax exempts. Paul Better has put out a statement indicating our position, to the Conference of Mayors, in regard to removal of the exemptions on local securities, so I got a hold of Paul Better and arranged to have him come in tomorrow morning and Oliphant and some of the rest of the boys are going to give him a lesson on tax exempts and their affect on the financial picture - state and local.

H.M.Jr: What else?

Gaston: Fortune magazine has been approaching us, both directly and indirectly on two different propositions. One is for some work in the Bureau of Internal Revenue - statistics of income - of tracing fortunes of three hundred - or incomes of three hundred thousand a year in some given year, and tracing it forward and backward and see what happens to large incomes. It is - I heard later it is something Tommy Corcoran is very greatly interested in. I've had some talks with editors of Fortune magazine since, and they are going to have some articles on the distribution of wealth. It seems like a worthy action to take. I've been talking to Magill about it.

H.M.Jr: What do you say about it?

Magill: It's a good idea, from our point of view.

H.M.Jr: Well, will you and Oliphant and - you, I mean, and Gaston and - I'll appoint a committee of you and Gaston and Commissioner Helvering, and whatever the three of you decide - you, Helvering, and Gaston. I'll let you handle it. Okie doke.

Gaston: We've already been looking into it the last week.

H.M.Jr. The three of you handle it.

Magill: I think we ought to do it for our own purposes. For our own purposes, we couldn't do it immediately. If, for our own purposes it is given out at all, it would be given out for everybody's benefit. Corrington Gill, who is one of Fortune's intermediaries here, said he would be very glad to give a W. P. A. allotment for that, or any other worthy research projects that we might have in mind here.

H.M.Jr: Well, I still say .....

Oliphant: Isn't it a white collar project?

H.M.Jr: Oh no; they've cut them right and left throughout the country - they've cut them right and left. How many have we given up, Mac?

McReynolds: We haven't actually given them up by revenue processes. As a matter of fact they've called them of their own volition, so the only one's we've given up are the ones being completed.

Gaston: The other thing which was the other project of Fortune, which came to me, through Corrington Gill, was that they'd like to have a special story on the stabilization fund - the same thing they tried with us a year ago, and I told them of our previous experience with them and told them there was nothing in it; if they wanted to write a story on the basis of what was in the newspapers, all right, but I didn't see how they could get anything more.

H.M.Jr: How does Corrington Gill get into this?

Gaston: Some of the editors of the Fortune had asked him to .....

Taylor: On a retainer basis, is he?

H.M.Jr: Better make something click up here. All right, what else, Herbert?

Gaston: That's all.

H.M.Jr: Thank you. George?

Haas: (Hands H.M.Jr. black book.) Most important figure is another week in the right direction.

H.M.Jr: What else?

Haas: Well, do you - Jones put out a preliminary estimate on railroad carloadings.

H.M.Jr: Yeah.

Haas: But you can't use that in connection with the times index, because we don't get a breakdown.

H.M.Jr: What do we indicate this week?

Haas: It was down. That is the total.

H.M.Jr: It's down.

Haas: Yes.

H.M.Jr: Well, on that basis, the New York Times business index this week will strike an all-time low. That's always borne out on Friday afternoon.

Haas: In the total, but the miscellaneous is weighted nineteen, where the total is only weighted eight.

Gaston: You mean an all-time low?

H.M.Jr: I mean, going back to .....

Gaston: '35.

H.M.Jr: This present - for this period.

Gaston: Since the peak.

- 10 -

H.M.Jr: Yeah. That's wrong! (Picks up newspaper.)  
Twenty-nine seven. George, this is wrong. See,  
this says eighty-nine seven, but the previous week  
here - I thought it was wrong - as against  
ninety-one. It's 2.3.

Haas: They revised that.

H.M.Jr: 2.3.

Haas: Yes, it should be that, according to the paper.

H.M.Jr: I've got kind of a funny brain.

Haas: Pretty good, I think. They frequently revise  
that from one week to another. I'll check it.

H.M.Jr: Which makes it much worse. I mean, that makes the  
power index, which is forty-nine per cent of the  
whole index, off two point three.

Haas: That also .....

H.M.Jr: All right.

Taylor: We've got a letter from John Fahey, wondering .....

H.M.Jr: With or without cigars?

Taylor: This is without cigars. And what he wants to  
know is whether he can have the comments that are  
made by the other agencies. I talked to Dan  
about it, and Dan, in his capacity as Director of  
the Budget is going to pass that information on  
to him.

H.M.Jr: Well, that's up to Dan.

Taylor: Yeah, and I thought we could say that we under-  
stand that the Acting Director of the Budget is  
passing on the comments so as to clear up the loose  
ends.

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

Taylor: (Nods "Yes.")

H.M.Jr: (Side conversation with Mrs. Klotz: I won't  
commit myself on charities, and I won't be on any  
committees.)

- 11 -

I don't know whether any of you people saw the story written on the Ford interview yesterday - one written by the Detroit fellow?

Gaston: Jay Hayden - yeah.

H.M.Jr: You've seen it?

Taylor: It's in the Times.

H.M.Jr: No, no. The one in the Times .....

(Detroit)

Upham: One of the papers quotes from the Free Press - says so forth and so forth - written by Prevost.

Gaston: This story is signed by Jay Hayden.

H.M.Jr: The one I mean is in the Washington Post, about Eccles. Well, get the Detroit paper; I'd like to see the whole thing.

Oliphant: I didn't see that in the Times.

Upham: Herbert, I think they referred to Prevost's story.

H.M.Jr: Which is the one in the Post. See if it's in here (several news clippings) while we're on it, will you (Gaston)? ..... that Ford and Eccles got into an argument.

McReynolds: That was on the air this morning, that Eccles and Ford had an argument, Ford thinking that it wasn't a good idea to spend.

H.M.Jr: (Side conversation with Mrs. Klotz)

Anything else?

Taylor: (Nods "No.")

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

Gibbons: No. You're not going to do anything with the Judge's letter that you got?

H.M.Jr: I'm going to answer it, personally.

Gibbons: I'd like to see a copy of it.

- 12 -

- Lochhead: The French continues to support the franc - let it slip out a little bit - breaks it down to 307 - still costing them plenty of money to do it. I imagine they'll have to do it. Loans continue.
- That's all I have.
- H.M.Jr: I want the original story out of the Detroit paper. I want the original.
- Gaston: I can get it quicker by calling up Cliff Prevost and getting him to send a copy of his story over.
- H.M.Jr: (Points to Mr. White.)
- White: We're collecting - still collecting figures Japanese and Chinese trade on our own. I was wondering whether you thought the interest has died down a little and we can stop. We have two men in New York on the payroll. It's becoming a little less significant so far as our Chinese trade is concerned.
- H.M.Jr: Yeah. Yes, I'd - suppose you stop it as of when?
- White: End of the month.
- H.M.Jr: First of May.
- White: First of May. We'll make a survey of the analysis of the trend of the trade, and indicate we're dropping it.
- H.M.Jr: Anything else?
- White: No.
- Gaston: Here's John O'Brien's story. Of course, he got that from Prevost.
- H.M.Jr: Yeah. Anything else for you?
- White: No.
- H.M.Jr: Mac, after - before I leave tomorrow - and I may be able to do it in the afternoon - I want to sit down with you and White and fix him up on the people he needs, see?

McReynolds: Yeah.

H.M.Jr: I mean, before I leave town tomorrow.

(Nods to Mr. Upham.)

Upham: I have nothing.

H.M.Jr: Are you making any progress?

Upham: We reached a definite and final disagreement on one of the two problems yesterday, and we'll probably reach an agreement today on the other.

H.M.Jr: Well, now, I'm going to follow my own technique I've always followed - we're going to get ready on it whether you disagree or not. I want to call in a half dozen people I have in mind. It takes time to get these fellows in town. I can invite them, say for next Wednesday; you think it will be safe?

Upham: Yes, I think so. I think we'll finish up today or tomorrow, so we can report back just what these three men ....

H.M.Jr: Wednesday morning, you say.

Upham: I think so, unless you want to give more time, say to Eccles and Crowley, and Diggs, to decide whether they want to over-rule these.

H.M.Jr: Well, I'd see them Tuesday - those people. Why not let's say we'll have a meeting with those people - the bosses, so to speak - at ten-thirty Tuesday.

Upham: All right.

H.M.Jr: That would be the people that met here the other day. Will you make those appointments?

Upham: Surely.

H.M.Jr: You know who was here?

Upham: Yes.

H.M.Jr: And then let's say ten-thirty Wednesday, with the people. I'd like to do it right now. I want

Tom Smith, Jeff Coolidge, White, who is the head of the bank examinations of the State of New York, isn't it?

Upham: Yes. You mentioned Broderick the other day.

H.M.Jr: Yeah, Broderick. Would you? I think he's a good man.

Upham: Well, I thought the Federal Reserve people have a reservation on that; perhaps they haven't.

H.M.Jr: Well, I haven't. He's satisfactory to me. And would you have a New York City man?

Upham: I think it might be more important to have a small banker.

H.M.Jr: Well, who?

Upham: I don't know, other than someone like Smythe. Maybe he'll do for that.

H.M.Jr: Yes, I think he will. Anybody know ....

Upham: I know lots of small bankers, but .....

Taylor: What about Mr. Adams?

Upham: No. He's not so small.

Gaston: You can get White or Broderick to pick one or two - to bring them down.

H.M.Jr: All right. Tell White -

Klotz: Which one, this White?

H.M.Jr: Yeah. Would he bring - I mean, these people I know, I think - take a man like Tom Smith.

Upham: Tom will be here in the morning.

H.M.Jr: Can you clear with Tom and let Mrs. Klotz know?

Upham: You want to see him?

H.M.Jr: Yes. Then we can ask him.

Upham: We can pick up a banker locally, perhaps. They are coming in all the time.

- 15 -

- H.M.Jr: Between now and nine-thirty tomorrow, think about it, will you? But those are the people I'd like to have.
- (Side conversation with Mrs. Klotz:) ... that I want them to come down here ten-thirty Wednesday; that we're going to have some new regulations on bank examinations, and I'd like to show them to them and get their advice.
- Upham: There was a small Pennsylvania banker in to see Diggs, a friend of his - but he's got the worst bank in the United States.
- H.M.Jr: I know Commissioner White, of the Bank of New York is an able fellow, and I know that Broderick is a fine fellow; we've got Smith, Coolidge, Broderick, and Commissioner White. That's all.
- Gibbons: You don't need any more. Harvey Gibson is friendly to the Administration.
- H.M.Jr: Yeah.
- Gibbons: Of course, he's a big banker.
- McReynolds: Take a small banker from Washington.
- Upham: We can find one.
- Gibbons: It's purely a mechanical process.
- McReynolds: You can take Tom Groom, who is head of the local Bankers' Association. He runs a small bank, but it's the best run bank here in town.
- H.M.Jr: Is he a good man?
- McReynolds: He's head of the local Bankers' Association - local Chapter.
- H.M.Jr: You know him?
- Bell: Not very well, but he's got a good reputation.
- McReynolds: I know him personally. I know he'd qualify in that field.
- H.M.Jr: All right, let's have him up here.

- 16 -

McReynolds: I only know one thing that is wrong with him.

Upham: He slices?

McReynolds: No, he doesn't refuse to pay my checks.

H.M.Jr: By all means, have him come in. And if anybody between now and tomorrow has any suggestions - I don't want a town meeting, but I am not going to get out a lot of rules and regulations without checking with some people other than the people here. When we begin to talk about removing the name "slow" from all things, I just want to be about a thousand per cent sure.

(Nods to Mr. Upham.)

Upham: That's all.

H.M.Jr: Huh? Dan?

Bell: I have nothing.

H.M.Jr: Mac?

McReynolds: (Nods "No.")

H.M.Jr: Mac, I'm just going to say hello to Mrs. Campbell - can she come in now?

00o00

April 28, 1938.  
11:00 A. M.

H.M.Jr: Hello.

Operator: Mr. Williams' secretary.

H.M.Jr: Thanks.

Operator: Go ahead.

H.M.Jr: Hello.

Aubrey Williams' Secy. Miss Smith: Secretary Morgenthau, this is Miss Smith, Mr. Williams' secretary.

H.M.Jr: Good. Tell Mr. Williams—I've talked to him this morning about getting this clause in to take care of the Self-Help Co-ops.

S: Yes, I heard that.

H.M.Jr: Good. Now, Miss Edna Lonigan, of the Treasury ....

S: Who is that?

H.M.Jr: Miss Edna Lonigan.

S: Yes.

H.M.Jr: She'll go up to - to represent - to explain the Self-Help thing.

S: Yes. And that'll be on Monday, won't it?

H.M.Jr: Yes. Now after Mr. Williams has gotten the time that, ah, Mr. Woodrum's going to allocate for that, would you let Miss Lonigan know direct?

S: Indeed I will, Secretary - Mr. Secretary.

H.M.Jr: Can I forget about it?

S: Ah, yes, you can. I'll - I'll call it to Mr. Williams' attention and call you right back.

H.M.Jr: Well, you needn't call me - you call Miss Lonigan.

S: Well, I'll call Miss Lonigan.

H.M.Jr: Edna Lonigan.

S: Yes.

H.M.Jr: Thank you so much.

S: All right, sir.

H.M.Jr: Thank you.

April 28, 1938

3 p. m.

Present:

Chinese Ambassador  
Mr. Taylor  
Mr. Lochhead

HM, Jr: How's the war? Maybe I shouldn't ask.

Ambassador: I hope you are getting the bulletins.

HM, Jr: Yes.

Ambassador: That we receive from Hankow from time to time.

HM, Jr: I see by the paper that they may flood the Yellow River Valley there.

Ambassador: I suppose that's the last resort. They are very unwilling to do it. For the farmers it will be terrible.

HM, Jr: You were going to give me another map. You made one up.

Ambassador: Do you want another one?

HM, Jr: If you could.

Ambassador: Sure.

HM, Jr: Make a new one showing the various groups.

Ambassador: I will give you one where the fighting is going on.

HM, Jr: How they got the material in.

Ambassador: Giving the Northwest, the whole Eastern area from Canton up omitting the Western City.

HM, Jr: Yes, but how they got that stuff in there. For

-2-

instance, have they finished that road? The Burma. Would you ask?

Ambassador: Yes, I will.

HM,Jr: I think the last time it was 15 or 20 miles.

Ambassador: Yes. We were told it would be ready about the middle of April. Now it is about the end. I wonder whether it is ready. I will certainly ask them.

Dr. Kung has just wired me again asking me to convey to you and your Government our appreciation of the way our silver is being accepted here and I think the last arrangement will be .....

Mr. Lochhead: Saturday.

Ambassador: Tomorrow, isn't it?

HM,Jr: We take 10,000,000 Saturday.

Mr. Lochhead: That clears up the last arrangement we had.

Ambassador: And we still have some left.

HM,Jr: How much?

Ambassador: Which we would like to dispose of. I think from 50 to 100 million ounces.

HM,Jr: You still have that much?

Ambassador: Yes. And I wonder whether it would be possible to make arrangements.

HM,Jr: Well, I am seeing the President tomorrow and I will ask him. I don't think I will have an answer for you before Tuesday.

Ambassador: Before Tuesday? I will be away on Saturday.

HM,Jr: Well, I won't be here either.

Ambassador: I will be back by the end of next week. I have to go to Detroit.

-3-

HM, Jr: Will you be back next week?

Ambassador: Yes.

HM, Jr: When you get back will you give me a ring?

Ambassador: Yes. Surely. I will.

HM, Jr: I will have an answer for you then.

A mbassador: I think we are going to have, say, 50 million and instead of bi-monthly if it could be weekly?

HM, Jr: 5 million a week?

Ambassador: I mean 10 million a week for five weeks.

HM, Jr: I don't know. God! We have bought a lot of silver! I don't know what we are going to do with it all.

Ambassador: Well, anyhow, we will leave it in your hands and await your word.

HM, Jr: I heard Madam Chiang Kai-Shek on the radio last night.

Ambassador: Not so clear. I could not catch all the sentence.

HM, Jr: She spoke too fast.

Ambassador: Yes, she spoke too fast.

HM, Jr: It was at a quarter of seven.

Ambassador: That's right.

HM, Jr: But if she had just talked a little slower. Some of the words came so fast.

Ambassador: Yes. I only got about a dozen complete sentences.

HM, Jr: She talked awfully fast. What time of night was that?

Ambassador: That would be morning. I think that would be about eight o'clock in the morning, so she was

-4-

talking the next day an hour early.

HM,Jr: Well, Mr. Ambassador, we will get that and then when you come down next time if you would have a map for me?

Ambassador: I will.

HM,Jr: I suppose the State Department knows, but do you have a sort of buying machine here?

Ambassador: We have several organizations. I think the one that is buying the most is

HM,Jr: Is that Government owned?

Ambassador: No. It's privately owned. The President or Chairman, K. C. Lee, has very good connections at home and he has been buying quite a good deal of our ammunition and planes.

HM,Jr: What proportion of your buying do you do in the United States. Have you any idea?

Ambassador: You mean as compared with what we buy elsewhere?

HM,Jr: Yes.

A mbassador: I think we have been buying a good deal.

HM,Jr: You wouldn't know?

Ambassador: I don't know the exact amount.

HM,Jr: Just curious.

Ambassador: I would imagine we buy a lot in Europe. There are so many countries -- England, France and Germany, Italy. Even nowadays we get things from Germany, and Russia, so I would imagine the amount compared with Europe would be higher than the amount bought here.

And now, Mr. Secretary, if I may have a few minutes with you, off the record.

(Mr. Taylor, Mr. Lochhead and Miss Chauncey left the Secretary's office, the Ambassador remaining with HM,Jr.)

oOo-oOo

April 28, 1938

3:30 pm

Present:

Mr. Taylor  
Mr. Lochhead  
Dr. White

The Chinese Ambassador came in and he wanted to talk to me on a very confidential matter. He said that he had seen Mr. Sumner Welles yesterday and had asked him if he had heard any rumors that the Japanese were approaching or would approach President Roosevelt to mediate between Japan and China; that Mr. Welles had informed him that he had heard of no such move on the part of the Japanese.

The Chinese Ambassador then went on to say that if such an approach were to be made that he felt that the Chinese, having such great confidence in President Roosevelt, would be interested provided that the Japanese did not try to drive too hard a bargain and that they would like to go back to the situation in China as it was on July 7th, last year.

I got the distinct feeling that the Chinese Ambassador was sounding me out with the hope that I would communicate his conversation to President Roosevelt and that they, the Chinese, would be pleased to have the President act as mediator between the Chinese and Japanese.

He then went on to tell me that they had only 100 million ounces of silver left and that they had enough ammunition and supplies to last them the balance of this calendar year, but after that they would have to get credits and wanted to know what the chances were of floating a \$50,000,000 Chinese Liberty Loan in this country. I told him the chances of getting anyone to buy it were slim. He furthermore asked me whether we would buy another 50,000,000 ounces of silver as our present agreement expires this week and that this time would we please buy at the rate of 10,000,000 ounces a week. I told him I would talk to the President about it tomorrow and would let him know next week.

-2-

I then called up Sumner Welles and told him that the Chinese Ambassador had been in to see me and that I had got the distinct feeling that he was trying to advance the idea that President Roosevelt act as mediator between China and Japan. Sumner Welles said that this was most interesting as he had gotten distinctly the opposite viewpoint. I promised Sumner Welles that I would send him a memorandum of my conversation with the Chinese Ambassador and he said that he would send me a copy of his memorandum.

April 28, 1938

My dear Mr. Welles:

In accordance with my telephone conversation of today I am sending you herewith a memorandum of my conversation today with the Chinese Ambassador.

Sincerely,

The Honorable,  
The Undersecretary of State.

April 28, 1938

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## TREASURY DEPARTMENT

205

Washington

FOR IMMEDIATE RELEASE,  
Thursday, April 28, 1938.

Press Service  
No. 13-15

Secretary Morgenthau announced today that the following proclamation, orders, and regulations relating to silver were revoked today, April 28, 1938:

- (1) Executive Order No. 6814 dated August 9, 1934, and the amendment thereto, Executive Order No. 6895A, dated November 2, 1934,
- (2) Proclamation No. 2092 of August 9, 1934 (except certain provisions relative to settlement for newly-mined domestic silver received by United States coinage mints under Proclamation No. 2067 of December 21, 1933, as modified),
- (3) The Orders of the Secretary of the Treasury of June 28, 1934, and May 20, 1935,
- (4) The Silver Regulations of August 17, 1934, as amended.

The revoked Executive Order and Proclamation required the delivery to, and directed the receipt by, the United States mints of silver situated in the United States on August 9, 1934.

The revocation of the Orders of the Secretary of the Treasury eliminates the restrictions imposed by such orders upon the importation and exportation of silver.

The revoked regulations were issued under, and implemented, the revoked proclamation and orders and prescribed the required reports and records relative to silver holdings and transactions.

The revocations in no way affect the application of the tax on silver transfers under subdivision 10 of schedule A of title VIII of the Revenue Act of 1926, as added by section 8 of the Silver Purchase Act of 1934.

Likewise, the revocations do not in any way affect the continued receipt of newly-mined domestic silver under the Proclamation by the President of December 21, 1933, as modified.

April 28, 1938

My dear Mr. Delano:

Thank you for your letter of April 27th with its inclosure. I appreciate your courtesy in submitting this to me.

The memorandum is entirely agreeable to me and I have nothing to add to it.

Sincerely yours,

Mr. Frederic A. Delano,  
Chairman, Advisory Committee,  
National Resources Committee,  
Washington, D. C.

April 28, 1938

My dear Mr. Delano:

Thank you for your letter of April 27th with its inclosure. I appreciate your courtesy in submitting this to me.

The memorandum is entirely agreeable to me and I have nothing to add to it.

Sincerely yours,

Mr. Frederic A. Delano,  
Chairman, Advisory Committee,  
National Resources Committee,  
Washington, D. C.

April 28, 1938

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NATIONAL RESOURCES COMMITTEE  
NORTH INTERIOR BUILDING  
WASHINGTON

*Confidential*

April 27, 1938.

The Honorable,

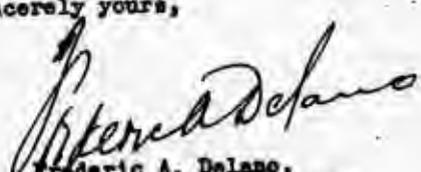
The Secretary of the Treasury.

My dear Mr. Secretary:

In order not to violate any confidence I have stated in writing what I got out of our conference yesterday so that I could give it to my colleagues on the Advisory Committee of the Resources Committee. But I would like to have you look it over and correct or slide anything that you do not like.

I appreciate more than I can tell you your courteous and friendly reception.

Sincerely yours,



Frederic A. Delano,  
Chairman, Advisory Committee.

encl.

NATIONAL RESOURCES COMMITTEE  
NORTH INTERIOR BUILDING  
WASHINGTON

April 27, 1938.

MEMORANDUM FOR:

Dr. Charles E. Merriam, Chicago, Ill.  
Mr. Beardaley Euml, New York City.  
Mr. Henry S. Dennison, Framingham, Mass.

I called on the Secretary of the Treasury by appointment yesterday afternoon and was with him for about forty-five minutes. He received me very cordially, and when I presented a copy of our Public Works Planning Report, which came out in December, 1936, he admitted that he had never seen it before, and in the course of the conversation he indicated that he knew very little about the work we were doing. He thought of us as a committee that was set up to plan for spending and he had never heard of our recommendations for a Fiscal Policy Committee. Although he said he was exceedingly busy, he promised to look over the report and give it his consideration. I judged from the fact that he is busy and that the President is leaving in two days for the South that he will not be able to talk to the President about it before he goes.

I asked the Secretary if he had received the Industrial Committee's report that I left with him, entitled "Where Are We", and he said that he had only acknowledged it that very day. Although he did not say so in so many words, I got the impression that he either was not much impressed with the Blaisdell report or else had not got its meaning, because he spoke of the fact that he was greatly interested in timing and the timeliness of action, and the implication was that he felt recent happenings showed a lack of appreciation of timeliness and strategy. He spoke of having lost two of his best men, - Mr. Reifler and Mr. Vinson. He did not say so in so many words, but the implication was that they had left not because they were unfriendly to him or to the Administration, but because they were discouraged.

One thing the Secretary spoke of with a good deal of apparent sincerity and that was that he not only wanted to be loyal to the President but wanted to be loyal to all of his main objectives. He spoke of the terribly difficult job before us of finding work for ten or twelve million men, and he said that there ought to be some commission whose duty it was to plan for our human resources. To

-3-

this I said that I not only entirely agreed with him but that we were well aware of the fact that the President wished us to consider our human resources as well as other natural resources, but that we had not dealt with the problem of just how twelve million idle men should be handled because there were others to whom that job had been given. However, I assured him that our committee was very appreciative of the importance of that job and wanted to be helpful and that perhaps this idea of a fiscal advisory council was one of the ways of accomplishing that undertaking, or determining its timeliness, if not actually deciding how the work should be done, - a job which Mr. Harry Hopkins and his staff had been struggling with for some months.

I will close by saying that I could not have been more kindly received than I was by Mr. Morgenthau, and while he was not ready to accept our recommendations he did say that he had been working very closely with the Director of the Budget and the Chairman of the Federal Reserve Board. I pointed out to him that these represented three of the committee of five of the proposed council. I am convinced that the Secretary will give our suggestions careful thought and that if he thinks the suggestion is useful he will recommend it to the President, either in the shape we have indicated or in some other form. He fully appreciates his great responsibility as the fiscal head of the Government and would accept helpful data and advice if he was sure it was useful and helpful rather than confusing. Though our report of more than a year ago has lain dormant a good many months, I think we can well afford to let this matter rest with the Secretary for his consideration.

Frederic A. Delano,  
Chairman, Advisory Committee.

CC-Chas W Elliot 2nd, Executive Officer.

NATIONAL RESOURCES COMMITTEE  
NORTH INTERIOR BUILDING  
WASHINGTON

FAB:DJ

April 27, 1938.

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etal.

NATIONAL RESOURCES COMMITTEE  
NORTH INTERIOR BUILDING  
WASHINGTON

741011

April 27, 1939.

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Mr. Boardley Hall, New York City.  
Mr. Henry S. Demmler, Framingham, Mass.

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*Frederic A. Dolans,*  
Chairman, Advisory Committee.

CC-Gunn & Elliot 2nd, Executive Officers.

April 23, 1938

Present:

Admiral Peoples  
Mr. McReynolds  
Mrs. Klotz

HM, Jr.: Admiral, I would like to issue you some instructions. I want, not later than Monday, new bids prepared by Procurement on cement. I want it Monday. I won't take any 'if and or but'. If I can't have it by Monday I will write it myself, because I think Procurement Division did not have good faith with me when they wrote those bids. I do not think that they played fair with me. No cement manufacturer that had any common sense would have bid on that bid. Why should anybody bid on that basis? It was an impossible thing to bid with and I have to sit here with everybody and take the criticism. I mean, they certainly -- somebody over there, some place -- I haven't got the time; I haven't got the energy, but somewhere along the line someone in Procurement made it impossible, and made me the laughing stock.

Admiral Peoples: Mr. Secretary, that's impossible.

HM, Jr.: That's the way I think. I am not going to argue. But nobody could make me feel differently and I want Monday, I want it prepared, and if you can't do it I will write it on a sheet of paper. Somebody wants some cement. He knows what kind of cement and how much. And I will write the bid. "Please bid on this." And why it takes one week to prepare that kind of contract, I don't know. Somebody in the United States Government must want a definite amount of cement.

Admiral Peoples: They have the quantities now. Just got definite quantities, but they could not get them from the Departments concerned.....

HM, Jr.: Well, Admiral, please, not later than Monday morning for my approval -- I mean, McReynolds and the General Counsel should act for me, and I want them to review those bids and in the mail Monday night.

Admiral Peoples: Let me make a short statement about that original proposal. The conditions of the bids,

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of the specifications and all, were thoroughly cleared and discussed with the General Counsel's Office before they were issued.

HM, Jr: He says not.

Admiral Peoples: Mr. Secretary, O'Connell was in my office for two hours and I turned this thing over to him later and he took it up to Manning and it was up there for possibly about an hour. They all agreed, under the conditions, to meet the needs that was the best effort that could be made to invite bids f.o.b. mills throughout the country and that was done, with the result that all the bids were submitted but the facts were not attractive. Some were responsive and so forth and in many places they did not bid, so I think under the circumstances .....

HM, Jr: Mr. Oliphant says not over his signature and I gave it to you (MacReynolds). Mr. Oliphant has filed definite complaints that he had no opportunity to see the certain bid which went out and he has put it in writing.

Mr. McReynolds: I have got it.

HM, Jr: You have had it two days. And give Admiral Peoples a chance to answer it. He has written me -- a certain bid went out for cement and it went out before anybody in the General Counsel's Office -- it's in writing and please give it to the Admiral. And Admiral, not later than Monday night, in the mail, please get out a bid for cement.

Admiral Peoples: That's what we are working on now, trying to make it in a way -- they have the quantity. Just got it day before yesterday. Definite quantities. A good deal less than the original amount.

HM, Jr: How much?

Admiral Peoples: 600,000 barrels.

HM, Jr: Will you see that your organization functions so that by Monday night those things are in the mail?

Admiral Peoples: Let us finish our conference .....

-3-

HM, Jr: They have got to be in the mail. I don't care whether they have to work tomorrow night and Saturday night and Sunday night. They have to be in the mail Monday night and I just won't accept any excuse. I don't care if you ask for 10,000 barrels, just so you get out one offer.

Admiral Peoples: Bless your heart, it will be done.

HM, Jr: One on the new pattern for a new contract. Not the whole. One. Is that asking an impossibility?

Admiral Peoples: No. No. Not at all.

HM, Jr: I want one bid for one contract, if it's only 10,000 barrels. I want it to go out.

Admiral Peoples: Late yesterday afternoon, Basil O'Connor of New York phoned me in behalf of a former classmate of his, down at Atlanta, the Portland Southern States Company, and he asked that before we take any further action about new bids would we please give him a chance to get in on it.

HM, Jr: I made a statement and he (McReynolds) is here representing me and if any statement I have made is unfair, you try to tell McReynolds. But I want McReynolds to give you the letter, the definite complaint, that I have in writing.

Admiral Peoples: That's wrong, Mr. Secretary.

HM, Jr: I have got it in writing. I can't help it, I think I was sold down the river.

Admiral Peoples: No, sir!

HM, Jr: O. K.

Admiral Peoples: On the contrary, it's Procurement Division which has taken the rap on this thing, Sir. The protests that have come in, over 400 of them, Sir, telephone messages to me personally, telephone messages to Collins from senators and congressmen on the hill, telegrams, letters of protest on the ground that we were eliminating the small dealer and the protest is nation-wide, Sir.

Mr. McReynolds: I can tell you on one thing ....

-4-

HM, Jr: Well, Mac, this is just the kind of thing that burns me up and I have to save my energy and I have to have people who will protect me. Whoever put their initials on this thing, just as common sense, just as a business man, to let a thing like that go out, I wouldn't bid if I was in the cement business if it was all the business in the world, I wouldn't bid. I think it was unfair too.

Admiral Peoples: Look at the bids they got. Something like 24 firms from all over the country.

HM, Jr: I know. But if I was in the cement business and I was one of the Board of Directors and the President of the company bid on that, I would fire him.

Admiral Peoples: There is only one clean-cut, definite way to bid, by putting up to the buyer a definite quantity for delivery at a certain place in a certain time. Then you get real competition.

HM, Jr: I only make one point: I say a definite amount at his own factory.

Mr. McReynolds: That's what we are working on.

HM, Jr: A definite amount at the man's factory. Whether it's at his factory or definite site shouldn't make any difference, should it? If we are willing to take it at his factory, and the reason it's being put that way is because the President of the United States wants it. What he wants. A definite amount at the factory. I asked him alternative site or factory and he said no.

Admiral Peoples: Not at site.

HM, Jr: No. He said f.o.b. mill.

Admiral Peoples: That's what we are trying to get the thing around in such a way as to eliminate site.

HM, Jr: I can eliminate it. I can write it. I want 10,000 barrels of cement, f.o.b. mill.

Mr. McReynolds: A conference was going on in my office at the moment with that information as to quantity.

HM, Jr: I have been stalling around here and everybody wanted to see me and I don't know how many letters I have received.

-5-

Admiral Peoples: Procurement has been a mad-house.

HM, Jr: Now, Admiral, between now and Monday, if it is only 10,000 barrels, please, because then we can say this is the pattern and we can do it on a horse sense basis.

Admiral Peoples: That's what we are trying to do.

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April 28, 1938.

To: The Secretary

From: Mr. Shoup

*AS*

British and American Income Taxes in Dollars (not Rates of Tax).

This memorandum supplements mine of April 27. It shows the actual income tax payable at various levels by individuals, under the United States (Federal) tax and the proposed British rates. The figures are for a married person with two children, and assuming income up to \$14,000 to be "earned income".

<u>Income</u>	<u>United States</u>	<u>British tax</u>
\$ 3,000	0	\$ 118.12
10,000	\$ 343.00	1,795.63
25,000	2,327.00	7,605.00
50,000	8,621.00	20,392.50
100,000	31,997.00	49,955.00
500,000	303,568.00	319,455.00
1,000,000	678,436.00	663,205.00

*CS*

OFFICE CORRESPONDENCE

DATE April 28, 1938,

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

J. W. McKeon

BANK OF ENGLAND.

Mr. Knoke called Mr. Bolton at 10:15 a.m. and asked him what he knew about the French situation as the franc appeared rather weak, not only for spot, but also for forward delivery. Bolton thought that the main difficulty continued internal with the Cabinet reported split as to future policies. Without question Daladier was for the Tripartite Agreement and apparently was going to stick to his guns. Last Saturday when francs went to 167 to the pound rumours spread all over the continent that the franc was due to go to 180. There was also talk of an Anglo-French bargain to devalue the pound against the dollar by letting the London gold prices go up to 150 shillings (i.e. 7%). Support of the franc had been very costly around the present level, Cariguel losing the equivalent of about £2,000,000 in exchange daily. The pressure against the franc was purely speculative with the same group operating. However, with this present drive against the franc it appeared that the Swiss Bank Corporation was the largest operator. At the present moment Daladier and Bonnet were in London conferring with Chamberlain and Halifax and naturally all were anxiously awaiting the result of this meeting. There would be very little change in the French situation until the return of Daladier and Bonnet and that all Europe will be watching Paris for any new developments such as decrees, etc.

Bolton stated that there was an increase in the activity of the gold market with the demand running about 2500,000 a day. Some hoarding was also noticeable. Mr. Knoke asked him about the

OFFICE CORRESPONDENCE

DATE April 22, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM J.W. McKeon

BANK OF ENGLAND.

- 2 -

premium on gold coins and Bolton said that the market was firmer at about 3% premium

The Russian supply was increasing with that country now shipping regularly about £750,000 per week which is immediately sold in the market. There were no Russian stocks on hand in London.

Mr. Knoke inquired as to the reason for the break in the rupee rate down to 1sh 5 7/8d per rupee. Bolton gave various reasons. The main one he thought was due to the decline in Indian exports, both merchandise and gold. He felt that there was a short position in both silver and bar gold in Bombay. Again, the change-over in administration to a native provincial federation did not impress him as working out very favorably.

As to the situation with Czecholovakia, there was nothing new to report. The situation in Hungary was rather unfavorable and within a month things might take a turn for the worse.

Bolton asked about the effect of the recent efforts to widen our credit base and Mr. Knoke answered that it was a little too early to tell to what extent they would succeed.

Mr. Knoke asked Bolton about the weakness of the Belgian franc. Bolton replied that the Belgian franc had been offered heavily in the London market this morning and for the first time in two weeks the Belgians had to give up gold, in the amount of about £400,000. He thought that the weakness was partly due to the French situation and

FEDERAL RESERVE BANK  
OF NEW YORK

223

OFFICE CORRESPONDENCE

DATE April 28, 1938.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM J. W. McKeon

BANK OF ENGLAND.

- 3 -

partly to the political situation in Europe. Bolton thought that by Monday or Tuesday he would have a clearer picture of the entire European situation at which time he would communicate with us.

*WJ*

JWMcK:LWK/KW

RECEIVED  
APR 29 1938  
FEDERAL RESERVE BANK  
OF NEW YORK

REB

PLAIN

London

Dated April 28, 1938.

Rec'd 2:45 p. m.

Secretary of State,  
Washington.

349, April 28, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

Comment on the budget has for the most part stressed what are widely considered its desirable points, namely, the orthodoxy of the "pay-as-you-go" method of meeting expenditure; its simplicity and avoidance of new experiments such as the national defence contribution tax of last year and on the long range view of rearmament liabilities in relation to the national income.

Apart from one outspokenly critical editorial in last night's STANDARD, and a milder reference in today's FINANCIAL NEWS, on the deflationary effect of increased taxation at a time of declining economic activity, this aspect of the budget has received little comment.

As emphasized in previous telegrams the general trend of economic activity is definitely though not sharply downward.

Today's

REB

2-#349, From London, Apr. 28, 7p.m.

Today's announcement of the unemployment count which was made on April 4th again confirms this fact, the decline in unemployment since March 14th being one of less than 2,000, the seasonal improvement to be expected being one of 75,000 or 100,000.

Railway traffics and bankers clearings are also again well below those of a year ago, further indications that no turn is yet discernable in the trend which has been evident since last September.

The comparative silence on this aspect of the budget's influence is no doubt due largely to a desire not to render its effects more potent.

The hope of an inflationary recovery in the United States which will reverse the downward trend here is undoubtedly in the back of most minds.

If this occurs it may mean that the deflationary effect of Simon's budget will be counteracted.

If by virtue of such salvation British industry and trade "can-take-it" the budget with its stern pay-as-you-go demands will be looked upon as a blessing when future liabilities have to be faced.

If

REB

3-#349, From London, Apr.28,7p.m.

If on the other hand nothing occurs to temper the pressure of increased taxation on a declining market, in due course more may be heard of the "shock" which the Chancellor of the Exchequer has inflicted at a time when a fillip to trade is needed.

However, security prices were well maintained today on the London stock market and in some cases advanced on a fairly thin market.

The franc has been weak again today.

It opened at 160-1/4, shortly thereafter moved to 161 where the French control held it for some time and in the process lost a good deal of sterling.

It later went to 163 moving a franc at a time.

The market has continued nervous throughout the day but pressure in the afternoon was less than in the morning.

KENNEDY

HPD

April 28, 1938

3:30 p.m.

(This meeting recorded separately from the one following when Secretary related his talk with the Chinese Ambassador)

Present:

Mr. Taylor  
Mr. Lochhead  
Dr. White

HM, Jr: Have you fellows seen this 664, Strictly Confidential? (Exhibit A)

Mr. Taylor: (Handing Secretary Exhibit B). Bewley brought that in and said there was so little news in it he did not want to bother you with it.

HM, Jr: That's an important cable, that one (664). In this Patenotre opens up, which checks with what Bullitt told me. Bullitt has the idea of Reynaud that the franc should float. I had to give Bullitt the reasons why we, the Treasury, were absolutely opposed to letting the franc float. I gave him a lot of reasons, that it is up to these people. He said, Why? So I used the example: the Italians went into Ethiopia and bombed civilian population. Nobody protested and since then everybody takes it as a matter of course. I said, You let the French franc float and get on that basis and everybody will have it and one thing the stabilization fund has stopped -- I mean, the Tripartite -- is competitive devaluation. I said, You let the French get away with it and somebody else is going to try it and the first thing we know we will be right back where we were. We will have competitive devaluation. He said, I understand now. I thought Reynaud had a pretty good idea to let it go to the vanishing point and then the French would say, let's repatriate and capital will come back. I said, For three years they have been letting money go out and if you think you are going to get it back on that theory, you are cock-eyed. He came in and could only spare me ten minutes to get this thing and I had to do it awfully fast.

oOo-oOo

( Exhibit 228 A )

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 27, 1938, 7 p.m.

NO.: 884

FOR THE SECRETARY AND THE UNDER SECRETARY.

STRICTLY CONFIDENTIAL.

This forenoon I had a talk with the Minister of National Economy, Patenotre. I asked Patenotre whether he could tell me anything about the economic and financial program of the Government. He told me that in absolute confidence he would do so.

In the Minister's opinion, it had been a great mistake to lose the time that had been lost in announcing the program of the Government; had they been able to do so right after the Government was formed they could have taken advantage of the favorable atmosphere surrounding it at that time. The Government had undoubtedly been injured by the delays and rumors of dissension. Nevertheless, in his view the ground which was lost could be recovered and a favorable atmosphere could be reestablished.

Patenotre said that he himself and other advisers of Daladier had for over a year been working on a program to be used by Daladier at such time as he might head a Government. On April 10 at the time the Daladier Government was formed this program was practically ready to be put into effect; however, Daladier had thought it necessary to

- 2 -

to request the Finance Minister, Marchandean, to submit for discussion another program which was prepared in the Ministry of Finance. To get this program drafted took about ten days, and it was found to be unsatisfactory when it was examined. The Finance Ministry experts had drafted this program and it did not at all satisfy the Government's requirements. In his talk with me Patenotre spoke most critically of the French bureaucracy. He said that while it had many good qualities, its ideas were antiquated and it seemed to believe that the days of the Second Empire were here again in France.

Because of the delay in formulation of the projects of the Ministry of Finance, and the unfavorable developments which this delay caused, it had become absolutely necessary to announce at once the general lines of the program to be followed by the Government. On the twenty-fifth of April, therefore, a list of "chapter headings" was announced by the Government. Drafting of the specific decrees to put the program into effect is taking longer than it had been thought would be necessary. Certain of the decrees may be published on or about the third of May, but others will not appear until later. Also, before going ahead with many of the projects it will be necessary to see how the London conversations turn out.

The

- 3 -

The Minister of National Economy insisted that there had been no divergence of views among the ministers personally. He said that confiding the preparation of a program to the experts of the Finance Minister had been the cause of the difficulties.

He named two essential needs of French economy and finance today - the first one being stabilization, and the second one, production should have a broad and thorough-going increase. In the period preceding franc devaluation to about 125 to the pound, he said, world prices had not been as high as French prices. This situation in France had been corrected for the time being by devaluation of the franc to 125 to the pound. The balance had been upset again by the burden of increased social charges and the great cost of rearmament. In his opinion, the present rate of "about" 160-165 to the pound, the French would be able to meet the costs of social reforms and armament costs and keep her prices in line with those on world markets on the condition that there would be a production increase and a restoration of confidence to the point where there would be a return of French capital from abroad which could be put to productive uses.

I asked Patenotre just what he meant by stabilization. His reply was that he meant de facto stabilization - keeping  
the

- 4 -

the franc at about the level it is on now to be followed later by de jure stabilization, in agreement with Great Britain and the United States. I referred to his remark that the franc should be held at "about" its present level of 160-165 to the pound. He said that while he had mentioned this figure he did not mean to say that it might not be necessary to go as far as 170, or even to 175 "for round numbers". [These remarks of Patenotre seem to confirm the stories which have been going around that Patenotre, Reynaud and possibly others would like to see a 175 to the pound rate.]

As for production, Patenotre said that they intended to get such modifications in the application of the forty-hour week as would make it possible to work 45 hours instead of 40. It would be possible in some branches of industry to get a flat 45-hour week, as had been done with the airplane factories run by the Government. As for the seasonal industries, they could apply the scheme of "two thousand hours a year" - working many hours in the busy season and a less number of hours in the slack season.

Another way to bring about repatriation of French funds and restore the necessary confidence would be to offer a national defense loan with very favorable features to  
the

- 5 -

the investor, such as exemption from inheritance and other taxes, <sup>and</sup> exchange guarantee. He expressed the hope that the French Government would offer a loan along these lines. If they could successfully float a loan increased credit facilities would follow, and it would be possible to renovate and reorganize many branches of French industries which needed new plants and machinery. Increased production would in turn result from such developments.

I brought up the visit to London of the French ministers, and mentioned reports that one subject to be discussed was the organization of a "common pool" of raw materials for war industries, and the organization of a common purchasing agency for munitions and airplanes. Patenotre told me that some such idea would in fact be discussed but that the French Ministers did not expect much to come from the discussion. Patenotre said that it should be possible for France to do her own purchasing and to make arrangements for financing such purchases;

Patenotre told me that a much more important subject to be discussed in London was the question of assistance to the French equalization fund by the British equalization fund. I supposed that this would be a proposal that francs be purchased by the British fund and that the

British

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British fund should refrain from converting them; he said that this was about what they meant.

I then asked Patenotre whether discussion of assistance in exchange matters might lead to discussion of the possibility of getting a loan from the British; his reply was that this would certainly be the case. An effort would be made by Daladier to get a credit similar to the British credit of £40,000,000 recently obtained. If the British would give them an even larger credit, this would be so much the better, Patenotre said, and it would be a guarantee that it would never have to be used by the French. In his opinion, there would be an important psychological reaction from the mere announcement that the British had granted a large credit to France, and there would be started a return flow of capital to France.

I feel that I must call to your attention, in reporting the above statements to me by Patenotre, that while the statements of course represent the personal views of Patenotre and doubtless the views of other Cabinet members, they do not necessarily represent the views of the Government as such.

END MESSAGE.

WILSON.

EA: LWV

(Exhibit B)

The Chancellor wished to thank Mr. Morgenthau for his message about the French situation; the information given by Mr. Morgenthau was supplemented by Butterworth who called at the Treasury on the 25th April and outlined the information given by the French Ministry of Finance to Mr. Cochran.

Since the weakness of the franc at the end of last week seemed to be due to rumours about dissension in the French cabinet rather than to any genuine economic trend, the Treasury asked Monick what had happened. Beyond reciting the terms of the recent communiqué (issued over the week-end) he stated that the French Government had no intention of arbitrary devaluation. Beyond that the British Treasury have no information at present.

April 28th, 1938.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 28, 1938, 8 p.m.

NO.: 687

FROM COCHRAN.

Pressure on franc has been heavy again today. After opening at 160.35 the rate went to 163 and control had an expensive time bringing it back to 162-1/2. Premium on three months sterling went as high as 5-1/2 francs. Belga also much offered against sterling and reached the export point for both London and New York. Bank of France statement as of April 21 showed no new advances to the state and no other significant changes.

French shares and rentes improved but Paris exchange market is gloomy awaiting outcome of London negotiations. Unless some financial help is obtained operators are expecting the franc to be around 175 to the pound on Monday since they realize that the control's costly efforts this week to drive back the rate have not inspired any real confidence in the currency at around 161 and cannot be continued indefinitely. The market is already gossiping about the probability of opening an internal national defense loan next week at 4-1/2% with exchange guarantee, for 8 or 10 billion francs. On the other hand this evening's press carries a denial from

Marchandean

- 2 -

Marchandean that the terms of the new loan have been determined, and a warning against sensational stories in regard to French finances that are now circulating.

This afternoon I had a talk with a Paris Morgan partner. This friend believes an exchange guarantee loan would have a very discouraging local effect. Personally he would prefer to see the French get a loan from the British. He does not think a short term credit there would be genuinely helpful in aiding a permanent recovery, however, and he does not think it will be possible to get a long term loan of the proportions required to restore confidence in the franc until the French on their own initiative have made some progress.

At a quarter of six I had a talk with the Bank of France. Reference - my telegram No. 861 of April 27 - the final total of exchange losses of the control yesterday reached almost 3,000,000 pounds; losses for today will be a little more than one-half that figure. This forenoon the pressure on the franc was very heavy but this afternoon it slackened. In the opinion of my friend, speculation is the cause of almost all of the present movement.

WILSON.

EA: LWV

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: April 28, 1938, 7 p.m.

NO.: 350

FROM BUTTERWORTH. FOR TREASURY.

During the course of a conversation this afternoon between the Ambassador and Sir Horace Wilson, the chief industrial advisor to the British Government, the latter said that Daladier had asked for a loan of 50,000,000 pounds and that this had not been granted. Sir Horace said that in any case the British Government is not prepared to make any loan to anyone unless new and adequate means of repayment can be devised. In addition, he implied that the British were talking frankly to the French about the economic measures which are necessary to put in order the French affairs.

The conversations between the French and the British are now in the middle stage and it is, naturally, too soon to predict their ultimate outcome. In fact, there is every likelihood that until Monday authoritative information will not be fully available.

KENNEDY.

EA: LWW

## TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,  
Friday, April 29, 1938.

Press Service  
No. 13-16

The Secretary of the Treasury today announced the subscription figures and the basis of allotment for the offering of \$200,000,000, or thereabouts, of 3/4 percent notes of Series C of the Commodity Credit Corporation.

Reports received from the Federal Reserve banks show that cash subscriptions for the new notes aggregate \$1,839,000,000. Such subscriptions were allotted 8 percent, but not less than \$1,000 on any one subscription.

In addition to the cash allotment, preliminary reports indicate that more than \$58,000,000 of the \$60,000,000 Series B Collateral Trust Notes of the Corporation maturing May 2, 1938, have been tendered in exchange for the new notes.

Further details as to subscriptions and allotments will be announced when final reports are received from the Federal Reserve banks.

—000—

April 29, 1938.  
10:27 A. M.

Operator: Operator.

H.M.Jr: They - they haven't got ....

New York  
Operator: Hello. Hello.

Treasury  
Operator: Hello.

New York  
Operator: You weren't through talking, were you?

Treasury  
Operator: Just a minute.

H.M.Jr: Hello.

Treasury  
Operator: Mr. Greenbaum.

H.M.Jr: Thank you.

Greenbaum: We're both on.

H.M.Jr: Hello.

G: Yes, Henry.

H.M.Jr: Can you hear me all right?

G: O. K.

H.M.Jr: Is Morris there?

Morris  
Ernst: Yes, right here.

H.M.Jr: Well, what I'm calling up about this morning is this article by Arthur Krock on the Treasury. I don't know whether you fellows have read it or not.

Morris  
Ernst: I read it.

G: I didn't see it yet.

H.M.Jr: Morris?

E: I read it.

H.M.Jr: Well, here's the point - I've gone over it very carefully with Magill, and the article is full of misstatements, and what happened on the Hill, there was such a proposal - a special amendment, ah, that they tried to get through on behalf of the Associated Gas and Electric, which is our big case down here. They've been doing everything that they can, ah, to get some way from paying the fifty million dollars that we owe.

E: Yeah.

H.M.Jr: Now this statement is so wrong, and, ah, frankly, both Magill and I are fed up - right up to our gills, and, ah, ....

E: Fed to the Magills.

H.M.Jr: What?

E: Fed up to the Magills.

H.M.Jr: The Magills - fed up to the Magills.

E: Yeah.

H.M.Jr: And the reason I wanted particularly Morris on was because he spoke the other day about a technique which I'm not familiar with. Now, ah, ah, we could write a letter, pointing out the mistakes. Ah - I hate to put in writing that it's the Associated Gas and Electric. I don't know whether I can or not, legally. But, ah, ah - frankly, I mean - I - I want to answer it. I could write a letter and give it to all the newspapers, or I could write a letter and just give it to the Times, or I could talk to them, which has never done any good before. But both Magill and I feel that - that this is so vicious, and so unfair, and so untruthful that we want to answer it.

E: Well, there's - Henry, there's two phases to the Krock article.

H.M.Jr: Yeah.

E: The one phase related to the - which we now name, the company.

H.M.Jr: Yes.

E: And the jeopardy assessment point.

H.M.Jr: Yes.

E: The more serious thing that Krock did .....

H.M.Jr: Yes.

E: ..... from the public point of view - because most of them won't understand.....

H.M.Jr: Yes.

E: ..... the jeopardy assessment point at all.

H.M.Jr: Yes.

E: From the way he wrote it.

H.M.Jr: Yeah.

E: But, what this - what he did do ....

H.M.Jr: Yeah.

E: ..... is come out in the open and say that the business people of the country is tired of being harrassed .....

H.M.Jr: Yeah.

E: ..... by Government agencies.

H.M.Jr: Yeah.

E: Now, I think that - that your move - and I haven't any thought to it.

H.M.Jr: No.

E: Is to, not in public, but to get Krock over to your office and say, "For Christ's sake, tell me the names of the people on whom you rely."

H.M.Jr: Yeah.

E: You see?

H.M.Jr: Well, that ...

E: He'll say - he'll say, "I can't do it."

H.M.Jr: Yeah.

E: He'll say that's privileged.

H.M.Jr: Yeah.

E: You see?

H.M.Jr: Yeah.

E: Well, now, as a matter of fact, it isn't privileged.

H.M.Jr: Yeah.

E: You know?

H.M.Jr: It is not?

E: Oh, no.

H.M.Jr: No.

E: After all, he's got no right to keep on saying.

H.M.Jr: Yeah.

E: And mind you, I think there's some truth in it.

H.M.Jr: Yeah.

E: But you never can cope with the problem .....

H.M.Jr: Yeah.

E: ..... of the agencies harassing taxpayers.....

H.M.Jr: Yeah.

E: ..... if nobody will tell you the name of the taxpayer.

H.M.Jr: Correct.

E: Because you can't locate the agencies.

H.M.Jr: Yeah.

E: You see?

H.M.Jr: Yeah.

E: Now I think that you can't handle this column of Krock's.....

H.M.Jr: Yeah.

E: I want to read it over again, and get it more carefully in mind, but I don't think you can handle it solely on the jeopardy point alone. And I think, on the other point, is really more vulnerable.

H.M.Jr: On - on the Associated Gas?

E: I ah - more vulnerable on his point about harassment.

H.M.Jr: Oh.

E: Than he is on the jeopardy itself.

H.M.Jr: Well, he criticizes, and uses, without naming names - and that's all the thing that he's criticizing the President for.

E: That's right.

H.M.Jr: I mean, he had a whole article - why not name the names of the people that come down and tell him this and that and the other things.

E: That's right. And that's what I think - that's where I think you ought to rub it into Krock.

H.M.Jr: Well, Morris, it does absolutely no good - it .....

E: No ...

H.M.Jr: It just - it just takes Magill, Helvering's, and my time, and Kent, - four people - and He'll just sit here and sneer at us. Now what's the sense

of - of our having him here privately? See?  
He does it publicly - why can't I do it publicly?

E: Well, now let me - let me suggest some other ways  
of doing it.

H.M.Jr: All right.

E: Let me think over and see whether we can't get  
some newspaper to pick it up, and, ah, just  
answer it. Now, ah, I know of only, ah - Scripps  
you can't play with anymore - but certainly we  
can get the Philadelphia Record, Post, and the  
bunch to pick it up directly.

H.M.Jr: Well - I don't like to dirty my hands.

E: Well, we can - he's the boy that's at the White  
House all the time.

H.M.Jr: What?

E: He's at the White House.

H.M.Jr: Who?

E: Davie.

H.M.Jr: He is?

E: Oh, lots.

H.M.Jr: What?

E: He's lots, at the White House.

H.M.Jr: Is he?

E: You bet you. And, ah, I don't know what other  
pap' - papers you can use. I think you might be  
able to use Colonel Patterson. The  
is infinitely more important than the Times.

H.M.Jr: Well, I - I thought .....

E: They took an awful crack at the Times, you know,  
a month ago.

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H.M.Jr: Well, I thought I would do it just openly - I mean at a regular press conference.

E: I don't see any harm in doing it at the press conference.

H.M.Jr: I'm not awful good at doing this stuff, ah, secretly.

E: Get him at a press conference, and I'd just, ah, ah, raise hello on it.

Greenbaum: I like the press conference idea the best. When's your next, Henry?

H.M.Jr: Well, unfortunately, there - I won't be here Monday, so I wouldn't have one till Tuesday, but I could call a special one.

You could do that, ah, this afternoon or tomorrow.

H.M.Jr: Well, I'd - I'd do it today - at noon.

E: Yeah.

H.M.Jr: And tell Krock I'm going to do it and let him come over here.

E: Ahhhhhh, I can get you, off the record, ah, advice from the newspaper boys as to which is the best way to handle it. I mean, I can get Lyle Wilson, of the U. P.

H.M.Jr: Yeah.

E: You see? And say, "Look here, here's the situation," and ....

H.M.Jr: Yeah.

E: "Hell of a lot of misstatements, etc., and ah, ah - if to press conference the thing, or a blast, or what.

H.M.Jr: Well, I'd like to have it. Now I asked Steve Early, ....

E: Yeah.

H.M.Jr: .... and he was against the press conference.

E: Yes.

H.M.Jr: He said that - ah - ah - amongst the newspapermen they wouldn't handle a criticism of a misstatement by another paper.

E: That's what I'm afraid of.

H.M.Jr: But if..... What?

E: I think the Press Conference will be the best.

B:M.Jr: No, but Steve Early said he wouldn't do it - he said, "Now let's...."

E: I don't think the boys at the Press Conference will ever mention Krock's article - Krock's name in the Times.

H.M.Jr: What Steve Early suggested was that I write a letter to Krock.....

E: Yes.

H.M.Jr: ....and then the minute I've delivered it to him release it to all the other newspapers - that was Steve Early's suggestion.

E: Ah - Henry can I call you back in 20 minutes?

H.M.Jr: I'll tell you what you do - I'm going up on the Hill.....

E: Yes.

H.M.Jr: I've got to be there at 11 - I'll be back about quarter to twelve which is quarter to one your.....

E: I'll call you at 12 o'clock.

H.M.Jr: I'll call you a quarter of one your time.

E: You'll call me?

H.M.Jr: Yes.

E: All right.

H.M.Jr: And I don't mind Eddie's talking to Arthur Sulzberger a bit.

E: Yes, well let's read it over again because I.....

H.M.Jr: Because I - I can't - ah - ah - I'm just not built this way - for instance, I could call in Bob Allen and tell him the whole thing.

Greenbaum: Morris and I will talk it over and you'll be back a quarter of one your time.

H.M.Jr: No, quarter to one your time.

G: Quarter of one our time.

E: Look Henry.....

H.M.Jr: Yes.

E: .....ah - ah - will you be at liberty to name the specific company that is primarily involved.

H.M.Jr: Ah - Magill thinks so.

E: But you're not sure of.

H.M.Jr: Well he's going to find out but - ah - he thinks its a matter of public record.....

E: Yes.

H.M.Jr: .....and he's sent for Kent, who knows the whole story.

E: Fine.

H.M.Jr: See? I - I'll tell you what - Magill goes much further than I do.

E: Yes.

H.M.Jr: He says the publicity man for Associated Gas and Electric has just gotten to Krock.

E: I wouldn't be at all surprised.

H.M.Jr: And that that's the way the story burst.

E: I wouldn't be at all surprised.

H.M.Jr: And - ah - ah - that he just got to him and he -  
he's tied up this other business.

E: Yes. Well let me read the article again anyway.

H.M.Jr: Because.....

G: Are you going to call us up or are we going.....

H.M.Jr: I'm going to call you at 12:45.

G: All right, Henry.

H.M.Jr: Now just let me drop this to you in Eddie's name.  
Ah - you know I've been waiting for some move -  
a new move, you see, against me?

G: Yes.

H.M.Jr: Well I think this is the opening gun.

G: I see. Well call us back then.

H.M.Jr: O.K.

April 29, 1938.  
11:49 a.m.

H.M.Jr: Hello

O: Mr. Greenbaum. Go ahead.

H.M.Jr: Hello

Greenbaum: Henry.

H.M.Jr: Yes, Eddie.

G: First I want to - Morris is on too - first I want to ask you one or two facts.

H.M.Jr: Yes.

G: Ah - is it a fact that the Treasury opposed a retroactive - ah - thing on this thing - ah - deputy assessment.

H.M.Jr: The retroactive?

G: Yes, because that 's the point that Krock is making - that the Treasury refuses to allow this to be retroactive.

H.M.Jr: Well as I - I'd have to send for Magill.

G: Yes.

H.M.Jr: If that's important I could get him in a minute.

G: Yes, it is important.....

H.M.Jr. Well wait a minute.

G: .....because the Associated Gas thing comes in, as I understand it, on that and only on that.

H.M.Jr: Yes.

G: In other words, how the hell could you get that - that - there's no story without that.

H.M.Jr: (Aside to someone: "Ask Magill to come right in.")

H.M.Jr: I've sent for Magill.

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G: Alright, well now let's go on.

H.M.Jr: Yes.

G: Now it seems to me - ah - that the big question is do you want to make something out of this or do you want just to correct the record on the Arthur Krock business. If you want to make something out of it you can really draft a good letter. Then I like the thought that Morris has - ah - writing a letter to the Conference Committee or someone other than the Times. If, on the other hand, its just to correct the record to show that Arthur Krock stuck his neck out and painted a goldbrick, then I think the method of procedure should be a - not a Press Conference but a letter to the New York Times and not mentioning Krock by name at all; don't give him any build-up, just give your issue of Friday and so forth. Now Morris agrees with both of them; he rather favors the idea on the Hill - the letter to the Hill provided that you want to make something out of it, so to speak, and after the letter is on paper it looks like something.

H.M.Jr: Well Magill is here. You ask him the question now.

Magill: Hello Eddie.

G: Hello.

M: Yes.

G: Ah - first I asked Henry this - ah - is it a fact that Treasury opposed making - ah - this - ah - provision retroactive insofar as deputy assessments go?

M: Yes.

G: And was that on account of this Associated Gas business primarily?

M: Primarily, yes - ah - the - ah - situation is this. Ah - ah - these jeopardy assessments that - ah - in other than bankruptcy cases - ah - there's - ah - there's an average of about 1280 or some such amount a year.....

G: Yes.

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.....ah - out of all the mass of 4½ million various cases which we have. Now - ah - Associated Gas and Electric - h - ah - I - I can't go into the whole thing with you because it takes too long but at any rate the fact is they've had plenty of hearings on this thing and - and the point at which its arrived is whether - whether they are going to pay this assessment or whether they are not - ah - or rather pay some part of it. Now what they wanted to do, in substance was to get a provision in here which would enable them to have a series of further hearings with respect to the jeopardy assessment, you see. As the thing was originally proposed by the Associated Gas and Electric people - ah - the provision was - ah - to have a review by the Board of Tax Appeals on their refinding of the Commission that there was jeopardy.

Q: Exactly, and that allows them to drag it on and everything else.

A: Exactly. Now the thing was put up and discussed very fully before the Finance Committee and I don't remember - I probably can find out from my people - but they're busy on other things - ah - the Finance Committee said, "Well this thing ought not apply to outstanding jeopardy assessments. Its all right to apply it in the future". And after full discussion before the Committee they decided that was what they'd do.

Q: Yes, well now here's the thing from, you might say, a public relations standpoint.

Mr Yes.

Q: On the face of it Krock's point has validity. In other words, ah - the Commissioner should have power, where jeopardy assessment has been unfairly slapped on to that and, since that is so, if Treasury agrees with that it would seem to me that if a jeopardy assessment has unfairly been put on in the past - ah - you shouldn't object to legislation permitting that unfairness to be corrected. Now if, therefore, unless you have some good stuff showing why you did that mention Gas and Electric by name with some facts that could be done properly then there's a damn good reason to make a story out of this.

Mr Ah.....

G: In other words, that's the way I think this becomes important - whether you can bring that in.

M: Of course as you appreciate one difficulty with any kind of a tax question is you get into so many technicalities about it. Now - ah - what Krock says here - ah - the sentence that is striking is - is one which must have been written by a lawyer because what he says is that once a jeopardy assessment has been asserted the Commissioner cannot legally lift withdraw or modify the claim before settlement. Well now, of course, what nobody would think but you and me is that the - before settlement is the main point there. In other words, the Commissioner can settle these cases just like he can settle any other kind of cases.....

G: Yes.

M: .....and does so all the time.

G: (Mumbles something - indistinctly)

M: I can hear you Eddie.

G: I say it would be comparatively easy where the so-called unfairness - something that's improper - the Commissioner can immediately clean it up.

M: That's right.

G: And remove any evidence.

M: That's right.

Ernst: Let me ask something, Ros - this is Morris. Hello

M: Hello

E: Ros - this is Morris, I want to ask something. Assuming that they had made the provision retroactive, it still would have left in your hands the discretion as to whether or not you want to waive the jeopardy assessment.

M: Well it - it isn't a matter - it isn't a matter of waiving the jeopardy. I don't think anybody contends except the Associated Gas and Electric that there ought to be a review of the question of jeopardy.....

E: Yes.

M: .....which the Courts have decided time and again is a matter that - for the Commissioner to decide.

E: The flexibility in the future.....

M: Now the reason as far as - ah - the contention is that if a jeopardy assessment is made that there ought to be power in the Commissioner to reduce the amount of the assessment.

E: All right, now let's assume they were made retroactively.....

M: Yes.

E: .....you would have the power to reduce and you would, even though you had the power, not reduce. Now wouldn't that leave you in the same position?

M: Well what it means is - now I notice in the last fis - in the last three fiscal years - ah - the Commissioner has made about 3800 - ah - 3600 jeopardy assessments.

E: Yes.

M: What it needs is - if the bill is passed with that kind of a provision in the Commissioner at once has to start hearings in 3600 cases because they'll all seek to try to get them reduced. Huh?

E: To decide whether or not he'll exercise the power of reducing the assessment.

M: That's right.

E: I get it - I just want to clear it up. Now let me think of something a minute - ah - I don't know whether Henry is listening but I spoke.....

H.M.Jr: Yes, I'm listening. I'm listening.

E: ....we're through.

H.M.Jr: What's that? Go ahead.

E: Two things in the first place that nothing you could do that Krock would like better is to write a letter or make a statement that mentions his name.

H.M.Jr: I see.

H: He would just gloat on it and capitalize it.

H.M.Jr: Yes.

H: In the second place, he says that very few people, except the Cabinet, read that kind of a column in the Times.

H.M.Jr: Ah-ha.

H: And so you will not get a general public interest among people who know anything about it - ah - by a Press Conference.....

H.M.Jr: Yes.

H: ....you see, except by capitalizing and mentioning the whole Krock story.

H.M.Jr: Yes.

H: That he thought that you might just write a letter to the Times and not to any one person - just to the Editor of the Times.....

H.M.Jr: Yes.

H: ....and not mention Krock's name and say, "There was reported in your issue of such and such a date the following. The facts are incorrect in this respect and in regard to the statement made the taxpayers are a rag. Go at 'em and say for Christ's sake how can we correct it unless American citizens whether they're reporters or not feel it their social duties to tell us about the facts.

H.M.Jr: That's good.

H: Now I suggest you to do that it might be much better than writing to the Times - limited circulation, wouldn't be picked up elsewhere - ah - it means that Krock loves it even if you don't mention his name. Work out a letter and see what it sounds like after you've worked it out which you could send to the Chairman of the Committee and say, "The following - an item has appeared in the Times, setting forth the following facts on the jeopardy assessment stuff and the following mistakes were made in the article.

H.M.Jr: No.

E: If the - whatever the mistakes are, you see? You said there were some factual mistakes; that if he made inquiry at the Treasury or with you he would have known that they were factually correct. In regard to his other statement about harrassed taxpayers, your Committees have worried about the problem as I have for years and I don't know what the answer is but what the hell do you do when reputable reporters mention a fact and don't mention the name. Now Drew also indicated he thought it would not be advisable to have a Press Conference. The thing wald get pretty vague and indefinite and it would go into all kinds of questions. Moreover, he is afraid it might give the appearance in this thing that he doesn't think is very important to you.....

H.M.Jr: Yes.

E: ..... that - give the impression of your just being a belly-acher.....

H.M.Jr: Ah-ha.

E: .....do you see?

H.M.Jr: I see.

E: He thought that if there was a little of that impression around anywhere in a Press Conference on this kind of an issue didn't seem like an important enough thing to him to call a Special Press Conference.

H.M.Jr: I see.

E: And moreover it would signify Krock too much and the rest of it. He inclined to the letter to the Times without mentioning Krock's name.

H.M.Jr: I see.

E: Just to the Editor.

H.M.Jr: Ah-ha.

E: He says it won't do much good because that's only the Times' readers; wouldn't be picked up elsewhere - ah - if you really want to make a real issue out of it then you have to do something different and there you would then incline to your trying to draft a letter and see what it looks like after you draft

it which you would send to the Chairman of the Committee and either you release the letter or call up Pat Harrison or Doughton and tell them to release it. That's the impression that he.....

- H.M.Jr: Well neither Magill or I like the idea of the letter to Harrison or Doughton.
- E: What? What do you say?
- H.M.Jr: I say neither Magill or I like the letter to Harrison or Doughton.
- B: There's no special occasion for it otherwise is there?
- H.M.Jr: No - no.
- M: No, I think you're very apt to stir yourself up some trouble that way.
- E: You are - well I don't know enough of the background but I was looking for some way by which you would get national circular of your position in regard to a matter that only had a limited circulation in one paper, without putting that paper in a position where they start stirring it up and capitalizing it and do things that - that Krock will like nothing better, than if you'd ever write him a letter.
- H.M.Jr: Well you didn't suggest that we give it to him?
- E: No, but I didn't suggest it to him, but it can be done that way.
- H.M.Jr: Well....
- E: Now I don't know whether Drew is the best person to give it to.
- H.M.Jr: Yes.
- E: Do you see? Whether there isn't some other columnist that might not do a better job for you with more dignity on the whole thing.
- H.M.Jr: Yes.
- G: I - I don't like that method of approach. I think that if any newspaper says something there that can

be answered you should answer it not through any of other one or what not - you should it directly to them or something along the line that Morris has told you about with the Hill.

H.M.Jr: I see.

E: Now my feeling is that if that letter - if that technique is out you could find some other way in which it could be made widespread news and that case depends upon whether you can - whether you really want this publicized - in other words whether you can send it around so that you can tell something that is very helpful to the Treasury.

H.M.Jr: Ah-ha.

G: And I think you probably can on the first thought, that is, credit it to those people to talk of complaints they've got and I doubt whether you can on the jeopardy assessment because it would probably become too technical. The only way in which you could do anything on that would be if you could mention Associated Gas and Electric.

H.M.Jr: (Aside to Magill: "Can we mention Associated Gas and Electric?")

G: That's the way I feel.

E: Henry.

H.M.Jr: What?

E: I think if you send for Drew I think he quietly might come through and be able to prove that the Associated Gas publicity guy handed it to Krock.....

H.M.Jr: Ah-ha.

E: .....which is worth something in a way too.

G: Well, of course, that possibility comes in later. If you were to adopt a formula of sending this to the Times without anything too much on it - ah - I mean it would be limited then to the Times, that is, the people who read the Krock thing, then its open to Drew or anyone to work up a story and they can make something out of it if they can dig out that other stuff. In other words, then they can mention Associated Gas and you wouldn't.

H.M.Jr: Well my inclination right now is - ah - a letter to the Times - ah - ah - doesn't mean anything - I mean as far - except their own readers are concerned and they're not going to.....

E: Krock's been reached.

H.M.Jr: What?

E: That's the only people that Krock's thing has reached.

H.M.Jr: And - ah - ah - I've never planted a story against any Presidential appointee and never will as long as I'm here but to give it to Drew as' against another columnist that comes within the rules of my game.

E: Well -

G: Well what you do then, Henry?

H.M.Jr: I tell you what I'm going to do - I'm going to ask Magill to write it out.....

G: That's what I think.

H.M.Jr: .....and mail it up to you two guys and let you take a look at it.

G: That's what I think; let's take a look at this paper and then you can decide how.....

H.M.Jr: And then we can decide afterwards.

E: As to which method.

H.M.Jr: See how - how you fellows react.

G: Well that's just what I think. When its on paper then you can see which usage to make of it.

H.M.Jr: What?

G: After its on paper.....

H.M.Jr: Yes.

G: ....then you can determine what usage you can make of it.

H.M.Jr: I think that's the best way.

G: All right. O.K. fine.

E: Fine, Henry.

H.M.Jr: Ever so much obliged.

G: O.K.

E: Goodbye.

April 29, 1938.  
1:07 P.M.

Altmeyer: This is Altmeyer.

H.M.Jr: Yes.

A: I wanted to tell you - ah - about this letter that the President wrote us. Did you see it?

H.M.Jr: No.

A: Well we saw him a couple of days ago about this Old Age Insurance problem. Vandenberg from time to time gets out in front on the thing and this Advisory Council that we have is likely to make some recommendations most any day.

H.M.Jr: Yes.

A: And we've got them under control, that is, they seem to be thinking along the lines we'd like to have them think.

H.M.Jr: Yes.

A: And - however, we felt that the President ought to, in some way, indicate that he is interested in this problem so that if we do develop something that is sound the Administration rather than that Vandenberg group will get the credit for it.

H.M.Jr: Well what I'm more interested (laughs) in than who gets the credit is what's it all about?

A: Oh. Well.....

H.M.Jr: But I can't do it now because I've got Jesse Jones outside for ten minutes.

A: Alright, well I just wanted to tell you that this letter that the President wrote me merely instructed us to study the thing that you and I talked about several months ago.

H.M.Jr: Yes, well let's - let's get down and let's make sure that it's for the interest of the country.

A: That's right, sure.

H.M.Jr: And then - then let's worry (laughs) about the credit afterwards.

A: Well then - we started out with the - what's good for the country and we're still on that basis.....

H.M.Jr: Well then you and I won't have any trouble.

A: Yes, all right, but I wanted to tell him what the immediate situation was so that - ah - when we - we won't get in - when we do have something that the legitimate credit goes where it belongs.

H.M.Jr: Well when - when do you want to sit down with me?

A: Anytime that you're ready or.....

H.M.Jr: Well let's say 3 o'clock Tuesday.

A: All right, fine. Thank you so much.

H.M.Jr: Thank you.

A: Goodbye.

Monday  
May 2, 1938  
4:58 p.m.

HMJr: Hello.

Operator: Mr. Welles can't be reached for about twenty minutes.

HMJr: Well, if I'm still here - does that mean he's in or out?

Operator: He's in but he can't be reached.

HMJr: Who said that?

Operator: Ah - the girl on the line - I don't know whether it was his secretary or not.

HMJr: Well, he left word with his secretary - any time I - you get his secretary and tell her that I want to talk to him and see if she gives you the same answer.

Operator: All right.

Monday  
May 2, 1938  
5:01 p.m.

HMJr: Hello.

Operator: No one answers in Mr. Moffett's office.

HMJr: Well, look.

O: Yes, sir.

HMJr: I'm going to do this through - ah - is there anybody in the office of the Secretary of State?

O: I'll find out.

HMJr: See if there's anybody in the office of the Secretary; I don't care if it's the char woman - I'll talk to her.

O: All right.

HMJr: - if there is anybody in the office of the Secretary of State.

O: All right. I'll get you some one.

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 29, 1938, 5 p.m.

NO.: 870

FROM COCHRAN.

Paris exchange market has been less active today giving the impression of being over-bought on foreign currencies. While atmosphere this morning was brighter as a result of Franco-British communique at conclusion of first day's conversations in London sentiment this afternoon is less optimistic following reports from London that British are increasingly perturbed over international political situation. This fear also reflected on Paris security market. Guaranty bought another 7,000,000 belgas for French railway repayment.

At a quarter of four this afternoon I had a talk with Rueff, who said the first reports from London of conversations on political topics were encouraging; he added that London had not communicated anything of immediate interest to his Department. There has been nothing further in regard to the Treasury plans.

I had a talk with the Bank of France at five o'clock this afternoon. Today the control's intervention was very slight. A small amount of foreign exchange was gained from such balance, but purchases of sterling the control had to make for the French railways more than wiped out this gain. According to my contact there was a hardening

of

- 2 -

of the sterling rate at 162-1/2 late this evening which development he did not like. My friend said he is aware that from Monday operators are expecting a cheaper franc.

Market operators gossiping for next week; move to 175; revalue Bank of France gold; issue domestic loan with exchange guarantee; obtain simultaneously some sort of assistance or gesture in that direction from London to create the atmosphere for the loan.

At 5:30 market trader telephoned that rate had moved to 163 with control giving larger amounts of sterling.

WILSON.

EA: LWW

April 29, 1938

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My dear Win:

I have postponed acknowledging receipt of your letter of resignation of April 21st because I found it so difficult to answer.

I was extremely sorry to learn from your letter that you found it necessary at this time to withdraw as an Advisor to the Treasury. With regret I accept your resignation.

I want to take this opportunity to thank you for the loyal support which you have given me in the past. My deep regard and admiration for you make it all the more difficult for me to find myself without the benefit of your counsel in this most trying period.

I hope that whenever you do come to Washington you will continue to drop in and see me as I should like to feel that our personal friendship will continue in the future as it has in the past.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Dr. Winfield W. Kiefler,  
Battle Court Road,  
Princeton, New Jersey.

SECRETARY'S OFFICE - OFFICIAL

APRIL 28, 1938

DR WINFIELD RIEFLER  
BATTLE COURT ROAD  
PRINCETON NEWJERSEY

PLEASE ACCEPT MY APOLOGY FOR NOT ANSWERING YOUR LETTER  
DUE TO MY BEING SNOWED UNDER WITH WORK STOP YOU WILL HEAR  
FROM ME WITHIN THE NEXT TWENTY FOUR HOURS BEST REGARDS

HENRY MORGENTHAU JR

THE INSTITUTE FOR ADVANCED STUDY

SCHOOL OF ECONOMICS AND POLITICS

49 Alexander Street  
Princeton, New Jersey

April 21, 1938

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

Dear Mr. Secretary:

The recent complete reversal of fiscal and monetary policies has left me in a decidedly unhappy state of mind. Throughout the past week, in consequence, I have been trying to phrase a note to you that would convey at one and the same time (a) a deep sense of that unhappiness together with my reasons therefore, (b) my deep sympathy, affectionate admiration and respect for you, and (c) my desire, under the new circumstances for relief from any official or semi-official responsibilities which I may have. I have decided finally to convey my reaction to the new program in the accompanying separate memorandum and to confine this note to more personal considerations.

First of all, I should like to feel relieved of any responsibilities I may have as an official or semi-official consultant of the Stabilization Fund. I really do not see how I can be of any help to you whatever in the execution of the program that is now underway. I imagine that you must feel similarly. Please do not take this to mean, however, that I am seeking in any sense to withdraw myself from giving you any help that is in my power. If you should ever desire to get my slant on any problem, I shall always be available. As an economist I should owe this in any case to my government. As an individual I owe it particularly to you.

Secondly, I have decided to resign as alternate member of the Finance Committee of the League of Nations and also as a member of the Special Delegation of the League of Nations which

Honorable Henry W. Vorgenthau, Jr.    -2-    April 21, 1938

is meeting this June to formulate an inquiry into policies that have been adopted by the various governments to mitigate fluctuations in business activity. Although my activities at Geneva are entirely unofficial, I would find myself -- if I participated -- in the distasteful position of representing before an official group of foreign experts a point of view with respect to American conditions that would be critical in a very basic sense of the policies now being pursued by my own government. The present world is much too nationalistic for me to be anything but miserable in a role of that kind.

Finally, I would ask you to take this in the spirit in which it is written. In all our relations you have been extraordinarily considerate to me. I should feel greatly depressed if I thought that any action of mine seemed to indicate a lack of appreciation on my part for the genuine friendliness and understanding you have shown for me.

Sincerely,

*Winfield W. Riefler*  
Winfield W. Riefler

Notes on the Recent Fiscal and Monetary Program

I recognize certain merits in the new fiscal and monetary program, but the general line of attack taken, considered as a whole, fills me with misgivings for a variety of reasons.

Among the advantages of the program I would list the following as the more relevant considerations:-

First, it is fairly well timed. If pump priming is to be adopted as the way through and out of this depression, the period beginning around the middle of February of this year appears to me to have been the most favorably calculated for the initiation of such a program. Although April may subsequently appear to have been a little late, it still comes fairly close to the period when action along these lines might be considered to possess a maximum of effectiveness.

Secondly, the huge increase in excess reserves comes at a time when its immediate effects will be wholly favorable.

Thirdly, the spending program provides a maximum of current pump priming with a minimum of disturbance to the Treasury bond market. Some new bond flotations will be necessary, but not to the full amount of the expenditures. They will not, furthermore, come on the market until the presumably expansionist effect of much of the spending will have been given a chance to exert its influence on the side of a rising volume of business activity.

Finally, although I am somewhat appalled by the magnitude of the expenditures contemplated, they have the merit at least of not being inadequate to the task in hand.

My misgivings arise from what seem to me more fundamental considerations than these:

1. The current era represents an extremely disturbed period, internationally, economically, and politically. Many normal markets for commodities and outlets for capital are shut off for reasons that are political rather than economic in character. It is extremely difficult for a society such as ours, based on political democracy, on the one hand, and individual enterprise and risk, on the other, to function smoothly under these circumstances and it may well be true that it cannot do so at all without fairly frequent reliance in a great variety of sectors upon Treasury backing. If so, it is especially incumbent upon us to limit such reliance to those fronts where it is indispensable, for, from all present appearances, this era of disturbance is likely to last for a very long time. The chances are that even under the most fortunate of conditions and with the greatest economy in the use of Treasury resources, the era will end with the Treasury under serious strain as a result of the risks that it will have been forced to undertake during the interval. It is against this background that one must evaluate a renewal of pump-priming as the primary mode of attack in the current crisis.

We have already had an enormous expansion in the Federal debt over the past five years, an expansion much larger than the most ardent pump-priming in 1933 would have envisaged as necessary to lift the general level of national income to 70 billions of dollars, or the volume of industrial production back to the levels of 1928. Even on the basis of a complete acceptance of the theory of deficit financing as the sole or main device available to governments to combat depressions, therefore, our actual experience with its use indicates the continued existence of serious maladjustments in our economy, maladjustments that are sufficiently serious, in fact, to make the use of pump priming an exceedingly costly device in the long run. Many of these maladjustments have been most courageously tackled by the Administration to its eternal credit, some, such as the railroad problem, have been fumbled, and some, partly inadvertently, have been accentuated. I appreciate fully, I think, the very real difficulties in the way of dealing with these problems, but I feel that they must be dealt with fully and adequately, before we dare to experiment further with the device of deficit-spending as a major reliance in the mitigation of depressions.

2. That part of the program which envisages a large scale expansion of public works either under the PWA or the WPA seems to me to be seriously misdirected with respect to certain features of the current depression. For example, I doubt the wisdom of directing public expenditure down construction channels during a depression that was brought about in an important measure by an utterly excessive rise in construction costs. Furthermore, partly as a result of the President's

housing program, which constitutes by far the most effective action taken to date, we appear to be again at the start of a real residential building revival. It is extremely important that this revival be allowed to gather headway without again being choked by rising costs. There is some danger that an overly large public works program will tend to exert effects in this direction, since public works projects, while not completely competitive with private residential construction, do, nevertheless, bid for much of the same labor and materials.

3. Along this same line of reasoning, but from a somewhat broader point of view, our economy as a whole today needs productive capital equipment of the type calculated to increase its productive efficiency more than it needs public works. From the spring of 1936 to the autumn of 1937 our economy was subjected to a sharp cut in average hours worked and to an extraordinarily rapid rise in real labor costs, more rapid, as subsequent events have shown, than it could absorb without serious reaction. In some cases, notably the railroads, I feel that a direct reduction of these costs will prove inevitable. In others, however, it is possible that they may be absorbed through increased technical efficiency. Such absorption is certainly the outcome more ideally to be desired. In this particular emergency, consequently, it is supremely important that our huge army of unemployed be given productive employment in so far as possible along lines that will make a maximum contribution to an increase in the productive efficiency of our economy as a whole. This means that measures adopted to combat the current depression should place their major reliance upon policies, for example, such as would facilitate the opening of the capital markets to equity financing, or make more available productive loans to industry, on the one hand, and only minor reliance upon projects such as public works. It is true that both of the above elements are contained in the new program recently announced. I feel, however, that the public works angle is over-stressed in that program. Because it offers less difficulties in execution, the chances are that it will be even more over-stressed in the final result.

4. I feel that the sterilization of all of the inactive gold and the simultaneous dropping of member bank reserve requirements has again produced an unmanageably and unnecessarily large volume of excess reserves. If the experience of the spring of 1937 taught anything, it was the danger of permitting excess reserves to become so large that the Treasury and the Federal Reserve Board combined, after the most serious consideration, were completely unable to manage them with finesse. Nobody intended to exert a restrictive pressure on the credit situation last spring. The intention, rather, was to absorb a

sufficient amount of the unduly large volume of excess reserves then existing to put the authorities in a position to manage the credit situation without major shock, should conditions warrant. Instead, the action actually taken produced severe pressures that had not been contemplated or desired by any of those who participated in the action. It would seem to me the height of wisdom to avoid falling again into the same pitfall. In so far as the current credit situation is concerned, the present huge increase in excess reserves was not necessary to produce expansion. A fundamental approach to the railroad problem that removed the deflating effect of the current panic in the railroad bond market would be fully as effective in the immediate juncture as an additional two billions of excess reserves, and much more effective in the long run, since it would not leave us in a future position which experience has already shown we may have the courage to attack but not the finesse to manage.

*WR*

April 21, 1938

April 29, 1938

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My dear Jake:

I have postponed acknowledging receipt of your letter of resignation of April 14th because I found it so difficult to answer.

You and I have gone through a most trying period in the country's history and I had hoped that you would stand by me as long as I remained in the Treasury. People with your training and qualifications in international finance are extremely rare in the United States and, quite frankly, I don't know how I will go about replacing you.

I want to take this opportunity to thank you from the bottom of my heart for the loyal support you have given me while acting as Advisor to the Treasury and I hope that we will meet again some day and travel the same road side by side.

With deep regret I accept your resignation.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Dr. Jacob Viner,  
5554 Kenwood Avenue,  
Chicago, Illinois.

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COPY

SECRETARY'S OFFICE -- OFFICIAL

APRIL 28, 1938

DR JACOB VINER  
5554 KENWOOD AVENUE  
CHICAGO ILLINOIS

PLEASE ACCEPT MY APOLOGY FOR NOT ANSWERING YOUR LETTER  
DUE TO MY BEING SNOWED UNDER WITH WORK STOP YOU WILL HEAR  
FROM ME WITHIN THE NEXT TWENTY FOUR HOURS BEST REGARDS

HENRY MORGENTHAU JR



TREASURY DEPARTMENT

Washington.

My dear Mr. Secretary:

It is with the deepest regret and distress that I find myself impelled to submit to you my resignation as a member of the Treasury staff to take effect immediately.

The opportunity which you have given me to work with you has been for me a great privilege, one which I shall cherish for the rest of my life. I have watched with growing admiration your steadfast and uncompromising devotion to the country's interests as you saw them, and, as you know, there has been close agreement between us on questions of major policy. I have for a long time, however, had serious misgivings as to aspects of the Administration's financial and economic policies which have not been under your control, and what I have just learned as to the financial program of the President for the coming fiscal year convinces me that these misgivings were more than justified.

I believe that heavy deficit spending, at this time, if unaccompanied by genuine and courageous effort to eliminate the factors which made our recovery only a halting and incomplete one, and which now have forced us into a renewal of severe depression, and if unaccompanied also by willingness on the part of the President to acknowledge the existence and importance of these factors, will involve serious dangers for the political as well as the economic health of our democracy.

Under the circumstances I see no reason to believe that my continuance as a member of your staff would be of genuine service to you or to the country. I, therefore, hereby tender you my resignation to take effect to-day.

Very sincerely,

Jacob Viner  
April 14, 1938

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

April 29, 1938.

## MEMORANDUM FOR DR. FEIS:

This morning the Secretary of the Treasury, the Acting Director of the Budget and I called on Mr. Robert Doughton, Chairman of the Ways and Means Committee, and Messrs. Vinson and Cooper. Among other things, the Secretary discussed the possibility and desirability of the Ways and Means Committee holding hearings on the debt settlement offer which had been submitted to Congress by the President in his message of March 28, 1938.

The three members of the Committee were unanimous in their opinion that it would be inadvisable to hold hearings at this session of Congress and recommended that the President, the Secretary of State and the Secretary of the Treasury arrange to have a meeting with the party leaders in both the Senate and the House with a view of thoroughly discussing the situation, its political implications, precedents which might be established, etc. The Chairman and the Members of the Ways and Means Committee said they would hold themselves in readiness for such a discussion but would take no further steps toward holding a hearing until such a meeting had been held.

(Signed) Wayne T. ...

*Mr. Foreman  
New York decided  
take nothing about  
this*  
~~118K112~~

April 29, 1933.

Mr. Edward S. Greenbaum,  
225 Madison Avenue,  
New York, N. Y.

Dear Eddie:

In response to your telephone request, I am writing to give you some information on the criticism of Secretary Morgenthau and the Treasury Department contained in Arthur Krock's column in the New York Times of this day.

About a third of the column consists of generalities. The remainder is a criticism of the Treasury's attitude in the matter of jeopardy assessments, especially its reported opposition to an amendment permitting retroactive review of jeopardy assessments now outstanding. In the fore part of his article Mr. Krock asserts that Treasury practices in collecting taxes are among the administration attitudes toward business which "many persons feel have tended to destroy confidence." He adds that Secretary Morgenthau "takes personal responsibility" for the methods followed by the Bureau of Internal Revenue and he notes that the Secretary has publicly invited taxpayers, who believe they have been unjustly treated, to submit their complaints to him, and has promised to dismiss any officers guilty of harassment of taxpayers or improper dealings with them, but, he adds, complaints continue to be heard that the Treasury is "destructive and unfair."

It is quite true that the Secretary has invited taxpayers who believe themselves to be unjustly treated to submit their claims to him. He has done so repeatedly. In doing so he has not assumed any responsibility that the law and his oath of office did not already impose upon him, but he has by this offer given evidence of his desire to perform his duties fairly and conscientiously. He has asked the cooperation of taxpayers. He has welcomed specific criticism. He has recognized that taxpayers can be generally helpful in the correction of administrative abuses if they will report to him instances of "high-handedness, inconsiderateness and often insulting demeanor in going about their collections" of which Mr. Krock says he has heard. Obviously the Secretary can not deal with instances of this sort unless he knows about them. There he has had evidence of this sort, he has taken prompt action. One such complaint that came to the personal attention of the Secretary resulted in breaking up a ring of tax racketeers and sending an employee of the Bureau of Internal Revenue and his outside associates to the penitentiary.

It should be equally obvious that the sort of vague, general charges which Mr. Krock retails in his article are somewhat less than helpful in reforming tax practices. Instead they are merely a libel against the great body of loyal, devoted and honest employees of the Government who are conscientiously endeavoring to do their full duty.

It is difficult to understand what Mr. Krock is talking about when he says complaints of this character "will not be accepted by Mr.

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Morgenthau and his aides are fully audible to them." If he is speaking of complaints of the character which he is uttering, they are of course audible but they tell nothing. The Secretary has never received a complaint that he has not accepted and investigated thoroughly when any basis was afforded for investigation, which means, when specific charges were made or facts stated that could be investigated. The Treasury is not unconscious of the fact that there are many complaints against Treasury agents, their actions or conversations, which, for one reason or another, the complainants do not choose to present formally to the Secretary, or to the Bureau of Internal Revenue. The Treasury also knows by examination of its records that the loudest and most frequent complaints are uttered by those whose cases have no merits whatever and who in most instances are the most persistent tax chiselers.

It is realized also in the Treasury Department that no tax law is popular and the law and its administration nearly always become especially unpopular with the men who have been persistently understating their tax liability and eventually meet a day of reckoning.

But so far as Mr. Krock's article is specific it does not relate at all to cases of high-handedness or insulting demeanor of agents of the Treasury Department. It relates instead to the attitude of the Department toward jeopardy assessments. Mr. Krock admits that this is a highly technical matter; therefore, he may have made some "unintentional errors" in talking about it. He may also have committed an unintentional error by failing to examine carefully into the source of the attitude

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he is expressing. The Treasury, he says correctly, objected to writing into the law a provision that jeopardy assessments now outstanding could be reconsidered by the Commissioner and abated. The Treasury's position was not solely that this provision would impose an undue burden on the Commissioner of Internal Revenue by compelling him to reconsider all outstanding jeopardy assessments, but also that relief of this kind was unnecessary since there had been no substantial demand for it. The entire agitation in favor of this proposal, so far as it has come to the Treasury's attention, originated with just one large taxpayer, the Associated Gas and Electric Company, and its attorneys. It is perhaps a pure coincidence, or an unintentional error on Mr. Krock's part, that the latter two-thirds of his column reads as if it were a brief written by the attorneys of the Associated Gas and Electric Company.

In the year 1936 the Bureau exercised its authority to levy jeopardy assessments in 1,409 cases and the total amount of the assessments was something over eighty-eight millions of dollars; but of this eighty-eight millions, fifty-four millions was assessed against the Associated Gas and Electric. The remaining thirty-four millions was assessed against 1,408 taxpayers. In no other one year since January, 1935, has the amount of jeopardy assessments in any year exceeded twenty-three million dollars; certainly not an impressive amount when considered in connection with the two billions or more of revenue produced by the income tax statutes annually.

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The jeopardy assessment is, as Mr. Krock states, a provision intended to protect Government revenues. It is used sparingly by the Bureau and only in those instances where it appears unequivocally that there is real and probable danger that the assets of a tax delinquent will escape before the Government can make collection under other forms of procedure. These cases are insolvency or action on the part of a taxpayer which appears to indicate a purpose to sequester or dispose of his properties in order to defeat the Government's efforts to collect taxes. The vast majority of assessments of this type have been against bootleggers, illicit distillers, gamblers and other individuals of this type. Cases of jeopardy assessments against legitimate business enterprises are rare indeed when the whole amount of jeopardy assessments is considered.

One of Mr. Krock's unintentional errors is in assuming that the taxpayer has no means of lifting the jeopardy assessment until the case has gone through the long process of hearing and decision by the Board of Tax Appeals. The fact is that a solvent taxpayer can have his jeopardy assessment lifted at any time by a conference with officers of the Bureau, in which he lays his cards on the table and furnishes assurance that he will pay the amount of the tax which he lawfully owes the Government. In the case of the taxpayer mentioned above, against whom an assessment of fifty-four million dollars is outstanding, the case which has furnished the sole basis for the agitation in favor of change in the law, the Bureau has employed the time of approximately

and hundred revenue agents for an entire year in an effort to determine the correct tax liability and share equitably upon the assignment a large group of representatives of the Bureau and of the Office of the Chief Counsel, whose success in working out the true liability was depend in large measure upon the cooperation it receives from the taxpayer and his counsel. This particular corporate taxpayer has already agreed to and has paid taxes in addition to those reported in a total sum of more than four million dollars.

The extent of the response to the Secretary's request that complaints be submitted to him would seem to have some bearing on the matter of high-handed and oppressive action by agents of the Treasury. Less than fifty complaints were received. Every one of them was carefully investigated. There seemed to be some merit in half a dozen of them. In the remainder the action of the Treasury's representatives was that required by the statutes. In one case the taxpayer, an elderly woman, was found to have been paying more taxes than she should. The fault was originally hers, in failing to report depreciation on her property, but those who examined her returns were found to have been negligent in failing to advise her that she should be taking the depreciation the law permitted. They were reprimanded. In no case was there found sufficient culpability on the part of any employee of the Treasury Department to merit dismissal. Considered in connection with the fact that no less than 500,000 tax adjustments are made in the course of a single year, it must be concluded that there is not an

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much fire as there is smoke behind the charges of high-handed revenue agents and disregard of the interests of the taxpayer.

But the desire of the Secretary of the Treasury to give all taxpayers prompt, fair and courteous treatment has not been limited to the passive attitude of receiving complaints and examining them. Great progress has been made in speeding up the disposition of tax cases. Continued studies have been carried on as to improved means for giving all taxpayers with tax questions to adjust prompt, convenient and inexpensive hearing. The authority of field agents has been increased in several districts and in one district, Los Angeles, California, there has been set up a complete branch of the Bureau of Internal Revenue, equipped to bring to the taxpayer in his home district all the machinery of the Bureau and to carry his case right up to the point of the hearing of an appeal by the Board of Tax Appeals, if the case should go so far.

The Secretary has not withdrawn his offer to give careful examination to any case where there is complaint of injustice. If critics of the Bureau and the Treasury Department really wish to be helpful in improving tax collection methods they will give the Secretary the benefit of any specific knowledge that they may possess of injustice to taxpayers and will advise their friends and their readers to do the same, instead of giving voice to criticisms which by their very nature can be of no value and only serve to flatter

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undeserved censure upon tax collecting officers and thus to increase the difficulty of their work.

Very truly yours,

Herbert E. Gaston  
Assistant to the Secretary.

By ARTHUR BUCKE

WASHINGTON, April 26.—Among the administrative officials lowest down who many persons feel have failed to display confidence are certain Treasury officials in collecting taxes. Through Secretary Morgenthau takes personal responsibility for the methods of the Internal Revenue Division. And has publicly promised to punish any aides guilty of harassment or improper dealing if the facts are reported to him, unambiguous evidence to be heard that the Treasury is destructive and unfair.

These complaints, when not accepted by Mr. Morgenthau and his aides, are fully suitable to them, as several observations by the Secretary reveal. Before the Academy of Political Science in November, 1937, Mr. Morgenthau said his two objectives are to distribute the tax burden equitably and to collect the taxes with as little burden as possible upon the rate-payers. The following month he uttered his promise to investigate personally any charges and take disciplinary action.

The respondents does not know what corrections have resulted from that pledge. But he does know, from written and spoken testimony of many business men who bear good reputations, that Treasury agents are still charged with high-handedness, intemperance and often menacing intensions. This method and this attitude not only injure those with whom such government agents come in contact, but prevents the belief that the administration is not cooperative with business.

**Jeopardy Assessments**

A step toward improving one policy which has deeply disturbed taxpayers has been taken, however, by the Senate-Senate conference on the Dougherty-Harrison bill. This affects what are called jeopardy assessments. Under the existing statute the Commissioner of Internal Revenue has the power without notice to assess cross debts, to distribute on the assets of large corporations and trustees to sell them out. He may do so upon the simple assertion of a tax delinquency in large tax-payers' plant stock or the banking companies claims against it. This provision is to protect government revenues, but the trouble with it is the Treasury's practice that, once a jeopardy has been asserted, the Commissioner cannot legally sit, withdraw or modify the claim before settlement.

The Senate Finance Committee did not so modify the assessment by specifically authorizing the Commissioner "to make such assessment or any liquidation thereof" to the extent he later decided to be excessive. It added an arrangement whereby the taxpayer's loss could be proportionately reduced, but the committee, rejecting all the Treasury's instances, then wrote in another section. This removes from the scope of the Commissioner's new power any jeopardy assessments made prior to the effective date of the Dougherty-Harrison bill.

The committee said an "undue burden" would fall on the Commissioner were the provision retroactive. This implies that a large number of such cases are outstanding, which means there is no relief in the collection report for many corporations now investigated with delinquency. Even if the Commissioner knows he has done them an injustice, he cannot ever correct it.

**Flight of the Taxpayer**

All of this means that numerous taxpayers, even after the relief measure is passed, will find themselves in this situation: They have made what they consider a lawful return. The Commissioner has rejected it and served a deficiency notice larger than the taxpayer is able to pay. Resort to the Board of Tax Appeals must be had in sixty days or the assessment stands, and sometimes taxes are so computed that months must pass before they are ready for trial on their merits. The taxpayer's financial condition is then put in question and refinancing is extremely difficult. The Commissioner may then propose a settlement, and if the taxpayer cannot or will not accept, resort to a jeopardy suit. Such laws up in the enactment of the new law, however innocent or unjust the Commissioner may feel them, must stand.

That does not appear to be either a constructive or cooperative gesture toward genuine reform business. It does not seem at all to reflect the spirit of Mr. Morgenthau's public pledge of November, 1937, in the light of that he would have expected the administration to have embodied the full relief offered by the Senate Finance Committee. And the reported methods of some tax investigations, and if it is not intended to discover real issues of business delinquency.

Transparency of tax laws and procedure is so that as the system is improved, and because of the technical nature of the matter, some constructive steps may have been made here. But generally a truth is stated

April 29, 1938

**MEMORANDUM FOR THE PRESIDENT:**

Pursuant to your request, I am submitting a statement of the objections to the corporation tax and to the tax on capital gains, as contained in the Revenue Bill of 1938.

**EM:es**

The Secretary and Mr. Magill took the original of this statement to the White House conference 4/29/38- 9:20 A.M. and left it with the President.



as compared to existing law. The new treatment of capital gains and losses will cost the Treasury around \$8 million - this in a year in which stock market transactions are at a minimum. The repeal of excise taxes are in part offset by an increase in the tax on distilled spirits, but the net loss to the Treasury is approximately \$12 million. Thus, the Bill as a whole will produce perhaps \$65 million less than the existing internal revenue laws at current levels of business activity. In years of normal business activity the bill is estimated to produce from \$100 million to \$230 million less than the existing revenue system.

The bill makes a large number of changes in the revenue laws, many of which are wholly meritorious and some of which are open to serious question. The two changes to which most attention has been drawn are the amendments to the corporation taxes and to the tax on capital gains. I have previously pointed out that fundamental principles of taxation are involved in both cases.

The Federal Government has always taxed capital gains since the introduction of the modern income tax in 1913. The Supreme Court has many times approved the taxation of such profits on legal grounds. During the first nine years of the income tax, capital gains were taxed in exactly the same way as other income from salaries, from dividends, or from interest. In 1921 a new method for taxing capital gains was adopted, whereby these profits at the option of the taxpayer were subjected to a flat rate of 12 1/2 percent, although incomes from other sources were still subjected to progressive surtaxes ranging up to 50 percent. This method of taxation was maintained for a little over a decade - a decade marked near its close by the greatest speculative activity in the stock market which the country

has ever known. In 1934, after exhaustive study by congressional committees, it was decided that it was unfair to give capital gains the preferential treatment of a flat rate tax, so long as income from other sources was subjected to progressive surtaxes. Consequently, a plan was adopted whereby the rate of tax on capital gains depended upon the taxpayer's other income and the length of time he had held the property before the sale. In this way profits realized on sales of property were to a considerable extent, though not fully, subjected to the progressive surtaxes applicable to the wages of capital received in the form of dividends or interest.

The present bill abandons this plan as applied to profits on sales of property held over two years in favor of a return to the plan in force during the 20's. There are some modifications of that plan, the principal ones being that the flat rate of the tax on these profits is to be 15 percent instead of 12½ percent; and a somewhat more liberal treatment is granted to capital gains realized by taxpayers with small incomes.

Progressive surtax rates have been an accepted part of our income tax system from the beginning. It has always been thought that the man with an income of \$100,000 should pay taxes at a higher rate than a man with an income of \$10,000 or \$2,000. It is firmly established in this country that profits from sales of property are income. The tax laws may properly take into account the fact that these profits may have accrued over several years' time and hence may be entitled to somewhat lesser progressive rates of tax than those applied to income which has accrued in a single year. But there is small justification for sheltering capital gains under a flat rate of tax of 15 percent when earned incomes and incomes in other forms from the use of capital are subjected to progressive

return rates ranging from 4 to 75 percent.

A, for example, invests in stocks and bonds which yield him a return net income of \$75,000. His Federal income tax is \$20,078. 3 investments in stocks and bonds which yield him a return net income of \$90,000 and he sells other securities, held for over two years, at a profit of \$25,000 additional. His Federal income tax is \$13,458, or one-third less than A's. However, if B's profits from selling securities are a million dollars instead of \$25,000, the tax rate would still be 15 percent. It is not equitable to discriminate in this way between different forms of ~~income~~ income ~~and~~ to apply progressive rates to some kinds of income and not apply them to other kinds. If taxes are to be reduced, they should be reduced evenly.

In my judgment, the proposed reduction in the taxes on profits from sale of property is rather an encouragement to speculation in stocks and in commodities, than an incentive to new investment in needed business activities. Indeed, we know that approximately 85 percent of all capital gains are produced by transactions on the stock market.

I have not referred to the details of the proposed treatment of capital losses or of short-term gains or losses. In some respects the new treatment is an improvement, but in its major aspects the proposed plan is a return to a discredited method which violates fundamental principles of progressive income taxation.

The bill very properly lightens the tax burden of the small corporation, as I recommended last November. In the case of corporations with income in excess of \$25,000, the bill preserves a shred of the undistributed profits tax, but largely deprives it of any revenue effect. The

principle of the undistributed profits tax has been widely discussed but generally misunderstood. The basic reason for it is simple and plain. If a corporation distributes dividends, its stockholders pay normal taxes and surtaxes thereon. If the corporation retains the money, its individual stockholders pay no taxes on the accumulations however much their wealth may increase. Many a corporation controlled by wealthy stockholders regularly accumulated the greater part of its earnings during the 20's and thus freed them from the taxes which would have been payable had the profits been distributed.

The great reduction in the tax on large capital gains and the similar great reduction in tax on undistributed corporate earnings combine to afford the strongest tax incentive for the accumulation of corporation earnings. As I have already indicated, it is estimated that the Treasury's receipts from surtaxes on dividends will decrease from \$45 to \$200 million as a result of this bill, due to changes in the corporate policy of dividend distribution. The surtaxes will decrease because the individual shareholders will receive very much smaller incomes from their investments in corporate stocks that has been the case during the last few years. I am most concerned, however, with the fact that retained corporate earnings will again be granted tax preference over distributed corporate earnings; and that by the same token, incorporated enterprises will receive a tax advantage over enterprises conducted by individuals or by partners. The retention in the bill of the undistributed profits tax principle is salutary, but it is regrettable that the tax itself has been reduced to a shadow.

Finally, it is unfortunate that Congress did not see fit to accept the opportunity of simplifying the estate tax and of increasing its yield.

Many of the administrative changes in the bill are improvements over the present law. The provision for declaratory rulings in tax cases and for adjustments to prevent double deductions or double taxation in income tax cases are important advances. Finally, the repeal of some of the less desirable excise taxes is a start in the right direction, although it is unfortunate that the lost revenue was not made up in other places.

In general, then, the chief virtue of the bill is that it removes every conceivable cause for criticism, on the grounds of hardship of the undistributed profits tax and the tax on capital gains. No one can possibly say that its provisions on these points will check the employment of capital. In so far as the relief applies to small business concerns, it is especially meritorious. The serious question is whether the relief does not go so far, in the case of large corporations and large investors, that an undue burden of making up the lost revenue will necessarily be imposed on all other taxpayers.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE April 29, 1938

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: Current United States Trade with Japan and China  
(Preliminary data)

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

1. United States exports to Japan increased 35 percent in the first two weeks of April 1938 as compared with the same period in March 1938, and were 71 percent greater than in February 1938.

2. Exports of raw cotton increased \$1,595,000 or 95 percent over the first two weeks of March 1938. Exports of petroleum, iron and steel manufactures, copper, and hides and skins increased markedly over the same period of March 1938.

3. United States imports from Japan decreased 8 percent in the first two weeks of April 1938 as compared with the same period of March and February 1938 and were 43 percent less than in the first two weeks of January 1938.

4. The decrease of \$139,000 in imports of raw silk accounted for almost half the decrease; other items showing decreases were pyrethrum flowers, hats and hat materials, and nonmetallic mineral products, such as glassware, stoneware, porcelain, and chinaware.

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

1. United States exports to China and Manchuria increased 5 percent in the first two weeks of April 1938 as compared with the same period of March 1938.

2. United States imports from China and Manchuria increased 23 percent in the first two weeks of April 1938 as compared with the first two weeks of March 1938.

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3. Statistics showing United States trade with North China and Manchuria and South China and Hong Kong are attached at the end of this report. This grouping of the trade figures will be discontinued at the end of April in favor of the new classification as outlined below.

U. United States trade with China has been reclassified in April 1938 to determine the extent of:

1. United States trade with Chinese-controlled areas.
2. United States trade with Japanese-controlled areas.

1. United States trade with Chinese-controlled areas.

Of the sixteen ports and cities in China to which goods are most commonly shipped only six are definitely under Chinese control--Canton, Hankow, Swatow, Amoy, Foochow, and Yunnanfu.

United States exports to these six ports amounted to \$141,276 in the first two weeks of April 1938, or only 4.5 percent of the total exports to China.

United States imports from these six ports amounted to \$170,104, or only 11.6 percent of the total imports from China.

2. United States trade with Japanese-controlled areas.

Seven ports in China are definitely under Japanese control. Of these, four--Chefoo, Tsingtao, Tientsin, and Peking are in recently-conquered North China and three--Dairen, Mukden, and Harbin are in Manchukuo.

United States exports to these seven ports amounted to \$1,214,502, or 38.7 percent of the total exports to China in the first two weeks of April. Of these \$53,224 were shipped to the North China ports and \$1,161,278 to the Manchukuo ports.

United States imports from these seven ports amounted to \$400,233, or 27.4 percent of the total imports from China. Of this amount \$254,421 represents imports from the North China ports and \$145,812 represents imports from the Manchukuo ports.

3. United States trade with Shanghai, Nanking, and Hong Kong.

Shanghai and Nanking are now under Japanese control, but it is by no means clear that goods shipped to these cities are actually destined for them because

1. Many Shanghai firms have moved to Chinese cities, particularly Hankow, Yunnanfu, and Hong Kong, but their orders are still filled to Shanghai via European ports (where they receive changed orders for delivery) or via Hong Kong.

2. Goods labelled "Nanking" may be either for the former Chinese Government or for the newer Japanese-puppet Government at Nanking. At present, it is impossible to determine whether these goods actually reach Nanking.

Hong Kong is still a free port. Although it is presumed that the majority of Hong Kong trade is with Chinese-controlled areas, it is nevertheless rumored that Japanese coastal vessels are now picking up goods at Hong Kong for transshipment to Shanghai and northern ports.

United States exports to Shanghai and Nanking amounted to \$1,253,070, or 40 percent of the total exports to China in the first two weeks of April 1938.

United States imports from Shanghai and Nanking amounted to \$241,186, or 16.5 percent of the total imports from China in the first two weeks of April 1938.

United States exports to Hong Kong amounted to \$492,831, or 15.7 percent of the total exports, and United States imports from Hong Kong amounted to \$230,301, or 15.8 percent of the total imports during the first two weeks of April.

4. United States trade with unclassified Chinese ports and cities.

Exports and imports are frequently labelled simply "China." It is impossible to determine whether this trade is with Chinese-controlled areas or with those under Japanese control.

Unclassified exports to China amounted to \$34,329 in the first two weeks of April, or 1.1 percent of the total, and unclassified imports amounted to \$419,337, or 28.7 percent of the total.

Statistics

## A. Current Trade with Japan (Preliminary Data).

I. United States Exports to Japan - Total ValueFirst two weeks of

April 1938	\$10,463,000
March 1938	7,727,000
February 1938	6,112,000
January 1938	6,485,000
December 1937	6,912,000
November 1937	5,993,000

II. United States Exports to Japan by Commodities

Commodities showing increases:	April 1938	First two weeks of -	
		March 1938	February 1938
Cotton, unmanufactured	\$3,276,000	\$1,681,000	\$1,116,000
Petroleum and products	2,402,000	1,397,000	547,000
Iron, steel and manufactures	1,905,000	1,266,000	1,173,000
Copper and manufactures	1,158,000	52,000	214,000
Hides and skins, raw	331,000	83,000	60,000

Commodities showing decreases:

Automobiles, parts and accessories	410,000	597,000	494,000
Chemicals and related products	228,000	251,000	300,000
Industrial machinery	211,000	1,505,000	985,000
Paper base stocks	99,000	622,000	201,000
Aircraft and parts	45,000	77,000	128,000
Total	\$10,065,000-96%	\$7,531,000-98%	\$5,218,000-85%
All other	398,000- 4%	196,000- 2%	894,000-15%
Grand total	\$10,463,000	\$7,727,000	\$6,112,000

III. United States Imports from Japan - Total ValueFirst two weeks of

April 1938	\$3,564,000
March 1938	3,883,000
February 1938	3,880,000
January 1938	6,218,000
December 1937	5,565,000
November 1937	6,893,000

IV. United States Imports from Japan by Commodities

Commodities showing increases:	<u>April 1938</u>	<u>March 1938</u>	<u>February 1938</u>
Cotton manufactures	\$ 128,000	\$ 102,000	\$ 323,000
Fish and fish products	107,000	84,000	45,000
Wood, paper, and manufactures	78,000	45,000	57,000
Furs and manufactures	65,000	60,000	14,000
Fertilizer and fertilizer materials	52,000	nil	1,000
Commodities showing decreases:			
Silk, unmanufactured	2,410,000	2,549,000	2,468,000
Chemicals and related products	101,000	103,000	88,000
Vegetable products, edible	92,000	101,000	74,000
Nonmetallic mineral products	86,000	126,000	162,000
Silk manufactures	77,000	84,000	29,000
Fish scrap and fish meal	62,000	75,000	3,000
Pyrethrum flowers	34,000	66,000	52,000
Hats and hat materials	26,000	134,000	87,000
Total	\$3,318,000-93%	\$3,529,000-91%	\$3,403,000-88%
All other	246,000-7%	354,000-9%	477,000-12%
Grand total	\$3,564,000	\$3,883,000	\$3,880,000

B. Current Trade with China (Preliminary Data).

I. United States Exports to China - Total Value

<u>First two weeks of</u>	<u>Total</u>
April 1938	\$3,136,000
March 1938	2,993,000
February 1938	2,399,000
January 1938	3,230,000
December 1937	3,131,000
Whole month of April 1937	\$6,990,000

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Table II. United States Exports to China by Ports

	Value	Percent of total
<u>Exports to Chinese ports:</u>		
Canton, Hankow, Swatow		
Foochow, Amoy, Yunnanfu	\$141,276	4.5
<u>Exports to Japanese-controlled ports:</u>		
Chefoo, Tsingtao, Tientsin, Peiping	53,224	1.7
Dairen, Mukden, Harbin	<u>1,161,278</u>	<u>37.0</u>
Subtotal	1,214,502	38.7
<u>Exports to doubtful ports (ultimate goods - destination unknown):</u>		
Hong Kong	492,831	15.7
Shanghai	642,419	20.5
Nanking	610,651	19.5
China - misc.	<u>34,329</u>	<u>1.1</u>
Subtotal	1,780,230	56.8
Total	\$3,136,008	100 %

Table III. United States Exports to China by Ports and Principal Commodities

Commodity	Chinese ports		Japanese Ports		Hong Kong	Shanghai	Nanking	China-misc.	Total	
	1/	China 2/	North	Manchukuo 3/						
Aircraft and parts	\$130,210	\$	-	-	\$ 35,875	\$	-	\$ 10,344	\$	\$176,429
Automobiles, parts and accessories	220	19,511	245,163	107,672	76,443	-	-	-	-	449,009
Copper and manufactures	-	-	-	43,005	-	-	-	-	-	43,005
Cotton, unmanufactured	-	-	352,962	-	135,748	-	19,952	-	-	508,662
Electrical machinery and apparatus	-	9,729	-	15,866	19,468	-	921	-	-	45,984
Firearms and ammunition	10,231	-	-	-	-	-	600,307	-	-	610,538
Industrial machinery	310	-	18,220	29,104	2,310	-	9,628	-	-	59,572
Iron and steel and manufactures	-	538	144,535	46,012	9,512	-	-	-	-	200,597
Paper and manufactures	-	11,079	2,000	35,806	47,737	-	-	-	-	96,622
Petroleum and products	-	2,337	260,484	18,988	17,129	-	-	-	-	298,938
Tobacco and manufactures	-	1,924	58,650	8,372	216,006	-	-	-	-	284,952
All Other	305	8,106	79,264	152,131	118,066	-	3,828	-	-	361,700
Total	\$141,276	\$53,224	\$1,161,278	\$492,831	\$642,419	\$610,651	\$34,329	\$	\$	\$3,136,008

- 1/ Canton, Hankow, Swatow, Foochow, Amoy, Yunnanfu.  
 2/ Chefoo, Tsingtao, Tientsin, Peiping.  
 3/ Dairen, Mukden, Harbin.

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Table IV. United States Imports from China - Total Value

<u>First two weeks of</u>	<u>Total</u>
April 1938	\$1,461,000
March 1938	1,183,000
February 1938	1,033,000
January 1938	2,188,000
December 1937	2,446,000
Whole month of April 1937	\$12,173,000

Table V. United States Imports from China by Ports

	Value	Percent of total
<u>Imports from Chinese ports:</u>		
Canton, Hankow, Swatow Foochow, Amoy, Yunnanfu	\$170,104	11.6
<u>Imports from Japanese-controlled ports:</u>		
Chefoo, Tsingtao, Tientsin, Peiping	254,421	17.4
Dairen, Mukden, Harbin	145,812	10.0
Subtotal	400,233	27.4
<u>Imports from doubtful ports (origin of goods unknown):</u>		
Hong Kong	230,301	15.8
Shanghai	241,186	16.5
Nanking	-	-
China, misc.	419,337	28.7
Subtotal	890,824	61.0
Total	\$1,461,161	100 %

Table VI. United States Imports from China by Ports and Principal Commodities

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Commodity	Chinese ports		Japanese Ports		Hong Kong	Shanghai	Nanking	China-misc.	Total
	1/	2/	North China	Manchukuo					
Bristles	\$ 9,949	\$ 46,026	\$ 29,993	\$ -	\$ 28,381	\$ -	\$ 2,694	\$117,043	
Cotton manufacture	8,347	4,413	2,362	2,568	34,284	-	-	51,974	
Fireworks	37,898	-	-	38,926	-	-	-	76,824	
Flax, hemp and ramie	94,711	9,373	-	5,957	14,307	-	-	124,348	
Furs and manufactures	-	31,203	74,532	4,796	42,737	-	4,300	157,568	
Hair and manufactures	-	30,753	22,091	15,983	4,489	-	3,504	76,820	
Hats and manufactures	-	1,677	-	-	53,952	-	3,683	59,312	
Tin, ore, etc.	-	-	-	31,804	-	-	21,930	53,734	
Tung (wood) oil	4,825	-	-	13,794	38,568	-	368,142	425,329	
Vegetable products, edible	3,313	11,831	1,928	35,767	-	-	2,270	55,109	
All Other	11,061	119,145	14,906	80,706	24,468	-	12,814	263,100	
Total	\$170,104	\$254,421	\$145,812	\$230,301	\$241,186	-	\$419,337	\$1,461,161	

1/ Canton, Hankow, Swatow, Foochow, Amoy, Yunnanfu.  
 2/ Chefoo, Tsingtao, Tientsin, Peiping.  
 3/ Dairen, Mukden, Harbin.

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United States Exports to China by Commodities  
(Old Classification)

(a) To North China and Manchuria

	<u>April 1938</u>	<u>March 1938</u>
Cotton, unmanufactured	\$ 366,000	\$ 77,000
Automobiles, parts and accessories	265,000	193,000
Petroleum and products	263,000	117,000
Iron, steel and manufactures	145,000	51,000
Tobacco and manufactures	<u>61,000</u>	<u>134,000</u>
<del>Total</del>	\$1,100,000-90%	\$572,000-78%
All other	<u>125,000-10%</u>	<u>164,000-22%</u>
Grand total	\$1,225,000	\$736,000

(b) To Shanghai, South China and Hong Kong

	<u>April 1938</u>	<u>March 1938</u>
Firearms and ammunition	\$ 611,000	\$ 387,000
Tobacco and manufactures	224,000	528,000
Automobiles, parts and accessories	184,000	443,000
Aircraft and parts	176,000	52,000
Cotton, unmanufactured	143,000	26,000
Paper and manufactures	86,000	21,000
Chemicals and related products	71,000	75,000
Vegetable products, edible	56,000	32,000
Iron, steel and manufactures	56,000	92,000
Copper and manufactures	43,000	167,000
Industrial machinery	41,000	30,000
Petroleum and products	<u>36,000</u>	<u>49,000</u>
Total	\$1,727,000-90%	\$1,902,000-84%
All other	<u>184,000-10%</u>	<u>355,000-16%</u>
Grand total	\$1,911,000	\$2,257,000

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United States Imports from China by Commodities  
(Old Classification)

(a) From North China and Manchuria

	<u>April 1938</u>	<u>March 1938</u>
Textile fibres and manu- factures	\$161,000	\$ 62,000
Furs and manufactures	106,000	78,000
Bristles	76,000	5,000
Animal products, edible	25,000	32,000
Nonmetallic mineral prod- ucts	3,000	55,000
Perilla oil	<u>nil</u>	<u>48,000</u>
Total	\$371,000-92%	\$280,000-86%
All other	<u>31,000-8%</u>	<u>44,000-14%</u>
Grand total	\$402,000	\$324,000

(b) From Shanghai, South China and Hong Kong

	<u>April 1938</u>	<u>March 1938</u>
Tung (wood) oil	\$ 425,000	\$325,000
Flax, hemp, ramie and manufactures	115,000	74,000
Hats and hat materials	58,000	47,000
Tin ore, bars, blocks, etc.	54,000	35,000
Furs and manufactures	52,000	14,000
Bristles	41,000	52,000
Vegetable products, edible	41,000	82,000
Fireworks	<u>77,000</u>	<u>14,000</u>
Total	\$ 863,000-82%	\$643,000-75%
All other	<u>196,000-18%</u>	<u>216,000-25%</u>
Grand total	\$1,059,000	\$859,000

April 29, 1938

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STEPHEN EARLY  
Secretary to the President

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TO THE CONGRESS OF THE UNITED STATES:

Unhappy events abroad have retaught us two simple truths about the liberty of a democratic people.

The first truth is that the liberty of a democracy is not safe if the people tolerate the growth of private power to a point where it becomes stronger than their democratic state itself. That, in its essence, is Fascism -- ownership of Government by an individual, by a group, or by any other controlling private power.

The second truth is that the liberty of a democracy is not safe if its business system does not provide employment and produce and distribute goods in such a way as to sustain an acceptable standard of living.

Both lessons hit home.

Among us today a concentration of private power without equal in history is growing.

This concentration is seriously impairing the economic effectiveness of private enterprise as a way of providing employment for labor and capital and as a way of assuring a more equitable distribution of income and earnings among the people of the nation as a whole.

1. The Growing Concentration of Economic Power

Statistics of the Bureau of Internal Revenue reveal the following amazing figures for 1935:

Ownership of corporate assets:

Of all corporations reporting from every part of the nation, one-tenth of 1% of them owned 52% of the assets of all of them;

and to clinch the point:

Of all corporations reporting, less than 5% of them owned 87% of all the assets of all of them.

Income and profits of corporations:

Of all the corporations reporting from every part of the country, one-tenth of 1% of them earned 50% of the net income of all of them;

and to clinch the point:

Of all the manufacturing corporations reporting, less than 4% of them earned 84% of all the net profits of all of them.

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The statistical history of modern times proves that in times of depression concentration of business speeds up. Bigger business then has larger opportunity to grow still bigger at the expense of smaller competitors who are weakened by financial adversity.

The danger of this centralization in a handful of huge corporations is not reduced or eliminated, as is sometimes urged, by the wide public distribution of their securities. The mere number of security-holders gives little clue to the size of their individual holdings or to their actual ability to have a voice in the management. In fact the concentration of stock ownership of corporations in the hands of a tiny minority of the population matches the concentration of corporate assets.

1929 was a banner year for distribution of stock ownership.

But in that year

three-tenths of 1 per cent of our population received 78% of the dividends reported by individuals. This has roughly the same effect as if, out of every 300 persons in our population, one person received 78 cents out of every dollar of corporate dividends while the other 299 persons divided up the other 22 cents between them.

The effect of this concentration is reflected in the distribution of national income.

A recent study by the National Resources Committee shows that in 1935-36:

47% of all American families and single individuals living alone had incomes of less than \$1,000 for the year;

and at the other end of the ladder a little less than 1 $\frac{1}{2}$ % of the nation's families received incomes which in dollars and cents reached the same total as the incomes of the 47% at the bottom;

Furthermore, to drive the point home, the Bureau of Internal Revenue reports that estate tax returns in 1936, show that:

33% of the property which was passed by inheritance was found in only 4% of all the reporting estates. (And the figures of concentration would be far more impressive, if we included all the smaller estates which, under the law, do not have to report.)

We believe in a way of living in which political democracy and free private enterprise for profit should serve and protect each other - to ensure a maximum of human liberty not for a few but for all.

It has been well said that "The freest government, if it could exist, would not be long acceptable, if the tendency of the laws were to create a rapid accumulation of property in few hands, and to render the great mass of the population dependent and penniless."

Today many Americans ask the uneasy question: Is the vociferation that our liberties are in danger justified by the facts?

Today's answer on the part of average men and women in every part of the country is far more accurate than it would have been in 1929 -- for the very simple reason that during the past nine years we have been doing a lot of common sense thinking. Their answer is that if there is that danger it comes from that concentrated private economic power which is struggling so hard to master our democratic government. It will not come as some (by no means all) of the possessors of that private power would make the people believe -- from our democratic government itself.

II Financial Control over Industry.

Even these statistics I have cited do not measure the actual degree of concentration of control over American industry.

Close financial control, through interlocking spheres of influence over channels of investment, and through the use of financial devices like holding companies and strategic minority interests, creates close control of the business policies of enterprises which masquerade as independent units.

That heavy hand of integrated financial and management control lies upon large and strategic areas of American industry. The small business man is unfortunately being driven into a less and less independent position in American life. You and I must admit that.

Private enterprise is ceasing to be free enterprise and is becoming a cluster of private collectivism: masking itself as a system of free enterprise after the American model, it is in fact becoming a concealed cartel system after the European model.

We all want efficient industrial growth and the advantages of mass production. No one suggests that we return to the hand loom or hand force. A series of processes involved in turning out a given manufactured product may well require one or more huge mass production plants. Modern efficiency may call for this. But modern efficient mass production is not furthered by a central control which destroys competition between industrial plants each capable of efficient mass production while operating as separate units. Industrial efficiency does not have to mean industrial empire building.

And industrial empire building, unfortunately, has evolved into banker control of industry. We oppose that.

Such control does not offer safety for the investing public. Investment judgment requires the disinterested appraisal of other people's management. It becomes blurred and distorted if it is combined with the conflicting duty of controlling the management it is supposed to judge.

Interlocking financial controls have taken from American business much of its traditional virility, independence, adaptability and daring -- without compensating advantages. They have not given the stability they promised.

Business enterprise needs new vitality and the flexibility that comes from the diversified efforts, independent judgments and vibrant energies of thousands upon thousands of independent business men.

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The individual must be encouraged to exercise his own judgment and to venture his own small savings, not in stock gambling but in new enterprise investment. Men will dare to compete against men but not against giants.

### III. The Decline of Competition and its Effects on Employment:

In output per man or machine, we are the most efficient ~~industrial~~ nation on earth.

In the matter of complete mutual employment of capital and labor we are among the least efficient.

Our difficulties of employing labor and capital are not new. We have had them since good free land gave out in the West at the turn of the century. They were old before we undertook changes in our tax policy or in our labor and social legislation. They were caused not by this legislation but by the same forces which caused the legislation. The problem of bringing idle men and idle money together will not be solved by abandoning the forward steps we have taken to adjust the burdens of taxation more fairly and to attain social justice and security.

If you believe with me in private initiative, you must acknowledge the right of well-managed small business to expect to make reasonable profits. You must admit that the destruction of this opportunity follows concentration of control of any given industry into a small number of dominating corporations.

One of the primary causes of our present difficulties lies in the disappearance of price competition in many industrial fields, particularly in basic manufacture where concentrated economic power is most evident -- and where rigid prices and fluctuating payrolls are general.

Managed industrial prices mean fewer jobs. It is no accident that, in industries like cement and steel where prices have remained firm in the face of a falling demand payrolls have shrunk as much as 40 and 50 per cent in recent months. Nor is it mere chance that in most competitive industries where prices adjust themselves quickly to falling demand, payrolls and employment have been far better maintained. By prices we mean, of course, the prices of the finished articles and not the wages paid to workers.

When prices are privately managed at levels above those which would be determined by free competition, everybody pays.

The contractor pays more for materials; the home-builder pays more for his house; the tenant pays more rent; and the worker pays in lost work.

Even the Government itself is unable, in a large range of materials, to obtain competitive bids. It is repeatedly confronted with bids identical to the last cent.

Our housing shortage<sup>is</sup> a perfect example of how ability to control prices interferes with the ability of private enterprise to fill the needs of the community and provide employment for capital and labor. 309

On the other hand we have some lines of business, large and small, which are genuinely competitive. Often these competitive industries must buy their basic products from monopolistic industry, thus losing, and causing the public to lose, a large part of the benefit of their own competitive policy. Furthermore, in times of recession, the practices of monopolistic industries make it difficult for business or agriculture which is competitive and which does not curtail production below normal needs, to find a market for its goods even at reduced prices. For at such times a large number of customers of agriculture and competitive industry are being thrown out of work by those non-competitive industries which choose to hold their prices rather than to move their goods and to employ their workers.

If private enterprise left to its own devices becomes half-regimented and half-competitive, half-slave and half-free, as it is today, it obviously cannot adjust itself to meet the needs and the demands of the country.

Most complaints for violations of the anti-trust laws are made by business men against other business men. Even the most monopolistic business man disapproves of all monopolies but his own. We may smile at this as being just an example of human nature, but we cannot laugh away the fact that the combined effect of the monopolistic controls which each business group imposes for its own benefit, inevitably destroys the buying power of the nation as a whole.

#### IV. Competition Does Not Mean Exploitation.

Competition, of course, like all other good things, can be carried to excess. Competition should not extend to fields where it has demonstrably had social and economic consequences. The exploitation of child labor, the chiseling of workers' wages, the stretching of workers' hours, are not necessary, fair or proper methods of competition. I have consistently urged a federal wage and hours bill to take the minimum decencies of life for the working man and woman out of the field of competition.

It is of course necessary to operate the competitive system of free enterprise intelligently. In gauging the market for their wares businessmen, like the farmers, should be given all possible information by government and by their own associations so that they may act with knowledge and not on impulse. Serious problems of temporary overproduction can and should be avoided by disseminating information that will discourage the production of more goods than the current markets can possibly absorb or the accumulation of dangerously large inventories for which there is no obvious need.

It is, of course, necessary to encourage rises in the level of those competitive prices, such as agricultural prices, which must rise to put our price structure into more workable balance and make the debt burden more tolerable. Many such competitive prices are now too low.

It may at times be necessary to give special treatment to chronically sick industries which have deteriorated too far for natural revival, especially those which have a public or quasi-public character.

But generally over the field of industry and finance we must revive and strengthen competition if we wish to preserve and make workable our traditional system of free private enterprise.

The justification of private profit is private risk. We cannot safely make America safe for the businessman who does not want to take the burdens and risks of being a businessman.

#### V. The Choice Before Us.

Examination of methods of conducting and controlling private enterprise which keep it from furnishing jobs or income or opportunity for one-third of the population is long overdue on the part of those who sincerely want to preserve the system of private enterprise for profit.

No people, least of all a democratic people, will be content to go without work or to accept some standard of living which obviously and woefully falls short of their capacity to produce. No people, least of all a people with our traditions of personal liberty, will endure the slow erosion of opportunity for the common man, the oppressive sense of helplessness under the domination of a few, which are overshadowing our whole economic life.

A discerning magazine of business has editorially pointed out that big business collectivism in industry compels an ultimate collectivism in government.

The power of a few to manage the economic life of the nation must be diffused among the many or be transferred to the public and its democratically responsible government. If prices are to be managed and administered, if the nation's business is to be allotted by plan and not by competition, that power should not be vested in any private group or cartel, however benevolent its professions profess to be.

Those people, in and out of the halls of government, who encourage the growing restriction of competition either by active efforts or by passive resistance to sincere attempts to change the trend, are shouldering a terrific responsibility. Consciously, or unconsciously, they are working for centralized business and financial control. Consciously or unconsciously, they are therefore either working for control of the government itself by business and finance or the other alternative -- a growing concentration of public power in the government to cope with such concentration of private power.

The enforcement of free competition is the least regulation business can expect.

## VI. A Program.

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The traditional approach to the problems I have discussed has been through the anti-trust laws. That approach we do not propose to abandon. On the contrary, although we must recognize the inadequacies of the existing laws, we seek to enforce them so that the public shall not be deprived of such protection as they afford. To enforce them properly requires thorough investigation not only to discover such violations as may exist but to avoid hit and miss prosecutions harmful to business and government alike. To provide for the proper and fair enforcement of the existing anti-trust laws I shall submit, through the budget, recommendations for a deficiency appropriation of \$200,000 for the Department of Justice.

But the existing anti-trust laws are inadequate -- most importantly because of new financial economic conditions with which they are powerless to cope.

The Sherman Act was passed nearly forty years ago. The Clayton and Federal Trade Commission Acts were passed over twenty years ago. We have had considerable experience under those acts. In the meantime we have had a chance to observe the practical operation of large-scale industry and to learn many things about the competitive system which we did not know in those days.

We have witnessed the merging-out of effective competition in many fields of enterprise. We have learned that the so-called competitive system works differently in an industry where there are many independent units, from the way it works in an industry where a few large producers dominate the market.

We have also learned that a realistic system of business regulation has to reach more than consciously immoral acts. The community is interested in economic results. It must be protected from economic as well as moral wrongs. We must find practical controls over blind economic forces as well as over blindly selfish men.

Government can deal and should deal with blindly selfish men. But that is a comparatively small part -- the easier part -- of our problem. The larger, more important and more difficult part of our problem is to deal with men who are not selfish and who are good citizens, but who cannot see the social and economic consequences of their actions in a modern economically interdependent community. They fail to grasp the significance of some of our most vital social and economic problems because they see them only in the light of their own personal experience and not in perspective with the experience of other men and other industries. They, therefore, fail to see these problems for the nation as a whole.

To meet the situation I have described, there should be a thorough study of the concentration of economic power in American industry and the effect of that concentration upon the decline of competition. There should be an examination of the existing price system and the price policies of industry to determine their effect upon the general level of trade, upon employment, upon long-term profits and upon consumption. The study should not be confined to the traditional anti-trust field. The effects of tax, patent and other government policies cannot be ignored.

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The study should be comprehensive and adequately financed. I recommend an appropriation of not less than \$500,000 for the conduct of such comprehensive study by the Federal Trade Commission, the Department of Justice, the Securities and Exchange Commission, and such other agencies of government as have special experience in various phases of the inquiry.

I enumerate some of the items that should be embraced in the proposed study. The items are not intended to be all inclusive. One or two of the items, such as bank holding companies and investment trusts, have already been the subject of special study, and legislation concerning these need not be delayed.

(1) Improvement of Anti-Trust Procedure. A revision of the existing anti-trust laws should make them susceptible of practical enforcement by casting upon those charged with violations the burden of proving facts peculiarly within their knowledge. Proof by the Government of identical bids, uniform price increases, price leadership, higher domestic than export prices, or other specified price rigidities might be accepted as prima facie evidence of unlawful actions.

The Department of Justice and the Federal Trade Commission should be given more adequate and effective power to investigate whenever there is reason to believe that conditions exist or practices prevail which violate the provisions or defeat the objectives of the anti-trust laws. If investigation reveals border-line cases where legitimate cooperative efforts to eliminate socially and economically harmful methods of competition in particular industries are thwarted by fear of possible technical violations of the anti-trust laws, remedial legislation should be considered.

As a really effective deterrent to personal wrongdoing, I would suggest that where a corporation is enjoined from violating the law, the court might be empowered to enjoin the corporation for a specified period of time from giving any remunerative employment or any official position to any person who has been found to bear a responsibility for the wrongful corporate action.

As a further deterrent to corporate wrongdoing the Government might well be authorized to withhold government purchases from companies guilty of unfair or monopolistic practice.

(2) Mergers and interlocking relationship. More rigid scrutiny through the Federal Trade Commission and the Securities and Exchange Commission of corporate mergers, consolidations and acquisitions than that now provided by the Clayton Act to prevent their consummation when not clearly in the public interest; more effective methods for breaking up interlocking relationships and like devices for bestowing business by favor.

(3) Financial controls. The operations of financial institutions should be directed to serve the interests of independent business and restricted against abuses which promote concentrations of power over American industry.

(a) Investment trusts. Investment trusts should be brought under strict control to insure their operations in the interests of their investors rather than their managers. The Securities and Exchange Commission is to make a report to Congress on the results of a comprehensive study of investment trusts and their operations which it has carried on for nearly two years. The investment trust, like the holding company, puts huge aggregations of the capital of the public at the direction of a few managers. Unless properly restricted, it has potentialities of abuse second only to the holding company as a device for the further centralization of control over American industry and American finance.

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The tremendous investment funds controlled by our great insurance companies have a certain kinship to investment trusts, in that these companies invest as trustees the savings of millions of our people. The Securities and Exchange Commission should be authorized to make an investigation of the facts relating to these investments with particular relation to their use as an instrument of economic power.

(b) Bank Holding Companies.

It is hardly necessary to point out the great economic power that might be wielded by a group which may succeed in acquiring domination over banking resources in any considerable area of the country. That power becomes particularly dangerous when it is exercised from a distance and notably so when effective control is maintained without the responsibilities of complete ownership.

We have seen the multiplied evils which have arisen from the holding company system in the case of public utilities, where a small minority ownership has been able to dominate a far-flung system.

We do not want those evils repeated in the banking field, and we should take steps now to see that they are not.

It is not a sufficient assurance against the future to say that no great evil has yet resulted from holding company operations in this field. The possibilities of great harm are inherent in the situation.

I recommend that the Congress enact at this session legislation that will effectively control the operation of bank holding companies; prevent holding companies from acquiring control of any more banks, directly or indirectly; prevent banks controlled by holding companies from establishing any more branches; and make it illegal for a holding company, or any corporation or enterprise in which it is financially interested, to borrow from or sell securities to a bank in which it holds stock.

I recommend that this bank legislation make provision for the gradual separation of banks from holding company control or ownership, allowing a reasonable time for this accomplishment - time enough for it to be done in an orderly manner and without causing inconvenience to communities served by holding company banks.

(4) Trade associations. Supervision and effective publicity of the activities of trade associations, and a clarification and delimitation of their legitimate spheres of activity which will enable them to combat unfair methods of competition but which will guard against their interference with legitimate competitive practices.

(5) Patent laws. Amendment of the patent laws to prevent their use to suppress inventions, and to create industrial monopolies. Of course such amendment should not deprive the inventor of his royalty rights, but generally speaking, future patents might be made available for use by any one upon payment of appropriate royalties. Open patent pools have voluntarily been put into effect in a number of important industries with wholesome results.

(6) Tax correctives. Tax policies should be devised to give affirmative encouragement to competitive enterprise.

Attention might be directed to increasing the inter-corporate dividend tax to discourage holding companies and to further graduating the corporation income tax according to size. The graduated tax need not be so high as to make bigness impracticable, but might be high enough to make bigness demonstrate its alleged superior efficiency.

We have heard much about the undistributed profits tax. When it was enacted two years ago, its objective was known to be closely related to the problem of concentrated economic power and a free capital market.

Its purpose was not only to prevent individuals whose incomes were taxable in the higher surtax brackets from escaping personal income taxes by letting their profits be accumulated as corporate surplus. Its purpose was also to encourage the distribution of corporate profits so that the individual recipients could freely determine where they would reinvest in a free capital market.

It is true that the form of the 1936 tax worked a hardship on many of the smaller corporations. Many months ago I recommended that these inequities be removed.

But in the process of the removal of inequities, we must not lose sight of original objectives. Obviously the nation must have some deterrent against special privileges enjoyed by an exceedingly small group of individuals under the form of the laws prior to 1936, whether such deterrent take the form of an undistributed profits tax or some other equally or more efficient method. And obviously an undistributed profits tax has a real value in working against a further concentration of economic power and in favor of a freer capital market.

(7) Bureau of Industrial Economics. Creation of a Bureau of Industrial Economics which should be endowed with adequate powers to supplement and supervise the collection of industrial statistics by trade associations. Such a Bureau should perform for business men functions similar to those performed for the farmers by the Bureau of Agricultural Economics.

It should disseminate current statistical and other information regarding market conditions and be in a position to warn against the dangers of temporary over-production and excessive inventories as well as against the dangers of shortages and bottleneck conditions and to encourage the maintenance of orderly markets. It should study trade fluctuations, credit facilities and other conditions which affect the welfare of the average business man. It should be able to help small business men to keep themselves as well-informed about trade conditions as their big competitors.

No man of good faith will misinterpret these proposals. They derive from the oldest American traditions. Concentration of economic power in the few and the resulting unemployment of labor and capital are inescapable problems for a modern "private enterprise" democracy. I do not believe that we are so lacking in stability that we will lose faith in our own way of living just because we seek to find out how to make that way of living work more effectively.

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This program should appeal to the honest common sense of every independent business man interested primarily in running his own business at a profit rather than in controlling the business of other men.

It is not intended as the beginning of any ill-considered "trust-busting" activity which lacks proper consideration for economic results.

It is a program ~~to preserve~~ private enterprise for profit by keeping it free enough to be able to utilize all our resources of capital and labor at a profit.

It is a program whose basic purpose is to stop the progress of collectivism in business and turn business back to the democratic competitive order.

It is a program whose basic thesis is not that the system of free private enterprise for profit has failed in this generation, but that it has not yet been tried.

Once it is realized that business monopoly in America paralyzes the system of free enterprise on which it is grafted, and is as fatal to those who manipulate it as to the people who suffer beneath its impositions, action by the government to eliminate these artificial restraints will be welcomed by industry throughout the nation.

For idle factories and idle workers profit no man.

FRANKLIN D. ROOSEVELT

The White House,  
April 29, 1938.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE April 30, 1938.

TO Secretary Morgenthau  
FROM A. Lochhead

(1) As there is no pouch being sent from the White House to the President before Tuesday, I have requested the White House to send this message by wireless to the President in secret code. 356  
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(2) Dr. Feis informs me that they have not as yet received information from London as to the conversations held by the British and French. The London Embassy has advised the State Department that they are refraining from cabling them until they receive complete and authoritative news of these conversations, as they prefer not to send cables which would contain merely rumors or conjectures. Dr. Feis states that they expect a cable on Monday containing authoritative information and has promised to let you have whatever they receive immediately.

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: April 29, 1938, 9 p.m.

NO.: 356

STRICTLY CONFIDENTIAL FOR THE SECRETARY OF THE TREASURY  
FROM BUTTERWORTH.

British Treasury sent for me this afternoon to give me the following information to be passed on to you. Bonnet called to see the Chancellor of the Exchequer this morning and put forward on behalf of the French Government four exploratory suggestions:

One. As to whether the British Government would come to the assistance of France by means of the British equalization fund buying and holding francs. Phillips said that the answer had been to point out that any such action would be contrary to the provisions under which Parliament had set up the equalization fund and contrary to the assurances given by the British Government to Parliament when the fund was asked for; the fund was set up to iron out fluctuations of the pound not of the franc.

Two. As to whether the British Government would give permission for the raising by the French Government of a short term credit (i.e. for a year or less) from the London banks. Phillips said that in answer it had been pointed out (A) that the Chancellor of the Exchequer had set forth publicly that no foreign short term credit would be permitted

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for non-commercial purposes; (B) that the London banks were granting extensive advances to British industry for the purposes of the arms program; (C) that the British Treasury's advisers (i.e. the Bank of England) felt that the French Government could not obtain such an accommodation on terms which would be favorable and would reflect favorably on the French situation.

Three. As to whether a longer term loan (i.e. from three to five years) would be subscribed by the London banks and British public. Phillips said in the answer given it has been pointed out that it was contrary to the practice of English banking for banks to participate in such a venture but as far as the public issuance was concerned the reply as given in (C) above applied. However, Phillips went out of his way to point out to me that the door had not been completely closed and bolted.

Four. Then Bonnet went on to give a brief description of the prospects of the French Government, and the difficulties of carrying on with things as they are. Bonnet indicated that within the French Cabinet there were two schools of thought - One group preferred to seek help along the lines indicated in the first three questions given above; Bonnet implied that he himself was a member of this group. The members of the other group were pressing for a depreciation of the franc to 190-200 in the hope or belief that

French

- 3 -

French capital would be induced to return and some of it quickly in anticipation of franc strengthening. Should there be such depreciation an undue advantage was not desired, and when the final rate was fixed, such advantage would not be sought. I was told by Phillips that this question had been answered somewhat as follows: under the Tripartite Agreement, even a temporary currency depreciation was excluded, and Phillips told me that he was skeptical about any such depreciation proving to be only temporary; second, Bonnet was told that even taking a most liberal view, the terms of real economic trends held nothing to justify any such rate.

As for the fourth question, Phillips said that the Chancellor of the Exchequer had been of two minds. What the Chancellor would have liked to have done was to say that until he had consulted the other party to the Tripartite he could not give an answer. Bonnet on the other hand might have got the impression that he was giving due consideration to the merits or demerits of his proposal! In sending you the above account of the interview with Bonnet, the Chancellor asked that you be good enough to give him, early next week, your reactions to the French proposals.

I told Phillips that in reporting the conversation I had with him and in passing on the request of the Chancellor, I did not see how I could explain the relevance of

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the suggestion that you comment on the second and third proposals, which concern the money and investment markets in London. With reference to the first proposal, I asked Phillips did he remember the discussions of last September in Washington. He immediately recalled that you had then said that the American stabilization fund would not be prepared to purchase francs.

It would seem obvious that your views particularly on the fourth proposal are being sought in order that it can be determined what action if any can be taken jointly by the British and American Governments if the French resort to such depreciation.

The franc opened at 161 1/4 and remained bid throughout the morning due to the favorable press reports of the trend of yesterday's Anglo-French conversations. For contrary reasons it weakened in the afternoon and French control then began to operate holding the rate around 162 3/4. It is interesting that the one month's future rate did not move in during the morning but remained around three and the three months' around four.

END MESSAGE.

KENNEDY.

EA:LWW

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: April 30, 1938, noon

NO.: 674

FROM COCHRAN.

At eleven o'clock this morning I had a talk with the Bank of France. The franc in very quiet trading in London was firm around 162 5/8 to 7/8, and closed at 163 in Paris last night. There had been no <sup>any</sup> intervention by the French control. According to my friend, on the French official visit to London the subject of financial assistance was rather awkwardly suggested from this side but the British did not take it up.

I had a conversation with Couve de Murville of the Finance Ministry at a quarter of twelve. He told me that he did not yet have the full story of the London visit. However it is his understanding that no positive results came from the advances on financial matters it was expected would be made by Bonnet.

There is no mention in today's press in Paris of any financial phase of the visit; this confirms the impression of bankers with whom I have spoken that there was no direct accomplishment in this field. Over this weekend French officials are working on the preparation of financial decrees which are to be approved <sup>by</sup> the Council of Ministers on Monday and which will be promulgated on Tuesday.

An effort is being made by a few Paris journals to play

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play up Simon's Parliamentary answer indicating constant contact between British and French authorities within the framework of the Tripartite, as a helpful assurance of British interest in the financial situation in France.

WILSON.

EA: LWW

RECEIVED  
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