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May 9, 1938

8:45 am

Present:

Mr. Bell

(Later)

- Mr. McReynolds
- Dr. White
- Dr. Haas
- Mr. Gaston
- Mr. Taylor

HM, Jr: Bell called Mr. Woodrum at my suggestion this morning and found out Woodrum had had no communication directly from Jimmie Saturday or Sunday, but that Jimmie had been in touch with Sam Rayburn. Mr. Bell has had no communication. I have had no communication from Jimmie. Miss Durand called me to read me the telegram.

(HM, Jr at this point telephoned the White House and said: It would be helpful if he would see Mr. Woodrum and me before he sees the leaders at 10 o'clock, and Mr. Bell and I are here and await his pleasure.)

We have sent the message that it will be helpful that the President see us before noon. In other words, this is what I am going to do. As long as I sit here, I am going to do everything possible that I can to help the President and do what I think is right. That's my duty. Without your saying so, it would be much easier to let him do this thing and let it slide, but having gone as far as we have in these telegrams and getting such unequivocal support from him -- he has given straight orders.

Mr. Bell: And I can't understand him at any time weakening on it to anybody else. The indication in that telegram of his attitude is exactly what he has told me every time I have talked to him and with a very great deal of emphasis he has added, he has emphasized the importance of his keeping control of this matter.

HM, Jr: You saw him the Friday before he left and he was just as determined then.

Mr. Bell: Absolutely!

HM, Jr: And I sent him this telegram. We get back an answer 100% yes and he wants to keep control and his son interprets, while he is away, that his father does not care. I think it is highly significant that Jimmie did not call us. I pick up the Wall Street Journal. PWA would handle its own securities. "Secretary of the Interior Ickes told House Appropriations Committee that he thought the PWA ought to have the right to handle its own securities. "It would not mean necessarily that we would not handle them through the R.F.C., but it would give us better bargaining power and enable us to get better results than if we were restricted to handling them through the R.F.C.," Mr. Ickes said.

What I have not changed yet is this -- we want to keep this in the Treasury -- is this memorandum (*) which I wrote on the Farm on Sunday, and that is this: this program of the President's has not caught on. In his message he said \$450,000,000 grants to Ickes. He has raised it to \$750,000,000. Harry tells me when he is at the house, Thursday night, that he went over to see Ickes to make peace with him, determined not to have a fight, and he said, 'Let's get along; let's make this program go,' and he says the first thing Ickes does is to draw a letter out of the drawer from you (Bell) or the President, saying that one of the projects which he had on his list for \$18,000 that Hopkins had done it and complaining that Hopkins is cutting under him. So Hopkins said he went back, looked up the project and found out it would take him three months to do it and he had completed it eight months ago! The point that I am getting at is if the President is determined to give this se-and-so Ickes \$750,000,000 worth of grants, \$250,000,000 worth of loans, and then the way the bill read another half billion of revolving fund

Mr. Bell: Total authority in the bill is 965 millions. They took 35 millions out of the billion for public buildings. 965 millions divided between loans and grants and then he can take up to \$500,000,000 of securities and sell those securities

(*) This memorandum is written in the Secretary's own handwriting and is filed in diary under date of May 8.)
(B-5123, page 452, 453)

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which really makes an operation of 1 billion 465 million.

HM, Jr: None of that cleared through you?

Mr. Bell: No. Of course, in the past, some of it has and some has not. The President, if he gets it sent over to him, he would send it over to me, but if Ickes goes over and sits down at his desk

HM, Jr: No, excuse me. After it was raised from \$450,000,000 to \$750,000,000, it did not clear over your desk.

Mr. Bell: No, but the Committee took the view that the President had that in mind in the message. His message was not very well worded.

HM, Jr: No, but with me he did not have it in mind.

Due to this telegram which I sent to the President and his answer, in which he 100% restates his position as to what he wants on the control, this thing for the moment is frozen. I am thinking of recommending to the President that he let me go on the Hill Tuesday and tell these people, when they have the whole Committee, that there isn't anybody in Washington connected with the Government that will come up and say that this thing is going to work, including Hopkins. Nobody! And, therefore, for the Committee's consideration, I recommend my original position: that we do no public works, but give the President 2 billion dollars with no strings, no time, to be effective the day the bill passes, which is \$750,000,000 they give to Ickes, and just wife the whole Ickes thing off the slate, and not have all this competition which is existing right now. But 2 billions to the President, no strings, no Woodrum amendment, plus a committee of non-spenders, the President, the Secretary of the Treasury, the Secretary of the Interior, the Secretary of Agriculture, Director of the Budget and myself and Republican and Democratic majority leaders and the Republican and Democratic minority leaders, we to sit once a week as an allocation committee -- coalition Government.

Dr. White: Some parts of it are good; the rest of it, not so good.

HM, Jr: Mac, the thing you have not unsold me on. I still am not unsold on the idea of changing the program and cutting out entirely Public Works and giving 2 billions to the President to be spent if, when and how he sees fit, to be made immediately available.

Dr. White: I would register an objection to the amount. If you increase the amount, you might achieve two important things. One, the amount is too small to get sufficient results under the circumstances. If you do get sufficient results, inasmuch as he has sufficient power he can reduce expenditures next spring so it isn't all gone. But I think he will probably need more. In the second place, I think it will take away the sting of your recommendation, which might create opposition on the grounds that it is another bit of evidence that you are clamping down on the spenders. If you go one better and raise the ante to 3 billion, you not only meet that head on, but you dispel it and you push the argument where it belongs: on the advantages that your plan will have towards getting results and show you are as eager to get results.

HM, Jr: Let's talk in terms of 'x' billions and let Congress decide. Why put a figure? Enough to do the job.

Dr. White: The reason I thought a figure would be good would be to fight the other. Probably 'x' would do it.

HM, Jr: As I say, you can 'x' billions. 2 billions seems a lot of money to me, but go to the President and say 'x' billions.

Dr. White: I think you might well indicate that you think 2 won't be enough, but setting that aside for the moment, of course the President would be all for it if he thinks he can get it. The question is, would the President be willing to go up and ask for something unless he thinks he has a reasonable chance of getting it.

HM, Jr: I have had Hopkins at our house for three hours Thursday night. I have talked to pretty nearly everybody; I can't find anybody and I put it up to Hopkins, I said, 'Harry, is there anybody in this town will stand

up and publicly say this program will work and be a success? I said, I am asking you. I didn't say, 'because this is your program'. He didn't say it in his radio speech.

This thing I am suggesting would not cost the Treasury any more, but by God he would get results and I could sell it to the congressmen on this basis. If he would untie my hands and let me go before the whole committee, I am willing to sell the idea. Hell, Bell and I went up and sold them the lousy \$250,000,000 which Hopkings' organization said was enough. I said the thing was acute and, in this office, very one of those fellows said that was enough money. But this thing would elect those congressmen and would do the thing if he would do it now. But somebody has to go up because everybody's hands are tied.

Dr. Haag: That would help the business situation out; help the immediate outlook.

Dr. White: There are two suggestions. One very minor one is to include Eccles on the committee and probably the Chairman of the National Resources Committee; (b) is, I would like to strongly urge that instead of mentioning 'x' amount, you take the position of raising it to 3 billions with the further provision that with this plan you will probably not have to spend as much as with the other one. I think that's absolutely necessary to meet the other kind of opposition which is bound to be forthcoming, that this is but a device or scheme in some way to hamstring it. Excellent opportunity to combine to show you are for this program and want enough to carry it through and, at the same time, spend it in such a manner as to get results. I feel very strongly that you do not say 'x' billions, but mention 3 billions. I would like you to mention 3 billions.

Mr. Bell: Well, it will be 3 billion appropriated before you get through the fiscal year. You will have 1 1/2 billion spent by February 1 by Hopkins -- 1 billion 250 million for 7 months. He will have to add another 800 million to run the last five months, which will be 2 billion. \$50,000,000 is going to be added for various departments, administrative allotments. 300 odd million for Farm Security and the Youth Administration. And

then there is \$30,000,000 for administrative expenses of the various Departments outside of WPA.

That will be \$2,580,000,000 plus \$800,000,000 -- I mean \$900,000,000 for the last five months for Hopkins. \$180,000,000 a month for five months.

HM, Jr: You are a piker, Harry!

Dr. White: How much under that schedule would you be able to spend per month?

HM, Jr: I said lift the Woodrum amendment. You could spend it in one month. I said, "Increase appropriation of W.P.A. to two billion with no Woodrum amendment." That's my number four here in my notes. My own figures would make it 3 billion 3.

Dr. White: So if you got results by late fall or early spring, you could reduce expenditures. There would be no harm in making it 4 billion if 4 billion had some additional advantages.

HM, Jr: The point is responsibility as to the speed of the spending. The quantity would be with this committee. The sole authority to carry it out would rest with Hopkins. This committee would say to Hopkins, 'You have 400 million to spend this month,' but the sole person to spend it is Hopkins.

Dr. White: What strings would there be on the top of his expenditures?

Mr. Bell: He would have to submit types of his projects to the committee and the committee would approve.

HM, Jr: These four members would sit there and would know what is going on.

Mr. Moresynolds: How about spending on PWA projects, letting the States spend it on the kind of projects that they have.

HM, Jr: Hopkins comes into my house and he says, 'I make these 55/45 things and that's what Ickes is kicking about.'

You know he is not going to get along with Ickes. And the big kick is you give this 1 1/2 billions to Ickes and it does not do any good while we are in a depression

and then it will come and be spent after we are going and in direct competition with Straus and Stewart MacDonald's housing. Everybody is so dumn about it! We have had three or four weeks about it and everybody says it won't work. Fortunately, I have not said a word except to the President that I was opposed to it. If he wanted to release me and let me go up on the Hill

Mr. Taylor: I have not talked to anybody in three weeks who thought that the Public Works end of it was any good. The other, they would go the limit on the rest of it.

HM,Jr: I have not read an article -- and all the criticism is against that, because they all realize it's too slow. I am willing to gamble my job on this. But if this won't work, then the country is a great deal sicker than I think it is. Certainly, from the President's standpoint, he ought to jump at it.

Mr. McReynolds: Do you expect to give authority to this Committee?

HM,Jr: I called up Mac yesterday. They worked on this all day yesterday. Mac, Bell and Gaston have had a day on this.

Mr. McReynolds: This boy, Walter Lippmann, invited me to lunch last Monday and the thing he wanted to talk about was whether there was a possibility of finding a way to make this fund available to somebody other than the President and still eliminate earmarking. I told him there wasn't any way. Just as well go ahead and appropriate it to the President or let the Congress earmark it and of course your earmarking is hopeless. I said I don't think of any other way.

HM,Jr: You told me this morning the idea is no good. The president can say this to the people of the United States: 'I hereby give you my pledge that if this money is appropriated to me, this is the way I will handle it' and then outline what I say. 'These are the people who will sit with me every Tuesday afternoon and I will abide by the majority of this Committee.'

Mr. Gaston: I think that's the only way.

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Mr. McReynolds: No objection. But you can't formally give authority to the Committee, but give it to the President.

HM, Jr: That's all right, but he will say to the people of the United States 'I give you my word that this is the way I will handle it'.

Mr. McReynolds: No objection to that.

Dr. White: Who is the Committee?

HM, Jr: The President, Morgenthau, Ickes, Wallace, Bell, two democrats and two republics, majority and minority members, chairman of the National Resources Committee, who is Ickes.

Mr. McReynolds: Three members of the Cabinet, Director of the Budget, and the chairmen of the two Appropriation Committees and the minority leaders of the two Appropriations Committees.

Dr. White: Eccles?

Mr. McReynolds: To hell with Eccles!

Dr. White: Not in the minds of the public.

HM, Jr: I want the business community as well as the rest of the people to have a little confidence in this arrangement.

Dr. White: The Chairman of the Federal Reserve has some standing.

HM, Jr: If the Chairman of the Federal Reserve would stick to the Federal Reserve, he would have some standing.

Dr. White: I like the plan first-rate if you say 4 billions, because I still feel that anything coming from you, you still have to recognize the fact that knowing it comes from you they will look around to see what they can see as your philosophy, so you have to meet that and go one better so they can't claim you are trying to reduce the rate of expenditure. If you come out for four billions, fine! because you would not spend it. I say fine.

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Mr. Gaston: Why not $3\frac{1}{2}$. That was what was estimated to be the whole cost of the program.

Dr. White: Don't underestimate the opinion of many of how much is required for spending.

HM, Jr.: I don't want to underestimate. I am talking about 130,000,000 people.

You (White) thought you were being daring and dashing when you said 3 billion.

Dr. White: That's because I took Bell's word it was ~~2~~ billion.

HM, Jr.: You thought 3 billion would be wonderful!

Dr. White: Compared with 2.

HM, Jr.: But if I went up on the Hill and said $3\frac{1}{2}$ billions, they would say 'My God! Morgenthau is certainly going besmerk!'

Dr. White: 'Morgenthau recognizes the needs of the time and is adjusting his ideas to the times.'

HM, Jr.: I have raised you a half a billion. I am willing to say $3\frac{1}{2}$, but just let's think about the whole picture. Is this something that I want to do for my country and is this the right thing?

Dr. White: There can be no doubt. The whole justification of the whole spending program was to get action. Delayed action is bad in two ways.

Mr. Taylor: And flexibility.

(The time is now 9:25 a.m.)

The Secretary called the usher again and said, 'I do want to see him before he sees these leaders. The whole point is I want to see him before he sees those leaders. You don't mind if I ask to speak to him on the phone?' (Aside to the group in the office, the Secretary said, 'He's having breakfast with Jimmie, Mrs. Jimmie and Miss Le Hand and they have been at it for an hour.') At 9:30 Miss Le Hand called and said the President would call the Secretary back later.

HM, Jr.: I have been waiting three weeks to clear

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my brain and it has finally cleared as to what is the necessity and I am satisfied that it is worth trying. And I am also satisfied from what I have read and heard that there is nothing to be lost. It can't be any worse than what the program is now, but I think there is a 75 to 25 chance that this thing would catch on.

Mr. Taylor: Have they been having any trouble, Dan, on the Hill?

HM, Jr: Here's the trouble. Dan sees the President Friday, the day before he goes away, and asks him for nth time, Do you want to continue? The President says yes. We send him a telegram, as a result of which we get this answer and Woodrum, naturally, says 'well, where does this leave me? I was told the President did not want it. Now I am told that he does, and I am not going to go to town on this thing.' Then he asks our advice about various kinds of suggestions and my advice is to him to do nothing until we could see the President. The unfortunate part about it is Woodrum has had word through Jimmie Roosevelt from the President that he did not care and he would leave it to Rayburn. And it would do away with all the control we have and he has gone to the Committee and explained that and the Committee has questioned him 'Are you sure the President wants this?' and he said, Yes; I have had word from him. And they go ahead and pass it and if you change it, it puts him out on the limb.

The situation right now is frozen here. The President sent this telegram 'this is what I want.' Therefore, with the Committee meeting tomorrow, if the President wants to let me ho up there and say 'this is what should happen' and they ask 'How does the President feel about it?' I say, 'At least, I am here talking for myself and this is what I think the country needs' and shoot the works. You saw how we did this thing on the Hill on increasing the bond issue. Beautifully done! And while we sat there, they vote the thing out. Those things can be done. The first time I went up on the Hill to ask for anything and I get what I want. You saw how Pat Harrison was. The beauty is I have not used my influence, the little I have got, but I am sure that there is not any Democratic congressman, if

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he saw this, would say 'Of course, this is the answer' and say 'don't let Morgenthau do this; let us do it.' If they were smart, if Barkley, for instance, they would say 'No, for God's sake, don't let Morgenthau do it; let us do it; let us get the credit.' After all, these boys have got to run. If they were smart and I was the Speaker or Sam Rayburn, I would say 'This is the answer, but let me take it.'

oOo-oOo

May 9, 1938

9:35 am

Present:

Mr. Gaston
Mr. Taylor
Mr. Haas
Mr. Bell

(H.S.K. took message from the White House operator that the Secretary is to call the President at ten minutes of ten.)

Mr. Gaston: I like the idea of consolidation of expenditures and the idea of the committee, but the plan will not be accepted by the President or by Congress. From the standpoint of Congress there will be objection to giving the minority an equal voice on the Committee with the majority.

HM, Jr: He can put on a Democratic chairman and in the House that would mean Taylor and Woodrum and Taber. You could have Taylor and Woodrum and Taber. In the Senate, Glass and Jimmie Byrnes.

Mr. Bell: And probably Adams. And Hale, I believe, is the ranking Republican.

Mr. Gaston: That would give you six out of ten on the Committee.

HM, Jr: Well, he can or cannot. He would know. That is something they might say 'throw right out the window'. I am not pinning my faith on that. I am for scrapping the whole thing and putting it in one pool.

Mr. Gaston: I am for that 100%.

HM, Jr: This other thing is just an idea. The Vice President or somebody might throw it out the window in a second.

Mr. Taylor: I think it is more than likely the Republicans won't serve on it.

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Mr. Haas: There is a memorandum from the White House that the President might ask you about. Somebody gave him a memorandum which said at the present writing income tax returns show that inventories are 26 billions; the same figures show in 1929, 22 billion and 12 billion in 1932. The statement that at the present writing inventories are 26 billions is false.

HM, Jr: Give me a memorandum. Where does it come from?

Mr. Taylor: Hopkins, at his Little Cabinet dinner was using this figure.

HM, Jr: Leon Henderson.

Mr. Taylor: And there is no such inventory figure.

HM, Jr: Forgetting about the committee, but the idea of pooling the amount and giving it all to one person to spend and giving it to the President to allocate, does anybody disagree with that?

(No one indicated dissent.)

O.K. Then let me sweat it out with him.

oOo-oOo

My dear Mr. President:

I would like to make what I consider a constructive suggestion.

I think it would be distinctly in the interest of good Government if you would meet once a week, informally, with Mr. Hull, Mr. Wallace, Mr. Ickes, Mr. Eccles, Mr. Jones, Mr. Hopkins and myself, and discuss with this Committee all suggestions that are made that affect the economy of the country.

If this suggestion interests you, I would like to have an opportunity to discuss it with you in greater detail.

Yours sincerely,

Note: Final draft to President is dated May 11, 1938, and is filed in diary under that date.

May 9, 1938

10:05 am

Present:

Mr. Bell
Mr. McReynolds
Mrs. Klotz

HM, Jr: I just talked to the President. Got him at five minutes of. He said he was very much pleased with what I have done on the French situation, about the French franc, and that Cordell Hull was also pleased. Told him he had not heard the half of it. He said, 'You did a swell job' and kept repeating it several times.

I said 'Whatever you do with the leaders, leave the door open on the bill, because I have a suggestion to make which has nothing to do with the administrative end of it. I said, 'want ten minutes with you'. I stressed 'to leave the door open.' I will ask Mrs. Klotz to read you what he said.

Mrs. Klotz: Mr. Morgenthau said, I talked 28 times to Europe. The President asked, Did you get my message about talking to Sir John? HM, Jr said Yes and it gave me quite a laugh. The President said, I think you did a swell job. A very swell job. And everybody is happy about it and so is Cordell Hull. Then Mr. Morgenthau said, Oh, you haven't heard the half of it.

The Secretary then said, I have had a lot of time to think about the question of spending. I have a constructive suggestion that I would like to give you and I had hoped to see you before you saw the leaders this morning. The President said, I can't now. They are outside now waiting to see me.

Then Mr. Morgenthau said, Could you leave the door open on how to handle the appropriation bill and then if you could give me about ten minutes this morning I could tell you what I have in my mind. It has nothing whatever to do with the administrative end of the appropriation bill. The President then said, Well, what have you got on your mind? What do you mean it has nothing to do with the administrative end?

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Mr. Morgenthau said, The thing I would like to talk about is the spending. He said, What do you mean? Then HM, Jr said, Let's say the figure totalled up to 3½ billions -- that that money be given to you for allocation and then be given to one agency to spend, to have no strings attached to it, and that the money be spent as you see fit; that we have no Public Works Department at all. The President asked, Why? HM, Jr said, The reason the program has not gotten on is that people think that Ickes is slow in spending the money that he has and that it will not be spent until next Fall. We can still change it. You can use me if you want to. Don't call it a Public Works Department and I am willing to gamble that the thing will work. All the businessmen and writers are complaining that the money is being spent too slowly.

The President said, That can be handled administratively. Mr. Morgenthau said, No, sir. It is going to be the same old competition. One Public Works Department can do everything. Analyzing all the criticism, it is against the Public Works Department. They feel that this Department can't spend the money now. My suggestion is that you can start spending now and as things get better you can slow it up. My boys worked on it yesterday and they think that technically unless the bill is changed it can't be done. The point is where it has fallen down in the public imagination is that the Public Works Department is slow. I am begging of you now. I am willing to be the goat. I am willing to go up on the Hill before the Committee as a whole and advocate it publicly and I am willing to say how it should be done.

The President said, almost to the next to the last thing, talk this thing over with Woodrum.

He said, You can't do this. You have to talk it over with Hopkins and Ickes because if you didn't you would have an awful fight.

The President said, Let me talk to the group that is waiting outside now, but I still think it can be worked administratively. I will call you back after I have seen them.

HM, Jr; Doing the thing administratively doesn't catch the imagination. I said, I have totalled this

-3-

thing up and it comes to 3½ billions. Just let me give you what I gave him on Sunday night, April 10th:

"The time seems most propitious for presentation to the people of a comprehensive statement of administration policy and of a program of action designed to restore recovery.

"I believe it should be presented to the people by you as soon as possible at three broadcasts.

"To be most effective, and to give promise that your recovery program aims not only at getting this country out of the recession, but is designed also to keep us out - for many years at least, I believe your program should include:

1. A restatement of your long-run objectives, and of the major measures you propose to seek during the next two years to attain those objectives (railroads, monopolies, wage-hour legislation, tax-exempt bonds, etc.);

2. An outline of specific steps, both administrative and legislative, you propose to take to eliminate the inefficiencies, the wastes, and the failures in parts of the New Deal program already adopted; and

3. A comprehensive government spending and government lending program, coupled with measures to stimulate private reemployment.

The statement to be made to the people is so important, and the material to be presented so varied, that it would seem to require not one, but three radio speeches given as close together as is feasible.

Of the three parts, the most important is, of course, your program of immediate action to put 10 million unemployed back to useful and productive work. I am inclined to think that this part of your larger program might well be given in the third speech. The bullish effect of three speeches, culminating in a broad recovery program of immediate action as announced in advance, should be tremendous. It would serve, I believe, to eliminate existing confusion which is working to hold business down; it would give the people much needed reorientation and assurance, and should greatly strengthen the administration's position.

Formulation of the recovery part of the program should include:

- a. Determination of the total expenditure called for by the whole program.
- b. Insistence upon correlating government expenditures with the geographical distribution of unemployment. Wherever possible, government funds should be expended

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"where most unemployment exists.

c. Careful survey of all proposals for the purpose of eliminating duplication and overlapping of projects and of administration.

Presentation to the public of this part of the program should include an estimate of the total cost of the program, a statement on the amount you propose to ask Congress for and how you propose to finance the expenditures.

Just as soon as you have formulated an outline of your new recovery program I shall be ready to study it and present to you within a reasonable time a plan for financing it."

That's just as good today as the day it was written.

Mr. McReynolds: Of course, he can't control administratively if the Ickes' program goes ahead and he still has his Public Works with the limitations of the types of projects they are going to run. He can't control that.

HM, Jr.: I gave it to him in three minutes. I talked to him on the telephone. I pumped this thing in, which is an entirely new idea. Here is the Secretary of the Treasury calling. The President is going to see the leaders. The first thing they are going to talk about is the telegram which came up Saturday. And then the next thing they are going to talk about it, I don't know, but he will call me back. I have not said a thing to him about this for a month, but I certainly told him in no uncertain language that his program is a flop.

Mr. Bell: The best evidence you have on his suggestion of administrative control is he has not done it for three and one-half years. He has had the same authority contemplated here and Ickes and Hopkins have fought for three and one-half years.

HM, Jr.: It gets down to a question, maybe Ickes offers to resign. God, after all I have been through and to say I am willing to go up to advocate this thing, nobody could do anything more.

Mr. Bell: No.

HM, Jr.: After the beating you and I have taken and I have waited for a month for my brain to clear on

-5-

this thing. It is clear now.

Mr. McReynolds: Very interesting to see what came out. Maybe this will soak in a little.

HM, Jr: You fellows got any other suggestions?

Mr. McReynolds: I don't know what you can do other than what you have. Something may come out of it during the day. Under very difficult conditions, you got the idea to him before he actually talked to the leaders.

HM, Jr: I was able to get it to him before he saw these boys. That's all I can do.

Mr. Bell: Suppose they could set up another Senate committee?

HM, Jr: I did not say anything about Senate committees. I pumped this thing in at that rate, sitting here. I don't see how Mrs. Klotz got so much of it.

Mrs. Klotz: I am not returning the compliment, but I don't see how you got it in, in three minutes to get the whole idea in.

Mr. Bell: He said nothing about this other matter -- this telegram.

HM, Jr: No. I will tell you what I did. In the first place, I got on the French thing.

And then I said, I have had a lot of time to think this spending over. I have a suggestion to make. I said I would like to see you for ten minutes before the leaders. I said -- knowing that Jimmie was there and he most likely thought Henry is calling up on this -- so I started on the French thing, which I knew I had done well. I did not want to get in a jam the first thing in the morning between his son and himself, so I brushed that aside. Nothing to do with the administrative matter. We have it in writing. He can't crawl out of that telegram. You see, I think he has himself in an awful jam. Now what I am suggesting if he will give me -- what was the date this message went upon the Hill?

Mr. Bell: Two weeks ago tomorrow.

HM, Jr: The Thursday following the tenth. I came

-6-

back on the tenth of April. I went up on that Thursday.

Mr. Bell: Was it Thursday? I thought it was Tuesday.

HM, Jr: I got back on the 10th; the message went up on the 14th. It's three and one-half weeks. And the thing has not caught on.

Mrs. Klotz: It seems to me he's afraid of Ickes for some reason, because he always comes back to this: as long as Ickes is in the thing, he can't go through with any suggestion you offer.

HM, Jr: ~~Could~~ anybody do more than I have done?

Mr. Bell: No, I don't think so. I think you have stuck your neck right out.

HM, Jr: Well, I will still do it as long as I am here.

Mr. Bell: What I am afraid of is it will not be appreciated.

HM, Jr: I am not going to see Hopkins and Ickes. I will see them in the President's presence. I am not going to move on this thing until the President gives me the green light. I am willing to go up on the Hill.

He said, almost next to the last thing, talk this over with Woodrum.

Mr. Bell: Well, you will have to wait to see what comes out of this conference.

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May 9, 1938

Mr. Bell today gave the Secretary the attached message which he had received.

The Secretary said, "I will not go to this meeting at the White House because I do not want to get mixed up in this scrap because I want to save my ammunition for the spending fight."

Mr. Bell:

You are to be at a conference at the White House at 11 with the President. Mr. McIntyre has asked Congressmen Taylor, Woodrum, and Rayburn to be present also.

May 9, 1938

11 a. m.

Meeting at the White House, at which were present Mr. Bell, Congressmen Taylor, Woodrum and Rayburn.

The President started the conference by asking Mr. Woodrum what the status of the bill is and he replied that the bill was in good shape except for the points raised in the President's telegram. He thought that all the points there raised could be taken care of by a very simple amendment, except the accounting. He could put in the WPA Section, where it talks about allocation and approval of projects, "with the approval of the President" and that would make it uniform with the PWA Section, and then he would combine the authority to make report under the two titles and direct the President to make a consolidated report to Congress which, he assumed, would go through the Budget for coordination.

He said, however, that the accounting raised a little different question and they would have to put in not only a good deal more language in the Bill to take care of it, but \$6,000,000 more money for administrative expenses. Then Taylor spoke up and said he did not see how the Committee, having taken action on this bill, could go back and change it and insert any provision for the Treasury to do any accounting when they had to increase administrative expenses and Mr. Hopkins had told members of the Committee (I don't think he told them in the hearing) that with 500 additional people on his rolls he could absorb this whole accounting organization now being run with 3,000 people and \$8,000,000 expense.

The President asked me what I thought of it. I said, Of course, we are here to find out what he wants as a matter of policy. There seemed to be quite a matter of confusion on that in the past few weeks and if we had that straightened out I thought we could tell where we could go, but as to the charge made by Mr. Hopkins that this is an expensive organization, the only thing I could reply, without having seen his statement, is that we have tried for three and one-half years to eliminate all duplication on accounting records as between WPA and Treasury. I said that we have been told time and time again that there is not any duplication. I said, If that is a statement of fact, then Mr. Hopkins' statement that he can absorb most of the accounting expense cannot be true and, I said, if he has got duplicate records then his statement to you during the past two years has not

-2-

been true, because he has told you there is no duplication and that Treasury is doing all the accounting.

Then the President wondered if there could be some provision inserted whereby the Treasury would have an inspection force on Harry Hopkins' accounting. I said that I did not believe that that would answer the question. I thought an inspection force would not give him the protection that he has had in the past three and a half years with the Treasury accounting and that we had disbursing officers in the field to protect, which we had given a great deal of attention to and which I was not sure that some outside organization could give protection to.

The conference ended by the President saying, "See what you can work out and if you can't work it out in the House, then we may be able to do something in the Senate."

It is my impression that the Appropriation Committee of the House is not inclined to change the bill so far as it concerns Treasury accounting.

The meeting lasted about half an hour, but some time was taken up discussing other matters.

The President did say that he had talked to the Secretary of the Treasury this morning and he had another scheme for handling the whole work relief program. He, the President, had not had an opportunity to discuss it in detail but he did give a general description of what the Secretary has in mind. He said he thought it had a great deal of merit had we had it sooner and he wanted to go into it with the Secretary a little later. Mr. Woodrum remarked that he thought it was entirely too late for the House to give any consideration to any such proposal.

LWB

Note: The above was dictated by Mr. Bell in the presence of the Secretary. The latter's comment on the last paragraph above was: "That means that the President talked to the Vice President and the rest of those fellows (legislative group which met with the President at ten o'clock) and they liked it. Otherwise he would have dropped it. But from 10 to 11 he talked to them."

May 9, 1938

Upon returning to the Treasury after having attended the 11:00'clock meeting at the White House, Bell reported to the Secretary what had occurred at the meeting and dictated a report. He gave the Secretary the original of the attached note from Harry Hopkins and the original of Gill's memorandum and said, "That brought up the question of the inspection force."

WORKS PROGRESS ADMINISTRATION
WASHINGTON

May 9, 1936

Dear Jimmie:

The attached memorandum from Mr. Gill states the case about the Bill I think. I do hope you will read this carefully before there is any further discussion of it.

Sincerely yours,



Administrator

ENC

Mr. James Roosevelt
The White House

May 7, 1938

MEMORANDUM

To: Mr. Hopkins
From: Mr. Cill

In connection with the telegram from the President concerning the Relief Bill the following points arise:

1. The President indicates that "individual projects and allocations of money for them" shall continue to receive his approval. Under the Bill as at present drafted there is no reason why individual projects cannot receive the President's approval and be reviewed by the Bureau of the Budget before such approval. If, by "allocations of money" for projects the President means either limiting the maximum amount which can be spent on a project or if he means the type of allocations made on individual projects for the PWA, there is no provision in Title I which would prevent this. However, if he means that he desires to allocate the total money for WPA, the Bill will have to be rewritten, of course, along the lines of last year's Bill.
2. The President's desire that the accounting remain with the Treasury can be done under the present Bill with a brief insertion giving the Works Progress Administrator power to utilize other agencies within the Government.
3. Under the wording of the present Bill a consolidated financial report can be submitted as indicated in the President's telegram.
4. Under the circumstances indicated above all of the President's desires can be carried out without making major changes in the Bill. The President indicates, however, that "the language of it should make this perfectly clear". This may mean that he desires that the Bill be rewritten entirely.

May 9, 1938

Secretary Morgenthau discussed today at lunch with the President his proposal to consolidate all of the money now in the relief bill into one fund to be administered under the direction of the President by one agency. The funds made available in the relief bill, together with enough to run WPA for 5 months beginning February 1 on the same basis as the 7 months beginning July 1, will aggregate approximately \$3,500,000,000. He told the President that his program, announced 3½ weeks ago, had not taken hold and that the business situation is gradually growing worse; that there is a feeling throughout the country that the administration is not going to take care of the situation and that the money to be made available to Mr. Ickes will not be spent at a time when it is needed but anywhere from six to twelve months later than anticipated.

The President told the Secretary to go to the Capitol, see Senator Byrnes and ask his advice in the matter.

The Secretary and I saw Senator Byrnes at 3:30 p.m. today. After the Secretary had explained the matter to Senator Byrnes there was a great deal of discussion about the manner in which the program should be handled. The Senator was inclined to agree with the Secretary that the announcement of the program had not taken hold and that the expenditure of FWA money was certainly going to be timed badly. He thought the Secretary was right in his whole criticism of the proposed program but stated that there would be

- 3 -

a desire on the part of the members of Congress for information as to just how this money is going to be spent. The Secretary said that he could not discuss that as that was not his job but suggested that he talk to Mr. Hopkins about this phase of the matter. I asked Senator Byrnes if he thought earmarking the funds along the lines of last year's relief bill, probably adding classes of projects so that the number of classes would total 10 or 15 instead of 4, would satisfy those who desire to see the purposes for which the funds are to be spent specified in the bill. He said he thought it would.

The Secretary gave Senator Byrnes the following figures as to the program announced by the President, together with enough funds to run Hopkins for the last five months of the coming fiscal year:

WPA - 7 months	\$1,250M	
WPA - 5 months at \$180M a month	<u>900</u>	\$ 2,150M
		1,000
PWA		175
Farm Security Administration		75
National Youth Administration		<u>80</u>
Departmental projects and administration		
		<u>\$ 3,480M</u>

The Secretary said that if we permitted this program to go along as now contemplated it was his opinion that PWA expenditures would be made next year and at just about the time the programs being supervised by Mr. Strans and Mr. MacDonald were getting under way, that what we need at this time is something that will go quickly and will be flexible enough so that it can be stopped within a very short time if the business pick-up comes from other directions.

Senator Byrnes then telephoned Mr. Hopkins and asked him to come to the Capitol for a discussion of the matter, which he did. He arrived at about 4:15.

The Secretary gave him an outline of the program and while it struck him as a complete surprise, he said there was no doubt in his mind that there were a great many people in this country who are actually in need and are not being taken care of under the present program; that the PWA program will not help very much as it will be too slow in getting started and it will not take care of those who are on the relief rolls. One factor in this situation which will have to be considered carefully is the political factor. He said he did not feel that Congress would appropriate this money in one fund to be administered by WPA, that Mr. Ickes is very popular in Congress and every one feels that he has done an honest job on PWA.

Senator Byrnes said that he felt that Mr. Ickes had done an honest job and that he had lived up to all his promises, but he thought that every one would agree that a PWA program would be too slow to help out in this emergency. He felt that if we could adopt some program such as the Secretary suggests, we could get the votes of such Senators as Byrd, Glass, Burke, Clark and Bailey. It was felt that it was too late to do anything in the House and that it should go ahead and pass the bill now pending; then when it gets to the Senate Mr. Hopkins should state before the Senate Appropriations Committee just what the unemployment situation is throughout the

- 4 -

country and how many additional people are in need of relief. The Appropriation Committee should then rewrite the bill making all of the funds available to the President to be administered by such agencies as he might designate, which in this case would be WPA, for not only the work relief projects but also whatever heavy construction work was required under commitments already made. The Committee report should go into the matter thoroughly, concluding with an opinion of the Committee that the best way to handle the matter to get quick results would be as outlined in the bill.

oOo

SWB

May 10, 1938

The Secretary and I again saw Senator Byrnes this morning at 10 o'clock to get his reaction to the Secretary's proposal discussed with him last evening. Senator Byrnes said that he had not changed his opinion on the practicability of the plan and that it certainly ought to be done in the interest of the emergency situation but he had some doubt about its feasibility. He said that he thought the President would have to announce the change in program and do it quickly because he understood the House was going to begin discussion of the relief bill today and many congressmen would make speeches on the public works section thinking that they were going down the line with the President. If the President reverses himself after the bill gets to the Senate, the charge will go out that he has not kept faith with these congressmen who have supported him.

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The Secretary then called the President on the telephone and told him of Senator Byrnes' reaction. The President said that he felt the same way about it but he would like to discuss it at two o'clock and asked the Secretary to bring Senator Byrnes with him at that time.

swB

May 9, 1938

2:35

Present:

Mr. Magill
 Mr. Bell
 Mr. McReynolds
 Mr. Gaston
 Mrs. Klotz

The Secretary told Magill he had a message for him and then he would be excused. He said, "The President wants to sign the tax bill." Magill said, "That surprises me." HM, Jr then said, "And he wants a noble speech from you, going back 50 years laying down the Democratic principles."

Mr. Magill was excused.

To Mr. McReynolds, the Secretary then said, "Johnnie Hanes' name goes up as Assistant Secretary of the Treasury. I have done no checking with the Senators."

* * * *

Now, Mr. Bell, the President of the United States is about 80% sold on changing the whole program. He is a good enough friend of mine that he will not throw me to the wolves in the House. You and I are going up to the Hill at 3:30 to see Jimmie Byrnes. The President says I can start with Jimmie and go as far as I want. He said it is useless to do it with the House. He is not yet entirely sold on the idea, -- he's sold on the idea of one Public Works Department, but he can't get it out of his head that Mr. Ickes has \$3,000,000 or \$4,000,000 worth of projects. He's willing to have all the money allocated to him -- the 3½ billions -- and then let him allocate it, but he said Hopkins has not got any machinery to do this. I said, Mr. President, if you had a Public Works Department, wouldn't you transfer all these engineers and appraisers over to WPA. He said, Yes, I would. I said, Well, let's do it. He said, Well, the people say 'honest Harold' and they say you do this and give it to Hopkins, it's all political. I said, Mr. President, you are misinformed. It's just the other way around. He said, The Congressmen are counting on this; they know how much Mr. Ickes has. I said, Sure, I don't think you can change it because they are all

-2-

counting on this thing. I said, Are you willing to let me go up and do my trying? He said, You can go. He said, You see Jimmie Byrnes. I said, I want Danny Bell with me.

I said, Look at that \$18,000 thing. He said, I know all about it. I said, Mr. President, for four years I have fought and bled and died on this Hopkins-Ickes thing. They are two grand fellows, friends of yours, wonderful fellows, but, I said, you just can't give the two of them money and not have them fight and it takes it all out of you. He said, That's right. And he said that for the first time.

I said, Why not work it like we had a Public Works Department. The business men would throw up their hats in joy. They would like this.

I said, Three and one half weeks ago you sent your message up and, I said, it's a complete flop.

Then he said this to me: There are two things I want you to watch for me. Bank loans and inventories. He said, That will tell the story whether business is getting worse or better. I said, Business is getting worse.

Then he said, Well, Hrny, it's too late to go before the House, but I am willing for you to start on the Senate. Now, I said, there is only one chance that I can get it through. I can say to these fellows, Which is more important: to have either earmarking of Public Works things by Ickes or for me to say to Mr. So-and-so that if you do this our chances are 75-25 of having recovery and you do it the other way it's 25-75, and it's only on the basis of recovery now before election that I think I can put this across. I said, Let me talk to these fellows. He said, I have been away for ten days, and he was far enough away to see the whole United States. I said, Well, that's all right; I get that too, but your program is a failure. Well, he said, I am rested now.

So I said, I am going to argue with you. This will be the first time I have argued with you hard for a month. And he kind of laughed and I said, I am going to take all the time I want, and you can't throw me out on my ear. I don't know who is outside, but he can wait. He laughed. He liked it.

Back of it all, while he did not say he does not want to face the difficult thing of telling Harold Ickes he can't

-3-

have the money, on the other hand it may be that he has promised individual projects to individual senators and congressmen, I don't know. But what I got over to him was it isn't a question of individual projects; it's a question of are we going to have recovery or aren't we. And I think if I go up and talk to Jimmie Byrnes he will say I will call a meeting of my Relief Committee and have you come up and testify. He has been holding these meetings. And then I will go up and say -- and believe me, I don't want anybody to write it. I am just going to talk from here (indicating heart.)

Mr. Bell inquired, "Did you talk to him about the Allotment Committee?" The Secretary replied, He did not like that. He wouldn't hear of having senators and congressmen, and when I suggested transferring Farm Relief over he said, What's the matter with that? I said, Nothing much. It's going along beautifully now, but, I said, I just think you should do the whole thing. He said, Unless you feel strongly, I would leave Farm Security along. I said, I don't feel strongly about Farm Security. But if I get a chance to talk on the Hill I certainly am going to talk the whole works and if Jimmie Byrnes will give me a chance to call, believe me I am going to talk and talk plenty. But I want you to make notes if you will.

I said to the President, Thank you for not letting me go before the House. He said, It would be useless, but, he said, if Jimmie Byrnes likes it, ask his advice, then see MacKellar and then see Glass.

The President said, Why, even Danny Bell was surprised this morning when he heard that Ickes was to get \$750,000,000 instead of \$500,000,000. I said you mean \$450,000,000. I said, Why shouldn't he? I said, This is the first time since you have been President of the United States that the Relief Bill did not go through the Budget Bureau. He said, Where did it go from? I said, Mr. President, I think it went directly from Hopkins. I don't know, but all I know is that we never saw it and that's why we had to wait so long on our telegram. I said, Now here's Chairman Taylor of the Appropriation Committee asking the Director of the Budget for a copy of the bill and he had to say, I don't have one and had to wait five days to get one after the Chairman had gotten it. He said, very, very seriously, I did not know that. That's the first time I heard that. And I believe him because I know when he gets this pale look.

-4-

I am trying to get something over. If I am successful then it is time enough to bring up this personal stuff.

He has not heard the whole story. McIntyre told me that when this telegram came in from Jimmie he warned the President not to answer it. The President said, That's all right. Then McIntyre said when my telegram came in, he was tickled to death because he thought all along there was something wrong. He said, I begged the President; you are a thousand miles away and I don't think you have got the whole story.

But, Danny, we got a chance! It's worth fighting for.

And, incidentally, this chance we have got: if Jimmie Byrnes goes along, then we will get the whole works in the Senate. I mean, if they do this whole thing, it will be written just like the 4 billion 8. I have not got the President sold yet and I don't want to make any mistake yet to drop Ickes and transfer Ickes' engineers and everything else over to Hopkins and make a Public Works Department. I haven't got that yet, but he's enough interested that he's instructing me to go on the Hill and for me to say that I am there on his instructions. Now, I can't ask for much more in one day, can I?

You fellows were right. He did not like that Advisory Committee.

oOo-oOo

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: May 9, 1938

TO Secretary Morgenthau

FROM M. A. Harris

A short review of the U. S. Government
security market during the past week

Activity and interest in the U. S. Government security market during the past week was centered in the long term bonds. Treasury notes, as well as short bonds, were dull with prices remaining practically unchanged each day and the net changes for the week were negligible. Prices for intermediate and long term bonds moved somewhat higher the first of the week, eased small fractions on Thursday and during the morning on Friday, then were weak for about an hour Friday afternoon. However, the weakness was not due to any heavy selling but was largely a mark-down of prices by dealers, attributed largely to the disclosure of the testimony before the Ways and Means Committee asking an increase in the authorization for the amount of Treasury bonds outstanding at any one time. In late trading Friday and on Saturday prices recovered this lost ground, closing the week with small irregular changes.

Corporate Bonds

The market enjoyed a week of strength as all sections of the market came into good demand. Stimulating to the market was the announcement that the United States Steel Company plans to sell \$100 millions of ten-year debentures next month and the success of the offering of 150,000 shares of General Foods Corporation preferred stock,

-2-

The stock was priced at 101 and quickly went to a premium of about 3 points on the day of the offering.

High grade issues advanced about 1/2 of a point in the average, with advances in utilities and industrials partly offset by rails, which showed little net change. For the first time in over a year many of the better grade utilities broke through a less than 3 percent basis. Gains by second grade issues were substantial, with rails leading the way. Moody's average price of RAA bonds rose about 2 5/8 points to a level 8 3/8 points above the March 31 low. Further advances are taking place today.

Dealers' Portfolio

Dealers' holdings of direct and guaranteed issues were reduced by 25.9 millions during the past week. Reduction in the holding of notes maturing after 1 year accounted for most of the total decrease.

(In millions of dollars)

	<u>Holdings</u> <u>Apr. 30</u>	<u>Holdings</u> <u>May 7</u>	<u>Change</u>
Treasury bonds	51.6	49.6	- 2.0
Treasury notes (1 year)	33.7	29.6	- 4.1
" " (1-5 yrs.)	64.1	40.9	-23.2
Treasury bills	0.1	4.1	+ 4.0
H. O. L. C. bonds	6.8	5.3	- 1.5
F. F. M. C. bonds	<u>3.2</u>	<u>4.1</u>	<u>+ 0.9</u>
	159.5	133.6	-25.9

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Investment Accounts

The only transaction in the New York market for investment accounts was a sale of \$1,000,000 2 7/8% Treasury bonds of 1955/60 for account of the Civil Service Retirement and Disability Fund.

System Account

The Federal Reserve System replaced last Wednesday's maturity of \$36,753,000 of Treasury bills through the purchase of a similar amount of the new bills maturing August 3, 1938. The only other transaction was an exchange in the market of \$1,000,000 3 3/8% Treasury bonds of 1940/43 for a similar amount of 3 1/4% Treasury bonds of 1941.

It is interesting to note that the System income on an annual basis has dropped from \$36,716,692 on April 13th (end of week previous to the heavy sales of bonds) to \$33,383,473 on May 4th, and the average earning rate has been reduced from 1.432% to 1.299% during this period. However, the profit on sales so far in 1938 amounts to \$5,873,011. The profit for the whole year of 1937 was only \$2,413,428.32.

RE BANK EXAMINATION POLICY

May 9, 1938.

11:05 a.m.

Present: Mr. Taylor^v
 Mr. Upham^v
 Mr. Gaston^v
 Mr. McKee^v
 Mr. Davis^v
 Mr. Crowley^v
 Mr. Paulger
 Mr. Diggs^v
 Mr. Smyth^v
 Mr. Folger^v
 Mr. Nichols^v

H.M.Jr: I don't know whether you understood why I couldn't hold the meeting the other day, but I had to go up on the Hill, and what I went up on the Hill for was to get - they call it - the panels removed on our authority to borrow \$45,000,000,000. The way it is now they divide it up into borrowing 25 billion in bonds, 20 billion in shorts. Well, we've borrowed 23½ billion in bonds, and if they don't remove that panel, as they call it, we're going to find ourselves not being able to borrow as many bonds as we want. I don't think we'll have any trouble. But that's what we're trying to do. And it makes sense - not trying to lift the 45 billion, but just make it that we can borrow any ...

McKee: Plenty of leeway on the other side.

H.M.Jr: Plenty of leeway on the other side, but not on the bonds. They didn't ask me whether I wanted to sell direct to you fellows (Federal Reserve) - so hard up I didn't want to sell. They didn't ask me that. But I just thought I'd explain.

Now, we had - I asked these people to come in and advise me and gave them a chance, and we had a pretty good meeting. Went on most of the day. And I think if Cy Upham would tell you, unless it's already been done Those are the things which this special advisory group were in agreement on. Let's have those first.

Upham: Yes, I sent to each one a list of them. You are the only one, I guess, who hasn't had an opportunity to see it.

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H.M.Jr: I have not done my home work.

Upham: "While there was considerable discussion and not complete unanimity of views on all the matters discussed, the consensus was

"(1) That the use of the word 'slow' as a classification of loans by bank examiners might well be abandoned.

"(2) That the three parallel columns now appearing in the examination report be retained. A suggested definition for Column I was 'not presently doubtful but requiring constant attention.'

"(3) No one was violently opposed to totaling and recapitulating the three columns if the new designation and definition of Column I are adopted. (There were some preferences expressed for Column I loans being carried separately and not totaled or recapitulated.)

"(4) Good bankers would not be deterred from making border-line loans by the inclusion of Column I. (There were some dissents to this.)

"(5) Bank directors are disturbed by the slow column and probably should be. (The view was expressed that regardless of the 1934 instructions as to what loans should be included in the slow column, bank examiners continue to list loans that are slow in fact even though good as to quality.)

"(6) The entire list of securities in a bank's portfolio should be listed in the examination report.

"(7) The entire list of securities in a bank's portfolio should be priced in the examination report.

"(8) The net sound capital of a bank should be computed in the examiner's report.

"(9) Just what depreciation in the portfolio should be deducted in computing the net sound capital of a bank was left somewhat indefinite. It was suggested by Mr. White that if the net depreciation in Group II securities, plus Baa bonds, is to be deducted in

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computing net sound capital, (and appreciation in Group I securities, exclusive of Baa's, is to be ignored), the basis for figuring depreciation in this group should be worked out along the lines of the so-called 'convention values' used by insurance companies representing, perhaps, the average price of the security over a period of a year or more past. It was suggested that if and when Group I securities show a net depreciation, perhaps the situation will have to be surveyed again. There were expressions that the inclusion of net depreciation in the lower grade securities without any benefit from appreciation in higher grade securities was a little unfair.

"(10) While no definite ~~consensus~~ was obtained on the treatment of bond profits, I think it is fair to say that the group favored the creation of adequate reserves against losses, but were doubtful about the success of enforcement of a rule that securities profits be impounded in a special reserve account.

"(11) There were expressions of opinion to the effect that the definition of marketability contained in the Regulation of the Comptroller of the Currency interpretative of Section 5136 Revised Statutes should be revised."

H.M.Jr: Well now, is there something that we could get out of this? My thought was that if the three agencies could agree on something, this is a start. Then we would submit this to the State Bank Examiners to see whether they'd go along. Then we'd have every agency involved. Even if it's only on one thing at the start - that's what I'm trying to do.

Crowley: Mr. Secretary, in order to bring this thing to a head

H.M.Jr: Yes.

Crowley: ... on the question of the numerals, the classification of assets 1, 2, 3, the discussion seems to be - I don't believe that there is any great difference of opinion on what we would all consider as a criticized asset.

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I think one thing that they are trying to arrive at is that a loan that is made for a longer period than, say, 60 or 90 days, providing that it is secure or properly collateralized with a financial statement and amortized over a period of time regularly - that we will not put that asset or that loan in a criticized column. In other words, we eliminate that from the old classification of years ago. But it doesn't change our standard any on the item that is unacceptable for the classification of a bank's portfolio. And I don't think there is any disagreement, particularly amongst what we're trying to arrive at, if we stick to that basis.

Now, I have no objection to permitting even a public statement to be made, if we can concur here, that a loan will not be criticized because it runs for more than 90 days, if it is sufficiently collateralized and amortized regularly, but that there will be no letdown of the so-called standard of bank examinations. And if we can discuss the loans from that standpoint first and get rid of that, then I think we can go on to the bonds. And it seems to me that it is easier for us to agree on the loan side than it is to agree on the bond. And I would like to, just for the sake of bringing it to a head - like to make such a motion.

H.M.Jr: Will you state your motion?

Crowley: I state my motion that the three agencies get together and define a so-called loan - capital loan that will not be criticized, so that they may be able to set up a standard. And we will not let down on the so-called standardization of the classification of a criticized asset. And that the policy in the future be to put into one class the so-called sub-standard or unsatisfactory loans, then the portion of that loan that may be doubtful and the portion that may be lost, and the portion that is so criticized will be carried to your analysis to show your bank directors and your bank management the position of their bank.

H.M.Jr: Well, Mr. Crowley has made a motion. Any discussion?

Davis: Mr. Secretary, is this the kind of a meeting that you want to have things put to an actual vote?

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- H.M.Jr: Well, personally, I'd rather be informal about it, because it's - while I do this, there is only one copy, as you people know; it goes into my files and is locked away, and I'm not - I'd rather keep it on an informal basis.
- Crowley: Don't care. Just make it as an informal motion, just to bring it to a head.
- H.M.Jr: All right, as a suggestion.
- Crowley: Yes.
- Diggs: Well, isn't that about the things that we've agreed on, and the majority opinion ...
- Crowley: Except this, Marshall, that I think that we can be a little bit helpful in rather saying that we will not criticize a loan that is made for more than 90 days, providing it is financially secured and amortized over a period of years. I think substantially we say that in our memorandum.
- Diggs: Well, that's what I thought.
- Folger: We say "if sound," if it's a good loan.
- Crowley: That's right.
- Folger: Do you think you should use exact language?
- Crowley: I thought we'd leave that to you three men, Gus, to define that.
- Taylor: You're really adding regular amortization.
- Folger: That's right, that's what he's adding.
- H.M.Jr: Well, what we're getting down to is - I mean do the Federal Reserve people want to get into a huddle on this again? We've had one. I don't know
- McKee: Well, we're willing to sit down and talk, Mr. Secretary.
- H.M.Jr: Fine. Well now, in view of the advice which I got, which has been available to you people, and in view

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of the fact it is two to one, but what I'm trying to get is three - I mean that's what I'm trying to get; isn't much use on this two to one stuff - would you people be willing to let - once more let you people start again this afternoon and take another look at the picture?

McKee: Sure.

H.M.Jr: That goes for the first question, which in my mind is classification or reclassification - renaming the word "slow" - that old question. What?

McKee: Sure.

H.M.Jr: What?

McKee: Yes.

H.M.Jr: Well, I think that's the thing to do, then. I mean in view of the advice that I've gotten with these fellows that you all know as well as I do, when they came in here. Well, why don't we do this, without taking too much time: simply throw this back on these fellows once more, in light of what's happened, and see if they can't get somewhere; that is, get a unanimous one this time. And in two cases you people (Federal Reserve) are in the minority and one case you're in the majority.

McKee: Well, that doesn't disturb me, Mr. Secretary. I think it is really unfortunate that the whole subject has got as much publicity as it has, because you're going to end up here and you're going to have nothing to produce for the public that is along the lines that the President has attacked this problem, or your attack in publicity, at all. Now, that's where you're going to end.

H.M.Jr: No, I - I'm sorry, I don't agree with you.

McKee: All right. You might put a lot of weasel words in; that's not going to mean anything.

H.M.Jr: No, I'm not going to put any weasel words in.

McKee: But if you're going to attack this problem, which has been a problem for many, many years and has caused its

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trouble, and there is plenty evidence of the trouble it's caused, and you're going to pass over it lightly by making certain adjustments.

H.M.Jr: No. No. I'm not going to do that.

McKee: And somebody else is going to have to look at it later.

H.M.Jr: Well, I'm willing to try it once more, letting these fellows get together, but if they don't get together I'm going to make a definite clean-cut recommendation to the President, because I've got enough information now, but - I mean I've got enough information that my mind is beginning to clear, and I'm not - I haven't yet made - I mean I've made plenty of recommendations, but I don't think we've ever sent him any weasel words once.

McKee: Well, I'm not speaking about what you have said, but I'm speaking about the kind of ticket the public is going to expect from you, from what has gone over the dam.

H.M.Jr: Now, one thing which isn't in here which I'm going to insist on - and that is the examination - the way the Comptroller's office - the ratings and the whole way he handles the question of the banks' right to invest in securities. Now, what's this word that they keep referring to?

Upham: "Marketability."

H.M.Jr: Marketability. Now, that wasn't hit in this thing at all.

McKee: Well, don't you think that's a separate subject entirely? Probably all supervisors could place their recommendations before the Comptroller's office, but it's his responsibility alone.

H.M.Jr: Well, we might as well get the benefit, because this stuff here - we're going to change the word "slow," call it something else, and all that, and I don't think that's going to - as I said the other day joking, call a rose by another name and you're still going to have the rose.

Davis: That's precisely what Mr. McKee was driving at.

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- H.M.Jr: But this thing - if we could do something with these fellows on this word "marketability," we may get somewhere. And that's the most of the criticism that we get. And this whole question of the small concern that's got \$25,000 or \$50,000 in a community - hell, they can't get all these ratings and all this stuff. And the arguments I hear - why should Dun & Bradstreet's and Moody's decide what is marketable? Why can't the United States Government decide what is marketable? Why let some \$2500 clerk in some room in Wall Street decide what it should be? I've got plenty of this. I think there's a lot to it. Why throw the responsibility on all these people? The fellow that has \$25,000, \$50,000, wants to sell it, the banks want to buy it - they either can't get those letters at all or they get the wrong kind of letters; and the fact that a security - it's a \$50,000 issue - I don't say that it isn't marketable.
- Folger: That's the regulation, Mr. Secretary. The law of the statute requires marketability, but the law does not define it; doesn't go any farther than that, leaves it to the Comptroller, and he has defined it.
- H.M.Jr: But what I am asking, quite frankly, is for these people who are not in it to put the screws on you. That's what I want. Because if we could get something on this question of marketability, we'd get something out of this meeting. And I'd like the Fed boys and Crowley's boys and the rest of them just to, frankly, put the screws on you and make you stand up and defend that position. The word is "marketability." Now, it's a question of a definition, isn't it?
- Folger: Yes, sir. The statute requires marketability.
- H.M.Jr: O.K. Then it gets down - what is it, what is that? And I'd like them to put the pressure on you and see whether they
- Crowley: Let me say this to you. In talking about this banking business
- H.M.Jr: Because - excuse me just a minute - of all the complaints I get, that's the most important. And right

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now I'd like, if I could, to have the Comptroller's office remove it, in the minds of the people, as a neck of the bottle. And if, after putting the pressure on you, they still - they come out and say, "Well, he's right, he can't do anything," maybe we can get a little amendment through, if we should. But that's the complaint I get on that thing, that you fellows won't let the banks buy these issues and that there is some clerk somewhere in a back office, and why the hell should Moody's decide what kind of letters should go on this thing, why shouldn't you fellows do it yourselves?

McKee:

Well, along that line, I think if there's going to be any amendment it ought to include all insured banks, in the first place, because you've got two - you've got one class of banks that can buy anything and you've got another class of banks that can only buy what the Comptroller says. Now, the Government stands behind this insured fund. That exposes them to - if you think it's an undue risk because you write a regulation that doesn't provide for the purchase of those kinds of bonds, then you're writing into your liability things that you don't believe. I think it's inconsistent as far as the legislation is concerned.

H.M.Jr:

That's what I say. If after putting the pressure he still stands up and says, "Well, I can't give in, because" - but that's the biggest criticism that's crossed my desk.

Crowley:

Mr. Secretary, now we have 13,973 banks in the Federal Deposit Insurance fund. The impression always seems to prevail that there are only a few small banks in the United States. There are only in the United States about 400 large banks over \$10,000,000 in the country, and those 400 banks have two-thirds of the deposits of the entire United States. The so-called 13,500 banks all have deposits below \$10,000,000 and we have an insured liability there of about 80 percent or greater. Now, I don't think that you have to do anything to make these poor little devils make any more mistakes than they have made the last ten or fifteen years. They'll make enough mistakes accidentally without asking them to make them on purpose.

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And as a matter of fact, on securities - I don't believe the average little bank has ever made any money on their investment in securities. I have always been hopeful the time would come that the little banks would only be in the so-called Government securities, and not be in corporate or industrial securities at all. And if we ever could work out a Baby Bond that would let these little banks have some amount of a Baby Bond - have a hundred thousand to two hundred thousand dollars worth in their portfolios, you're going to solve a large part of your banking trouble. If you let these little fellows loan their money locally and buy their Governments and keep their cash - but to let down and let these poor little devils go in the security markets and go over their heads with a lot of low grade stuff - you're only going to have a broken banking system on your hands in sight of a year's time.

- McKee: But do you disagree with me that any securities regulation should cover all insured banks?
- Crowley: I think this, John - any regulation that you can get the states to adopt; but I don't think we have any right to regulate for state banks as a law. I think you can do it by cooperation, but I don't think you have any right to walk into a state and tell a state that you're going to dictate to them how they run their banking system.
- H.M.Jr: Well, I still - I'm going to ask these gentlemen if they're going to meet and see if we can agree on anything. So, taking the Federal Reserve - in view of what the advice I got - if they'd meet once or twice more, beginning at two this afternoon, and also add to their agenda this question of marketability, I'd appreciate it very much.
- Diggs: On that subject, Mr. Secretary, some weeks ago we started studying that regulation to make suggested changes in it, and we're getting somewhere on that thing.
- H.M.Jr: But this thing is - I mean every day somebody throws that in my face.
- Diggs: I realize it, and we knew it also, and we're working

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on it. We have a problem too.

H.M.Jr:

I mean if you fellows meet one or two afternoons, I don't see why we can't get something. If we only agree on one thing, I'd like to get one thing that the three agencies agree on, and then submit it - if it's just one thing - then submit it to White, who is head of State Bank Examiners, so we can say, "Well, here's one regulation that the Federal Reserve, F.D.I.C., the Comptroller's office, and the State Bank Examiners agree on." And then if that works - then maybe I can drop out of the picture. You fellows can all work with them, and begin Now, White was tickled to death. He took it up with a couple of their sections; they liked the idea. These State Bank Examiners - they're tickled; they'd like to work with us. Let's try it once more. Huh? What do you say? I mean having one more little meeting with these fellows in the afternoon. That all right with you, Davis?

Davis:

Yes.

Diggs:

Agreeable with us.

H.M.Jr:

All right, let's try it once more.

Taylor:

That includes all points that have already been brought up, plus the new definition for marketability, if possible.

H.M.Jr:

That's right.

FEDERAL HOUSING ADMINISTRATION
 MEMORANDUM

DATE

May 9, 1938.

FIGURES FOR MONTH ENDING APRIL 30, 1938

FOR THE MONTH	Month Ending April 30, 1938		Corresponding Month Last Year 1937	
	Number	Amount	Number	Amount
Mortgages Selected	20,668	\$ 94,156,113	15,662	\$67,886,307
Mortgages Accepted	14,397	63,266,925	12,214	50,042,100
Premium Paying Mortgages	5,888	25,798,400	7,942	32,587,160
Property Improvement Loans (Amended February, 1938)	28,117	13,578,533		

CUMULATIVE:

Mortgages Selected	396,491	\$1,660,198,044
Mortgages Accepted	293,272	1,197,939,158
Premium Paying Mortgages	226,363	928,432,817
Property Improvement Loans (Amended February, 1938)	40,104	19,094,564

Note: Under original Title I (expired April 1, 1937) 1,450,860 modernization notes were insured amounting to \$560,603,240.

Percent Change April 1938 over April 1937

Mortgages Selected	+ 38.7%
Mortgages Accepted	+ 26.4%

FEDERAL HOUSING ADMINISTRATION
MEMORANDUM

DATE May 11, 1938

SUBJECT: FIGURES FOR WEEK ENDING MAY 7, 1938

<u>FOR THE WEEK:</u>	<u>Week Ending</u> <u>May 7,</u> <u>1938</u>		<u>Corresponding Week</u> <u>Last Year</u> <u>1937</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
Mortgages Selected	4,871	\$22,285,560	3,173	\$13,467,451
Mortgages Accepted	3,251	14,375,800	2,515	10,441,900
Premium Paying Mortgages	1,713	7,651,900	1,823	7,666,970
Property Improvement Loans (Amended February, 1938)	6,983	3,220,978		

CUMULATIVE:

Mortgages Selected	401,362	\$1,682,483,604
Mortgages Accepted	296,523	1,212,314,958
Premium Paying Mortgages	228,076	936,084,717
Property Improvement Loans (Amended February, 1938)	46,378	21,862,348

Note: Under original Title I (expired April 1, 1937) 1,450,860 modernization notes were insured amounting to \$560,603,240.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

53

DATE May 9, 1938

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation, week ending May 7.

Conclusions

While weekly indexes of business activity provide little basis for business optimism, these may prove misleading, as on several occasions in the past, due to the inclusion in these indexes of certain series which show an appreciable lag in their response to basic business factors. (See Chart 1).

Evidence of an improvement in the underlying business trend is seen in (1) a marked upturn in new orders (Chart 2) although some setback occurred during the past week owing to a drop in steel orders; (2) a reopening of the capital markets; (3) a strengthening of stock prices, particularly in the rail and utility groups, following earlier improvement in bond prices; (4) a gradual improvement over the past two months in our index of basic demand, which disproves the belief held in some quarters that a "downward spiral" influence was affecting business during this period; and (5) a recent upturn in certain consumers' goods industries, a group which usually shows first evidence of a turn.

On the unfavorable side, the failure of commodity prices to respond to recent monetary moves suggests that the deflationary influences which apparently set in about the time of the German invasion of Austria may not yet have run their course. Increasing commodity supplies have also been a price factor. It seems probable, however, that the price raising influence of recent monetary expansion moves, which first affected high-grade bond prices and later worked down to speculative bonds and to stock prices, will next affect prices of commodities.

The current business trend

The weekly New York Times index, seasonally adjusted, remains at the year's low, increasing but fractionally during the week ended April 30 to a figure of 75.5. Miscellaneous carloadings, the second most important series in the index, increased 5.2 points

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during the week to an index of 68.5, while all other series were lower.

At a turn in business activity, the New York Times index is likely to be misleading, since it includes certain series which lag appreciably in their response to underlying business trends. Outstanding among these is the series on electric power production, which has by far the heaviest weight in the New York Times index. This includes electricity for residential use, which does not change its trend until some time after a turn in business. In Chart 1 we show a comparison of the various components of the index, illustrating their respective weights. It will be noted that the recent decline in the index has been due in large part to the decline in power production.

This same factor was an important influence in raising the index last year to a new high in August, when industrial production actually was on the verge of a steep decline. As shown at the top of the chart, the New York Times index at times has differed widely from the Federal Reserve Board index of industrial production, in the actual level as well as in the trend.

The steel situation

Outstanding among recent steel developments has been a tendency to shade prices on various steel products, which has led to a belief that prices will be reduced when quotations for the third quarter are announced, and has accordingly tended to restrict new buying. The normal date for the next price announcement is around June 1, although third-quarter prices last year were announced early in May.

Commenting on this development, the Wall Street Journal mentions that price concessions have been granted on a number of steel products, and that there has been increasing evidence that the practice has been spreading among some of the independent companies. Comment is made that "This practice has unsettled conditions considerably, and as a measure of protection steel makers who have adhered to the regular market have been compelled to meet concessions in order to hold their regular customers. Naturally this condition has become known among consumers and has further delayed buying on their part, even for the purpose of replenishing depleted inventories."

The prospect of lower prices has probably been a factor in reducing new orders of the United States Steel Corporation during the past week to the equivalent of 33 percent of capacity, as compared with an order volume equivalent to 45 percent during the previous week. The downturn in the stock market, as shown

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in Chart 3, apparently also was a factor in discouraging steel buying.

Perhaps nothing would be more conducive to a marked revival in steel buying at this time than a decisive cut in steel prices, sufficient to lead consumers to believe that the next change might be upward. A slight reduction might defeat its own ends by suggesting the possibility of still further price cuts. A settling of the steel price question in the near future is especially important for stimulating buying by the automobile companies, since around July 1 they are expected to begin buying new steel shapes and parts for the 1939 models.

Steel activity was reduced this week to an average for the industry of 30.7 percent of capacity, as compared with 32.0 percent last week, apparently because of the declining tendency in new orders previously mentioned. The surplus of orders which apparently was built up during April should be a supporting factor for steel activity during the current month.

Trend of new orders and estimated demand

To supplement our weighted monthly index of new orders and to show the more immediate trend, we have constructed a weighted weekly index. This is based on 13 series, as compared with 23 series of orders represented in our monthly index. For this reason it does not compare exactly with the latter index, but should serve to indicate the week to week trend.

In Chart 2 the weekly index of new orders since the beginning of 1938 is shown in comparison with the monthly index for 1937 and 1938. Preliminary data shown on the chart for the fifth week of April indicate a substantial decline in the index for that week, due almost entirely to the sharp drop in new orders for steel.

The demand for industrial products, according to our estimates of "basic demand," has shown a slow improvement during February and March, our estimated total index rising from a low of 88 in January to 89 in February and 91 in March. It is encouraging to note that this does not indicate that a "downward spiral" was developing during this period, but appears to confirm the belief that industrial production is establishing a bottom around these levels. A revival in several consumers' goods industries in recent months points to the same conclusion. The boot and shoe industry, and the silk, cotton and wool industries, have already apparently started a recovery trend.

While the basic demand indexes do not forecast the time of a turning point, they seem to indicate quite definitely when production in a given industry has become too high or too low

to be maintained at that level. The production of textiles, leather products, and cement, for example, which the basic demand indexes several months ago showed to be too low, has turned upward to adjust itself more nearly to demand. The production of refined petroleum, which the demand index showed to be too high, has turned downward. Crude petroleum production has yet to adjust itself downward, and production in certain industries which the demand index shows to be too low, notably that of steel and automobiles, has yet to be adjusted upward.

The security markets

Stock prices closed the week with an impressive upturn which carried the industrials up sharply and established new highs since the middle of March in the rail and utility groups. Utility stocks were prominent on the rise, following recently increasing strength in the bonds and preferred stocks of this group.

The effect of recent monetary moves in strengthening stock prices is becoming increasingly apparent, as rising prices for bonds lead investors to look for alternative issues in which to place their money. Financial comments mention that the pressure to invest idle funds has been unmistakable, while favorable technical conditions in the stock market have led to some speculative buying. As evidence of a strong technical position, the stock market recently has proved practically immune to unfavorable news; the volume of trading has dropped to a low level on set-backs in prices, and speculative positions have apparently been well liquidated, judging from recent reductions in brokers' loans and an unusually low percentage of restricted margin accounts.

An outstanding factor in the improved sentiment in the stock market, according to financial writers, is the reopening of the capital markets which has been made possible by the Administration's monetary moves. Plans announced this week for a \$100,000,000 bond issue by the United States Steel Corporation, which will be one of the largest financial operations by an industrial concern since 1929 has been hailed in financial circles as a major encouraging factor. With the better grade utility bonds coming into active demand, investment bankers now expect that within a few months the utility companies will resume on a large scale the bond re-funding program which was abruptly dropped a year ago, shortly after the increased reserve requirements went into effect.

The price situation

Although the announcement of the Administration's recovery program has been followed by an increase in new orders, by rising bond prices, by an improved prospect for new capital issues, and

Secretary Morgenthau - 5

by a stronger tone in the stock market, it has thus far had but little influence in raising commodity prices. This has been due in part to increasing supplies of certain commodities, and in part to the adverse effect of the prospect of another deficit spending program on business sentiment. More important, however, is the possibility that it may reflect a continuation of outside deflationary influences that appear to have been set in motion about the time of the German invasion of Austria.

While the failure of prices to make a definite turn so far must be considered an unfavorable feature of the business outlook, the recent monetary expansion moves should eventually affect commodity prices as they have affected in succession other investment media, barring any new deflationary development.

COMPARISON OF BUSINESS INDICES

Seasonally Adjusted

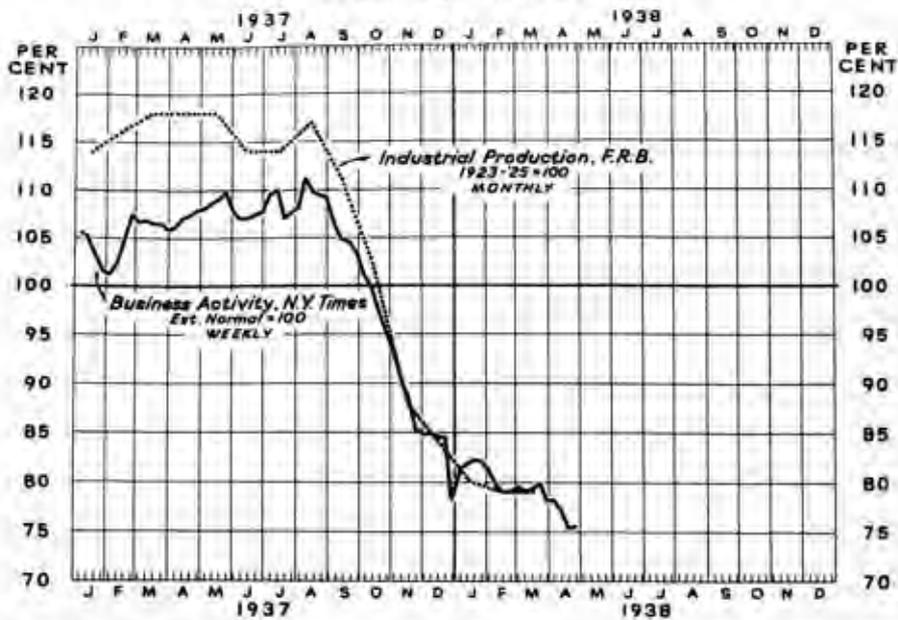
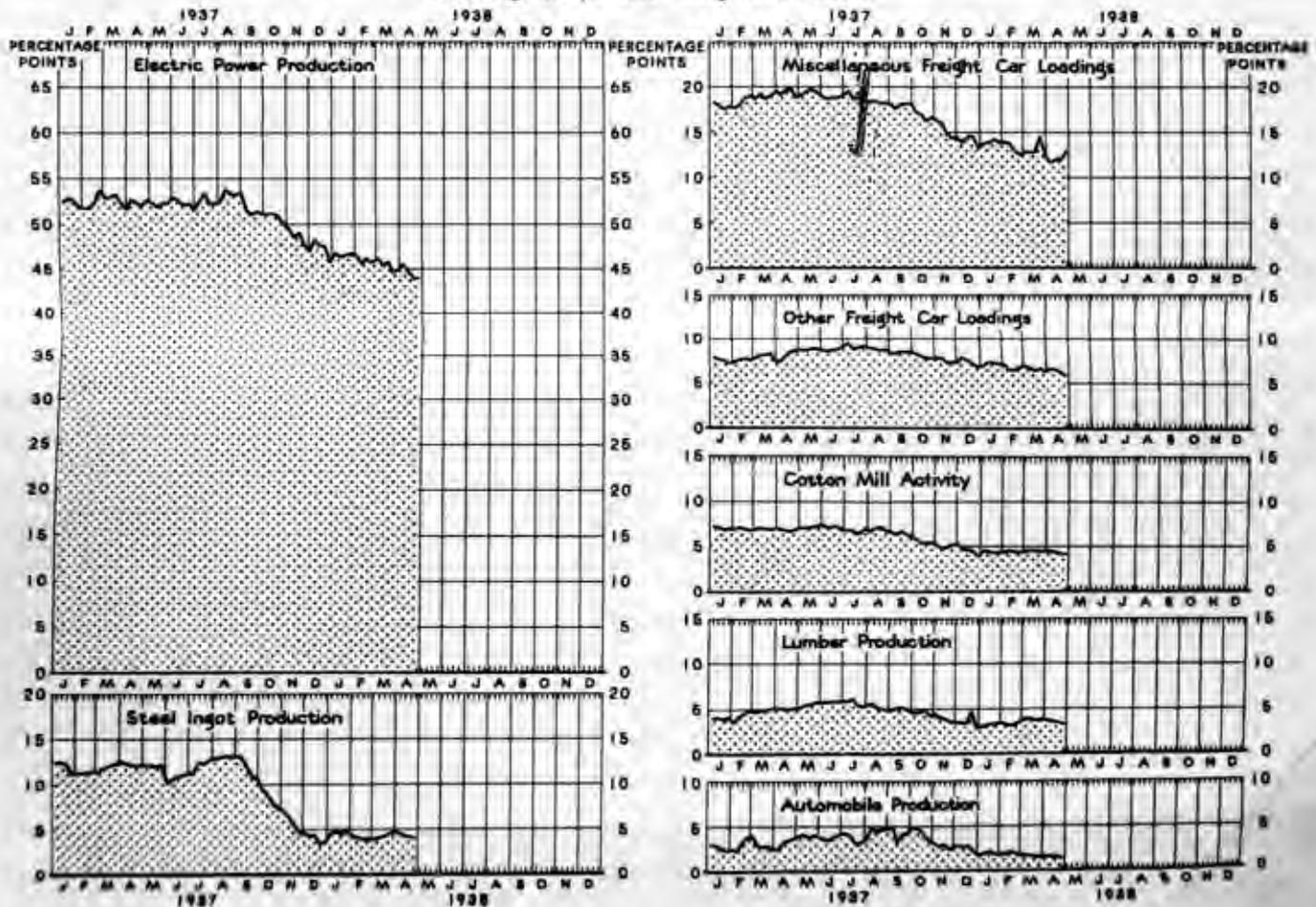


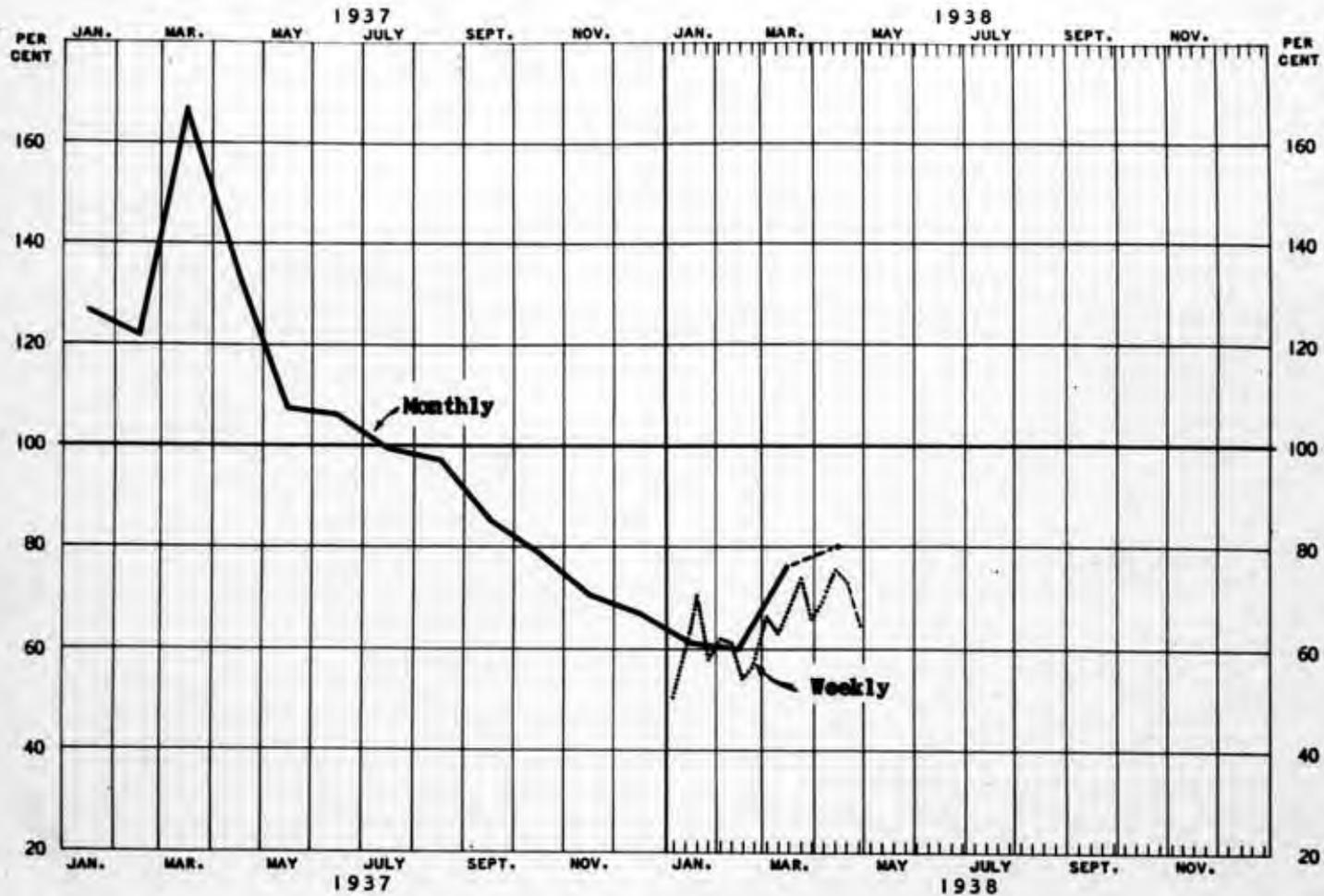
Chart 1

COMPONENTS OF N.Y. TIMES INDEX OF BUSINESS ACTIVITY

Showing Respective Weights in Index



INDEXES OF NEW ORDERS
 Comparison of Monthly Index with Weekly Index*



*MONTHLY INDEX INCLUDES 23 SERIES , WEEKLY INDEX INCLUDES 13 SERIES

STEEL ORDERS COMPARED WITH STOCK MARKET TREND

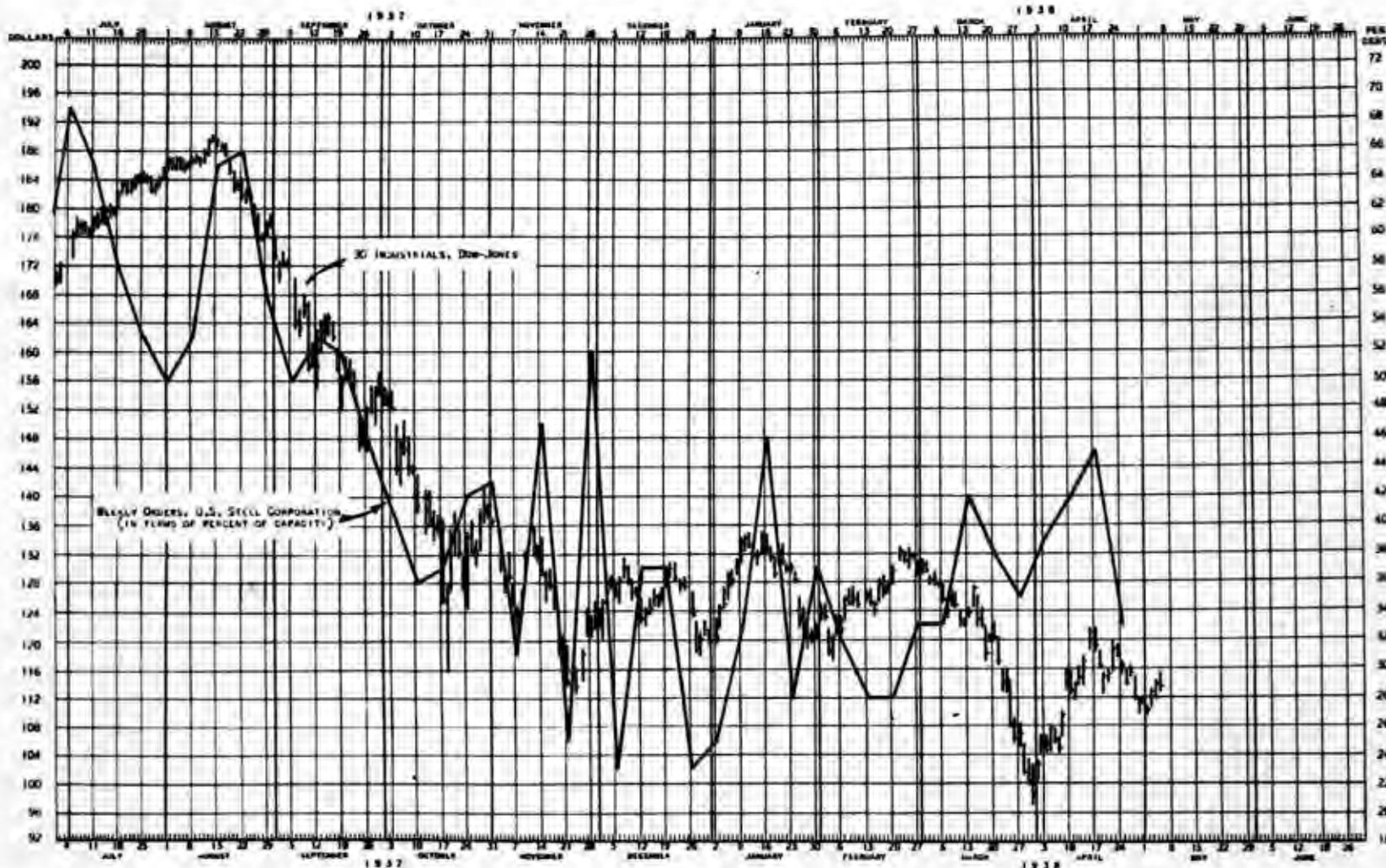


Chart 5

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris
NO.: 730 (Section One)
DATE: May 9, 1938, 9 a.m.
FROM COCHRAN

I returned this morning from Basel where I spent Saturday and Sunday with B I S officials. Formal monthly and annual meetings take place today but no important business is to be transacted. Of the 25 central banks or national banking groups holding shares in the B I S, 23 have sent delegates to the B I S meeting and Greece and Latvia have given powers of attorney to resident B I S officials. Weldon, American representative, was to arrive Monday morning. On Saturday and Sunday I talked with members of practically all of the delegations.

I was informed by President Trip of the Netherlands Bank that no information had been received by him regarding the French monetary plan of this past week and that he didn't know anything about the plan until Thursday. He stated that this was another proof of the argument which he made to me in Amsterdam last summer to the effect that the tripartite decisions are made by the three big members without considerations of the three smaller ones, by whom the decisions must simply be accepted. I maintained that

-3-

that the French originated this proposition and that the responsibility rested with them for divulging information regarding it, and stated that we had reminded the French of this fact during the negotiations. Trip stated that the French move had been taken very calmly by his market and that up until Saturday the Netherlands Bank had not lost one florin of gold as a result. As yet he sees no unfavorable repercussions on the Netherlands.

BULLITT

EA:EB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris
NO.: 730 (SECTIONS TWO AND THREE)
DATE: May 9, 1938, 9 a.m.

Trip informed me that his people are skeptical as to the success of the French. The shipping strike is interpreted by him as a bad omen. They started at the wrong end. Before ~~deciding~~ that the currency needed to be touched, they should have brought about the necessary improvement in social legislation and in production.

It was only on Saturday that Mr. Bachmann, President of the Swiss National Bank received, through the Swiss Ministry of Foreign Affairs, word of the French decision. President Bachmann stated that from Thursday to Saturday, inclusive, 33,000,000 Swiss francs of gold on French account were yielded by the Swiss National Bank. A small repayment on a French railway loan was included in this amount. A loss of around 60,000,000 francs will be shown by the next statement of his bank, but the difference of ²⁷ 32,000,000 is accounted for by the fact that such an amount was applied to purchasing sterling for the Swiss banking credit to Argentina. Considering the worries he has experienced over excess foreign funds on his market, Bachmann does not regret the loss of gold to France. However, since foreigners who bought Swiss Government securities

last

-2-

last fall when the Swiss took steps to stop incoming bank deposits, are now selling, there is a lowering of these securities. It is impossible for him to tell at this time how much of the transfer from Swiss to French francs represents speculation. Mr. Stucki, Economist of the Swiss Bank Corporation stated that to date no withdrawal of French capital had been witnessed by his bank.

Pfenninger, of the Swiss National Bank, wrote me a personal letter as early as April 29, saying that Bachmann was "interested in knowing whether, in the opinion of the American authorities, the monetary developments in France conform with the tripartite declaration." Mr. Bachmann said yesterday, in discussing this matter in connection with developments subsequent to April 29, that it was apparent that France had definitely violated the accord but that in the circumstances he could see reasons for not taking action against France. Nevertheless, he is doubtful as to whether the French policy is wise and he wonders what the eventual relation between France and the tripartite will be.

Through some channel other than French official channels, Governor Janssen, of the National Bank of Belgium, had learned that something was being planned in France last week. He immediately had one of his associates fly to

-3-

to London that evening where he kept in touch with the Bank of England during the remainder of the week. The Governor addressed a memorandum to his own Government upon the information which he received from his associate. He told me that/at about the same hour Janssen and I were talking, Foreign Minister Spaak of Belgium had gone to Paris to make representations to Bonnet. He inquired as to whether in the future he could telephone me on matters of this kind. I informed him that I had not been free to offer any news last week on the official negotiations but that he might call me whenever he wished.

BULLITT

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U.S. DEPARTMENT OF STATE

PARAPHRASE OF SECTION FOUR OF TELEGRAM no. 730, May 9,
1938 from Paris.

According to Janssen, the pressure on the belga became important Wednesday evening and continued through Saturday. His bank lost approximately three hundred million gold belgas during these days. He thinks that so far the move is speculative entirely. Belgian banks are cooperating, without any imposition of control, with the central institution in supervising capital movements. The banks' condition is good and so far they have not had to seek new credit from the national bank. Although not unduly alarmed, Janssen realizes the above-mentioned movement is important for such a small market as his. No forecast will be possible until the first of the week's tendency is seen. The observers of the B.I.S. were generally quite concerned over Belgian prospects, with devaluation of the French franc coming just when Belgium is facing a political crisis, when Belgium is having difficulty in maintaining its foreign trade in lines with which France importantly competes, and when Belgium has an unsatisfactory budgetary situation.

Governor Norman of the Bank of England, who had been familiar with all the details of the Anglo-French negotiations up until Friday afternoon, gave me his frank opinion. Governor Norman said that 175 had been the maximum rate for England to grant France and that they did not think anything

over like

-2-

like this level of 175 had been economically warranted.

"They lied to us", the Governor said, by going to the level of 179. Governor Norman said that there was no way to explain away the action of the French except to realize that people close to the French Government were speculating on the franc.

Section five.

The view suggested in the third sentence of my telegram No. 706 of May 4, 6 p.m., that on Wednesday afternoon the French control was actually pressing down the franc, was expressed also by Governor Norman. He told me that in the light of late developments, Lazards are already suggesting a London credit to France which would provide a nice commission to be added to profits made recently.

According to Norman, the movement from sterling to francs had so far been liquidation of speculative position and not repatriation; he also said that France has not yet put her house in sufficient order to induce such funds to remain and that these funds will again leave France when the maximum improvement in the franc rate appears to be reached, unless drastic steps are quickly taken in the right direction. We should begin now to consider what action we shall take when France next approaches us for a further lowering of the franc, he said, being confident that this will

-3-

will happen. If we repeatedly yield to the French, Norman says our agreement will begin to look ridiculous,~~if~~ and that considering last week's experience, further yielding cannot be very gracefully done. I was told most confidentially that Norman had drafted the original British note written on Thursday to the French in which he used such strong terms that the Ministers removed the sting from it before sending it on.

Norman mentioned that he had bought some Canadian gold which is being held in Ottawa and he is also shipping gold there since he does not want all of his stock in Europe or in one place. He told me that his holdings in France were being importantly reduced by the present movement into the franc.

Section six.

Mr. Cobbold, who flew to Paris for consultation with Fournier last Monday evening after the French had presented their original appeal, and who is in charge of foreign business of the Bank of England, was bitter in denouncing French tactics but excused the Bank of France on the ground that Fournier was really not let in on all the plans. Cobbold said that the British and Americans, who had interpreted the French plans identically, were equally surprised at developments. He strongly condemned the idea of giving French speculators the additional four francs
profit

-4-

profit between 175 and 179 after letting them profit from the rate already sinking to 175 when first decline after Daladier came into office could have been checked easily. Their latest tactics, he says, are now creating a bull position on the franc with futures at a premium and that the same speculators who went short and then bought francs at 179 will sell out again at the most promising stepping-out point - possibly/175/^{when is reached}since this is the most talked of point. He lamented the fact that he was a central and not a private banker with the information which was available these past few days.

This subject was also brought up by Director Niemeyer of the Bank of England who said that the French control should have begun lowering its initial rate (which he expected to be 175) by half a franc every three hours to hasten repatriation and prevent the development of a new speculative position.

End of Section seven.

EA:DJW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

NO.: 730 (SECTION SEVEN)

DATE: May 9, 9 a.m., 1938

Most of the above views of (1) ^{his associates} were repeated by Mr. Clay, Economist of the Bank of England. Clay said it appeared to be impossible for France to get out of her present difficulties until she gets a government that is both intelligent and honest. Blum's government was honest and the present one is intelligent but it does not appear that any combination since Poincare has possessed the two virtues.

Economist Jacobsson made a good summary of B I S views on France as follows: (1) the French Government will have to convince everyone that the present plan is being supported by all its members and that they are not pulling and plotting in different directions—France will be weakened by a weak government, and a weakened France will be a temptation to further marauding on the part of Germany; (2) the Government must give forceful attention to the French economic problem, which is more vital at this time than the budgetary or monetary problems, it must upset the 40-hour week and get to work; (3) it must effectively

effectively stop any new labor troubles such as those recurring in the shipping industry.

Both of the Italian representatives and other observers felt that Italy, which is already facing the necessity of spending a great deal of foreign exchange to buy wheat because of the present unfavorable crop, will suffer seriously from the recent French measures increasing competition in tourist trade.

There was a great deal of discussion of Hitler's reception in Rome and also of political problems in Europe, but little would be added to the Department's information by a discussion of the various views expressed.

BULLITT

EA:EB

PARAPHRASE OF SECTION EIGHT OF TELEGRAM
NO. 730, May 9, 1938, 9 a.m., from the
American Embassy, Paris.

It pleased Governor Rooth of Sweden that he was able to purchase in the United States ten million dollars gold. He is now making transfer of some gold from London. He has one shipment of about two and one-half million dollars en route to Goteborg. This shipment will be transhipped to New York and will perhaps be followed by others. Eventually he would like, while the European outlook is so uncertain, to hold around 75,000,000 dollars gold in New York. Some members of his board argue that part of the foreign exchange should be kept in sterling, but he favors holding all of it in dollars.

Governor Rygg of Norway had heard of the gold purchase which Rooth made in the United States and he intimated that he might try to secure such an accommodation. He emphasized to me his need for important deposit in New York to pay for Norwegian imports and because of current operations connected with Norwegian bonds on the American market.

Rooth's purchase was also known to Bachmann, who inquired of me whether we were pressing Sweden to become a member of the Tripartite. I replied that we had never requested

-3-

requested anyone to join. Rooth had asked me for information concerning the agreement shortly after the three countries, including Switzerland, had adhered to the accord. I had given him the information and I understood he had passed it on^{to} the other Scandinavian central banks. Nothing more had developed, which I understood was partly to the unwillingness of Sweden to join unless similar action was taken by all the other northern countries, which, in the case of Denmark, was impossible because of exchange control.

BULLITT

EA:EB

PARAPHRASE OF SECTION NINE OF TELEGRAM NO. 730,
May 9, 1938, 9 a.m., from the American Embassy,
Paris.

Bachmann told me that many of his people were criticizing his own gold policy and were citing Sweden as achieving success on a managed currency basis. It was his opinion that if Sweden and any of the others of the Scandinavian group adhered to our agreement, it would make it easier for Switzerland and other countries to consolidate present policies under the Tripartite. He informed me that it was his intention to speak to Rooth about this matter.

There is to be one of the periodic group meetings of the governors of the Banks of Sweden, Norway, Denmark and Finland on Tuesday at Basel.

I was informed by Schacht that within the next few days we could expect a decision on Austrian bond service. He stated that the decision would depend principally upon the views of the Minister of Economics and the Minister of Finance. He said that his position as Minister did not give him any authority in the premises and that as head of the Reichsbank it was only possible for him to carry out instructions.

Schacht commented to me upon the success of the most recent Reich loan. I remarked that I hoped the
borrowing

-2-

borrowing might decline. He stated that the outlook was in the other direction. This did not make his work any less difficult but he was taking what action he could to counteract the inflationary effects of such borrowing.

I informed him that it appeared that in America the bottom had been reached, and he inquired whether I meant the "low level of reasoning" and suggested that if we had taken him on a five-year contract when he had advanced such an idea to me two or three years ago, both parties would have been better off. (END MESSAGE)

BULLITT

EA: EB

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 9, 1935.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Kneke

I called Mr. Bolton at 11:13 a.m. Things were not quite as hectic as they had been of late, but Cariguel was still getting a fair amount of sterling. I asked whether he would venture a guess as to the total so far gained by the French and Bolton suggested \$80,000,000. The belge was in serious difficulties, the Belgians losing on an average \$5,000,000 worth of gold a day and the rate on futures rising tremendously. Speculators were having difficulties in going short. There was no question but that the devaluation of the French franc was bound to have a disintegrating effect on this as on other currencies. Belgium was in a particularly unhappy situation because in addition to these new difficulties it had to deal with a Cabinet crisis and the possibility was that there might be no Government tomorrow. The demand for gold continued, Bolton said. Today the British had sold \$3,000,000 of gold with almost everybody taking it, including the Dutch who seemed to be converting sterling balances into gold. The exception seemed to be the French who very evidently were not dishoarding yet and very little French money so far had gone back. This he thought was borne out by reports made by the London clearing banks in connection with the first Stock Exchange settlement day since France devalued (incidentally, this had been a difficult and anxious day for them but it had passed without any trouble); according to these reports the floating balances of big French banks had gone down in London but little money had been lost by the clearing banks to the small French owners. None of the French gold in London, of which he

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE May 9, 1928.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM L. W. Knoke

- 2 -

thought there must be about £80,000,000, had so far been sold. From this he concluded that Frenchmen were not as yet repatriating. What had happened so far was: firstly, bear accounts in Francs had been closed, secondly, commercial houses with branches in France were replenishing their Franc balances to take care of their current business and thirdly, a large bull position was being built up in Francs. Was he satisfied with the way things were going, I asked Bolton, and he replied that he had never been satisfied with what he considered under-valuation of the franc, the first success of which seemed to be brilliant but which was already leading to disintegration of other currencies, an increase in currency speculation and an increase in gold hoarding. The latter two he thought were the reason for the weakening of sterling.

I inquired as to the significance of this morning's report that the ban on forward dealings in, and on loans against gold had been lifted. Both measures, he replied, had originally been taken in 1934 and 1935 more or less upon the insistence of the then existing gold bloc, to prevent speculation against the gold bloc currencies. Since the Tripartite Declaration had come into existence there had really been no reason to maintain these embargoes which had fallen into disuse. Three months ago they had removed the one on dealings in gold coin; the present step removed the last of these embargoes which had after all been a dead letter for the last 18 months.

LWK:KW

Regraded Uclassified

May 9, 1938

During lunch today with the President today, I told the President in greatest detail the whole business about the French thing and his advice to me was not to answer Kennedy's letter after he read it.

(Letter in Book 120, pages 362-363)

REB

PLAIN

London

Dated May 9, 1938

Rec'd 2:25 p. m.

Secretary of State,
Washington.

389, May 9, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

The control held the franc steadily at 177.80. The demand for francs started slowly but gained momentum throughout the day and the market estimates that the French control acquired in the neighborhood of 12 million pounds. Inquiries of London banks having large French deposits indicate that thus far the movement into the franc has been mainly due to bear covering. Such balances as have thus far been repatriated are of the more volatile type belonging to individuals or firms that are exchange-minded. As yet there are no positive indications of repatriation of industrial balances or private funds for permanent employment in France. However inquiries regarding time deposits are being received.

The pressure on the belga has continued and the future rates have moved out to a discount of 1.25 for month

REB

2-#389, From London, May 9, 7p.m.

month and 1.65 for three months but the market is so thin as to be almost theoretical. Equally pertinent has been the extraordinary demand for gold emanating from Amsterdam but mainly for Belgian account. Nearly one million pounds was done at ~~fixing~~ and perhaps as much as two million after fixing. Likewise gold coin has been more in demand.

KENNEDY

HPD

REB

GRAY

Berlin

Dated May 9, 1938

Rec'd 3:15 p. m.

Secretary of State,
Washington.

233, May 9, 7 p. m.

According to financial opinion canvassed here the depreciation of the franc will have no effect on German monetary policy. At the Reichsbank it was denied that any special measures would be taken in view of the fall of the franc but it was admitted that the occurrence had caused considerable loss to the Reichsbank for it has been assuming the exchange risks for German exporters to France.

. WILSON

CSB

EG

GRAY

Paris

Dated May 9, 1938

Rec'd 3:25 p.m.

Secretary of State,
Washington.

737, May 9, 6 p.m.

FROM COCHRAN

French control has held sterling rate at 177.80 throughout the day. Apparently fair amount of sterling received this forenoon; there was active intake on official market upon report of settlement of Havre shipping strike being negotiated; practically no business done since 4 o'clock. Two Paris-American banks report there has now been some repatriation by clients who are not speculators. Rentes up.

Spaak, Belgian Minister of Foreign Affairs, and Desmet, Belgian Minister for National Economy, conferred here yesterday afternoon with Bonnet and Marchandau, according to the press, on possible repercussions of French franc depreciation upon Franco-Belgian commercial relations.

BULLITT

HPD

PARAPHRASE OF TELEGRAM SENT**TO: American Embassy, London, England****DATE: May 10, 1938, 11 a.m.****NO.: 205**

Secretary Morgenthau asks that Butterworth be authorized to leave tonight for Brussels for consultation in accordance with this morning's conversation over the telephone. The Department approves of this if it is agreeable to the Ambassador. Expenses will be paid by the Treasury Department.

HULL**(HF)****EA:LWW**

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Paris
DATE: May 10, 11 a.m.
No.: 269

In accordance with the telephone conversation this morning, Secretary Morgenthau requests that Cochran be authorized to leave for Belgium tonight. The Department approves, if this is agreeable to the Ambassador. Expenses will be paid by the Treasury.

Hull

EA:DJW

REB

GRAY

London

Dated May 10, 1938

Rec'd 2:28 p. m.

Secretary of State,
Washington.

391, May 10, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

There was something of a two-way market in francs today in that during the morning when the French control held the franc at 177.80 little business transpired, but in the afternoon at 177.75 the demand for francs was considerable. But on the day the French fund had again gained substantial quantities of foreign exchange.

The bank rate in Belgium was increased from 2 to 4% and the pressure on the belga has lessened. The future rates have moved in, the one month's going from 1.30 to .90.

KENNEDY

WWC

CSB

TELEGRAM SENT

GRAY

May 10, 1938

3 p.m.

AEMBASSY

BRUSSELS (BELGIUM)

26.

Please inform Cochran on his arrival from Paris that after further consideration it has been decided not to ask Butterworth to join him.

HULL

(HF)

EA:HF:EB

Statement of Secretary Morgenthau to the
Senate Finance Committee, May 10, 1936.

The Act of February 4, 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 April 30, 1936, 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 April 30, 1936:			
Treasury bonds	\$20,927,252,250		
U. S. Savings Bonds (maturity value) (a)	1,546,000,000		
Veterans Adjusted Service bonds	828,713,006		<u>23,301,966,056</u>
Total additional amount of bonds which may be issued under present limitation			<u>\$ 1,698,033,944</u>

Notes, certificates of indebtedness and Treasury bills:

Total amount that may be outstanding at any one time		\$20,000,000,000	
Outstanding as of April 30, 1936:			
Treasury notes	\$11,309,276,050		
Certificates of indebtedness	767,465,000		
Treasury bills	1,753,268,000		<u>13,830,009,050</u>
Total additional amount which may be issued under present limitation			<u>\$ 6,169,990,950</u>

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Recapitulation:

Total public debt obligations which may be issued under authority of the Second Liberty Bond Act, as amended, and be outstanding at any one time	\$45,000,000,000
Total outstanding public debt obligations as of April 30, 1938, which were issued under authority of the Second Liberty Bond Act, as amended	<u>37,131,975,106</u>
Total amount which may be issued under present limitation	<u>\$ 7,868,024,894</u>

(a) Current redemption value \$1,180,736,166.

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, 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 and 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 \$248,000,000 to meet the estimated additional issues of U. S. Savings bonds during this period, only \$1,450,000,000 would be available for further bond issues under the present limitation. This might not be sufficient to meet the Treasury requirements in connection with the maturing notes aggregating more than \$1,600,000,000.

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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.

--oOo--

TELEGRAM SENT

JR

GRAY

May 10, 1938

3 p.m.

AMEMBASSY

LONDON (ENGLAND)

207.

In accordance with further discussion which the Department understands has taken place between Butterworth and the Secretary of the Treasury, it is now understood that he should not (repeat not) go to Brussels.

HULL
(HF)

EA:HF:EB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 10, 1938, 4 p.m.

NO.: 742

FROM COCHRAN.

When the banks opened this morning the control fixed the franc at 177.80. At the Bourse it moved to .78 and at half-past two this afternoon to .75. During the morning there was practically no sterling taken ~~due~~ partly to the unfavorable repercussions from a speech by labor leader Jouhaux; it was partly due to uncertainty as to final settlement of Havre shipping strike. During the Bourse hours the control seemed to be receiving a fair amount of sterling. The Guaranty Trust by 2:30 p.m. had bought 1,700,000 at 35.695 for the control. Therefore there had been a continuation today of yesterday's tendency of a lessening movement into the French currency. I do not have the official figure of the amount of capital which has come back to France since the change in policy last Wednesday night, but my private banking friends estimate the amount at around 12 billion francs.

Because the repatriation of capital has slackened so soon, and there has as yet been no significant return of genuine refugee funds, it is quite doubtful in my mind that the franc will be brought back to 175. The news that the second series of decree laws considered today at a

- 2 -

meeting of ministers will not likely appear before next week has caused disappointment. In the opinion of my banking friends, this series and above all the national defense loan, should have been brought out on May 9, Monday, in order to get full benefit of the franc devaluation.

Yesterday and this morning the National Bank of Belgium gave gold and foreign exchange in important amounts, but this afternoon there was the impression on the Paris market that there was a more hopeful outlook for the belga both from Belgium and France. Today there was an increase in the National Bank of Belgium rate from two to four percent. Important sales of gold sovereigns have been made by the Bank of England, and through an American branch bank they have been bought by Belgian hoarders.

This evening at 6:10 I will proceed to Brussels, address, the Hotel Astoria.

I had a telephone conversation just now with Governor Janssen of the National Bank of Belgium. He is meeting me at the train tonight and is arranging to have the Belgian Minister of Finance, Butterworth and me to lunch with him privately at one p.m. tomorrow. It is agreed that this visit is to have no publicity.

END MESSAGE.

BULLITT.

EA: LWW

Tuesday
May 10, 1938
9:10 am

H. Merle
Cochran: Hello.

HMJr: Hello.

C: Hello, Mr. Secretary.

HMJr: Cochran...

C: Yes, sir.

HMJr: Good morning.

C: Yes, sir.

HMJr: Cochran, I'd like you to go over to Belgium tonight.

C: You want me to go to Belgium tonight?

HMJr: Yes.

C: All right, sir.

HMJr: I want you to do it for this reason. In the first place I want you to explain what I went through last week with the French.

C: You want me to explain?

HMJr: Yes. I mean how I did everything possible to get them to stay within the Tri-partite treaty. See?

C: Yes, sir.

HMJr: And I mean that I did everything humanly possible and I also didn't feel that I could reveal to them what the French were doing because it was French business.

C: I gave quite a bit of that to Johnson when he was down at Basel.

HMJr: Yes, but he's not Secretary of the Treasury.

C: That's what I was going to add; there was of course no one there from the Treasury.

HMJr: No. Well I want you to see the Minister of Finance of Belgium.

- 2 -

C: Yes, sir.

HMJr: And, the point being this, that when you see him - I mean in a very diplomatic way you can tell him that if they are going to have any troubles or make any moves I would appreciate being consulted.

C: Yes, sir. All right, sir.

HMJr: See?

C: Yes.

HMJr: Now I'm also phoning Butterworth and I'm going to tell him to meet you over there, - for two reasons; I want to have him get the information - what they're doing - so he can work with our British friends.

C: I see.

HMJr: And then at the same time I want you and he to compare notes - what happened last week....

C: Yes, sir.

HMJr:to make sure that in moving as fast as we did that both of you knew just what happened.

C: Yes.

HMJr: Because the more I think it over the more I'm shocked at the way the French behaved.

C: You got my telegram from - about my visit at Basel now, haven't you?

HMJr: Yes, I did. And I saw what Montagu Norman said too.

C: Yes. Yes.

HMJr: I'm asking Butterworth to go over there tonight as well.

C: Yes.

HMJr: And I want you both to call on the Ministry of Finance and I want you to spend the day exchanging notes and making sure that both of you know exactly what happened last week. You see?

C: So
Right. /you want us both to go in together to see the Minister then?

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HMJr: Yes. You might as well.

C: All right, sir.

HMJr: Because I am going to tell Butterworth after he gets back to talk it over with Sir Frederick Phillips and just what should we do in case the Belgians should make a move. You see?

C: Yes. Yes.

HMJr: Because after all if they're forced over the precipice it's entirely do to the French.

C: Yes, sir.

HMJr: And I - well, you've got the idea.

C: Oh, yes yes. Absolutely.

HMJr: And I'll have the State Department send you orders but you go on my word.

C: All right. Fine.

HMJr: Will you?

C: Yes, sir.

HMJr: And - is the Ambassador back?

C: Is what?

HMJr: Is Bullitt back?

C: He came back just about the hour I went to Basel.

HMJr: Oh, I see.

C: See, the night that we had that talk with the Minister of Finance - it was nine o'clock when I got out there and then I went on to Basel that night.

HMJr: Oh.

C: And he got in town just about the hour I left.

HMJr: I see.

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- C: And as I was going to the train I stopped by the Embassy here and left a telegram summarizing that BIS report....
- HMJr: Yes.
- C: I see he cut out a lot of it Saturday morning but I guess you got enough.
- HMJr: Yes. Incidentally I have had ample time to tell the President what I've done last week...
- C: You did get a good chance too, yes?
- HMJr: And he approved a hundred percent and didn't feel that I was too strong and maybe I wasn't strong enough.
- C: Well, I'm glad of that because....
- HMJr: I know.
- C: ... the thing has come up here since this gentleman returned.
- HMJr: I know.
- C: ...particularly told me, "Well, to hell with it."
- HMJr: Well, I thought - I didn't know about the gentleman you are talking about but I thought you would like to know that the President thought that I was very moderate.
- C: Yes. Fine.
- HMJr: Very moderate.
- C: Both of those men whom I've quoted, you know...
- HMJr: Yes.
- C: including the one you just mentioned....
- HMJr: Yes.
- C: Well, I was rather reserved - I didn't say much but we rather rough. And then I said, "Well, I was rather rough to them." And they said, "Well, you couldn't have gone too far." They said, "There's no use being diplomatic in a thing like that."

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HMJr: Who said that?

C: Those people across the water.

HMJr: Oh yes.

C: And the one man who said that he had written a stronger note that was sent you see.

HMJr: I know. Well, just as a matter of interest I am showing the President what Montague Norman said.

C: I - he said exactly those words.

HMJr: Yeah. Well, as far - and furthermore, Mr. Hull told the President he was entirely satisfied.

C: Well, we appreciate very much that message which you sent. I mean....

HMJr: Good.

C: ...it makes us feel a little surer here.

HMJr: Good. Well I say Mr. Hull is entirely happy.

C: Yes. Yes. Good.

HMJr: Well, I thought - I imagined what was happening and I....

C: Yes.

HMJr: Well, I haven't been here for five years for nothing.

C: All right. I didn't get that - I am sorry.

HMJr: I've not been here for five years for nothing.

C: No. I should say not.

HMJr: And when you fellows go in the front line the fact is I'm right behind you.

C: Yes, sir. Quite right.

HMJr: O. K.

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C: But let me just tell you one or two little things if I may.

HMJr: Go ahead.

C: The rate over here is one seven seven eighty this morning.

HMJr: Yeah.

C: They brought it down to one seven seven seventy-eight when the bourse opened....

HMJr: Good.

C: Then to one seven seven seventy-five at two-thirty.

HMJr: Yes.

C: But this morning they didn't get in very much; they'd only gotten - well, the Guaranty is buying dollars - they'd gotten one million seven hundred thousand at two-thirty this afternoon.

HMJr: Yes.

C: So the thing has slowed up quite a bit yesterday evening and today.

HMJr: Well, we lost thirty-five million dollars here last week.

C: Thirty-five million?

HMJr: Yes. - Gold.

C: Yes.

HMJr: That's what we lost.

C: The estimates here....

HMMr: Too fast.

C: ...are considerable Bank of Foreign Exchange
francs. but I think it's around twelve billion

HMJr: Twelve billion?

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C: Twelve billion.

HMJr: Well we lost for France thirty-five million in gold.

C: Yes, sir.

HMJr: But we're not showing it.

C: No.

HMJr: We're not going to show it.

C: And the Belga improved just a little bit a while ago.

HMJr: Yeah. Well, when you go over there I'll tell Butterworth that you'll meet him at the Embassy in Belgium.

C: All right.

HMJr: And you give them my best regards and tell them I'll do everything I can to help.

C: Yes. All right.

HMJr: But please to keep me informed.

C: I beg pardon?

HMJr: Tell them please to keep me informed.

C: All right.

HMJr: But I'm sending you there on a mission of cooperation.

C: But there's just one little point in my mind about this...

HMJr: Yes.

C: I mean, I don't want to be selfish but do you think we should both see him and take along someone from the Embassy, I mean, that's the only question I'm uncertain about. You see, they have a new Finance Minister since I was there.

HMJr: Well, I mean, who would you leave behind?

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C: I mean my personal feeling....

HMJr: Yes.

C: ...would be to get Johnson, the Governor of the Bank, with whom I'm very friendly, to take me up there.

HMJr: Yes.

C: The only thing I'm little afraid - talking with too many of them. But whatever you say naturally I do. But when I've been going up there in the past and working that way especially since I've told Johnson the story two days ago.

HMJr: Well, the only thing is this. Butterworth can give them the English side as well.

C: I see.

HMJr: Let's try it out, anyway.

C: All right.

HMJr: You take Butterworth along.

C: Fine. I mean there's no feeling.....

HMJr: Oh no, I know. No. But here they're getting a representative of the United States Treasury from London and from Paris coming and offering them cooperation.

C: All right.

HMJr: That ought to buck them up a little bit.

C: Fine. Fine.

HMJr: All right.

C: We'll explain that we want them to give us a word if they're going to do anything at all.

HMJr: O. K.

C: Fine.

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HMJr: Thank you.

C: All right. I'll go up tonight.

HMJr: Thank you.

C: Thank you.

HMJr: Goodbye.

GROUP MEETING

May 10, 1938.
9:15 a.m.

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

H.M.Jr: Now, Mac, listen, am I to call the Senators ~~or what?~~

McR: Well, I didn't know what Hanes had done. You see, he had been recently confirmed. They said he'd be back this morning at 10 o'clock. I was going to call him and ask him whether he preferred to check with the Senators.

H.M.Jr: No.

McR: Don't want to do that?

H.M.Jr: No.

McR: Well, Steve can do it.

H.M.Jr: Well, what they going to do over at the White House?

McR: Well, they always ask that we do it before they get it over there. Want to ask whether they want to do it?

H.M.Jr: Yes.

McR: All right.

H.M.Jr: Call them on the phone.

McR: I'll call the White House.

H.M.Jr: Call the White House and ask whether they want to do it or whether we should do it. If we should do it, Gibbons will do it.

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Gibbons: What is it?

H.M.Jr: New Assistant Secretary of the Treasury - Hanes.

Gibbons: Have you (McR) talked to the Senators?

McR: No. I'm going to ask the White House whether they want to do it themselves. If not, I'll turn it over to you.

H.M.Jr: Pretty good. Well, anyway, find out, Mac. I'd like it to go up at noon today.

(To Upham) What's the matter?

Upham: Not a thing.

H.M.Jr: No likee?

Upham: Oh yes, fine.

H.M.Jr: Just got a bad arm.

Upham: Yes.

Magill: That's his rheumatism.

H.M.Jr: Let me just talk to you people a minute and explain why I've seen so little of you and what I'm trying to do. I again feel as though I have - how shall I say - am doing something worth while for the first time in a month. And yesterday - of course what I'm saying is absolutely triple confidential in the room - I had five minutes with the President before he saw the leaders, and I told him I wanted him to talk to them. "Well," he said, "talk fast," and I talked as fast as I ever talked in my life, and I told him that I considered that this program of his was still a complete flop and a failure.

He said, "What have you got in mind?"

I said, "Well, what I've got in mind is, I want you to pool all of this money and give it to one agency for spending purposes and for relief purposes, and completely cut out public works - heavy industry - and make it elastic so you can spend as much as you want

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now and less when you want to - completely at the discretion of the President. And let's put everybody to work."

Well, he liked it sufficiently to - when he saw at 11 o'clock - who was there, Dan?

Bell: Taylor, Woodrum, Rayburn and myself.

H.M., Jr: Well, according to Bell, he told them - he said, "Morgenthau has got a new idea." And he said he liked it, didn't he?

Bell: Said it had merit and should receive consideration.

H.M., Jr: And explained it. And then at one o'clock, at lunch, I had a chance to go over it with him again, and I asked him if I'd tie my hand - felt I had to talk. And the result of which - he said, "There's no use doing anything in the House. It's too late." He said he didn't want to throw me to the wolves, but I could go up and talk to Jimmy Byrnes. Well, we went up there, Dan and I, at half past three.

(On phone) Hello. (Has conversation with Butterworth)

I want to tell about yesterday, because I'm quite excited about it. We had from 3:30 up there until about half past five. And after we had gone in, Jimmy Byrnes naturally was floored at the idea that - this complete reversal on the part of the President, I mean, and he kept pressing me, "Well, what you going to do with these people?"

I said, "Well, the thing to do with them - the money - is to give everybody who's on the relief rolls a job. Everybody - everybody who's on the relief rolls a job."

Well, he piped right up and then began to tell South Carolina stories about his factories and the textile people and all the troubles, and now the public works thing never would get around to it.

Then Hopkins came up and Hopkins wouldn't open his mouth for about ten minutes. Completely floored. Hopkins said, "Well, this is taking the thing right up from the gutter way up there."

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Gliphant: Anybody there besides Byrnes?

H.M.Jr: Bell. And he liked it - Byrnes. Bell and I are going there ten o'clock this morning.

And the interesting thing about Hopkins - he has his five people, his five principal supervisors, and they've just been giving him unshirted hell, first, for his radio speech; second, that he's been going along with this program, and they practically told him he's letting the unemployed down. Is that right?

Bell: Yes, sir.

H.M.Jr: And he says - oh, this thing at Cleveland is an example; just like dipping with a teaspoon out of the ocean, just not getting anywhere - he said by 10:30 last night he'd have something on the President's desk telling him what the conditions are. Then he and I came back here and I told him a piece of my mind and I asked him, where was the Harry Hopkins I used to know in New York State? So for the first time in a month I feel again like Henry Morgenthau, Junior. And I think if they do this thing and give everybody on the relief rolls a job - in the first place, the figures that Harry gave us - dollar figures on this thing - it won't cost as much as they're proposing to spend. I mean the money that he asked for was not up to what we had on the pad, and he was amazed when he got the figures. He's got 600,000 certified unemployed now that he's not taking care of, and the figures we gave him - he could take care of another million at least, couldn't he?

Bell: Well, of course, his figure of a billion eight only ran to February 1.

H.M.Jr: I know.

Bell: But he could get by very easily with the three to three and a half billion dollars - carry everybody.

H.M.Jr: Put it up to four million people right away.

Bell: Yes, sir.

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- H.M.Jr: Well, we'll see what's going to happen. Of course, it's - the thing that we have to fight - "Well, it's too late, it's too late. It's over." Well, I think we got to first base with Jimmy and it isn't too late. And of course its coming at this time and all this etiquette about the House - I said, "To hell with the etiquette. The country's on the rocks and let's be man enough to say the program is no good and let's do it all over again." I think I've got - what would you (Bell) say, a 35 percent chance?
- Bell: Well, I think Jimmy Byrnes is sold.
- H.M.Jr: Yes, and Harry.
- Bell: And Harry?
- H.M.Jr: When Harry left here, he was sold.
- Bell: I see.
- H.M.Jr: Harry was beginning to write a speech when he left here.
- Bell: Well, I had an idea that Harry was a little suspicious on the Hill.
- H.M.Jr: Yes. Well, when he came down here - well, naturally, why shouldn't he have been? They've had this thing cooked up for four years. And as he said, he had lunch with Jimmy Roosevelt at one o'clock and Jimmy knew nothing about it. So - but, as I say, this is very intimate, but I'm so happy about the whole thing, because I think there is a possibility of just picking this thing right up and making a difference of - well, everything. And the more I think of it, the more convinced I am. Harry said he had never - well, we've known each other for nine years - never had he seen me so positive and so determined; and I am. I think, I know I'm right.
- Bell: Might tell what Jimmy Byrnes' attitude was toward the opposition Senators.
- H.M.Jr: Well, you tell them; that's very interesting.
- Bell: He said he thought if this program were put up to the Senate that he'd get the votes of Senators Bailey,

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Burke, Clark, ...

H.M.Jr: Glass.

Bell: ... Glass, who would otherwise be opposed to the program that is now submitted in the House, particularly the public works end of it.

H.M.Jr: They'd all go along on this basis.

Bell: And Byrd. I forgot Byrd.

H.M.Jr: Yes, he'd get every one of those fellows to vote for this. In other words, what it means is a reuniting of the Democratic Party, and the fellows can go home with something in their pocket, because we can do this by the first of July. This thing would be going by the first of July, and the other program may be going by the first of January.

Gibbons: The other thing was a flop before it got started.

H.M.Jr: Well, as I say - so I know I've neglected some of you, but I think it was worth while. Now, Bell and I will go to Byrnes at 10. And Taylor, you meet us at Senator Harrison's at 10:30.

Taylor: At his office or at

Magill: Finance Committee room.

Taylor: Finance Committee.

H.M.Jr: And you're going to be there at 10:30, too (to Magill).

Taylor: I'll go down with you, then, Ros.

Magill: Good.

H.M.Jr: George, about a month ago I asked you to work out a program for Edna Lonigan and, the way you nod, you never did it.

Haas: She's done some on it.

H.M.Jr: What?

Haas: She's done some on it and I've been tied up on this other thing. I can get it in a day's time.

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H.M.Jr: Well, will you please work it out? And - now, you take, for instance, Cleveland, where the situation is so acute. Why shouldn't she go out and spend two or three days in Cleveland, and then go on to Detroit; spend a week at Cleveland and Detroit and then come back. Huh?

Haas: Yes, I think so.

H.M.Jr: But she ought to have a regular program, George.

Haas: Uh-huh, I know she should.

H.M.Jr: ~~What?~~

Haas: I know she should.

H.M.Jr: And it's right on you.

Now, the other thing. What about getting that group that you had down here when you made that estimate? Lionel Edie and the fellow from the telephone company and all those - have them come down and spend a day with you, going over business conditions.

Haas: Swell.

H.M.Jr: Will you do that, George?

Haas: Yes. Ayres and that whole crowd.

H.M.Jr: Yes. Give them enough notice to let them come on down. Let's see how they feel.

Haas: Fine.

H.M.Jr: If you could.

Haas: And we can use that meeting also in connection with the revised budget estimates we have to work out.

H.M.Jr: All right.

Now, has anybody got anything that they want me to make a decision on?

Herold, when you going to have your people start in

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at New York and Chicago?

- Graves: I gave to Mr. Magill just now a memorandum submitted by the Commissioner for your approval, extending this Los Angeles set-up to the whole Pacific Coast area, and I suggested to Mr. Magill that after that is approved by you, it might be advisable for you to have a talk with Mr. Helvering about it.
- H.M.Jr: Listen, you fellows - you fellows lie for me. Where do I sign? And this does what, extends it to what?
- Magill: Extends the Los Angeles thing up the Pacific Coast.
- H.M.Jr: Up the Pacific.
- Magill: Washington and Oregon.
- H.M.Jr: But when does it start in New York and Chicago?
- Magill: Well, the theory was this. You can do it the other way. What we had in mind was, if you could have ten minutes with Helvering and congratulate him upon his successful experiment there, and extending it, and so forth, and suggest he go right ahead with New York and Chicago, that's the easiest way to get him to agree on New York and Chicago.
- H.M.Jr: All right. He should have been here yesterday. I had it cancelled.
- McR: Well, he's gone a long ways there, because he's gone the whole way with respect to what we want to do in that zone. But you've got the pattern now for the other places.
- Magill: He's got a lot of opposition in his own shop, and a little sweetening on him would be a very good idea.
- H.M.Jr: would you (Taylor), White, and Lochhead give me a firm recommendation on this thing, instead of a thing like that. Tell me what you think I ought to do, the three of you. The three of you tell me what you think I ought to do.
- Chauncey: Want to give Mr. Helvering a definite appointment?

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H.M.Jr: Not till we find out.

Magill: Well, I'll hold this for a day or two until you ...

H.M.Jr: Herman?

Oliphant: There'll be a vacancy in the legal division over at Coast Guard. Waesche and Mac and I have in mind putting Spingarn in charge over in that little group of lawyers over there. Like to have him.

H.M.Jr: O.K.

Oliphant: Spingarn is working out very well.

H.M.Jr: Anything else? No cracks today?

Oliphant: No cracks.

H.M.Jr: What else?

Oliphant: Well - I mean just "yes" or "no."

H.M.Jr: Listen, this tax commissioner from Chicago is in town, I see, to get the President. Did you see all that?

Magill: Malone.

Oliphant: Who?

Magill: Malone.

Oliphant: Some centuries ago you had an idea about Genesee. You remember that?

H.M.Jr: Yes.

Oliphant: Well, yesterday we got an approved plan finally, and there is coming to you a letter from Douglas.

H.M.Jr: Now, in view of that - this is just for you personally - when I get a breathing spell - I mean that's 24-hour - we ought to take care of that, especially in view of the Genesee thing.

Herbert?

Gaston: I don't

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Oliphant: Opper's reappointment comes through in the regular way. He was appointed for the short term. Expires June 10.

H.M.Jr: As far as I'm concerned

Oliphant: Well, I mentioned it to Mac.

H.M.Jr: Well, all four - I want to handle all four together.

Oliphant: Four.

Magill: The four terms expire.

Gibbons: Want to reappoint the Republican.

H.M.Jr: I recommended that the Chairman of the Board of Tax Appeals call on the President of the United States, to whom he is responsible. See?

Oliphant: Some mighty good papers.

H.M.Jr: Well, shouldn't be.

Oliphant: That's all.

H.M.Jr: Herbert?

Gaston: I haven't anything.

H.M.Jr: George?

Haas: I have nothing.

H.M.Jr: Wayne?

Taylor: On Pershing Hall - why, for a long, long time we've been having difficulties with the American Legion. And inasmuch as they had been having so many difficulties there, why, a bill was prepared by which the State Department was going to take over Pershing Hall and be able to use it for other things in addition to the home for veterans' organizations. We received word officially or semi-officially yesterday through General Drane, former - who is now General Counsel, I believe, and former Commander, that the Executive

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Committee of the American Legion had finally decided that they wished to take it over, and no questions asked, and everything was all right. So we decided to hold up sending down that bill until we've gotten notification from them.

H.M.Jr: Wayne, anything you do, O.K. by me.

Taylor: With Pershing and all.

H.M.Jr: Anything.

Oliphant: I hope I never hear of it again.

H.M.Jr: Have you (Bell) got your hat, so we can go a quarter of ten?

Bell: Upstairs.

H.M.Jr: Better get it.

I'm glad to see Pershing - the boys let us down a little.

Steve?

Taylor: You think that's all right.

H.M.Jr: Steve, just as a politician - a couple of professional politicians, if we give everybody a job between now and the first of July, what will be the attitude on the Hill towards the President?

Gibbons: Oh, my God, just marvelous.

H.M.Jr: What?

Gibbons: Marvellous. Break wide open.

H.M.Jr: Am I wrong?

Gibbons: Oh yes, you're - my God, somebody should have taken hold of that, regardless of how you do it, if you can get results. This thing that we're doing

H.M.Jr: Well, there's no argument about getting results.

Gibbons: No argument at all. You know what happened in '33; appropriated three billion 500 million, and you

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couldn't

H.M.Jr: But your reaction is good.

Gibbons: Oh, I think it's marvelous, just perfectly

H.M.Jr: Well, you might find out where Jim is, because I may want to tell him about it today.

Gibbons: Jim is here, he here all week.

H.M.Jr: Well, I may get hold of him.

Gibbons: You're going to have Senator Walsh and Jimmy Roosevelt bearing down on you on this fellow Goguen.

H.M.Jr: Listen, nobody can bear down on me these days, because I'm just - if I'm up on this level, they just can't reach me.

Gibbons: Well, they're going to come in and talk to me.

H.M.Jr: Well, I can't fuss around.

Gibbons: 161,000 French votes in the State of Massachusetts are going to lose the state.

H.M.Jr: Well, I'm thinking of 120 million people right now, and I know I'm on the right track. I know I'm on the right track.

Gibbons: If you get away with that, it will be the most marvelous thing ever done.

H.M.Jr: Well, somebody's got to turn a terrific somersault. I think he will.

(To Miss Chauncey) Incidentally, 2 o'clock for the White House. I only asked once. See if my stock is holding up.

Harry?

White: There are things of interest in this Cochran's cable to you.

H.M.Jr: I read that, particularly Governor Norman's language.

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- White: Second. Something you said this morning disturbed me a little. In speaking of this program of yours, I was under the impression that you were going to consider, or this committee or whoever was responsible for the expenditures was going to consider, everything that came over the plate with the one idea to put men to work. I understood you this morning to - if I understood you correctly, that there were going to be no public works?
- H.M.Jr: One spending department. There's going to be a Public Works Department. Then they'll spend on public works if
- White: I misunderstood you.
- H.M.Jr: What I am suggesting is that we have a Public Works Department, and there will be a Division of Public Works in that, and everything will be transferred from Public Works over to this Department, just the way it would have been if the bill had gone through.
- Taylor: If the reorganization
- H.M.Jr: If the reorganization had gone through. I'm suggesting a Public Works Department with Harry Hopkins at the head of it and a Division of Heavy Industry in that, see?
- White: I misunderstood you. I thought you said no expenditures on heavy industry.
- H.M.Jr: No, no, be a division. Am I right, Dan?
- Bell: Yes, but no expenditures on the heavy stuff unless it can be started within a reasonable time - not next spring.
- H.M.Jr: We mean first of July.
- White: That's right.
- H.M.Jr: We've argued that whatever they've got - 2, 3, 4 hundred million - whatever they have, we'd let the contracts at once, but if they haven't got it, out the window. In other words, I'd give them between now and the first of July to let the contracts.

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If they can't let the contracts by the first of July, but the window.

Cy?

Upham: I'm still spending these nice afternoons locked up with three smokers.

H.M.Jr: Well, Cy, this doesn't make sense to me, so

Bell: Smoke in your eyes.

H.M.Jr: ... so talk it over with Wayne Taylor.

Upham: All right, surely.

H.M.Jr: And

Upham: Do nothing in the meantime, huh?

H.M.Jr: Well, I don't know - who's coming down - the economist?

Upham: His name is Donald Marvin.

H.M.Jr: Who's hiring him?

Upham: The Comptroller is thinking of it.

White: Well, that's strange; Feis called me up about him and Viner spoke to me about him; said we'd be interested in seeing him - I understood for a job here.

H.M.Jr: Now, will you consult McReynolds, White, Taylor, and Haas, and whatever you fellows agree - check?

Upham: Check.

H.M.Jr: You're (Graves) coming over for me to say Right? You look very healthy.

Graves: I feel very fine.

H.M.Jr: Is this spot (bald pate) O.K.? Good no more.

Graves: As good as ever.

H.M.Jr: All right. Mac?

McR: I'll take care of this - Elmer Irey's.

Tuesday
May 10, 1938
9:24 am

Operator: Go ahead.

HMJr: Hello. Hello.

Butterworth: Hello.

HMJr: Hello, Butterworth.

B: Mr. Secretary.

HMJr: How are you?

B: Very well, thank you, sir.

HMJr: Butterworth, I'd like you to go over to Brussels tonight....

B: Yes, sir.

HMJr: ...and meet Cochran there at the Embassy in the morning.

B: Right.

HMJr: My instructions are that the two of you will go and call on the Minister of Finance.

B: Uh huh.

HMJr: Tell him that - everything that I did last week to try to make the French be reasonable.

B: Yes.

HMJr: That you two gentlemen are coming there to offer our cooperation....

B: Uh huh.

HMJr: ...that the fact that - this I'm telling you very roughly but you fellows can tone it down...

B: Yes.

HMJr: ...the fact that the French behaved the way they did it should not be thought by the Belgians that they can do likewise if they so wish.

B: Yes.

- 2 -

HMJr: And that I would greatly appreciate it that if they had anything in mind that they would first consult not only with us but of course with the English as well.

B: Yes.

HMJr: And furthermore, after you've seen him I want you and Cochran to carefully go over what happened last week to make sure that both of you know what the other fellow did.

B: Right.

HMJr: And I want you particularly to get from Cochran all the stuff that Montagu Norman spilled over.

B: Yes.

HMJr: And how he feels.

B: Yes.

HMJr: And I thought it was particularly worth while because the Belgian situation is so critical and I thought it would be a nice act if the two of you walked in and called on this gentleman. You see?

B: Right, sir.

HMJr: Now, you'll get instructions confirming this but I only got this idea shaving this morning....

B: (Laughs)

HMJr: ...so you people go on over.

B: Right, sir.

HMJr: For your own information I had a chance to tell the President in full what happened last week.

B: Right, sir.

HMJr: He's in complete accord and if anything, - felt I was a little too moderate.

B: Uh huh.

HMJr: And I thought in view of what happened on both sides for you and Cochran that you'd be pleased to know that.

B: All right, sir. Thank you very much, sir.

HMJr: And Mr. Hull is also...

B: ... how thankful I am for your kind message.

HMJr: Well, you earned it.

B: I appreciate it very much.

HMJr: And Mr. Hull is in complete support.

B: Well, that's....

HMJr: So if some of the other people along the line aren't it's just too damn bad.

B: Yes, sir.

HMJr: So, if you don't know what I mean you can learn it from Cochran.

B: Ah - may I fly to Brussels with the Ambassador?

HMJr: Pardon me?

B: May I fly to Brussels Mr. Secretary?

HMJr: May you do what?

B: Fly - go by plane.

HMJr: Yes. Surely.

B: All right.

HMJr: Surely. Yes. Surely. What else do you want?

B: No, that's all, ^{sir} I just want to fly.

HMJr: Well, (Laughs) as long as you land it's all right.

B: .. air.

HMJr: Happy landings.

- 4 -

B: Thank you very much, sir.

HMJr: All right.

B: And are the instructions coming on, sir?

HMJr: Yes. They'll get them off right away.

B: All right. Thank you very much, sir.

HMJr: But you get the idea,

B: I get the idea.

HMJr: And I have no objection to your telling the British ~~Treasury~~ Treasury you're going.

B: You have no objection?

HMJr: No.

B: All right, sir.

HMJr: All right. Thank you

B: Thank you very much, sir.

HMJr: Goodbye.

B: Goodbye.

Tuesday
May 10, 1938
12:50 p.m.

HMJr: Hello.

Operator: Mr. Butterworth.

HMJr: Hello.

Butterworth: Hello, Mr. Secretary...

HMJr: Hello.

Butterworth: Hello, Mr. Secretary?

HMJr: Yeah.

B: This is Butterworth.

HMJr: Go ahead.

B: I had a word with Waley....

HMJr: Yeah.

B: ...who in turn called up the Bank of England.

HMJr: Yeah.

B: And the Bank said that whereas the Belga had been under considerable strain last week at the moment things seemed better...

HMJr: Yeah.

B: ...and the forward rates seemed to have moved in somewhat.

HMJr: Yes.

B: Likewise the Bank rate in Belgium has been increased from two to four percent today.

HMJr: Yes.

B: Now, I have also been thinking about the question of this trip.

HMJr: Yes.

- 2 -

B: But - I mean I know you won't mind if I tell you frankly my feeling about the situation.

HMJr: Go right ahead.

B: Two reasons seem to me to argue against my going.

HMJr: Go ahead.

B: In the first place if the press should find out that both Cochran and I have converged on Brussels...

HMJr: Yes.

B: ...they would undoubtedly make a story of it.

HMJr: Yes.

B: Which would do the Belga no good if it gets in the papers.

HMJr: I see.

B: And Brussels is a very small town...

HMJr: Uh huh.

B: It would be pretty difficult to keep it under cover I think.

HMJr: Uh huh.

B: And secondly it seems to me that Cochran has gone alone to Brussels on your behalf many times.

HMJr: Yes.

B: And I think if anyone else accompanied him now it might be misunderstood by the Belgian authorities and it might tend to impair his position with them.

HMJr: Well, I wanted to do it....

B: .. to Cochran or to you.

HMJr: No. Well, Cochran - I was just doing it so that you - well, to bring you up to date.

B: I know.

- 3 -

HMJr: And Cochran can do it.

B: Those two things would make it rather difficult. I think if Cochran could do it alone rather than for me to accompany him....

HMJr: Well, let me think a minute. Will you hold the wire?
(Short pause)

HMJr: Hello.

B: Yes, sir.

HMJr: Since I've talked to you....

B: I can't hear you.

HMJr: Since I have talked to you this morning...

B: Hello.

HMJr: Hello.

B: Hello. (very faint)

HMJr: Hello - hello.

Operator: One moment please.
(Short pause)

O: Your party, sir.

HMJr: Hello.

B: Yes, sir.

HMJr: Since I've talked to you this morning the Belgian Ambassador here got all upset....

B: Yes.

HMJr: ...because there was a piece in the paper this morning that the Belgian Ambassador had been in last week to see Taylor. See?

B: Yes.

HMJr: And the Belgian Ambassador has been running around like a chicken with its head cut off.

- 4 -

B: Yes.

HMJr: And insisting that we give out a statement and all this kind of stuff.

B: Yes.

HMJr: So, as far as I'm concerned it's important that Cochran go but not important that you go.

B: Yes.

HMJr: And I'm more than willing to follow your hunch.

B: Well, that's very good of you, sir, and I think it's right.

HMJr: Well, I would do that but I think you'd better - ah - well, I'll get off a cable to Cochran to be given to him at the Embassy in Belgium - that you're not coming; I've changed my mind.

B: And if there's a question of my conferring with Cochran I could go over and see him after he gets back toward the end of the week.

HMJr: Well, let's see how it develops. In the meantime the Belgians here are terribly excited.

B: Well,
Yes. / In the meantime then I - we let it rest.

HMJr: That's right.

B: Yes. Well, thank you so much.

HMJr: That's all right.

B: I'm very appreciative of everything.

HMJr: All right.

B: Goodbye, sir.

HMJr: Goodbye.

MEMORANDUM OF THE DAY'S ACTIVITIES

May 10, 1938

To: The Secretary
From: Mr. Magill

1. Tax Bill

I have received a number of calls from Members of Congress and outside lawyers respecting the inventory amendment and the liquor amendment to the tax bill. The inventory amendment grants special treatment to copper smelters, tanners and brass manufacturers. Senators King and Lonergan, however, are not satisfied with the provisions of the bill but want them extended further. Mr. Fred Lee, representing the Distillers Institute, called me from New York to say that representatives of the Institute wished to see me tomorrow regarding a floor stock tax.

2. Future Tax Legislation

Mr. Oliphant, Mr. McReynolds and I have worked out a proposed set-up which I should like to outline to you at your convenience.

3. New York and Chicago Settlement Units

Mr. Graves tells me that orders setting up Settlement Offices in New York and Chicago, similar to the office now in operation in Los Angeles, can be promptly issued, since the personnel for the work is available and since the form of organization has now been worked out in Los Angeles. We thought that the best method of procedure, if agreeable to you, would be for you to call in Mr. Helvering, advise him of your approval of the new order extending the jurisdiction of the Los Angeles group to the other Pacific Coast States; and then to suggest to him that similar units should be established at once in Chicago and New York. A good deal of pressure is being exerted on Mr. Helvering to stop the further extension of the Los Angeles plan of Revenue Administration. He has gone along very well to date and if he knows that you want to see the plan extended throughout the Country there will apparently be no difficulty so far as he is concerned in proceeding promptly with our plans.

RM

May 10, 1938

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

Most of the discussion had to do with the situation with respect to the devaluation of the franc, and Mr. Morgenthau and Mr. Taylor between them detailed the events that led up to the action by the French and the differences that had developed by reason of the action. Mr. Morgenthau referred to the "outrageous performance" on the part of the French Government, and expressed the view that the present members of the Cabinet in that country could not be trusted.

At the close there was some discussion of the conferences with respect to uniformity in bank examination practices, Mr. Hanson and Mr. Eccles expressing the view that the bankers consulted by Mr. Morgenthau didn't know anything about the problem and that a wholly different type of bank official should have been consulted--those who have grown up in the banks and acquired a familiarity with the details of banking operations. Later, Mr. Eccles said that he hoped the heads of the supervising agencies reached a complete disagreement because that was the quickest way to get the whole subject out into the open. He plans within the next six months to make a speech giving his views as to how and where bank examinations should be conducted.

Upm

FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

May 10, 1938

SMALL HOME MORTGAGE INSURANCE

During the week ending May 7, mortgages selected for appraisal with one small office not reporting, numbered 4,831 amounting to \$22,153,060. For the corresponding week of 1937, 3,173 mortgages were selected for appraisal amounting to \$13,467,451. For the past week approximately 54%, or 2,597, mortgages covered new homes to be constructed and during the week construction was started on 1,537 new small homes.

LARGE SCALE HOUSING PROJECTS

During the week insurance was closed on one new project valued at \$1,900,000, making a total of 39 projects valued at \$37,000,000 premium paying as of that date. Of these, 18 projects for approximately \$19,000,000 are in operation. Financing was arranged during the week on 4 new projects making a total of 25 additional projects valued at \$25,000,000 on which financing had been arranged as of May 7.

PROPERTY IMPROVEMENT LOANS

As of May 7th, more than 2,200 lending institutions were reporting notes for insurance and during the week 6,983 notes for \$3,220,978 were accepted for insurance, making a total under the new amendments of approximately \$22,000,000 in property improvement loans insured.

FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D.C.

WEEKLY VOLUME OF INSURING OPERATIONS

For 1938 and corresponding Period of 1937

HOME MORTGAGES SELECTED FOR APPRAISAL

Week Ending:	1938		1937	
	No.	Amt.	No.	Amt.
Jan. 8	1,286	\$ 5,483,184	1,967	\$ 8,565,680
" 15	1,504	6,331,200	2,286	9,866,860
" 22	1,711	7,399,975	2,167	9,447,127
" 29	1,888	8,180,840	2,272	10,091,713
Feb. 5	1,982	8,571,895	2,306	9,721,165
" 12	1,988	8,787,105	2,701	11,088,008
" 19	2,219	10,025,800	2,765	11,764,089
" 26	2,775	13,100,250	2,825	11,747,954
Mar. 5	3,899	17,613,402	3,244	13,683,500
" 12	4,470	20,386,711	3,405	14,176,560
" 19	4,697	21,293,061	4,085	16,879,710
" 26	4,863	22,568,219	3,476	14,970,848
Apr. 2	4,713	21,414,849	3,617	15,366,435
" 9	5,037	23,242,102	3,516	15,414,023
" 16	4,483	20,388,480	3,481	15,234,425
" 23	5,078	22,994,647	3,796	16,017,126
" 30	4,912	22,464,595	3,613	15,234,773
May 7*	4,831	22,153,060	3,173	13,467,451

* One insuring office report not received.

FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

WEEKLY VOLUME OF INSURING OPERATIONS

For 1938 and corresponding Period of 1937

MORTGAGES ACCEPTED FOR INSURANCE

Week Ending	1938		1937	
	No.	Am.	No.	Am.
Jan 8	943	\$ 4,035,500	1,462	\$ 5,831,275
" 15	1,101	4,542,900	1,756	7,241,615
" 22	1,088	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	7,702,600
" 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	8,388,400	2,388	9,781,500
" 26	2,290	9,990,900	2,497	10,298,350
Apr 2	2,642	11,601,700	2,602	10,856,395
" 9	2,947	12,703,400	2,898	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
" 30	3,517	15,676,900	2,641	11,800,100
May 7*	3,326	14,291,200	2,615	10,441,900

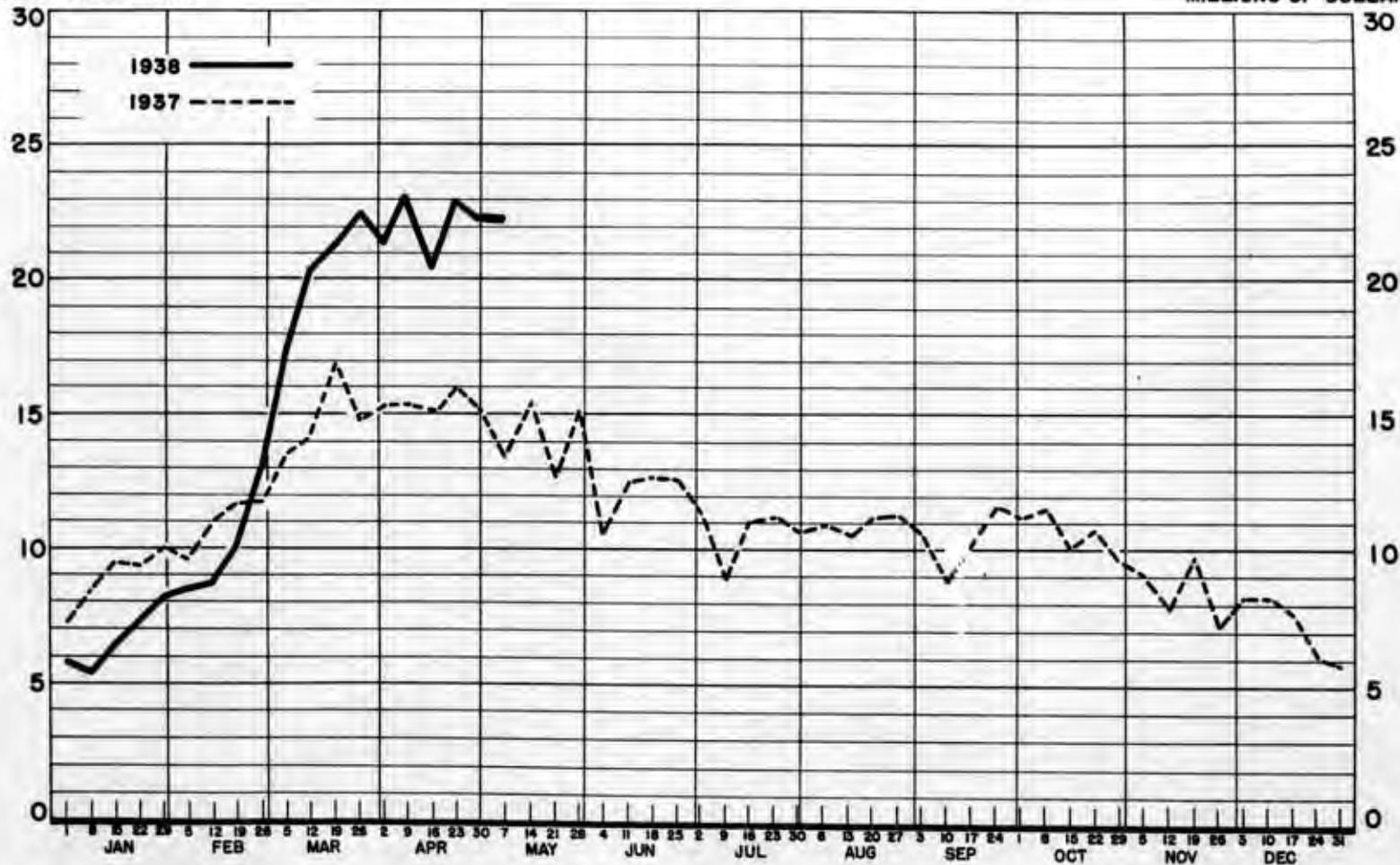
* One insuring office report not received

WEEKLY VOLUME OF HOME MORTGAGES SELECTED FOR APPRAISAL

AMOUNT REPORTED BY INSURING OFFICES AT END OF EACH WEEK

MILLIONS OF DOLLARS

MILLIONS OF DOLLARS



SR-1038-1
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DIVISION OF ECONOMICS & STATISTICS
OPERATING STATISTICS SECTION

EMPLOYMENT ON WPA PROJECTS, BY STATE
UNITED STATES AND TERRITORIES

Weeks Ending May 7 and April 30, 1938
(Partially Estimated - Subject to Revision)

State	Number of Persons Employed		Increase (+) or Decrease (-)
	Week Ending May 7, 1938	Week Ending Apr. 30, 1938	
GRAND TOTAL	2,608,178	2,583,364 ^{A/}	+ 24,814
CONTINENTAL UNITED STATES	2,606,198	2,581,334 ^{A/}	+ 24,864
Alabama	40,630	40,159	+ 471
Arizona	9,625	9,493	+ 132
Arkansas	35,582	35,787	- 205
California	94,440	94,688	- 248
Northern	49,211	49,877	- 666
Southern	45,229	44,811	+ 418
Colorado	28,304	28,359	- 55
Connecticut	22,084	22,266	- 184
Delaware	3,239	3,282	- 43
District of Columbia	8,054	7,998	+ 56
Florida	33,217	33,006	+ 211
Georgia	43,516	42,963	+ 553
Idaho	11,218	10,991	+ 227
Illinois	208,872	206,355	+ 2,517
Indiana	92,767	93,087	- 320
Iowa	33,701	33,490	+ 211
Kansas	36,034	36,232	- 198
Kentucky	57,440	55,986	+ 1,454
Louisiana	31,513	31,607	- 94
Maine	8,019	7,897	+ 122
Maryland	12,309	12,286	+ 19
Massachusetts	106,669	107,047	- 378
Michigan	155,649	146,704	+ 8,945
Minnesota	60,808	60,776	+ 32
Mississippi	32,366	31,616 ^{A/}	+ 750
Missouri	94,103	92,350	+ 1,753
Montana	19,270	19,489	- 219
Nebraska	28,817	28,951	- 134
Nevada	2,241	2,378	- 137
New Hampshire	8,395	8,449	- 54
New Jersey	91,095	91,161	- 66
New Mexico	9,950	10,022	- 72
New York City	160,677	159,217	+ 1,460
New York (Excl. N.Y.C.)	55,309	54,672	+ 637
North Carolina	33,956	33,768	+ 188
North Dakota	13,110	13,439	- 329
Ohio	233,582	230,637	+ 2,945
Oklahoma	64,606	62,651	+ 1,955
Oregon	16,811	16,913	- 102
Pennsylvania	230,432	227,635	+ 2,797
Rhode Island	14,132	13,728	+ 404
South Carolina	32,559	32,429	+ 130
South Dakota	15,284	15,279	+ 5
Tennessee	32,354	32,139	+ 215
Texas	81,522	80,937	+ 585
Utah	10,668	10,736	- 68
Vermont	4,990	5,090	- 100
Virginia	23,102	23,101	+ 1
Washington	44,300	45,362	- 1,062
West Virginia	42,962	42,932	+ 30
Wisconsin	71,406	71,206	+ 200
Wyoming	4,513	4,586	- 73
Small	1,980	2,030	- 50

^{A/} Revised.

May 11, 1938

Employment figures.

Week ending May 7	2,608,178
Increase over week ending April 30	24,814

May 11, 1938.
9:34 a.m.

H.M.Jr: Hello.

Operator: Chairman Douglas.

H.M.Jr: Hello.

Operator: Go ahead.

William O.
Douglas: Hello.

H.M.Jr: Morgenthau speaking.

D: Good morning, Mr. Secretary.

H.M.Jr: Good morning to you. In the first place, on Hanes - I got a little mixed up and shot too fast, and it's entirely my fault. I want you to know that. Hello.

D: Hello.

H.M.Jr: But I've had so much on my mind that if I don't make more mistakes - I wouldn't be surprised at myself.

D: Yes, I know how you feel.

H.M.Jr: I mean I pulled a bull and it's entirely my fault.

D: Yes.

H.M.Jr: I want you to know that. I mean the fact that I moved faster - I was confused on it. Thought it was just - I thought it was just a question of getting the President to O.K. it. When the President said, "Send his name up," I thought that ended it, you see?

D: Yes.

H.M.Jr: Now, he was over here yesterday, and what I want to ask you, before I talk to the President again - when do you feel that you could release him from over there?

D: I think that - ah - I think I mentioned to you^{perhaps} over the phone when we talked before - I do remember mentioning it to the President, and he mentioned it

-2-

to me - that I'd like very much to have Johnny see it through - this new program on the Stock Exchange.

H.M.Jr: Yes.

D: The new management went in yesterday.

H.M.Jr: Yes.

D: Or rather they're going in next Monday. They were elected this last Monday.

H.M.Jr: Yes.

D: They're going to get their new paid President rather soon, I think.

H.M.Jr: Yes.

D: And I think in the next six weeks we can settle on the agenda with the Exchange, which will put the S.E.C. back in Washington, so to speak, and leave the Exchange in - in their hands for running on the new program.

H.M.Jr: Yes.

D: I'm hitting for July first.

H.M.Jr: Oh my God! You don't need him till then full time.

D: Huh?

H.M.Jr: You don't need him till then full time.

D: Ah - well, I'm - I'm pessimistic.

H.M.Jr: Well, I mean the point is that - on both of us - we have to fill it before Congress goes home.

D: Oh sure, that's all right.

H.M.Jr: Well, think - I mean about letting his name go up and getting him confirmed.

D: Oh, that's all right.

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- H.M.Jr: And then maybe I can make a deal with you - either I could have his afternoons or mornings, something, like that.
- D: Well, what I'm getting at is this. It's not material, as I see it, from this point - from this shop, ...
- H.M.Jr: Yes.
- D: ... whether his name goes up now.
- H.M.Jr: Oh.
- D: It is very material whether or not his body passes over to you, so to speak.
- H.M.Jr: Well, suppose
- D: (Laughs)
- H.M.Jr: Supposing we send his name up. You say that's agreeable.
- D: Yep.
- H.M.Jr: And then we made some arrangement which was agreeable to you as to him that we have a half a day out of him.
- D: Well, what I'm getting at is this. What I'm trying to say is this. It seems to me that as I view it now
- H.M.Jr: Yes.
- D: ... we have a hell of a lot of this clean-up work to do between now and July first.
- H.M.Jr: Yes.
- D: And it's going to take an awful lot of energy and time, and I'm just leaning on Johnny to do it.
- H.M.Jr: I see.
- D: You see?
- H.M.Jr: Yes.

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- D: And I - I - we've got - we've got this thing so far to being home
- H.M.Jr: Yes.
- D: ... that I don't want to, with all this nine months of very tough work back of us,
- H.M.Jr: Yes.
- D: with a miracle job having been done to date, ...
- H.M.Jr: Yes.
- D: ... to have her slip back into the swamp.
- H.M.Jr: I see.
- D: You see what I mean?
- H.M.Jr: Well, can I say this to the President: you have no objection to his name going up now, or any time.
- D: That's right.
- H.M.Jr: Is that right?
- D: That's right.
- H.M.Jr: Then the question of when he could begin to give us a little time, we'll have to - you want to talk it over with him and talk it over with us. How's that?
- D: Yes. And what I'm shooting for generally is July first ...
- H.M.Jr: I see.
- D: ... for the liquidation of the job that - the Primary job that Johnny came down to do.
- H.M.Jr: And you're not saying that you're not going to let him spend some time over here.
- D: Beg pardon?
- H.M.Jr: I mean - I say you're not saying that he couldn't spend some time over here.

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D: No, I'm not saying that.

H.M.Jr: No.

D: I'm - all I do think at this time is that it's pretty close at least to a - a full-time job.

H.M.Jr: Well, it's six weeks. I understand. And I appreciate that.

D: Yes.

H.M.Jr: And his attitude is that he wouldn't come unless you were satisfied, because he gave you your word that he'd stay until the first of July and clean it up.

D: Yep.

H.M.Jr: So he won't do anything if you're not satisfied.

D: Yes.

H.M.Jr: See?

D: Yes, I know. He's - he's very intensely interested in getting this Stock Exchange

H.M.Jr: Now, I - I didn't know that you'd talked to the President, so that makes me - my conscience a little easier, because then

D: No, you see, this

H.M.Jr: It's on the President and me both, because the President gave me a green light on this.

D: Sure, you see, the President said that you had mentioned Hanes to him and wanted - and that you were going to talk to me.

H.M.Jr: That's - which I did.

D: Which you did.

H.M.Jr: Yes. Yes.

D: The President said, "Is it all right?" Well, I said, "On one condition."

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H.M.Jr: Yes.

D: "I hate like hell to see Johnny go under any conditions, and I certainly would be opposed to him going right now, "

H.M.Jr: I get you.

D: "... leaving us high and dry on this Stock Exchange thing."

H.M.Jr: Well, I understand the picture now. And would you tell Hanes I called you?

D: I'll do that.

H.M.Jr: Thanks so much.

D: O.K.

H.M.Jr: Good-bye.

D: Bye.

GROUP MEETING

May 11, 1938.
10:15 a.m.

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

Gaston: Happy birthday.

H.M.Jr: Thank you.

Taylor: Happy returns of the day.

H.M.Jr: Have you (White) got that letter - the draft?

White: I guess this is what you have reference to. (Hands to Secretary)

H.M.Jr: How's Irely?

McR: He's a little better.

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

McR: Seems a couple years ago, you know, he had heart trouble. Put him on his back for a month. Got it again.

H.M.Jr: Anything I can do?

Chauncey: Write him?

H.M.Jr: Yes - that I'm sorry and I hope he gets well.

McR: He hasn't been in condition that you can see him. As a matter of fact, they had him under the oxygen tent day before yesterday for a while. He's come out of it.

H.M.Jr: (On phone) Colonel McIntyre. - Hello. -
Keep after it.

(Gibbons comes in)

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H.M.Jr: What else do you know?

You (Upham)?

Hello, Steve.

Upham: We're going back in session at 11. The agreement that we all thought we had reached night before last was upset yesterday. That Federal Reserve man said he didn't agree, so - and since Mr. Eccles said he hoped we reached a complete disagreement, I don't see much hope for getting it today. He told me yesterday that he hoped we didn't get any place.

H.M.Jr: That's nice.

Upham: So I'm afraid we won't get very far.

H.M.Jr: Well, if we don't we'll just go ahead anyway. Now, the thing that I do want, if possible, is something on this so-called marketability.

Upham: We're going at that now. Of course, that's something that ought to take a little time.

H.M.Jr: Well, I'd take all the time necessary, but I still want to hit that and I want to hit that hard. And if we can't get it on the other, if we could get that out of the thing and agree amongst ourselves, see, I'd take all the time that's necessary. And if that's Mr. Eccles' attitude, we'll just - after this we'll just drop him out, that's all; we won't work with him - Federal Reserve Board, and I'll tell him so.

Upham: He thinks no agreement now will bring a final settlement of the whole thing quicker.

H.M.Jr: All right, we'll work without him, and I can work with Crowley and the Comptroller's office, and we'll work with them - and the state banking people, and to hell with the Federal Reserve Board. Just the hell with them - and I'll say so publicly. I'll say that they refused to cooperate and therefore I'm going to work with the F.D.I.C. and with the Comptroller's office, and I don't mind - if that's their attitude, I'll tell Eccles myself, the hell with him. I mean they're simply trying to force this issue in order to get

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legislation and to get these things over in the Federal Reserve, and I'm not going to stand for it. And I'll take my chances with the banking community as against Mr. Eccles any day.

Upham: Well, we'll still keep at it.

H.M.Jr: You keep at it. But I want the marketability, if they can do something on that. I know it's a move in the right direction.

Oliphant: Foley has seen you (Upham) about it?

Upham: (Nods yes)

H.M.Jr: This gets down to a question of legal interpretation of a word, and I want to go into that whole question myself.

Oliphant: I'm seeing Foley on it.

H.M.Jr: See if we can do that. That's where the shoe pinches.

Upham: Yes, we need lots of help.

Oliphant: Huh?

Upham: We need lots of help on that.

H.M.Jr: I mean if we could pull that out, it would be a really good stroke. You agree on that, Wayne, don't you?

Taylor: Yes.

H.M.Jr: What?

Taylor: Absolutely.

Gibbons: That's from that gentleman - Mrs. Morgenthau had lunch with him the other day. Said not so much you, but Mrs. Morgenthau.

H.M.Jr: Oh yes, yes.

Gibbons: He's a breezy sort of chap. Said, "I don't care whether you tell the Secretary, but be sure and convey my respects to Mrs. Morgenthau." Just joking.

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Board of Tax Appeals appointments. Jimmy Roosevelt's office called yesterday, and Pat Harrison is bearing down on them about Tyson. Now, Jim Farley says he doesn't know whether the boss wants to go along or not. Pat told Jimmy that you had said you had sent the recommendations over, and Miss Durand telephoned me that there wasn't any recommendation. I said, "What the Secretary meant "

- H.M.Jr: That isn't correct. Pat Harrison himself said, "Why don't you people get together?" He said, "I sent this thing over to Jimmy Roosevelt. Jimmy Roosevelt's secretary sends me word that the matter is on the President's desk." ~~And he's got a letter to that effect, see, from Jimmy Roosevelt.~~ "Then," he said, "I get a letter from your secretary saying that the matter has been referred to you by the White House." I'd like to see whether we wrote such a letter to Pat Harrison. And I'm insisting that the President should consider that it shouldn't be on my desk, it should be on the President's desk. I'm going to tell you just the same as we told Oliphant yesterday. And Magill can check me. We have recommended that all four be reappointed. Is that right?
- Magill: That's right.
- H.M.Jr: And I'm going to stand on that basis. I'm recommending the reappointment of all four.
- Gibbons: To the President.
- H.M.Jr: To the President. All four should be recommended.
- Gibbons: I took it on myself to call Jim Farley to ask him if he had discussed it with the President. Didn't say yes or no. I'm afraid the boss, as he calls him, might not go along on Tyson. I think he'd make a great mistake.
- H.M.Jr: I'm taking the position that all four should be reappointed.
- Gibbons: Well, would it be all right for me to talk to McIntyre and ask

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H.M.Jr: We haven't written that, have we?

Magill: No, I don't think so. Not that I know of.

H.M.Jr: Well, why don't you prepare a letter for my signature to the President that I recommend the reappointment of all four? That ends that argument.

Gibbons: I think it would be a good idea to get it over there.

H.M.Jr: All right, do it this morning. I recommend the reappointment of all four.

Gibbons: Including the Republican. That's very, very vital, because the Board is unbalanced now.

H.M.Jr: I recommend the reappointment of all four, see?

Gibbons: Lieutenant Olsen is right here, any time you want to do that thing - at your pleasure.

H.M.Jr: Let's see, 10 o'clock tomorrow morning.

Gibbons: 10 o'clock tomorrow morning.

H.M.Jr: Have something on a piece of paper, so I know what it's all about.

Gibbons: I'll talk to Mr. Gaston. For the newsreels. This is the first time

Gaston: You have no objections?

Gibbons: I think we ought to do it.

H.M.Jr: I have no objections. 10 o'clock tomorrow morning.

Lochhead: Foreign markets are very quiet.

H.M.Jr: Harry? Oh, did you (McR) - have you had a chance to see this fellow?

McR: Blaisdell?

H.M.Jr: Yes.

McR: He's probably in my office. I told him to come over

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at 10:30. Got him late last night. Thought it would give me time to ...

H.M.Jr: Let me know. Wayne?

Taylor: Just had a call from Senator Bulkley in which he says that they're having hearings on the housing - the Home Loan Bank amendments, and wanting to know whether we want to be heard on them or not. Said that they'd like to hear from us tomorrow if we do wish to be heard.

H.M.Jr: Well, do we?

Taylor: Well, we've got everything in there, as I understand it, except a guaranty by the Treasury.

H.M.Jr: Do you want to go up and state the Treasury's position?

Taylor: I'd just as soon.

H.M.Jr: Well, I'd like you to. Like you to very much. You are familiar with it, aren't you, now? Will you do that?

Taylor: (Nods yes)

H.M.Jr: Fine. What else?

Taylor: That ought to be enough for one day.

H.M.Jr: George?

Haas: Just how soon would you like to have this group of business forecasters? Early next week?

H.M.Jr: Give them time. Have them come down Tuesday.

Haas: I'd like to add another one to that list - Chandler of the National City.

H.M.Jr: All right.

Haas: He's very good.

H.M.Jr: If they come Tuesday, I'd have them have lunch with me.

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Haas: All right, that's fine.

The other thing, I'm going to try to get in that program you asked me about. I'd like to ask you a question about it. Seems to me that involves - I got a brain wave, which makes a much bigger job out of it. Want to discuss it with Mac. Seems to me that would involve all the material you need to follow this whole relief expenditure.

H.M.Jr: Well, think it through, will you?

Haas: Uh-huh. Uh-huh. The other thing is that - it's in this book - steel price situation. Until it is settled, I don't think anybody will buy much of any steel. If they dropped the steel price sharply, so people would believe that that was the end of it, I think it would be very helpful in increasing the whole outlook, improving the whole outlook for the steel industry. Of course, that is involved in the steel study your committee is working on.

There is one there that looks exceptionally good. They must have run into some kind of - Radiator.

H.J.Jr: Which, Cannon?

Haas: Radiator.

H.M.Jr: What I had sort of vaguely in mind in regard to Blaisdell - I heard he was possibly loose - was to have him come over, and he would naturally go on your (Haas) staff as an economist, and he would be attached to you, but be economist for Procurement on buying.

Haas: Very excellent.

McR: I talked to George on that particular angle.

H.M.Jr: He can go to you, but be economist for Procurement.

Haas: Very badly needed.

H.M.Jr: George?

Haas: Very good.

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- H.M.Jr: On prices. On buying, not on commodities.
- McR: Buying program. To balance it.
- H.M.Jr: And then on this so-called - well, this whole question, for instance, which I've never been satisfied - had Mac on it for six to nine months, studying setting up sort of a War Board - War Industries Board on buying: Navy, Army, Hopkins, and all the rest of them - when they should buy and all that business. Mac?
- McR: I heard you.
- H.M.Jr: I just wasn't sure.
- McR: Well, I told - I talked to George this morning on that very question.
- H.M.Jr: If you get these things - I can't do all these things through - the President asked about it yesterday, but I don't know what they're doing, whether they're speeding it up or not.
- Has: Very good.
- H.M.Jr: I mean that's the idea.
- Olyphant: There is one angle of that I'd like to mention. Came to me from Shirrey, head of technical staff - technical division over at Straus's shop. Background was that Straus went over to the President and the President said, "You have to get your staff money out." He went back, talked to his technical staff. They said he couldn't get it out except in supplies. He wrote to the Treasury, asking that the Treasury purchase such supplies.
- H.M.Jr: Has that never been answered?
- McR: That was put in Peoples' hands.
- H.M.Jr: Never answered? Will you find out, Mac? I know about that. It's only about a month old.
- Olyphant: Well, I think Collins - I heard that Collins had taken it up informally with the Comptroller General. Comptroller's first reaction has been unfavorable. I

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don't think the problem has been studied by the Comptroller General.

H.M.Jr: Could you (Chauncey) look up when you go out of here - the President told me that Aubrey Williams had taken care of everybody on work relief.

Chauncey: I remember you came back from the White House and said that.

H.M.Jr: Look that up, please.

Anything else, George?

Haas: I got one other thing. Probably Miss Reynolds sent in the Times index as it is reported today - Electric Power up four-tenths.

H.W.Jr: I haven't got it.

Haas: Power figure was up.

H.M.Jr: Would you (Gaston) look up for me - read the Cleveland papers for the last week and you yourself personally digest this - what the hell is the trouble there on this whole unemployment thing, what's going on in Cleveland. I don't want anybody else to do it. Want you to do it yourself. I want to know - I'd like to have it at the house by tonight - what's the trouble in Cleveland.

Gaston: Yes.

H.M.Jr: Will you, Herbert, please? anything else?

Gaston: United Press put out a story this morning that Hanes was being considered for Assistant Secretary. Of course, the other boys have been asking me about it.

Lochhead: Jones put out a later report that he was not.

H.W.Jr: Well, I've just got to sit tight on it.

Gaston: I told them I couldn't confirm that.

H.M.Jr: Incidentally, now

(On phone) Commissioner Hanes, S.E.C., please.

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- Gaston: I sent Dick Stevenson from Newark over to New York to cooperate with the Secret Service on account of some little trouble they had about publicity.
- H.M.Jr: Who wrote that little playlet?
- Gaston: One of the agents did that literary composition and thought it was smart and handed it to one of the clerks in the office, and the clerk also thought it was a nice product and handed it to a newspaper reporter that came in. And Wilson has taken it up with the people. I told them that they ought to have some competent advice on the publicity they put out on this campaign. So I'm having Dick Stevenson go over it with them.
- I think that's all.
- Oliphant: As I told you, Department of Justice is in complete agreement on that plan for the uniform handling of tie bids.
- H.M.Jr: Little louder, Herman.
- Oliphant: Uniform handling of tie bids.
- H.M.Jr: Yes.
- Oliphant: And Peoples is very much pleased with it. I'd like to, before it's brought to you, before it goes to the President, to clear it with the Comptroller General.
- H.M.Jr: All right.
- (On phone) Hello. - Hello. Could you drop over any time this morning for a few minutes? - You going there at 11:30? - You wouldn't want to drop over here on your way over there? - It's 10:30. - Yes, the only... - That'll be fine. I won't take long here. - Thank you.
- Oliphant: Thinking that over, I decided the best thing is you should sign that. (Hands a document to Secretary, who signs it)
- H.M.Jr: That's O.K.
- Oliphant: I'd better take it and send it the regular way.

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- H.M.Jr: Hol Hol How you fellows always love to You're right. You're right. In the regular way, whatever it is. All right. With the initial.
- Anything else?
- Oliphant: That's all.
- H.M.Jr: Ros?
- Magill: Tax bill probably pass the House today. Tremendous hullabaloo from the copper smelters and the brass manufacturers, who got our poke in the pants in the inventory amendment included in the bill, but didn't get the vest. They now want to get the vest, which they hope to do by means of a concurrent resolution.
- H.M.Jr: What's the coat and the pants? How's that represented?
- Magill: They have a way of taking inventory which results in reducing their profits in years in which they make a lot of money, and which is generally quite advantageous to them, but which the Treasury has never agreed to and has been supported by the Supreme Court. Senator Lonigan succeeded in getting the amendment into the bill with an agreement between Senator LaFollette and Senator Harrison that it would be promptly kicked out. It has not been kicked out, but has rather been - well, I don't know what you'd say - extended; but it's still there in all its glory, due to the efforts of Mr. Vinson.
- Oliphant: Personal interest.
- H.M.Jr: Anything I can do?
- Magill: I don't think so.
- H.M.Jr: Would you two men (Oliphant and Magill) make a few inquiries around town about this lawyer. He was Executive Assistant to Jim Landis. He's over there now.
- Oliphant: Jim wrote me about him.
- H.M.Jr: Has he?
- Taylor: Katz?

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H.M.Jr: Yes.

Taylor: I think he's first class. That is, everything I've ever heard about him.

Oliphant: Thurman Arnold is thinking of using him.

H.M.Jr: Well, if Hanes comes he'd like to bring him along with him for himself.

Oliphant: For himself?

H.M.Jr: For himself.

Oliphant: Well, there's that New York precedent. .

H.M.Jr: Pardon me?

Oliphant: That New York precedent.

H.M.Jr: Precedent? What's that?

Oliphant: Brought a man down here on housing who brought his own lawyer.

McR: Peter Grimm, he means.

H.M.Jr: Well, he didn't bring Katz down. I mean Hanes didn't bring Katz. Well, anyway ...

White: I've been present at several meetings at which he has been and has held forth. He seems like a very able chap. The story that I hear as to how he was taken over by Landis reflects a great deal of credit to him. He was, I think, on one of the opposing sides and made a rather brilliant presentation of something.

H.M.Jr: You say Landis wrote you about him?

Oliphant: He's a good man. Landis wrote me about him.

Taylor: Came down here originally on the NRA stuff, isn't that right?

Oliphant: I've weighed the matter for my staff very carefully.

H.M.Jr: Your staff?

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Olyphant: Yes. But I'll talk to you about it.

H.M.Jr: All right.

Now, on - Mac, on this most important matter of where Bruce goes, see, I write a letter on Admiral Peoples' suggestion - see, get this now - on Admiral Peoples' suggestion, why, I put Bruce on this Smithsonian.

McR: All right. Peoples came in.

H.M.Jr: On Admiral Peoples' suggestion.

McR: Really anxious to have it go that way.

H.M.Jr: On Admiral Peoples' suggestion I put Bruce on. That's clear of politics. Don't have to refer that to Jim.

Jim asked me about the Frenchman whose name he can't pronounce in Massachusetts, and I said I don't know anything about it, which is right.

Gibbons: Yes.

H.M.Jr: O.K.

Haas: May I come back again?

H.M.Jr: Why not?

Haas: Miss Lonigan has that monthly meeting of the self-help exchange and told me about it this time, and it's Thursday, and I held up her going last night until I saw you today to get a clearance or disapproval.

H.M.Jr: All right. Well then, let her leave town Sunday night and be gone all of next week; she should be out of town all of next week.

Haas: Cleveland and Detroit.

H.M.Jr: What?

Haas: Fine.

H.M.Jr: (To Miss Chauncey) Call Mrs. Morgenthau, tell her we're proposing to send Miss Lonigan out on a trip, be gone all of next week.

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She should stay out - she should go to Cleveland and Detroit; if she hasn't enough to do, let her go on to Chicago. She can do Cleveland, Toledo, and Detroit. There's three nice places.

Haas: O.K.

H.M.Jr: What?

Haas: Yes, sir.

H.M.Jr: They tell me Indiana is in bad shape. Might take a look at that.

Haas: O.K.

H.M.Jr: But the states I've got on my list are Michigan, Ohio, and Indiana. Now, whether she can cover those adequately in a week, I don't know. But she should stay out all week.

Haas: Uh-huh.

H.M.Jr: And Miss Chauncey will let you know if there is any ...

Gaston: You don't want me to get any information from W.P.A. on that Cleveland situation.

H.M.Jr: No, I want you to read the newspapers.

I'd like White and Gaston to stay, please.

May 11, 1938

My dear Mr. President:

I should like to present the following suggestion for your consideration:

That you create informally a group of advisers who will act as your "general staff" in devising means and weighing suggestions from any source to make the new recovery program as effective as possible, to see that it is energetically carried out and to see that any stabilizing action which may later become necessary is taken in time.

For the members of such a group I would suggest Hull, Wallace, Ickes, Eccles, Jones, Hopkins and myself; and I would further suggest that regular meetings be held, say on Tuesdays.

As instances of the sort of problems such a group might consider, the following, more or less pressing at this time, occur to me:

(1) Is the measure now before the House adequate as a recovery program; and if not, in what way should it be strengthened or supplemented?

(2) What types of R. F. C. loans will have the most stimulating immediate effect and what positive effort should be made to see that the money goes out?

(3) Can and should Agriculture take steps to speed up cotton benefit payments?

(4) Can not Agriculture under Section 32 provide substantial quantities of surplus food for relief and supplies of cotton for the W.P.A.?

-2-

I cite these merely as types of matters which such a group might consider and follow up energetically when a final decision is made by you.

If this suggestion interests you I should like to have an opportunity to discuss it with you.

Yours sincerely,

The President,
The White House.

second draft

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- (3) Can and should Agriculture take steps to speed up cotton benefit payments?
- (4) Can not Agriculture under Section 32 provide substantial quantities of surplus food for relief and supplies of cotton for the W. P. A. ^{workrooms?}

~~The list could be long extended,~~ I cite these merely as types of matters which such a group might consider and follow up energetically when a ^{final} decision is made *by you*.

If this suggestion interests you I should like to have an opportunity to discuss it with you ~~soon~~.

Sincerely,

MEMORANDUM OF THE DAY'S ACTIVITIES

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May 11, 1938

To: The Secretary
From: Mr. Magill

1. The tax bill

The program was for the tax bill to pass the House this afternoon. I am informed that Senator King succeeded in putting through the Senate a concurrent resolution intended to broaden the inventory amendment for the particular benefit of the copper smelters and brass manufacturers. I do not yet know what action was taken on the resolution in the House, although Mr. Doughton told me over the telephone that he did not want to see it go through the House without further discussion between his committee and the Treasury.

2. Foreign tax treaties

Deputy Commissioner King informs me that the Government of the Netherlands is sending representatives here in June to negotiate a treaty with us for the elimination of double taxation and for cooperation in tax enforcement. The treaty will presumably be along the lines of the treaty which we now have with France.

3. Liquor floor stock tax

A band of 15 distillers and liquor retailers appeared this afternoon to urge that the Treasury strongly support their proposal for a floor stock tax on liquor, to supplement the 25¢ a gallon increase in tax which becomes effective July 1st. I told them in substance that they ought to work with Congress on the subject, since it was essentially a question of legislative policy. They indicated that they had no hope of securing legislation from Congress unless the Treasury would back the proposal. They are submitting memoranda tomorrow for further consideration.

Rm

May 11, 1938.

Friday - 11:30 a. m.

Mr. McReynolds:

Mr. Harper called and said that Mr. Hess at the White House asked that nomination papers be sent over immediately for Comptroller of the Currency - no name given. Mr. Harper told Mr. Hess that they would have to go through regular channels and it would take a little time. Hess said if he could not send them over at once, they would go ahead and make them up over there.

gmc

May 11, 1938

(Dictated May 12, 1938)

I gave the attached record of my conversation with Congressman Woodrum to Miss Le Hand at 12:30, May 11th, and she returned it by a Secret Service agent at 10 o'clock, May 12, 1938.

May 5, 1938,
10:01 a.m.

H.M.Jr: Hello.

Operator: Congressman Woodrum. Go ahead.

H.M.Jr: Hello.

Clifton
Woodrum: Good morning, Mr. Secretary.

H.M.Jr: How are you?

W: Fine, thank you.

H.M.Jr: Woodrum, Bell ~~and I have~~ just been talking over this relief bill and I'd like to ask you a question if you don't mind.

W: Yes.

H.M.Jr: I was under the impression that the method of handling the finances and the accounting is going to be changed. I mean up to now all of these appropriations - I mean - or allocations go through the Bureau of the Budget and to the President, and then we do the accounting.

W: Yes.

H.M.Jr: Now, is that going to continue or is that going to be changed?

W: Well, I - the question has arisen there as to whether those appropriations should be made direct to Hopkins and these agencies or to the President and to be allocated by him.

H.M.Jr: Yes.

W: And I think he would like to have it made direct to the agencies.

H.M.Jr: Are you sure of that?

W: Well, I - yes, yes. I'll just tell you what happened about it.

H.M.Jr: Please.

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- W: Aubrey Williams brought us word that the President had told Mr. Hopkins he'd like to have that done. The next day Dan Bell told us that the President told him he didn't want that done.
- H.M.Jr: Yes.
- W: So I called Jimmy Roosevelt and I talked to him, and he communicated with the President, and the President sent back a message that he didn't care anything about it, he'd leave it to Sam Rayburn and myself. But then I talked to Jimmy Roosevelt and I got the impression from him that perhaps the President would like to have it changed. Now, that's the way the thing has developed. I don't
- H.M.Jr: Well, I - I, as Secretary of the Treasury, feel very, very strongly about it. I think it's a mistake, it's - there's been - everything has been on the level. These allocations - they stay within their money, they stay within the Woodrum Amendment.
- W: Yes.
- H.M.Jr: The only way - after all, the Treasury people are financially-minded, we are bookkeeper-minded; that's what we're hired for.
- W: Yes.
- H.M.Jr: And a lot of these things that go to the President the President turns down because he doesn't think they're practical. It gives us some chance to see that they keep within their appropriation.
- W: Well, I - I see all that.
- H.M.Jr: And - and I'm so disturbed about it, I'm going to get off a radio to the President just as Secretary of the Treasury.
- W: Well, you go ahead and do that, let me know what you hear from him.
- H.M.Jr: Because if they're going to do the other thing, - ah - I don't know any business that lets the - the - doesn't have some check-up on - on the salesman.

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- W: Well, the President has evidently committed himself to Hopkins to let the appropriation be made direct. It looks like that's what he's done.
- H.M.Jr: Yes. Well
- W: And that - now, I just don't know what to do. What we're trying to do is to fix it the way he wanted it.
- H.M.Jr: Well, I've asked Dan to fix me up a cable giving me the facts, pointing out the dangers to the President.
- W: Yes.
- H.M.Jr: And, aside from everything else, towards the public - I mean it looks as though Congress says, "Well, we don't trust the President, but we trust Hopkins and we trust Farm Security and we trust these people; but we don't trust the President."
- W: Well - ah - of course it's subject to that construction; yet on the other hand, the President gets out from under some of this fire and hell-raising that there's been over this program, you know.
- H.M.Jr: Perfectly true, but
- W: And he'd still have control over it, literally, because whatever he'd tell Harry Hopkins to do, he'd do it.
- H.M.Jr: Well, I know, but he can't follow it the way the Treasury and the Budget does for him in every state, with officers and accountants and careful supervision of the money.
- W: Yes.
- H.M.Jr: And ...
- W: Tell me what you get on that, Mr. Secretary, and will you let me know as soon as you hear?
- H.M.Jr: I'll let you know the second I hear.
- W: Thank you, sir.
- H.M.Jr: Thank you.

NATIONAL RESOURCES COMMITTEE
 NORTH INTERIOR BUILDING
 WASHINGTON

May 11, 1938

MEMORANDUM to: Secretary Morgenthau

From: Subcommittee on Steel Products Prices

Subject: The price of steel products

Transmitted herewith is a report of the subcommittee on the prices of steel products.

The subcommittee has proceeded as far as it feels justified without further sailing orders.

The principal problem which is involved is getting agreement on the part of the chief Federal agencies which are concerned in the type of program which we have suggested. The subcommittee, consisting of persons who were originally members of the large Building Materials Committee, was not representative of all the agencies concerned in this problem, since steel is used in so many places not directly related to the housing industry.

The second major question involves what may seem to be a conflict with the lending and spending program of the Administration. This is true because the most important card which the Administration has to play is the refusal to buy unless price adjustments are secured.

Thomas C. Blaisdell, Jr.

Thomas C. Blaisdell, Jr., Chairman
 National Resources Committee

H. E. Collins

H. E. Collins
 Procurement Division, Treasury

Lauchlin Currie

Lauchlin Currie
 Federal Reserve Board

Louis H. Bean

Louis H. Bean
 Department of Agriculture

Geo. P. Comer

Geo. P. Comer
 Department of Justice

Corwin D. Edwards

Corwin D. Edwards
 Federal Trade Commission

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*Mordecai Ezekiel*Mordecai Ezekiel
Department of Agriculture*George C. Haas*George C. Haas
Treasury Department*Leon Henderson*Leon Henderson
Works Progress Administration*Isador Lubin*Isador Lubin
Bureau of Labor Statistics*Joseph J. O'Connell*J. J. O'Connell
Treasury Department*Howard S. Piquet*H. S. Piquet
Tariff Commission

RECOMMENDATIONS

The recommendations below are directed to the objective of securing sufficiently lower prices of steel products to stimulate purchasing by introducing some price competition in the industry.

A. RECOMMENDATIONS

I. Purchases with Federal funds.

1. That all government agencies which buy steel direct ~~adopt~~ uniform purchasing policies.
2. That this policy shall require purchases priced F.O.B. the mill or shipping point and refuse to name the delivery point in advance of bidding.
 - a. With the industry functioning at 60 percent of capacity, the Federal Government may be responsible for as much as 5 percent of steel purchases. However, at the present rate of activity, something over 30 percent of all construction steel awards are the result of Federal Government financing. (See Appendix I.)
 - b. Names of Federal Government agencies and types of purchase are indicated in Appendix II.
3. That government agencies letting contracts which involve the use of steel insist that the pricing of steel covered under those contracts be priced F.O.B. mill.

- 2 -

- a. Procurement
 - b. Maritime Commission
 - c. Army (including Engineers)
 - d. Navy
 - e. Veterans Administration
 - f. TVA
 - g. Reclamation Service
 - h. Inland Waterways Corporation
4. That government agencies making loans use the lending power to secure F.O.B. pricing on purchases of steel products under the contracts let by the borrower.
- a. RFC - rails, utilities, etc.
 - b. PWA - to local municipalities, etc.
 - c. PWA - Federal contracts
 - d. Public roads
 - e. USHA
 - f. WPA (Procurement)
- II. If competitive bids cannot be secured, negotiations should be opened with independent suppliers (Sears, Ford, et al.) to buy direct from the steel plant in which they own an interest.
- III. A "buyers' preference" bill should be introduced into Congress to permit buyers to take delivery F.O.B. (See attached draft, Appendix IV.)

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- IV. The Department of Justice should make a "flying squadron" investigation to uncover any evidence of collusion on price maintenance.
- V. The Department of Justice and Federal Trade Commission should collect all data gathered by various agencies. The purpose of collecting such data will be to bring various pressures of the Department and the Commission to bear to secure a modification of the present pricing system, perhaps leading ultimately, if necessary, to a suit for combination in restraint of trade.
- VI. Tariff actions.
1. That under the United Kingdom agreement all steel products included in the public announcements, in so far as possible, receive the maximum tariff reduction. (See list attached as Appendix III.)
 2. That if the Belgian agreement is reopened, further substantial concessions for steel and cement be made.
 3. That a substantial concession on rails be included in the proposed new trade agreement with Canada.
- (Effectiveness of these instruments is limited because of the following:
- a. Probable agreement on price and division of market by international agreement;
 - b. Size of freight rates in comparison to value of products prevents influence of lower prices moving away from local port areas.)

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VII. The Navy and War Departments should undertake an examination of alternate sources of supply through expanding existing government-owned plants or through purchase or through lease of existing private plants.

B. FINDINGS

- I. The pricing policies of the industry cannot be stated definitely. However, analysis indicates:
 1. That prices of most steel products are under strong control. (See Appendix V.)
 2. That the control has been accentuated in recent years. (See Appendix V.)
 3. That the control has been achieved by a complicated mechanism functioning through:
 - a. Delivered prices
 - b. Multiple basing points
 - c. Freight rate books
 - d. Extras and discount books
 - e. "Understandings" on territorial price differentials. (See Appendix V.)
 - f. Exchange of price information
 - g. Meetings to discuss prices and price information
 - h. Resale price maintenance
 4. That present prices enable the U. S. Steel Corporation (for example) to "break even" including interest and preferred stock charges at a 40-45 percent level of productive capacity. (See Appendix VI.)

5. That publicly quoted prices in the steel industry are a combination of real prices and "quotations" of prices for products which are never sold. Hence, analysis is difficult and at times has a "feel" of unreality.
- a. Price quotations of raw materials (ore and coke and limestone) mean little since the principal companies own their sources of supplies.
 - b. Price quotations of pig iron (except foundry pig) mean little since little pig iron is sold and the price which buyers pay is not known. Most pig iron used in steel manufacture never becomes "pig" at all but in continuous process moves directly into steel production.
 - c. Prices of semi-fabricated steel products are significant since these products are sold for use in the secondary and tertiary steps of manufacturing.
 - d. Prices of semi-finished and finished products have failed to adjust to the downswing of other prices except for rails and cold rolled sheets.

Rail prices did not rise proportionately with other prices in the period 1933-38, although some rise did occur. The last decline was instrumented by Government intervention in 1933. The Government refused loans to railroads unless

prices of rails were reduced. Even this decline was disproportionate to the decline of other steel products.

Cold rolled sheets are under heavy pressure from motor manufacturers and dropped about \$2.25 per ton in January 1938 (from \$79.50 to \$77.25).

II. A public pricing policy.

1. In unregulated competitive industry the only significant criterion for judging the validity of prices is whether they are of such a character as will permit industry continuously to function at high levels of production.
2. "Fair" prices and "fair" profits are concepts applicable only to public utilities. Even regulated utilities sometimes fail to earn judicially-determined "fair" profits (N.B. railroads). In unregulated industry businesses are entitled to a fair chance to make profit not to a fair profit.
3. There is no chance of relating immediate costs of production directly to immediate prices in the steel industry. When costs decline with rising volume, prices rise and vice versa. Sales from inventory complicate the price-cost relationship since on a declining market inventory must be sold at less than "cost" and on a rising market at more than "cost".

III. What basis is there for judging that steel prices are interfering with the functioning of the economy?

1. Steel products are used in the early stages of production of many types of manufacturing activity.
2. Steel constitutes the most important raw material element in the prices of durable goods which have fallen only 3 percent from their March 1937 peaks in contrast to the fall of 16 percent in the prices of non-durable commodities. (See Appendix VII.)
3. If joint demand and joint costs are important (as in the construction industry), the costs of many building material items have already shown considerable adjustment. Steel prices have not.

Lumber and brick have shown reduction.

Plumbing and heating equipment have declined only slightly but neither did they rise in a manner similar to lumber and brick.

Cement prices have behaved like steel prices.

4. The price of steel scrap, one of the principal materials of steel manufacture, has declined. Business men who watch this price would interpret its movement to warrant a reduction in steel prices. (See Appendix VIII.)
5. During the last few months labor costs have risen. (See Appendix IX.) This rise is more a function of rates of operation than of wage rates. There have

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been slight downward adjustments in some rates of wages in the steel industry. Furthermore, payrolls (blast furnaces, steel works and rolling mills) have declined 55. percent between May 1937 and March 1938.

IV. What price adjustment is needed?

1. The downward adjustment which took place between 1929-1932 amounted to about 20 percent, for example,
Wire rods, 10.8 percent
Steel sheets, 30.9 percent
(Rails, 1.4 percent) (See Appendix VII.)
2. During the recovery from 1932-37, price rises varied from:
19 percent - tin plate to
101 percent - cast iron pipe. (See Appendix VII.)
3. All commodities dropped 31.9 percent from 1929-32 and recovered about two-thirds of this decline from 1932-37. (See Appendix VII.)
4. The drop in iron and steel during the depression of 1919-21 was in the neighborhood of 40 percent. This was the one time in recent history when competitive price making seemed to be at work in the industry. (See Appendix X.)
5. We conclude that a reduction of from 20-25 percent in average prices would probably have an encouraging effect on business volume.

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- a. It would take the uncertainty out of future prices, i.e., there would be little anticipation of still lower prices.
 - b. It would relieve those fabricators and sellers who have to deal in the open competitive price ranges of the squeeze in which they are now caught.
6. The more quickly this adjustment in steel prices is made the better. Slight reductions would be of no help since they would indicate further reduction as probable.

APPENDIX I

Awards of Construction Steel

Since the first of the year about 34 percent of all construction steel awards of 500 tons or over have been made either by agencies of the Federal Government or by contractors working for agencies of the Federal Government. The agencies most frequently mentioned during this period were the TVA, the Procurement Division, Grand Coulee Dam, and the United States Engineer.

About 41 percent of the awards were made by state, municipal, and other non-Federal governmental agencies. It is not unlikely that a fair proportion of the state and municipal projects were financed either in whole or in part by Federal agencies such as the PWA or the WPA. It is possible, too, that some of the awards classified as private, especially awards for apartment housing projects, were also financed in part by the Federal Government.

During the period January 1 to April 21, 1938 the Federal Government either has exercised direct control or might have exercised indirect control through its banking function over one-third to two-thirds of all construction steel awards.

(A check was made on six of the largest awards classified as state and municipal. The PWA said that four of these were PWA projects, one was a WPA project, and the other was not PWA but might have been WPA.)

Weekly Bookings of Construction Steel
Awards of fabricated structural steel, fabricated plates, steel sheet piling, and reinforcing
bars in tons

Source: The Iron Age

Date of Iron Age issue	Awards of 500 tons or over				Total	Awards under 500 tons	Total Awards
	Federal Government 1/	State and Municipal 2/	Private 3/	::			
January 6	0	5,510	3,125	8,635	4,725	13,360	
13	7,773	6,665	2,700	17,140	7,405	24,545	
20	500	9,260	3,455	13,215	7,725	20,940	
27	2,765	2,845	3,255	8,865	6,705	15,570	
February 3	13,955	7,295	7,810	29,060	5,370	34,430	
10	0	1,200	2,660	3,860	7,310	11,170	
17	3,060	1,925	0	4,985	5,890	10,875	
24	4,780	7,400	3,440	15,620	8,385	24,005	
March 3	620	4,610	3,205	8,435	4,585	13,020	
10	14,995	3,856	3,000	21,850	6,695	28,545	
17	3,090	2,760	5,905	11,755	7,120	18,875	
24	5,250	6,085	4,855	16,190	7,385	23,575	
April 7	640	7,680	5,135	13,455	7,315	20,770	
14	10,700	9,560	1,990	22,250	7,405	29,655	
21	2,255	8,025	1,275	11,555	4,185	15,740	
15 week total	70,383	84,676	51,810	206,870	98,205	305,075	

1/ Awards for or by the TVA, Procurement Division, United States Engineer, Grand Coulee Dam, etc. Includes awards made by contractors working for agencies of the Federal Government as well as awards made directly by the agencies.

2/ Includes awards for projects financed by WPA, PWA, and other Federal agencies.

3/ Includes awards for apartment houses and similar projects which may have been financed by the Federal Government.

APPENDIX II

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S T E E L
REQUIREMENTS PER ANNUM

AGENCY	TYPE	TONS	VALUE
WORKS PROGRESS ADMINISTRATION	Structural	70,000	\$4,409,110
	Reinforcing	140,000	6,613,666
FARM SECURITY ADMINISTRATION	Structural	180	8,000
	Reinforcing	250	12,000
VETERANS ADMINISTRATION	Shapes (structural)	414	19,905
	Bars (reinforcing)	382	19,895
D. C. GOVERNMENT	Sheets	25	1,200
	Reinforcing	120	5,000
POST OFFICE DEPARTMENT	Rods	.55	266
	Bars	1.64	329
	Plates	249.40	25,282
DEPARTMENT OF THE INTERIOR	Sheets	26	1,250
	Plates	5	225
	Shapes	30	1,800
	Reinforcing	14,125	737,427
	Rails	90	3,725
	Structural (fabricated)	6,080	1,131,160
DEPARTMENT OF AGRICULTURE	Reinforcing	2,220	106,560
TENNESSEE VALLEY AUTHORITY	Structural	5,875	495,239
	Bars	13,470	652,475
	Plates	409	23,286
	Sheets	110	8,970

AGENCY	TYPE	TONS	VALUE
TENNESSEE VALLEY AUTHORITY (CONT'D)	Rails & track material	669	97,423
	Strip	2.8	229
	Wire	2.2	454
	Stainless steel	8.5	7,102
	Pig iron	1	51
	Miscellaneous gratings, frames, etc.	410	67,041
	Structures	8,886	1,593,132
	Sheet piling	1,109	71,096
	Drill steel	7.3	2,330
NAVY DEPARTMENT	Bars	4,422	588,589
	Plates	45,169	10,706,185
	Rods	14.91	12,260
	Shapes	6,684	465,101
	Sheets	2,694	404,946
	Strip	796	105,262
WAR DEPARTMENT	Sheets	3,326	233,371
	Plates	5,814	346,226
	Strip	47	6,165
	Reinforcing	15	1,348
	Bars	38,766	1,923,590
	Structural	19,975	1,280,872
	Armor plate	287	513,011
	Wire	4.4	3,038
	Tubing	55	38,904
	Billets	3,607	126,080
	Castings	94	22,541
	Forgings	46	21,667
	Rails	295	14,635
Miscellaneous	7,633	761,879	
TOTAL ALL AGENCIES		404,903	33,691,298

APPENDIX III

Paragraph	Commodity	Duty Under Act of 1930	Present duty
301	Iron in pigs and iron kentledge, not containing more than 0.04 percent of phosphorous	\$1.12½ ton	\$1.12½ ton
304	Steel ingots, clogged ingots, blooms and slabs, by whatever process made; die blocks or blanks; billets and bars, whether solid or hollow; shafting; pressed, sheared, or stamped shapes, not advanced in value or condition by any process or operation subsequent to the process of stamping; hammer molds or swaged steel; gunbarrel molds not in bars; concrete reenforcement bars; all descriptions and shapes of dry sand, loam, or iron molded steel castings; sheets and plates and steel not specially provided for; all the foregoing:		
	Valued above 8 and not above 12 cents per pound	2½¢ lb.	2½¢ lb.
	Valued above 12 and not above 16 cents per pound	3½¢ lb.	3½¢ lb.
	Valued above 16 cents per pound	20 percent	20 percent
304	Hollow bars and hollow drill steel:		
	Valued above 4 cents and not above 8 cents per pound	1¢ lb. + ⅜¢ lb. on values from 4 to 5¢ lb. 1-7/10¢ lb. + ⅜¢ lb. on values from 5 to 8¢ lb.	20% + ⅜¢ lb.
	Valued above 8 cents and not above 12 cents per pound	2½¢ + ⅜¢ lb.	
	Valued above 12 and not above 16 cents per pound	3½¢ + ⅜¢ lb.	
	Valued above 16 cents per pound	20% + ⅜¢ lb.	

305(1)	The additional duty on alloy steel under paragraph 305(1) of the Tariff Act of 1930 on any steel or iron in the materials and articles enumerated in paragraphs 303, 304, 307, 308, 312, 313, 315, 316, 317, 318, 319, 322, 323, 324, 327, and 328 of the said act, and valued at more than 8 cents per pound	8%	8%
310	Sheets or plates of iron or steel, or taggers iron or steel, coated with tin or lead, or with a mixture of which these metals, or either of them, is a component part, by dipping or any other process, and commercially known as tin plate, terneplates, and taggers tin.	1¢ per lb.	1¢ per lb.
312	Sashes and frames of iron or steel	25 percent	25 percent
316(a)	Wire rope	35 percent	35 percent
319(a)	Iron steel anchors and parts thereof; forgings of iron or steel, or of combined iron and steel; not machined, tooled, or otherwise advanced in condition by any process or operation subsequent to the forging process, not specially provided for.	25 percent	25 percent
327	Castings or malleable iron, n.s.p.f.	20 percent	20 percent
328	Lap-welded, butt-welded, seamed, or jointed wrought-iron pipe, not thinner than 65/1000 of 1 inch; If not less than 3/8 of 1 inch in diameter If less than 3/8 and not less than 1/2 of 1 inch in diameter If less than 1/2 of 1 inch in diameter	3/8¢ lb.	3/8¢ lb.
		1 1/2¢ lb.	1 1/2¢ lb.
		1 3/4¢ lb.	1 3/4¢ lb.
328	Tubes, finished or unfinished, not specially provided for: Cold-drawn steel Seamless wrought-iron	25 percent	25 percent
		25 percent	25 percent

APPENDIX IV

Suggested "Buyers' Preference" Bill

It shall be unlawful for any enterprise which sells or offers for sale commodities in commerce;

(a) to refuse to sell any such commodity to any prospective purchaser at the point of production or shipment of such commodity; or

(b) to charge for such commodity at such point of production or shipment a price higher than the delivered price at which such enterprise is currently willing to sell to such prospective purchaser minus the actual cost of transportation from the point of production or shipment to the delivery point at which such delivered price is applicable; or

(c) to refuse to divert or permit the diversion to a new destination of any such commodity which is in transit for delivery to a purchaser upon request by such purchaser; or

(d) to refuse, when any such commodity is so diverted in transit, to allow to the purchaser thereof any consequent reduction of transportation charges paid by the seller; or

(e) to refuse to sell any such commodity to any person because such person has demanded or is demanding diversion of any commodity in transit or delivery of any commodity at the point of production or shipment thereof.

Any enterprise which shall do any such unlawful act or engage in any such unlawful practice shall be guilty of an unfair act or practice in commerce within the meaning of the Federal Trade Commission Act.

Nothing in this act shall forbid any enterprise from selecting in good faith its customers in commerce.

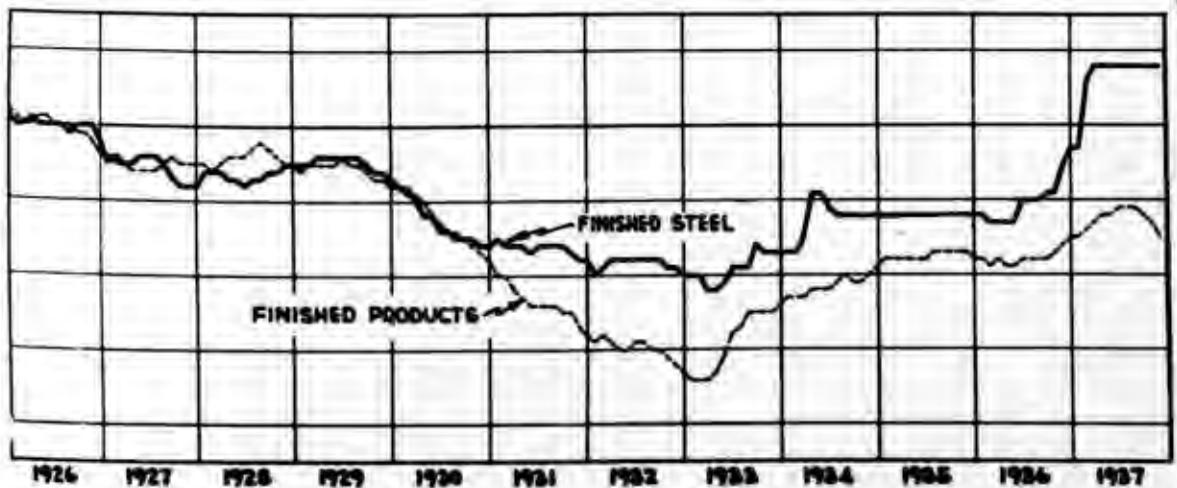
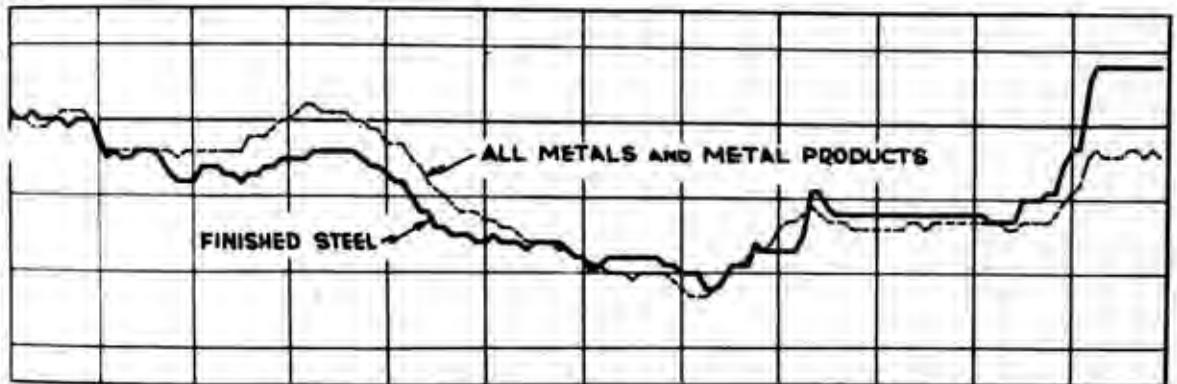
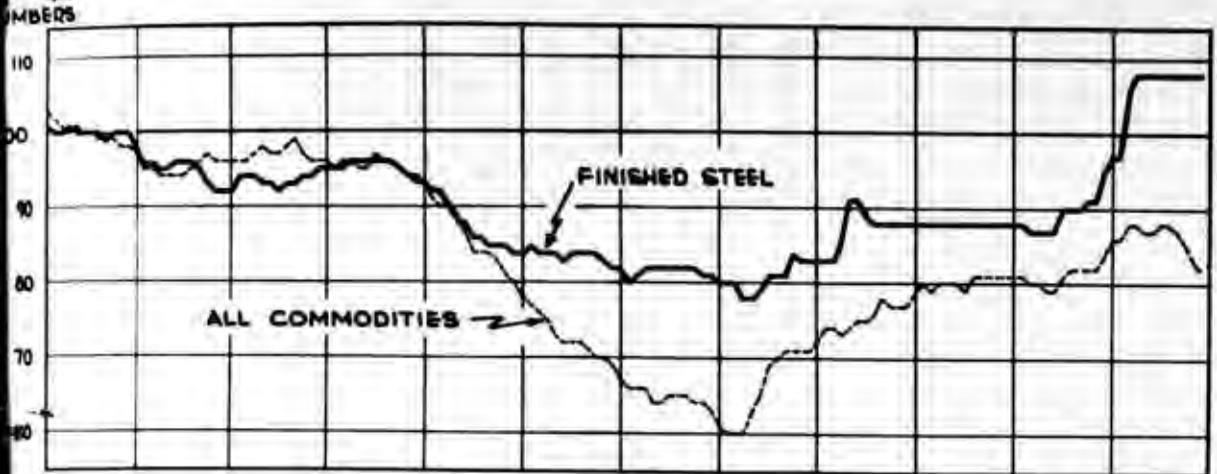
This act shall be cited as the Delivery Practices Act of 1938.

APPENDIX V

Finished steel prices stayed higher during the depression, and rose higher in 1937, than did the prices of most other commodities. The following chart compares these price movements.

COMPARISON OF PRICES OF FINISHED STEEL
WITH OTHER WHOLESALE PRICE INDICES, 1926 TO 1937

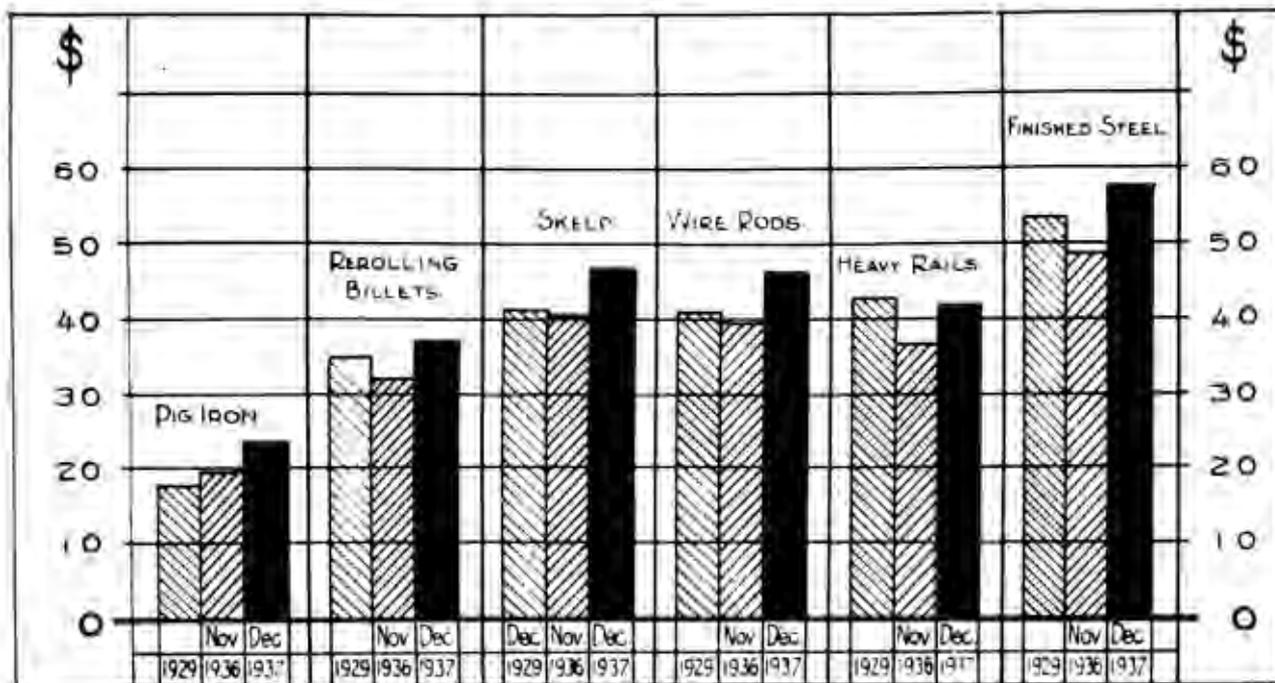
(1926=100)



1926 1927 1928 1929 1930 1931 1932 1933 1934 1935 1936 1937

In spite of the recession in the last half of 1937, published base prices of iron and steel at the end of the year were higher than in 1936, and, except in the case of heavy rails, were higher than in 1929. The following chart shows the relative prices.

BASE PRICES OF IRON AND STEEL 1929, 1936 AND 1937.



Source: Iron Age.

The finished steel prices are composites of a number of different lines, comprising 85 per cent of finished steel products. 1929 figures are yearly averages, except for skelp -- which is the December, 1929 price. Re-rolling billets, skelp, wire rods, heavy rails and finished steel are at Pittsburgh base prices. The pig iron price used is a composite based on average of basic iron at Valley furnace and foundry irons at Chicago, Philadelphia, Buffalo, Valley and Birmingham.

In the recession of 1937-38, published steel prices were maintained without change, except that the price of cold rolled sheets was reduced \$4 a ton in February 1938.

Though no conclusive evidence is available, it appears that price increases in 1936-37 were greater than was necessary to offset changes in cost.

Increase in prices of various products	<u>Percent</u>	<u>Percent</u>
	15.5 to	23.5

1. Labor Cost.

Increase in hourly earnings, November, 1936, to November 1937		23.0
Wage increase as estimated by American Iron and Steel Institute		31.0
Proportion of labor cost to total cost.....	22.9 to	38.5
	<u>Percent</u>	
Steel Facts, July 1937	38.2	
Daugherty, DeChazeau and Stratton, "Economics of the Iron and Steel Industry"; in 1929:		
for steel works and rolling mills	26.49	
for finished steel	27.94	
National Resources Board:		
for 1935	22.9	
for 1936	30.3	
for 1937	27.8	

Increased cost due to labor estimated from foregoing figures	5.3 to	12.0
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2. Overhead Costs.

Reduction in overhead costs per ton, first half of 1937 as compared with first half of 1936 (estimated by National Resources Board)	\$1.12
---	--------

3. Material Costs.

Twenty-two fully integrated companies controlled 86 per cent of pig iron capacity, 91 per cent of steel making capacity, and 52 per cent of capacity for finished hot rolled products in 1929. Such producers are independent of the price of pig iron, usually

of the price of coke or ore, and only partially dependent on the price of scrap. Smaller producers were affected by the increased price of materials. From November 1936 to December 1937, materials rose as follows:

Furnace coke	50 cents per net ton		
Mesabi ore	10.0 per cent		
Steel scrap (price decline after an intervening rise)	17.0 17.0	"	"
Rerolling billets, sheet bars, and slabs	15.5	"	"
Pig iron	23.5	"	"

4. Profits.

Earnings of 14 producers of tonnage steel:

First six months of 1937	9.1	"	"
First six months of 1936	3.0	"	"

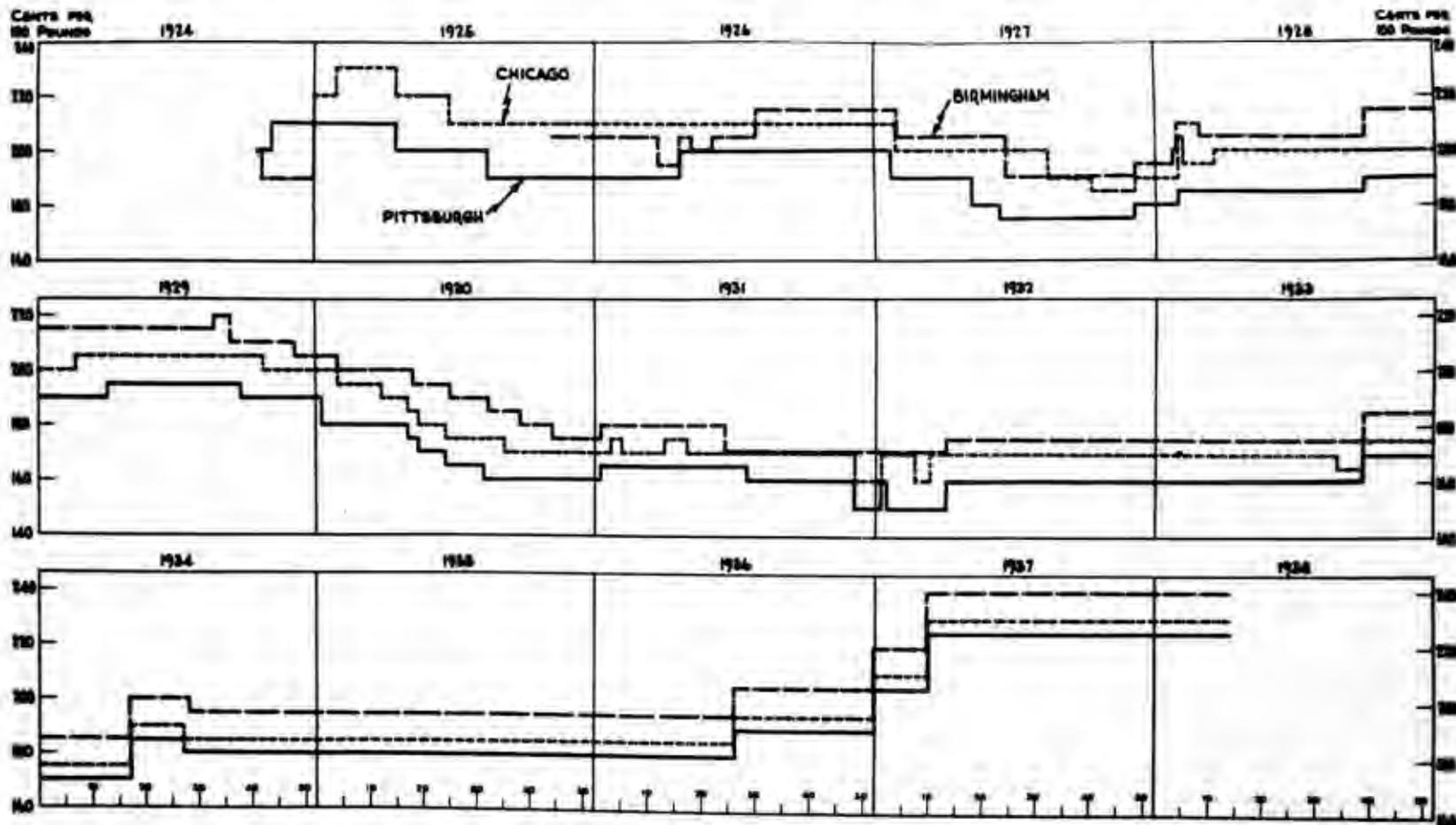
Percentage of capacity at which United States Steel Corporation begins to earn dividends on common stock:

Before price and wage increases	50.0
After price and wage increases	43.0

Published steel prices remain unchanged for long periods. This characteristic has been conspicuous in recent years. It is illustrated by the following charts for four products, each of which shows the weekly price quotations for that product at each of three basing points over a period of years.

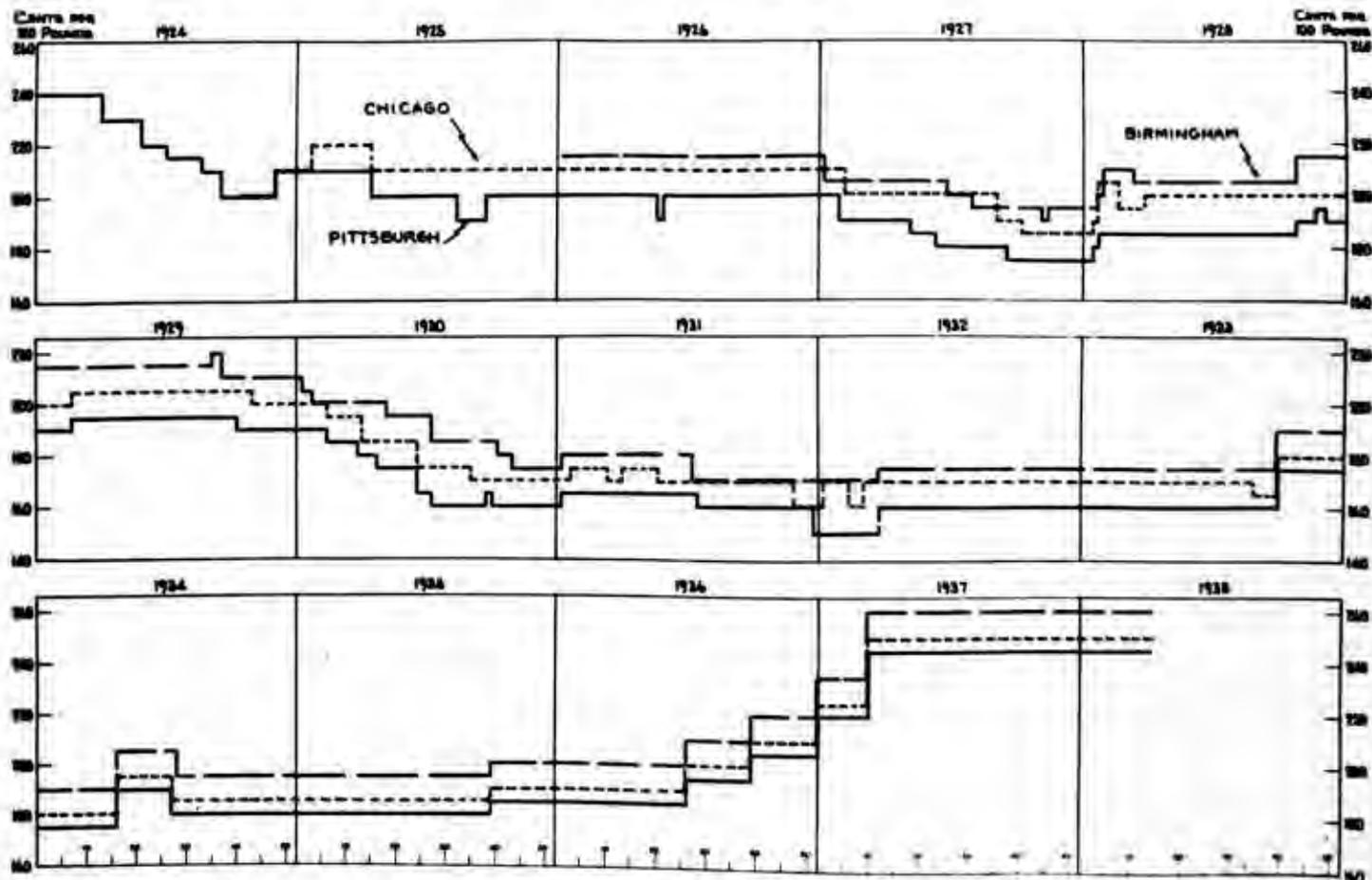
BASE PRICES OF STRUCTURAL SHAPES - PITTSBURGH, CHICAGO AND BIRMINGHAM

WEEKLY AVERAGES - 1924 THRU 1938



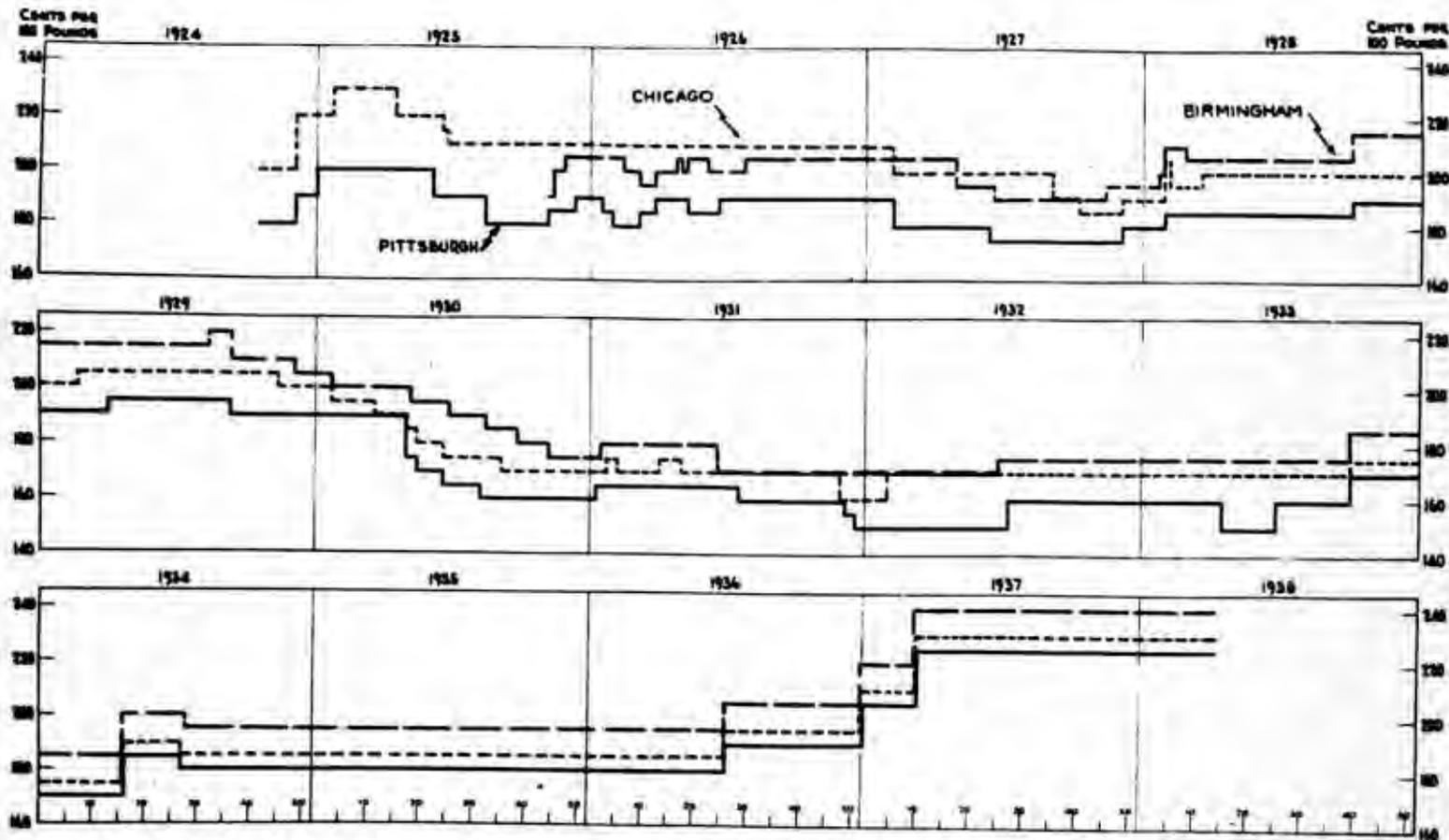
BASE PRICES OF SOFT STEEL BARS - PITTSBURGH, CHICAGO AND BIRMINGHAM

Weekly Averages - 1924 thru 1938



BASE PRICES OF TANK PLATES - PITTSBURGH, CHICAGO AND BIRMINGHAM

WEEKLY AVERAGES - 1924 THRU 1938



Bids received by the Federal Government upon steel products show a high degree of identity.

On concrete reinforcing bars the identity is less than upon many other steel products, presumably because small jobbers and fabricators are active in this market. Nevertheless, the identity even here is striking. The following two tables analyze the bids upon 80 Government purchases.

TABLE I

BID RECORD OF MANUFACTURERS AND FABRICATORS OF CONCRETE REINFORCING BARS
(Based on analysis of 60 purchases, Cases showing only 1 set of tie bids.)

Company	Total No. of bids	No. of tie bids	No. of non-tie bids	Analysis of non-tie bids	
				Higher than tie bid	Lower than tie bid
<u>Steel Manufacturers</u>					
U. S. Steel Corp.	22	22	—	—	—
Bethlehem Steel Corp.	36	35	1	1	—
Jones & Laughlin Steel Corp.	3	3	—	—	—
American Rolling Mill Co.	12	6	6	2	4
Inland Steel Co.	7	7	—	—	—
Laclede Steel Co.	19	18	1	1	—
Republic Steel Corp.	54	50	4	3	1
Missouri Rolling Mill Corp.	13	12	1	1	—
Knoxville Iron Co.	5	5	—	—	—
Youngstown Sheet & Tube Co.	2	—	2	1	1
Calumet Steel Co.	7	—	7	7	—
Colorado Fuel & Iron Co.	5	4	1	—	1
Franklin Steel Works	1	1	—	—	—
Milby Car & Foundry Co.	12	12	—	—	—
Total for Steel Manufacturers	198	175	23	16	7
<u>Selected Fabricators</u>					
Concrete Engineering Co.	30	25	5	—	5
Concrete Steel Co.	13	12	1	1	—
Hustad Co.	2	2	—	—	—
Igoe Bros.	3	2	1	1	—
Joseph T. Ryerson	27	24	3	2	1
Wilson-Weasner-Wilkinson Co.	6	4	2	1	1
Carroll-McCreary Co., Inc.	1	—	1	—	1
Dudley Bar Co.	3	3	—	—	—
Soule Steel Co.	20	18	2	2	—
Total for Selected Fabricators	105	90	15	7	8
Other Jobbers & Fabricators	220	190	30	14	16
Total all Companies	523	455	68	37	31

TABLE II

BID RECORD OF MANUFACTURERS AND FABRICATORS OF CONCRETE REINFORCING BARS
(Based on analysis of 20 purchases showing 2 or more sets of tie bids.)

Company	Total Bids	Tie Bids	Analysis of Tie Bids ^{1/}			Non-Tie Bids	Analysis of Non-tie Bids ^{2/}		
			Main	Above	Below		High	Intermediate	Low
Steel Manufacturers									
U. S. Steel Corp.	17	15	13	2	—	2	2	—	—
Bethlehem Steel Corp.	21	18	12	5	1	3	1	—	—
Jones & Laughlin Steel Corp.	7	7	6	—	1	—	1	1	1
American Rolling Mill Co.	15	13	5	2	6	2	2	—	—
Inland Steel Co.	12	12	9	2	1	—	—	—	—
Laclede Steel Co.	13	10	4	3	3	—	2	—	—
Republic Steel Corp.	20	18	11	3	4	3	2	—	1
Missouri Rolling Mill Corp.	9	5	3	1	1	4	—	2	—
Knoxville Iron Co.	2	2	2	—	—	—	3	1	—
Youngstown Sheet & Tube Co.	5	5	5	—	—	—	—	—	—
Colorado Fuel & Iron Co.	13	11	11	—	—	2	1	—	1
Total Steel Manufacturers	134	116	81	18	17	18	11	4	3
Selected Fabricators									
Concrete Engineering Co.	18	14	10	—	4	4	1	2	1
Concrete Steel Co.	7	7	4	—	3	—	—	—	—
Cowin & Co.	3	1	1	—	—	2	2	—	—
Gunn, Carle & Co., Ltd.	1	1	—	1	—	—	—	—	—
Hustad & Co.	6	3	3	—	—	3	1	2	—
Jos. E. Ryerson & Co.	11	10	7	2	1	1	1	—	—
A. M. Castle & Co.	3	3	3	—	—	—	—	—	—
Soule' Steel Co.	2	2	1	—	1	—	—	—	—
Worden-Allen Co.	8	6	4	1	1	2	—	1	1
Total Selected Fabricators	59	47	33	4	10	12	5	5	2
Total Steel Manufacturers	134	116	81	18	17	18	11	4	3
Total Jobbers	68	49	23	11	15	19	10	5	4
Grand Total	261	212	137	33	42	49	26	14	9

^{1/} Table headings refer to main bid cluster and tie bids above or below main bid cluster.
^{2/} Table headings refer to non-tie bids which are above all tie bids, below all tie bids, or intermediate in that they are within the range covered by the tie bid spread.

The following are bids received by the Bureau of Supplies and Accounts of the Navy Department in reply to invitations to bid on orders to be given by this department. These are only a few of hundreds of cases of identical bidding in the files of the Navy Department and other government departments. The attached photostat sheets are two pages of a compilation of 47 pages made by the Department of Justice of "Identical Bids to Federal Government Departments and Agencies" by the steel industry.

Schedule 6173 - Steel Plate - Opened Oct. 25, 1935
lot 913 - 14 bids (all identical) bid - \$118,712.69

Companies

Allegheny Steel Co.	Brackenridge, Pa.
The American Rolling Mill Co.	Middletown, Ohio
Bethlehem Steel Co.	Bethlehem, Pa.
Carnegie-Illinois Steel Corp.	Washington, D. C.
The Carpenter Steel Co.	Reading, Pa.
Jessop Steel Co.	Washington, Pa.
Latrobe Electric Steel Co.	Watervliet, N. Y.
The Midvale Co.	Washington, D. C.
Republic Steel Corp.	Massillon, Ohio
Rustless Iron Corp. of America	Baltimore, Md.
Sharon Steel Hoop Co.	Sharon, Pa.
Universal Steel Co.	Bridgeville, Pa.

Schedule 6404. Nickel steel bar (merchant bar) - Opened Nov. 5, 1935
lot 444 - 7 bids (all identical) - bid price \$11,976.25

Bidders

Crucible Steel Co. of America	New York, N. Y.
The Midvale Co.	Washington, D. C.
Republic Steel Corp.	Massillon, Ohio
Jos. T. Ryerson & Son, Inc.	Chicago, Ill.
The Timken Steel & Tube Co.	Canton, Ohio
The Youngstown Sheet & Tube Co.	Chicago, Ill.
Carnegie-Illinois Steel Corp.	Washington, D. C.

Schedule 6390. Steel plates - Opened Dec. 27, 1935
lot 373 - 8 bids (all identical) - bid price \$37,000.00

Bidders

Bethlehem Steel Co.	Bethlehem, Pa.
Carnegie-Illinois Steel Corp.	Washington, D. C.
A. M. Castle & Co.	Chicago, Ill.
Central Iron & Steel Co.	Harrisburg, Pa.
Jones & Laughlin Steel Corp.	Pittsburgh, Pa.
Lukens Steel Co.	Coatesville, Pa.
Otis Steel Co.	Cleveland, Ohio
Jos. T. Ryerson & Son Inc.	Chicago, Ill.

Same bidders as above (8 bidders), lot 575, steel plates, same schedule - all bids identical (\$39,760.50) except Central Iron & Steel Co., whose bid was \$43,000.00.

Schedule 6390. Steel plates - Opened Dec. 27, 1935
 lot 379 - 5 bids (all identical) - bid \$14,100.00

Bidders

Bethlehem Steel Co.
 Lukens Steel Co.
 Jos. T. Ryerson & Son, Inc.
 Alan Wood Steel Co.
 Worth Steel Co.

Bethlehem, Pa.
 Coatesville, Pa.
 Chicago, Ill.
 Conshohocken, Pa.
 Claymont, Del.

Schedule 7260. Steel plates - Opened March 3, 1936
 2 lots (972 and 973) - 10 bidders on each lot.
 Bids of all bidders identical on both lots. Bid price \$12,280.00

Bidders

Bethlehem Steel Co.
 Carnegie-Illinois Steel Corp.
 A. M. Castle & Co.
 Central Iron & Steel Co.
 Jones & Laughlin Steel Corp.
 Lukens Steel Co.
 Otis Steel Co.
 Jos. T. Ryerson & Sons, Inc.
 Alan Wood Steel Co.
 Worth Steel Co.

Bethlehem, Pa.
 Washington, D. C.
 Chicago, Ill.
 Harrisburg, Pa.
 Pittsburgh, Pa.
 Coatesville, Pa.
 Cleveland, Ohio
 Chicago, Ill.
 Conshohocken, Pa.
 Claymont, Del.

Schedule 6097. Steel plates - Opened Oct. 15, 1935
lot 670 - 7 bids (all identical) - bid price \$14,250.00

Bidders

Bethlehem Steel Co.
Carnegie-Illinois Steel Corp.
A. M. Castle & Co.
Jones & Laughlin Steel Corp.
Lukens Steel Co.
Alan Wood Steel Co.
Worth Steel Co.

Bethlehem, Pa.
Washington, D. C.
Chicago, Ill.
Pittsburgh, Pa.
Coatesville, Pa.
Conshohocken, Pa.
Claymont, Del.

Schedule 6098. Steel angles - Opened Oct. 15, 1935
lot 673 - 6 bidders (all bids identical) - bid price \$16,055.00

Bidders

Bethlehem Steel Co.
Carnegie-Illinois Steel Corp.
A. M. Castle & Co.
Jones & Laughlin Steel Corp.
The Phoenix Iron Co.
Jos. T. Ryerson & Son, Inc.

Bethlehem, Pa.
Washington, D. C.
Chicago, Ill.
Pittsburgh, Pa.
Philadelphia, Pa.
Chicago, Ill.

Schedule 6165. Steel sheet - Opened Oct. 22, 1935
lot 836 - 10 bids (all identical) - bid price \$13,667.07

Bidders

Allegheny Steel Co.
American Sheet & Tin Plate Co.
The Carpenter Steel Co.
Crucible Steel Co.
Jessop Steel Co.
Ludlum Steel Co.
The Midvale Co.
Republic Steel Corp.
Rustless Iron Corp. of America
Universal Steel Co.

Brackenridge, Pa.
Washington, D. C.
Reading, Pa.
New York, N. Y.
Washington, Pa.
Watervliet, N. Y.
Washington, D. C.
Massillon, Ohio
Baltimore, Md.
Bridgeville, Pa.

Schedule 7934. Steel bars (merchant) - Opened May 26, 1936
lot 137 - 31 bids (all identical) - bid price \$20,727.26

Bidders

American Steel & Wire Co.	Washington, D. C.
Avery and Saul Co.	Boston, Mass.
Bliss & Laughlin, Inc.	Buffalo, N. Y.
Brown-Wales Co.	Boston, Mass.
E. Corey & Co.	Portland, Maine
A. M. Castle & Co.	Chicago, Ill.
Columbia Steel & Shafting Co.	Pittsburgh, Pa.
Compressed Steel Drafting Co.	Hyde Park, Mass.
Crucible Steel Co. of America	New York, N. Y.
Dennan and Davis	Bergen, N. J.
Edgecomb Steel Co.	Philadelphia, Pa.
Egleston Bros. & Co., Inc.	Long Island City, N. Y.
Faitonte Iron & Steel Co.	Newark, N. J.
Fitzsimons Co.	Youngstown, Ohio
Arthur C. Harvey Co.	Boston, Mass.
Hill-Chase & Co., Inc.	Philadelphia, Pa.
Jones & Laughlin Steel Corp.	Pittsburgh, Pa.
Keystone Drawn Steel Co.	Spring City, Pa.
Lowell Iron & Steel Co.	Lowell, Mass.
Moltrup Iron & Steel Co.	Beaver Falls, Pa.
Morris Wheeler & Co., Inc.	Philadelphia, Pa.
Jos. T. Ryerson & Sons, Inc.	Chicago, Ill.
Scully Steel Products Co.	Chicago, Ill.
Smith Bros. Hardware Co.	Columbus, Ohio
Stahleker Steel Corp.	Cambridge, Mass.
Syracuse Supply Co.	Syracuse, N. Y.
Union Drawn Steel Co.	Masillon, Ohio
Western Automatic Mach. Screw Co.	Elyria, Ohio
Wetherell Bros. Co.	Cambridge, Mass.
Wyckoff Drawn Steel Co.	Pittsburgh, Pa.
La Salle Steel Co.	Chicago, Ill.

Industry STEEL
IDENTICAL BIDS TO FEDERAL GOVERNMENT DEPARTMENTS AND AGENCIES

Bidders indicated by symbol T are not members of American Iron & Steel Institute. Manufacturers indicated by symbol M have not been checked to see whether any of their officers are members of the Institute.

Product Steel Sheets

Department	Sub-Product Classification	Invs. & Specs. and Form No.	Drawing Date	Item	Qty Req.	Unit Price (Value)	Low Bid (Value)	Incremental Difference From Low Bid	Tax Bid (Amount)	Award Price	Name of Bidder (Name indicated by circle number, or initials indicating membership of—)	Notes and How to Specify Material (Name indicated by circle number, or initials indicating membership of—)	Quantity Indicated in Invitation
Department of Agriculture, Forest Service, Wash., D.C.	Corrugated Galvanized Sheets	3021	12/11/35	12	12	-	-	-	\$173.06	\$ 173.06	1(a), 51, 10T	-	Amount not given
	"	3056	12/18/35	13	13	-	-	-	150.14	150.14	1(a), 51, 11T	-	" " "
	Galvanized Flat Sheet Steel	1500	4/4/36	9	5	-	-	-	5.20 cwt.	5.20 cwt.	9T	-	" " "
	Corrugated Galvanized Steel Sheets	5110	1/8/36	14	14	-	-	-	456.23	456.23	51, 1(a), 12T	-	" " "
	"	3425	4/27/36	12	12	-	-	-	219.91	219.91	1(a), 51, 10T	-	" " "
"	"	3404	5/13/36	13	13	-	-	-	326.96	326.96	1(a), 51, 11T	-	" " "
WAB BIDD.													
U. S. Engineer's Office, San Fran.	Steel Sheets, Black, 20 Gauge	866-35-33	6/6/35	5	6	-	-	-	4.60 cwt	4.60 cwt	1(a), 51, 4T	-	" " "
Jeffersonville, Ind.	Steel Sheets, Black, 24 Gauge	431-36-33	9/20/35	20	19	\$ 3.00cwt	\$2.75 cwt	.25 cwt	2.75 cwt	2.75 cwt	1(c), 1(i), 2, 3, 5, 7, 8, 9, 11, 13, 15, 15(a), 20, 31, 50, 51, 4T	1T - \$3.00 cwt	35, 3T 40M
"	Steel Sheets, Blue, 16 Gauge	431-36-61	10/14/35	17	(2 sets) 5 10	3.15 *	2.45 *	.70 *	2.55 *	2.45 *	2, 8, 15(a), 50, 51, 1(c), 4(a), 5, 7, 11, 13, 15, 18, 20(a), 31	9-\$3.15 cwt 3-\$2.95 *	40 lots (Approx.)
"	Steel Sheet, Black, 24 Gauge	431-36-17	11/8/35	20	18	3.00 *	2.75 *	.25 *	2.75 *	2.75 *	1(c), 1(i), 2, 3, 5, 7, 8, 9, 13, 15, 15(a), 18, 20(a), 50, 51, 3T	1T-\$3.00 * 1T-\$2.85 *	175 lots (Approx.)
"	Steel Sheets, Black, 24 Gauge	431-36-82	11/14/35	21	20	3.00 *	2.75 *	.25 *	2.75 *	2.75 *	2(a), 1(c), 3, 5, 7, 8, 9, 11, 13, 15, 15(a), 18, 20(a), 31, 50, 51, 4T	1T-\$3.00 *	70 lots
"	Steel Sheets, Black, 24 Gauge	431-36-117	12/3/35	18	17	2.75 *	2.70 *	.05 *	2.75 *	2.70 *	1(c), 1(i), 2(a), 5, 7, 8, 9, 11, 15, 15(a), 18, 20(a), 50, 51, 2T, 33	1T-\$2.70 cwt	25 lots

Industry steel
IDENTICAL BIDS TO FEDERAL GOVERNMENT DEPARTMENTS AND AGENCIES

Jobs indicated by symbol T are not members of American Iron & Steel Institute. Manufacturers indicated by symbol I have not been checked to see whether any of their officers are members of the Institute.

Product Steel Sheets (continued)

Agency	Sub-Product Classification	Invoy, Contract, and Item Number	Invoice Date	Item	Qty Item	High Bid (Value)	Low Bid (Value)	Difference Between High and Low Bid	Qty Bid (Amount)	Bid Price	Name of Bidder		Quantity Indicated in Invoice	
											(Name indicated by code number or check contractor membership of—)	(Name indicated by code number or check contractor membership of—)		
											American Iron and Steel Institute	American Iron and Steel Institute		
DEPT. OF JUSTICE Lewisburg, Pa. Fed. Prison Industries, Inc.	Hot Rolled Annealed Sheets Item 1, 22 Ga.	PI-36-86	7/23/35	13	12	\$3,145 cwt	\$3,045 cwt	\$.10 cwt	\$3,145 cwt	\$ 3,045 cwt	1(c), 3, 4(a), 7, 9, 13, 15(a), 16, 20(a), 30, 32, 33	2(a) - \$3,045 cwt	116 tons approx.	
	" 2, 22 Ga.			13	13	-	-	-	3,045 *	3,045 *	same as above, plus 2(a)	-		
	" 3, 22 Ga.			13	13	-	-	-	3,045 *	3,045 *	"	-		
	" 4, 22 Ga.			13 (2 sets)	11	3,145 *	3,045 *	.10 *	3,145 *	3,045 *	1(a), 3, 4(a), 7, 9, 13, 15(a), 16, 20(a), 30, 32	-		
	" 5, 22 Ga.				2	-	-	-	3,045 *	3,045 *	2(a), 17	-		
	" 6, 22 Ga.				13	12	3,145 *	3,045 *	.10 *	3,045 *	3,045 *	1(c), 2(a), 3, 4(a), 7, 9, 13, 15(a), 16, 20(a), 30, 32		17 - \$3,145 cwt
	" 7, 16 Ga.				13	13	-	-	-	3,145 *	3,145 *	same as above, plus 17		-
	" 8, 18 Ga.				12	12	-	-	-	2,495 *	2,495 *	"		-
Stainless Steel Sheets, 24 Gauge	PI-36-99	8/9/35		7 (2 sets)	3	40.166	39.32	.846	40.07 40.166	39.32	1(c), 17 3, 17, 17	7 - \$39.32 10 - 40.166	tonnage not given	
	Steel Sheets, Hot Rolled, Annealed. Item 1 - 22 Ga.	PI-36-109	9/5/35	9	9	-	-	-	3,145 cwt	3,145 cwt	1(c), 2(a), 3, 5, 7, 9, 16, 15(a), 31	-	2485 sheets	
Steel Sheet, Hot Rolled, Annealed, 22 Ga. Item 1, 2 *	PI-36-163	2/4/36		14	14	-	-	-	3,045 *	3,045 *	1(c), 1(1), 2(a), 4(a), 5, 9, 13, 15(a), 20(a), 31, 32, 30, 37	-	175.50 tons approx.	
	" 3, 4 *			14	12	3,505 cwt	3,045 cwt	.46 cwt	3,145 *	3,045 *	1(c), 1(1), 2(a), 4(a), 5, 9, 13, 15(a), 31, 32, 30, 37	17 - \$3,045 cwt 20(a) - \$3,505 *		
	Item 3, *			14	13	3,405 *	3,045 *	.36 *	3,045 *	3,045 *	same as above, plus 17	20(a) - \$3,405 *		
	" 6, *			14 (2 sets)	11	3,505 *	3,045 *	.46 *	3,145 *	3,045 *	1(c), 1(1), 2(a), 5, 9, 13, 15(a), 31, 32, 30, 37	20(a) - \$3,505 *		
	" 7, - 18 Ga.				2	-	-	-	3,045 *	3,045 *	4(a), 17	-		
" 7, - 18 Ga.				14	14	-	-	-	2,945 *	2,945 *	1(c), 1(1), 2(a), 4(a), 5, 9, 13, 15(a), 20(a), 31, 32, 30, 37	-		

The iron and steel industry is dominated by a few large enterprises. The following table shows the percentage of capacity controlled by the five largest companies in 1934 and by the nine largest companies in 1935, as well as the percentage of production in 1935 controlled by the nine largest companies.

TABLE
 Percentage of Total Capacity and Output
 of Various Steel Products
 Controlled by Largest Steel Companies

Product	Percentage of Capacity Controlled by:		Percentage of 1935 Production
	5 Largest Companies in 1934 1/	9 Largest Companies in 1935 2/	by 9 Largest Companies 2/
Pig iron and ferro alloys —	71	-	-
Steel ingots and steel for casting -----	69	-	-
Blooms, billets, & slabs -----	74	-	-
Rail products -----	54	-	-
Heavy rails -----	-	84.7	87.4
Light rails -----	-	40.2	60.8
Splice bars and tie plates --	-	84.6	87.7
Total bars -----	-	76.8	74.2
Plates, Sheared and universal -----	-	75.6	67.2
Tin mill black plate -----	59	91.2	89.5
Tin plate -----	56 *	81.7	77.9
Heavy structural shapes -----	-	91.9	93.2
Total Sheets -----	41	74.2	77.5
Strip, hot rolled -----	44	60.4	65.2
Strip, cold rolled -----	24	32.9	32.6
Steel piling -----	-	100.0	100.0
Wire, plain -----	53	49.5	63.4
Nails and staples -----	-	59.9	65.1
Barbed, fence, etc. -----	-	59.8	60.6
Pipe and tubular products --	61	-	-
B.W. -----	-	73.0	68.5
L.W. -----	-	82.5	69.4
Electric Weld -----	-	99.3	99.6
Seamless -----	-	64.5	61.4
Conduit -----	-	84.3	75.8
Mechanical tubing -----	-	61.3	79.9
Wheels, (car, rolled steel)	-	79.1	75.5
Axles -----	-	75.5	77.9
Track spikes -----	-	83.5	89.2
All other -----	-	28.8	82.2
Total	-	76.6	73.6

1/ Figures drawn from NRA Division of Review Work Materials No. 86, "Control of Geographic Price Relations Under Codes of Fair Competition", by Gustav Seidler, Jr., March 1936, p. 335. Mr. Seidler's data were compiled from "Directory of Iron and Steel Works of the United States and Canada", 1935.

2/ Figures drawn from a statement released to the industry by the American Iron and Steel Institute and based upon reports to the Institute from 189 companies.

* Includes terre plate.

These concerns have attained their present size primarily by absorbing competitors. Their record of union with competitors is as follows:

1. United States Steel Corporation.

Original organization in 1901 included:

- Carnegie Steel Company
- Federal Steel Company
- National Steel Company
- American Steel & Wire Company
- National Tube Company
- Shelby Steel Tube Company
- American Tin Plate Company
- American Sheet Steel Company
- American Steel Hoop Company
- American Bridge Company

Subsequent acquisitions included:

- 1902 Union Steel Company
- 1904 Clairton Steel Company
- 1907 Tennessee Coal, Iron, and Railroad Company
- 1908 Shoen Steel Wheel Company
- 1924 Cyclone Fence Company
- 1930 Columbia Steel Company
- Oil Well Supply Company
- 1936 Virginia Bridge and Iron Company

2. Bethlehem Steel Corporation.

Original organization in 1904 included acquisition of entire stock of nine companies, three of which were later sold. Subsequent acquisitions included:

- 1908 San Francisco Dry Dock Company
- 1913 Fore River Shipbuilding Corporation
- Titusville Forge Company*
- 1915 Detrick & Harvey Machine Company*
- 1916 United Engineering Works
- Pennsylvania Steel Company of Pennsylvania
- Pennsylvania Steel Company of New Jersey
- Maryland Steel Company
- Baltimore Sheet & Tin Plate Company
- Lackawanna Iron & Steel Company
- American Iron & Steel Manufacturing Company

* Plant later sold.

- 1921 Baltimore Dry Dock & Shipbuilding Company
- 1922 Lackawanna Steel Company
 - Midvale Steel and Ordnance Company
 - Cambria Steel Company
- 1928 Atlantic Works
- 1930 Pacific Coast Steel Company
 - Southern California Iron & Steel Company
- 1931 McClintic-Marshall Corporation
 - Levering and Garrigues Company
 - Hay Foundry and Iron Works
 - Heddon Iron Construction Company
 - Kalman Steel Corporation
- 1932 Seneca Iron & Steel Company

Bethlehem's announced intention to acquire Youngstown Sheet and Tube Company in 1930 was blocked by legal proceedings of stockholders.

3. Republic Steel Corporation.

Original incorporation in 1899 consolidated 24 companies. Five more were added in 1904. Subsequent acquisitions included:

- 1919 DeForrest Sheet and Tin Plate Company
- 1928 Steel and Tubes, Inc.
- 1930 Berger Manufacturing Company
 - Central Alloy Steel Corporation
 - Donner Steel Company, Inc.
 - Bourne-Fuller Company
 - Union Drawn Steel Company
- 1935 Corrigan, McKinney Steel Company
 - Truscon Steel Company
 - Newton Steel Company

4. Youngstown Sheet & Tube Company.

Grew primarily by expansion from within until 1923; in that year more than doubled its size by absorbing competitors.

5. Jones and Laughlin.

Has grown primarily by expansion from within.

Steel producers believe that there is no use in reducing prices when business is bad.

Statement of Walter S. Tower, executive secretary of the Iron and Steel Institute:

The Chairman. If the price of steel is lowered —

Mr. Tower. It won't bring out any more business.
(Hearings on S. 4055, p. 270.)

Statement of William A. Irvin, president of the United States Steel Corporation:

Our principle is to maintain a price. We do that in our own interest, first, and secondly, in the interest of our customers, because we have a number of thousands of customers who are using our material to fabricate various products, and if we were to go out indiscriminately and cut a price here, there, and elsewhere to get a little business, we would be discriminating against many of our best customers. . . . If we find that it is desirable for us to get that particular business, and the customer says, "I have a better price from someone else", we may take that business.

The Chairman. But you do not do it unless you find that some one of your competitors is making a better price.

Mr. Irvin. No, sir. . . .
(Hearings on S. 4055, p. 592.)

Statement of W. W. Sebold, vice president of the American Rolling Mill Company:

As far as we are concerned, we have a price. We do not change that price unless we find somebody else has, and then we have to change our price or lose the business. (Hearings on S. 4055, p. 45.)

This reluctance to lower prices is peculiarly strong in sales to the Government.

Statement of William A. Irvin, president of the United States Steel Corporation:

. . . I think I would rather lose an order -- I would rather lose all the Government business than to go in and cut a price and establish myself as being a producer that gave the Government a lower price than I gave to my regular customers who are buying continuously. The Government business is sporadic. (Hearings on S. 4055, p. 593.)

Statement of W. W. Sebold, vice president of the American Rolling Mill Company:

The Chairman. Why should it be any more on public bids than in the case of private sales?

Mr. Sebold. Just for the reason that if I should quote a price lower than my nominal market price, the next time they will make it lower and it will affect the markets everywhere and I would not gain anything by it. (Hearings on S. 4055, p. 44.)

Statement of D. A. Williams, president of the Continental Steel Corporation:

. . . We are not going to quote, on any public bid, below the full price

Senator Bone Do you have any reason why the public and the taxpayers, as a buyer, should pay more than anyone else, right along?

Mr. Williams. Well, you ought to buy like some of the other buyers.

The Chairman. How do they buy?

Mr. Williams. You should not advertise your price. (Hearings on S. 4055, pp. 67-8.)

Prices are avowedly set by the United States Steel Corporation and followed by others.

Statement of William A. Irvin, president of the United States Steel Corporation:

I would say we generally make the prices.

The Chairman. You generally make the prices?

Mr. Irvin. Yes, sir. We generally make the prices, unless some of the other members of the industry think that that price may be too high, and they make the price.

The Chairman. You lead off, then, with a price charged, either up or down, at Gary; is that correct?

Mr. Irvin. Yes.

The Chairman. I notice the price on March 19 at Chicago for soft steel bars was \$1.90, while at Pittsburgh the price was \$1.85. . . . You were the one that fixed it?

Mr. Irvin. We fixed our own price at \$1.90 and \$1.85. We always notify the trade papers. I think our commercial people always notify the trade papers and others interested as to what our prices are.

The Chairman. Then the rest of them follow that?

Mr. Irvin. I think they do. That is, I say they do generally. They may quote the same prices, but maybe they need some business and make a better price. We do not always know that until it is over.

The Chairman. Those are the exceptions, are they not?

Mr. Irvin. Yes.

The Chairman. Those are looked upon as the price cutters in the industry?

Mr. Irvin. Yes; and we have them with us always.

The Chairman. They represent a comparatively small percentage, do they not?

Mr. Irvin. It depends, Senator, on business conditions. I would say that when we are going at 30 or 40 percent, we have more of them with us than when we are going at 60 or 70 percent. (Hearings on S. 4055, p. 595.)

Statement of D. A. Williams, president of the Continental Steel Corporation:

. . . The company would endeavor to determine what base prices were being quoted by its competitors for shipments in territories for which Gary is a basing point, and would adjust its own quoted base price in accordance with prices quoted by its competitors. (Hearings on S. 4055, p. 66.)

Statement of Charles F. Stone, president of the Atlantic Steel Company:

When the steel company began business in Atlanta, its products, of course, promptly came into competition with products of other steel companies in other sections of the country . . . The steel company tried to get as much for its goods as its competitors were getting for theirs at those destinations where competitors were selling. (Hearings on S. 4055, p. 49.)

Federal Trade Commission Report to the President on Steel Sheet Piling, June 10, 1936:

. . . The sales manager of Jones & Laughlin, large as it is, stated that it could not sell below the prices of competitors, as to do so would bring about a ruinous competitive condition, that it desired to obtain as high a price as its competitors would permit, and that it could not obtain a higher price than that of competitors. The

vice president in charge of sales for the Carnegie-Illinois Steel Company stated that they never take the initiative in reducing prices, are anxious to obtain the highest possible price, and that it is a fallacy to attempt to increase business by reducing prices

The sales manager of Jones & Laughlin also stated that his company, because of its smaller size, felt compelled to follow the prices of the U. S. Steel Corporation. (p. 6.)

Prices are sometimes fixed by discussion and formal agreement among members of the industry.

Letter from A. A. Doranbusch, general manager of sales, to the president of the Andrews Steel Company, August 17, 1935:

It was not definitely decided until late last evening to put into effect for fourth quarter a one price policy allowing the galvanized sheet price to remain at \$3.10 per 100 lb. for #24 gauge base f.o.b. Pittsburgh. A few of the larger interests such as Weirton and Inland were in favor of reducing the price to \$3 base for #24 gauge f.o.b. Pittsburgh but this was finally defeated and it was agreed to allow all prices to remain the same as now in effect.

The announcement of no further jobber allowance after October 1 will be made by Continental on Tuesday of next week after which all mills can announce likewise. We, of course, in the meantime will notify our people. . . .

I discussed the automotive situation with Neil Flora last evening and he informed me that while some little tonnage was placed several weeks ago, nothing more has been done and that all the mills are holding firmly to their prices and are expecting that additional tonnages will have to be placed soon. . . . (Department of Justice files.)

Statement of E. L. Parker, of the Columbia Steel and Shafting Company:

The Chairman. I am asking you if you do not do it by an agreement or understanding, that as the price of this other product goes up you automatically raise your price?

Mr. Parker. I would answer yes to that. (Hearings on S. 4055, p. 175)

Statement of William A. Irvin, president of the United States Steel Corporation:

The Chairman. Do not representatives of your companies participate in meetings with other steel companies at which market conditions and prices are discussed?

Mr. Irvin. We talk of market conditions. That is one of the functions of the institute when we get together. We talk of market conditions, what the possibilities are, and prices in various localities, foreign competition, how much is coming in at this port or that port, and at what price it is coming in; at what price foreign materials are being sold at the various seaports, and anything that would naturally arise in connection with the steel industry, and other industries as well. (Hearings on S. 4055, p. 596.)

Letter from Walter S. Tower, executive secretary of the American Iron and Steel Institute, to Norborne Berkeley of the Bethlehem Steel Corporation, April 22, 1936:

In line with our conversation last week, I jotted down some random notes concerning some aspects of prices which might be worth while discussing at the Institute meeting on May 28. . . . I hand them on to you for what they may be worth. (Department of Justice files.)

Reply from Eugene Grace, president of the Bethlehem Steel Corporation, the following day:

I have your letter of April 22, enclosing notes on prices. I have an idea Joe expects to see you this week. I had a talk with him in line with our discussion, and shall of course let him see the notes. (Department of Justice files.)

In 1936 the industry undertook to maintain prices by a concerted program of public price announcements which it was believed would reduce price competition by making unannounced concessions violations of the Clayton Act.

Letter from Walter S. Tower, executive secretary of the American Iron and Steel Institute, to Eugene Grace, president of the Bethlehem Steel Corporation, January 4, 1936:

. . . But it does seem to me that the only way, if there is any way, to create satisfactory conditions, and to confine the commercial problems

within the limits where they may not prove disastrous to the industry, is to be found through the medium of some complete record of what are the commercial policies and practices of the leading companies in the industry.

Recognizing the fact that the commercial provisions of the Code are now a closed book, there appear to be only two ways in which, without too serious legal liabilities, there can be any general or open record in respect to these vital matters. The first of these ways is to follow the recommendation which you made some months ago concerning the publication by important members of the industry of formal lists of prices for their respective products, together with statements of the extras applicable and terms and conditions of sale. I still think that adopting your suggestion would help more than anything else which now seems permissible, to correct the difficulties of which the entire industry is fully aware. It also seems to me quite possible that if a group of several of the prominent companies decided to follow such a policy, none of the other prominent producers could long afford not to fall in line, if for no other reason than the implications arising from the failure of any prominent company so to declare itself publicly in respect to prices and commercial practices. (Department of Justice files.)

Statement by Charles E. Hook, president of the American Rolling Mill Company, enclosed in his letter to E. T. Weir, National Steel Corporation, January 16, 1936:

. . . It seems to me useless to attempt to cure the general ills of the steel industry until we make up our minds that we will courageously and definitely resist the pressure of the automotive or any other large consuming industry to break down a price structure that will permit of a reasonable return on our invested capital.

A decision to make such a stand can only come, of course, if as and when the major steel companies make up their minds that their price schedules are an open book, that all purchasers are to be treated alike and that undercover methods of all kinds are outlawed completely. If any industry or any company is to be given a price better than the carload price, it must be known by all and it must be a defensible practice that can be shown to be in the public interest. (Department of Justice files.)

Letter by J. G. McKown, assistant vice-president and assistant general manager of sales of the Carnegie-Illinois Steel Corporation, to all managers of sales, May 21, 1936:

We will begin our price announcement program by announcing prices on Bars and Small Shapes, later Strip, then Sheets, and our other commodities will be given consideration as promptly as possible. . . .

We are giving you this advance information, however, so that you can organize your program for sending out this announcement. (Department of Justice files.)

Second letter by J. G. McKown to all managers of sales, May 23, 1936:

. . . We are having sent to you today an initial supply of the following price announcement form. . . . It will, as stated in our letter of May 21, be necessary for you to announce prices to your individual customers, combining commodities where you find it is appropriate. In figuring these prices the usual practice of adding the published all-rail rate of freight, or using arbitrary rates as established, will be followed. . . .

In using this method of naming delivered prices in our announcements, it is obvious it would not be appropriate to include many of the factors previously made a part of our quotations, but, nevertheless, all of our established practices will be followed in arriving at such delivered prices. . . . When such price announcements are made to the trade we are obligated under the Clayton Act to abide by these prices without any deviation. (Department of Justice files.)

Article in Iron Age, January 7, 1937, by C. E. Wright, Managing Editor:

. . . The move toward open prices was initiated by T. M. Girdler, chairman and president of Republic Steel Corp., who, in making an announcement of Republic's second quarter prices stated that "The new method of issuing prices has been adopted by Republic in the expectation that it would lead to elimination of unfair trade practices which have grown up in the steel industry.

These unfair practices have included secret concessions, discriminatory prices as between customers, rebates and other methods harmful alike to producer and consumer. The steel industry has become notorious for such practices and for its inability to earn a fair profit. By eliminating these practices and adopting, for the first time in its history, a sound merchandising policy, the steel industry could make a great contribution to general recovery."

Thus was initiated the most successful price stabilizing movement the steel industry has experienced, other than the Steel Code. During the remainder of the year most of the steel companies followed Republic's example and made public announcement of their selling prices, with the result that the last three quarters of 1936 were remarkably free from price cutting, either open or secret, the general understanding between steel companies and their customers being that any change in published prices would be similarly announced. Some support for this price policy was received from the Robinson-Patman Act, which, though confusing to many, seemed, at least in the opinion of most lawyers, to be aimed at some of the practices the steel industry had long indulged in. (pp. 65-66.)

The industry has continued in the post-code period the formula system of pricing which prevailed under the code. The effect of this system is to fix the relationship of prices of various steel products and of prices at various locations so that the entire price structure is determined when a few base prices have been named. Formulas used include the following:

1. Fixed extras for quality.

The industry quotes prices on certain defined basic products and makes extra charges for variations in chemical content, length, width, thickness, shape, method of cutting, straightening, assembling, testing, finishing, and the like.

Markedly under the code, and to a smaller extent since, changes in these extras are used to make substantial increases in price. For example, molybdenum steel rods used in making tire chains were increased in price about 62 per cent under the code by increase in extra charges for quality, according to complaint by a buyer of such rods. Under the code these extras were printed in a book issued by the code authority. Since the code, separate extra lists have been printed by the different companies.

With minor changes, the extras used are substantially those used under the code. The extras are still regarded as terms jointly agreed upon, and are supervised by trade associations.

Letter from J. E. Staffer, purchasing agent of the A. M. Byers Company, to Apollo Steel Company, February 27, 1936:

. . . According to your letter of August 29, 1935, and the Uniform Extras and Deductions adopted by the American Iron and Steel Institute, the 1390 lbs. should be charged at \$15 per N.T. and the 1976 lbs. should be charged at \$7 per N.T. (Department of Justice files.)

Reply from the Apollo Steel Company, February 28, 1936:

. . . We find that you are correct in that we overcharged you and we are enclosing our Credit Memorandum #96 which we trust adjusts the matter satisfactorily. (Department of Justice files.)

Letter from Myron J. Czarniecki, vice president of the A. M. Byers Company, to Meade B. McPherson, manager of tube and pipe sales of the Allegheny Steel Company, June 10, 1936:

You are undoubtedly bound by the Uniform Extras and Deductions of the Iron and Steel Industry for your product in the same way as we are for ours. You will find on referring to Section 60, top of Page 2, that if couplings are required for cut length specifications, an extra charge will be made.

We have checked and find that it is uniform practice among steel pipe manufacturers to charge extra for the couplings in exactly the same manner as we charged you. (Department of Justice files.)

Letter from Charles M. Parker, secretary of the technical committee of the American Iron and Steel Institute, to Sharon Steel Hoop Company, September 4, 1935:

In order that we may have a reliable record in respect of new extras or changes in previously published extras applicable to Strip Steel, it will be appreciated if you will

send us two copies of your latest card of extras covering that product. (Department of Justice files.)

Letter from the president of the Concrete Reinforcing Steel Institute to E. O. Walker, vice president of the Concrete Engineering Company, July 22, 1936:

In looking over your price publication on reinforcing bars and spirals applicable to the Chicago territory, I note that you have not published a price on continuous welded stirrups; nor have you published price for milling ends of bars, nor any restrictive specification extra; and for spirals, you have not published any extras for cold drawn wire nor any deduction for spirals coiled only and not assembled.

In addition, I have not received your publication of price on accessories which you advised me by telephone several weeks ago would be promptly issued.

In looking over the price publication issued by Mr. J. F. Klein of your Detroit Office and applicable in that territory, I notice that some of the omissions mentioned above occur in that price publication also but in addition there is one very serious omission in that no price is shown for engineering in connection with jobs over 1000 tons.

Can I not ask your co-operation in the publication of prices insofar as your present ones are not complete as described in this letter? (Department of Justice files.)

On August 8, 1936, the Concrete Engineering Company revised its price announcement in substantial accord with the suggestions of the foregoing letter.

2. Fixed extras for quantity.

Quoted prices apply to purchases of a standard quantity. Extra charges are made for smaller amounts, and for some products deductions are granted for very large purchases. Changes in quantity extras are likewise used to change prices. Under the code, quantity extras for hot rolled sheets were raised about 40 per cent, for hot rolled strip about 88 per cent, for merchant steel bars about 24 per cent, and for tool steel, about 404 per cent (increase upon aggregate of quantities representing arithmetic mean of size groups subject to quantity extras). Since the code, extras on small quantities have tended to increase, but some new deductions have been granted for larger quantities. Quantity extras were printed with quality extras under the code, and have been printed with them in the extra lists of the individual companies since the code.

1. Quoting prices at established basing points.

Steel producers follow a practice of quoting delivered prices on iron and steel products other than heavy rails. For each important product, base price quotations are published for specified localities called basing points. The price of a product delivered at a basing point is the base price plus extras, plus an arbitrary allowance for local switching charges. The price of a product delivered at any other point in the United States is a price computed by adding freight, not from the point of shipment, but from the basing point.

The various domestic steel products have from 3 to 9 basing points. Pig iron has more, the number for #2 foundry pig being 20. Under a multiple basing point system, prices in the area contiguous to each basing point are calculated from that basing point, the base governing any destination being the one whose base price plus freight to the destination will give the lowest delivered price. On rail shipments within the base area, mills located at the base pay freight equal to the freight they charge their customers, whereas mills located at other points pay either more or less freight than is included in the delivered price.

The existence of a multiple basing point system in the industry was frankly admitted by executives testifying before the Wheeler Committee on the basing point bill. The United States Steel Corporation and Bethlehem alleged, however, that all their important operations were located at or very near basing points. The actual distribution of capacity relative to basing points in 1934 was as shown in the following table.

TABLE 4
DISTRIBUTION OF CAPACITY WITH RESPECT TO BASING POINTS

PRODUCT	At Basing Point		Not at But Within 50 Miles of Basing Pt.		Not Within 50 Miles of Basing Pt.		Total
		%		%		%	
PIG IRON	12,834,700	40.85	14,949,255	47.58	3,637,600	11.57	31,421,555
BLOOMS BILLETS & SLABS	12,080,200	25.2	22,964,020	47.9	12,874,300	26.9	47,916,520
MER. & CONC. BARS	4,092,200	29.1	5,776,400	41.0	4,209,325	29.9	14,077,925
SHEET & TIN PLATE BARS	3,119,600	33.5	5,113,300	55.0	1,067,020	11.5	9,299,920
STRUCTURAL SHAPES	1,407,500	26.1	3,534,800	65.6	453,000	8.3	5,395,300
PLATES	1,521,350	24.7	3,080,300	49.9	1,566,200	25.4	6,167,850
SHEETS	512,100	6.3	3,075,200	37.6	4,581,500	56.1	9,168,800
HR STRIP	586,000	11.8	1,707,500	34.3	2,688,000	53.9	4,981,500
CR STRIP	225,900	21.8	382,500	36.9	427,200	41.3	1,035,600
TIN M. BLACK	276,500	10.3	1,565,400	58.1	849,900	31.6	2,691,800
TIN PLATE (1)	306,380	10.6	1,797,550	61.9	799,450	27.5	2,903,380
SKELP	1,133,000	27.1	2,444,200	58.7	594,000	14.2	4,171,200
PIPE, etc.	1,327,600	15.5	3,742,600	43.7	3,488,200	40.8	8,558,400
WIRE RODS	780,000	18.1	2,255,000	52.4	1,269,000	29.5	4,304,000
WIRE NAILS & STAPLES: BARBED WIRE & FENCING	306,650	9.5	1,817,700	56.6	1,087,850	33.9	3,212,200
WIRE DRAWN	762,500	19.1	1,606,400	40.2	1,631,900	40.7	4,000,800
	41,272,180		75,812,125		41,224,445		158,308,750
	26.1%		47.9%		26.0%		100%
		74.0%					

(1) Includes small quantity of terne plate.

Source: Report of N.R.A. on the Operation of the Basing Point System in the Iron and Steel Industry, Nov. 30, 1934.

The basing points now in use are substantially those which were used under the code. The following table shows basing points named in industry price lists in 1936 as compared with code basing points for the same products. At least four price lists were available for each product included in the table, and at least half of these lists mentioned each basing point shown in the table as a post-code basing point. Omissions and additional bases are mentioned in footnotes. The additional bases are new points of quotation for some companies, and possibly for all. Omissions, however, are due to the fact that some concerns show price lists for regional circulation and mention only bases in a region, and some concerns calculate prices at certain basing points by adding fixed differentials to the prices at other basing points. Hence omissions probably do not reflect variations in practice.

4. Sale at delivered prices only.

Statement of Robert Gregg, vice president of the United States Steel Corporation:

Mr. Gregg. . . . As a matter of fact our prices, being delivered prices, and you being a customer located at Cleveland -- and let us suppose that you come to our mill at Pittsburgh for steel -- we would naturally assume that you wanted delivery at Cleveland, and our price would be made to you based on your delivery point. . . .

The Chairman. And if I leave Cleveland and come to Pittsburgh with my truck, with some cash in my hand, and want to pay for that steel, you will not sell it to me, will you, unless I give you my name and my location, where I am going to take it?

Mr. Gregg. As a rule we know that; yes, sir.

The Chairman. I mean if you do not already know who I am.

Mr. Gregg. Well, we will find out.

The Chairman. Yes; you will find out who I am, and if I told you I lived in Cleveland, and then I take the steel to some other point and should go back another time you would charge me the delivered price?

Mr. Gregg. We would endeavor to secure the delivered price.
(Hearings on S. 4055, pp. 205-6.)

Statement of Frank H. Moeschl, vice president of the Newport Rolling Mill Company:

The Chairman: Suppose I come to your plant and ask for some steel. Would you sell it to me?

Mr. Moeschl. We would probably ask you where you wanted it delivered.

The Chairman. Suppose I came there with my truck and backed it up and did not give you my destination. Would you sell me the steel?

Mr. Moeschl. We would sell you the steel, but we would add an arbitrary amount.

The Chairman. You would just guess?

Mr. Moeschl. Yes; we would just guess.

Senator Bone. How would you determine the "ante"?

Mr. Moeschl. We would probably notice the license on the truck.
(Hearings on S. 4055, p. 143.)

Letter from John F. Hennessy, manager of sales of the Bethlehem Steel Corporation, "by H", to A. M. Castle & Company, March 6, 1936:

As advised, in view of the inquiry asking for prices f.o.b. shipping point, we are declining to quote the War Department direct on this invitation, due to the fact that we do not quote f.o.b. mill prices. (Department of Justice files.)

The industry induced railroads, during the code, to forbid diversion of shipments by a buyer. After protest, subsequent to the Schechter decision, the chairman of the Traffic Executives Association for Eastern Territory wrote to the vice president of the Pennsylvania Railroad, July 12, 1935, as follows:

I have since ascertained the Iron and Steel Institute, which is adhering to the provisions of its former code, is still strongly desirous of continuing this arrangement for fear the absence of such arrangement will destroy the effort of its members to continue adherence to the code. (Department of Justice files.)

5. Use of all-rail freight rates regardless of method of shipment.

The industry issues a freight book which lists all-rail freight rates throughout most of the country and combined rail and ocean rates through South Atlantic ports. When this book is incorrect it is used nevertheless until it is corrected.

Letter from O. W. Bryte of the traffic department of the Newport Rolling Mill Company to E. T. Butler of the American Iron and Steel Institute, November 9, 1935:

As we have not been furnished with supplement carrying similar cancellations against your Freight Tariff No. 2, will you please inform the writer if we shall be guided by the corrections as heretofore mentioned or if we shall adhere strictly to your Freight Tariff No. 2.

Reply by E. T. Butler, November 13, 1935:

In the meantime, in connection with the question raised in the second paragraph of your letter it is my understanding that until such time as the rates in Freight Tariff No. 2 are changed, the rates to be used are those carried in Freight Tariff No. 2.
(Department of Justice files.)

On March 17, 1936, four bidders submitting bids on steel sheet piling to be used in California by the Federal Government added 39 cents per 100 pounds to the Pacific Coast base price, in spite of the fact that a rate 10½ cents lower had been filed with the Interstate Commerce Commission more than 30 days previously, and had become effective 4 days before the bids were opened.

When shipments are made by inland waterway, rail rates are used.

Testimony of William A. Irvin, president of the United States Steel Corporation:

. . . Now, if we were to sell material at a lower price delivered by reason of having barge delivery in, let us say, Cincinnati, than we would make to the sort sort of factory located inland 20 miles, we would give the manufacturer in Cincinnati an advantage over all those located in, we will say, Indianapolis, Columbus, or elsewhere, and that would prove to be detrimental to his interests. So in order to keep him satisfied and on a fair competitive basis it would be necessary for us to make the same price to the inland plant that we would make to the plant on water. . . .

I think from the standpoint of water it is fair to the producer of material to take advantage of his natural location on water, and his ability to ship by water, considering the expense he is put to in the construction of docks and other facilities for loading. . . .

Well, I thought, or at least I tried to make that clear, that it is not only a question of getting a natural advantage, in one instance as against another, but usually getting the advantage of manufacturing material when a manufacturer has placed vast sums of money in the improvement of his plant and in his methods of transportation; or of a small plant down the river who locates there for fabricating purposes, getting an advantage which will dislocate hundreds of others who have placed their plants inland, fabricating the same sort of materials.

. . . We could not afford for the purchases of any one concern to destroy the entire price structure for all the steel we make and is going forward.

The Chairman. Then you feel that it would destroy the price structure?

Mr. Irvin. I do not feel that way, but I know it. . . .

The Chairman. I asked you a moment ago -- and I will repeat it -- you stated you would agree that unless steel mills calculated delivery costs in terms of a common mode of transportation, such as all-rail, the delivered prices could not be identical at the place of delivery. That is the real reason for calculating delivery in terms of all-rail freight, is it not?

Mr. Irvin. Yes, sir.
(Hearings on S. 4055, pp. 584-87.)

Testimony of N. J. Clarke, vice president in charge of sales of the Republic Steel Corporation:

Senator Shipstead. And the consumers and the shippers do not get the benefit of lower water transportation?

Mr. Clarke. No, not necessarily. Why should they? We are not really in business for philanthropy.
(Hearings on S. 4055, p. 168.)

Testimony of Robert Gregg, vice president of the United States Steel Corporation:

The Chairman. . . . The effect of that is that you put into your pocket the difference between what it costs you to ship that steel by water and what it costs the other fellow to ship it by rail?

Mr. Gregg. It is conceivable that it would cost us more to ship by water than it would cost him to ship by rail. I will cite you an example.

The Chairman. But, generally speaking, that is not true?

Mr. Gregg. Generally speaking I will say that is not true.
(Hearings on S. 4055, p. 210.)

When shipments are made in the buyer's truck, the practice now, as during the code, is to allow the buyer an amount equal to 65 percent of the carload all-rail freight charge from the mill to the destination. When delivery is made in the seller's truck at points

not reached by rail, a cartage charge is made. In published price lists there is some variation in this charge. The following statement in a letter written June 21, 1935, from the eastern traffic manager of the Bethlehem Steel Corporation to the secretary of the traffic committee of the American Iron and Steel Institute, indicates, however, that these charges are not independently determined.

We will revise the charges for Annapolis as soon as you determine the proper trucking charges.
(Department of Justice files.)

6. Quotation of price at the site of an identified structure in sales to fabricators.

Under the basing point system, which denies fabricators a buying advantage from location near a steel mill, fabricators formerly found it worth while to buy their steel at a distance in order, by use of the fabrication in transit privilege, to get reductions in freight on their shipments of fabricated products. Under the code the steel industry quoted steel for an identified structure at a price determined by the location of the structure, rather than by the point of delivery to the fabricator. Thus all fabricators paid the same price regardless of their nearness to the point of erection, the basing point, or the point of shipment; and the variations due to the fabrication in transit privilege were absorbed by the steel mills.

The code practice has prevailed since the code.

Price announcement for concrete reinforcing bars by Carnegie-Illinois Steel Corporation, June 4, 1936:

. . . In the case of products sold for fabrication for an identified structure . . . the place of delivery is the railroad freight station nearest to the place at which such structure is to be assembled or erected. (Department of Justice files.)

Price announcement for structural shapes and plates by Bethlehem Steel Corporation, March 11, 1936:

. . . In the case of a product to be used in the construction of an identified structure, involving orders for a carload or more, the "place of delivery" is the railroad freight station at or nearest to the place at which such structure is to be assembled or erected . . . (Department of Justice files.)

Similar announcements from other companies are available in the Department of Justice files.

7. Uniform method of handling land grant freight rates.

Under the code, in sales to the Government, members of the industry were authorized to make delivery to the Government at the point of shipment, and to deduct from the delivered price (a) the all-rail freight from point of shipment to destination, and (b) any additional amount the Government could save in land grant rates by dealing with some other bidder.

The same practice continues.

Price announcement for concrete reinforcing bars by Carnegie-Illinois Steel Corporation, June 4, 1936:

In the case of sales made to the United States Government, or any department or division thereof, where shipment moves via all-rail transportation on Government bills of lading, at land grant rates, title will be passed at the point of shipment, and the lowest all-rail published freight rate to destination will be allowed, plus an additional amount, if necessary, to equalize any greater benefits from land grant rates which would accrue to the Government from shipping point of any other bidder. (Department of Justice files.)