

### 8. Special price formulas in certain areas.

Under the code, the code authority authorized sales of various products at Detroit at prices either 15 cents or 20 cents higher than at the applicable basing point, with the effect of reducing Detroit delivered prices. Since the code, a base for two of these products has been established at Detroit. On the rest of the products the delivered prices now quoted in Iron Age are higher than the base price at Pittsburgh by exactly the amount of the differential; and on one of the products for which Detroit is now a base, the base price exceeds the Pittsburgh base price by the amount of the differential.

In sales of southern pig iron north of the Ohio River the price is 38 cents below the delivered price calculated from a northern basing point. The arrangement is the result of a compromise by which southern producers obtain a differential in northern territory to offset the high phosphorus content of their iron, and northern producers obtain a contraction of the area in which prices are based on Birmingham. If the ordinary basing point formula were followed, the price in much of this territory would be calculated from Birmingham, and would be lower than the present price. A week after the differential went into effect, southern pig iron was sold for \$20.27 a ton at Evanville, Indiana -- the base price at Granite City, Illinois, plus freight, minus the 38 cent differential. Two weeks earlier the price would have been \$17.69 -- base price at Birmingham plus freight.

The practice was initiated under the code, but without authority from the code, and still continues.

Minutes of a meeting of pig iron producers, January 8, 1934:

This territory was defined as that section of the United States south of the south bank of the Ohio River and south of the southern boundary of the States of West Virginia, Missouri, and Kansas. It will include the following states:

Virginia	Tennessee
North Carolina	Alabama
South Carolina	Mississippi
Georgia	Arkansas
Florida	Louisiana
Kentucky	Oklahoma
	Texas

By a majority vote this territory was considered as a sales district for pig iron producing furnaces in the Birmingham district as follows:

Woodward Iron Company  
 Tennessee Coal, Iron & Railroad Co.  
 Republic Steel Corporation  
 Sloss-Sheffield Steel & Iron Co.  
 Gulf States Steel Company.  
 (Federal Trade Commission files.)

Note following pig iron price quotations, Iron Age, January 13, 1938:

Delivered prices on southern iron for shipment to northern points are 38¢ a ton below delivered prices from nearest northern basing point on iron with phosphorus content of 0.70 per cent and over. (p. 114.)

9. Standard terms of payment.

The code prescribed a discount of one half of 1 per cent for payment in 10 days, terms net for 30 days, and interest at 6 per cent thereafter. The cash discount and the net payment period are found in price announcements to manufacturers issued in 1936.

Letter from Walter S. Tower, executive secretary of the American Iron and Steel Institute, to J. M. McComb, vice president of the Crucible Steel Company of America, August 7, 1935:

~~It~~ It has been my understanding that the action taken by members of the industry at their meeting on June 6 committed each of the companies there represented to a policy of maintaining the terms and conditions of sale which were in effect under the Steel Code. As far as information has come to us since that meeting, it appears that members of the industry generally are following a uniform policy in respect to such matters. For that reason, there has not been any discussion of action by the Board along the line suggested in your letter. (Department of Justice files.)

As a result of Mr. McComb's complaint in September that some companies were not enforcing terms of payment, a meeting was arranged between Mr. Tower, Mr. McComb, the treasurer of the Bethlehem Steel Corporation, and the treasurer of the Carpenter Steel Company to discuss possible action by the American Iron and Steel Institute. In accepting this appointment, Mr. Tower wrote to Mr. McComb, October 17, 1935:

. . . It seems to me that one possible line of approach to the problem for any steel company would be adoption of certain standard clauses respecting terms to appear in all contracts of sale or acknowledgments of orders accepted. (Department of Justice files.)

During the code the industry required maintenance of resale prices, and since the code has sought to accomplish the same result by requiring jobbers to publish prices and price changes. The following statement is typical of those used by various producers.

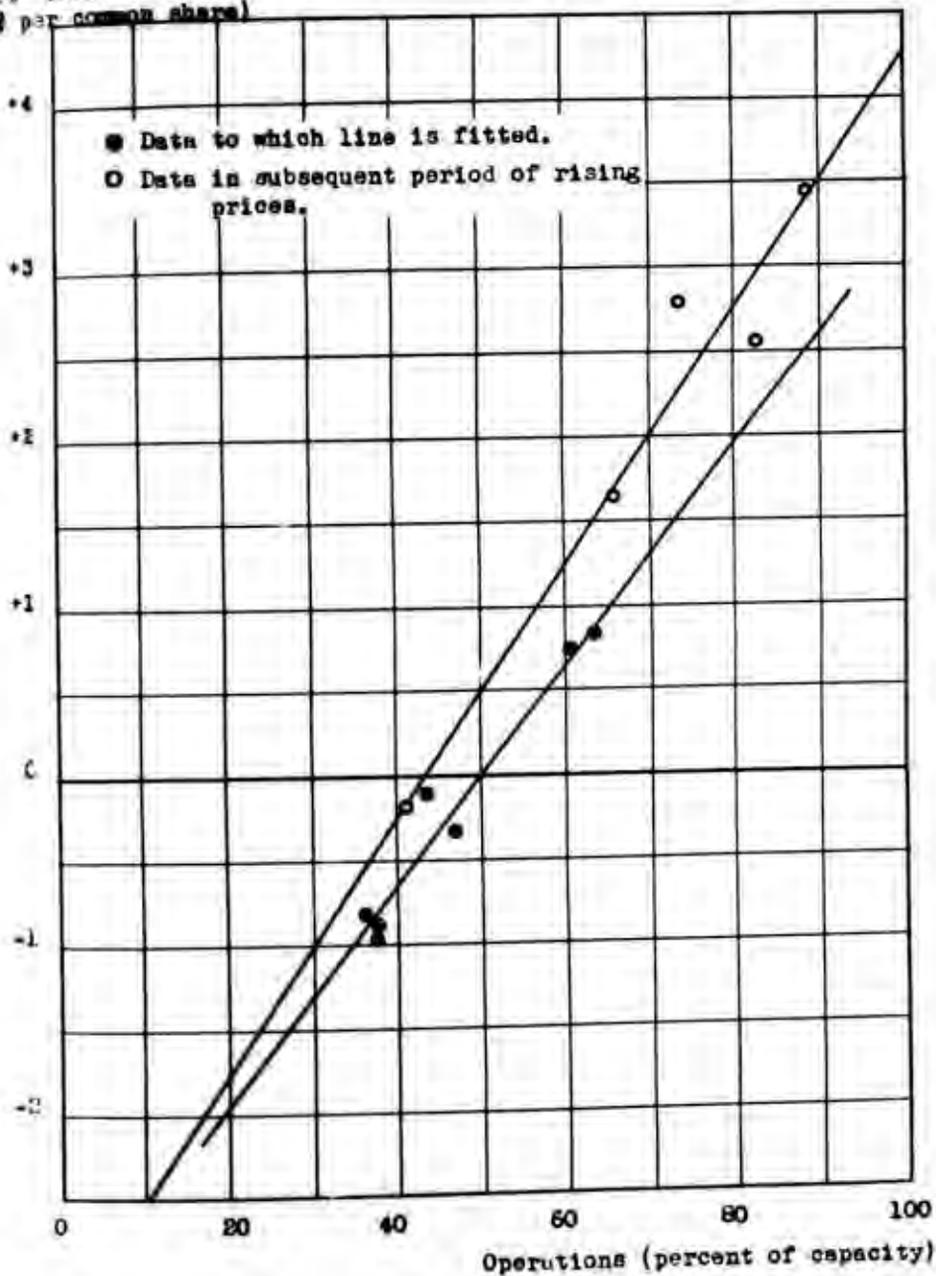
Price announcement for reinforcing materials by Great Lakes Steel Corporation, July 15, 1936:

. . . (a) No person, firm or corporation shall be deemed a jobber unless such person, firm or corporation shall at all times publish the prices, including all terms and conditions of sale, at which such individual person, firm or corporation currently sells or offers for sale reinforcing materials; (b) Each jobber shall reserve complete freedom with respect to change or withdrawal at any time of all prices and terms and conditions of sale published by him, but all such changes or withdrawals shall be immediately published in the same manner and to the same extent as prior publications, so that the outstanding prices and terms and conditions shall at all times accurately and completely reflect the actual current prices without misrepresentation or discrimination by such individual jobber. (c) No prices shall be deemed "published" unless they shall be currently distributed to a reasonable number of contractors or other buyers of the classification to which the respective prices and terms and conditions of any individual jobber are applicable located in the respective trade territory to which such prices apply. (Department of Justice files.)

APPENDIX VI

NET PROFITS AND OPERATIONS OF THE UNITED STATES STEEL CORPORATION,  
WITH LINE OF RELATIONSHIP SUPERIMPOSED.

Net Profit  
(\$ per common share)



THE UNITED STATES STEEL CORPORATION EARNINGS IN RELATION TO PRICE AND  
COST ADVANCES.

The problem of determining the causes of increasing profits in the steel industry is very complicated, and only approximations can be obtained by statistical methods using available data. Broadly speaking, increases in profits arise from increasing operations and from price advances not offset by increasing costs. In order to determine the extent to which the marked increases in profits of the steel industry in recent months may be attributed to a rise of prices relative to costs, it is necessary to isolate the effect on earnings of increasing operations. A possible method of isolating this factor is described below.

Quarterly data on net profits and on scale of operations for the four quarters of 1935 and the first three quarters of 1936 were used to determine the relationship between net profit and increases in output. This period was selected because prices and wage rates remained fairly stable throughout the entire seven quarters, making it reasonable to assume that increases in profits resulted from increases in output during this period. The quarterly earnings per share of common stock <sup>1/</sup> and the scale of operations in percent of capacity, published in the quarterly earnings reports of the United States Steel Corporation, have been used as the basis for this computation. These data appear fairly homogeneous and indicate that for each increase of one percent in capacity there was an increase of \$.065 in quarterly net profit per share

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<sup>1/</sup> The number of shares of common stock outstanding remained unchanged at 8,703,252 during this period. The amount of preferred stock outstanding also remained unchanged during this period.

- 2 -

of common stock, and the scale of operations at which there was no profit or loss after preferred dividends, was 50 percent of capacity. The accompanying table and chart show these computations.

Net Profit and Operations of the United States Steel Corporation.

Quarterly, 1935 to 1937.

	Net profit (\$ per share of common stock)	Operations (percent of capacity)	Estimated net profit attributable to scale of operations*	
1935	\$2.77d	38.8	2.90d	
1st quarter	0.97d	37.5	0.81d	
2nd "	0.81d	36.3	0.89d	
3rd "	0.88d	37.7	0.80d	
4th "	0.10d	43.8	0.40d	
1936	2.91	59.3	2.41	
1st quarter	0.33d	47.0	0.20d **	
2nd "	0.75	60.8	0.70	
3rd "	0.84	63.6	0.88	
4th "	1.65	65.8	1.03	New estimates based on period after <u>price increases</u>
1937	--	--	--	
1st quarter	2.56	82.6	2.12	2.95
2nd "	3.43	88.4	2.50	3.38
3rd "	2.79	73.6		2.27
4th "	<u>0.20d</u>	41.3		<u>.12d</u>
1937	8.58			8.48

d - Deficit

\* - Estimated from above data for four quarters of 1935 and first three quarters of 1936. See Chart I for line of relationship used in making the estimates.

\*\* - See note at end of text.

- 3 -

It should be noted that a straight line relationship has been used in making this computation. The objections to this are, first, that no account of technological changes is taken and, second, that the type of relationship may change when moving to a higher scale of operations. In a period as short as this, however, it seems unlikely that there have been significant changes in technological methods of producing steel or in administrative techniques and procedures. Also, given fixed prices and fixed variable costs, and, therefore, a fixed margin of price over variable cost, a straight line would be the proper type of curve to use in this connection, as the increase in net profit under these conditions is directly proportional to the volume of output, and the total net profit is at a higher or lower level depending upon the proportion that total fixed cost bears to total selling value at full capacity. Hence, these objections do not appear well founded.

A rough check on the above computations is furnished by the annual data for the same period. The increase in net profit per share of common stock from 1935 to 1936 was \$5.68 and the increase in operations was 20.5 percent. For each one percent increase in operations there was an increase of \$.277 in net profit per share of common stock, or, on a quarterly basis, \$.069 per share of common stock. The point of no profit or loss is in this case 49.9 percent of capacity. The agreement of these figures with the previous computations is close enough so that the difference may be attributed to the effects of price and cost changes occurring in the final quarter of 1936.

- 4 -

The increase in net profits in the last quarter of 1936 and the first two quarters of 1937 amounted to \$2.59 per share of common stock. The increase expected from the increased scale of operations during the same period amounts to \$1.62 per share of common, or approximately 62.2 percent of the actual increase. It appears, therefore, that of the actual increase in net profits over 60 percent may be attributed to the increase in the scale of operations and nearly 40 percent to the increase in the margin of price over variable costs. In other words, of the \$22.5 million increase in net profits, some \$8.5 million may be attributed to the increase in prices.

As is indicated in the accompanying chart, the scale of operations at which there is no profit or loss after preferred stock dividend requirements, was 50.1 percent of capacity up until the fourth quarter of 1936. As a result of the advance in prices relative to costs, the break-even point, again after preferred dividend requirements, was lowered to 43 percent.

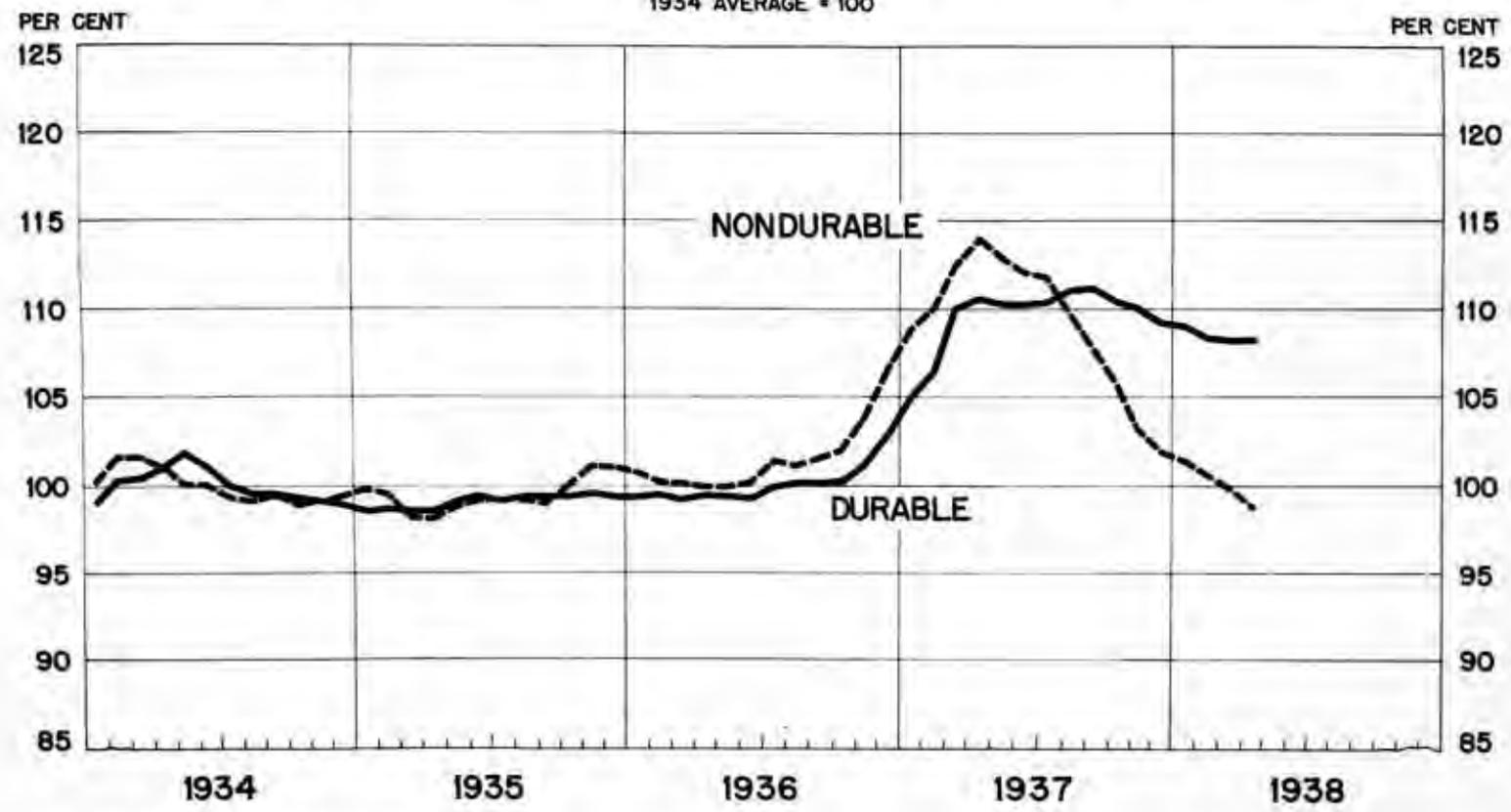
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Note: Since data for the last two quarters of 1937 have become available, estimates of the new relationship between profits and rate of operations have been made by the same method. The data again give fairly consistent results, as indicated by the small circles and the pencil line drawn in on the chart. It appears that the 1936-37 changes in the price-cost relationship resulted in an increase in net profit per common share from \$.065 to \$.075 for each percent of capacity above the break-even point, and lowered the break-even point from 50 to 43 percent of capacity. It should be remembered that these figures represent net after provision of more than \$25 million per year for preferred dividends, and that studies based upon net before such provision should show a correspondingly lower break-even point.

APPENDIX VII

# WHOLESALE PRICES OF INDUSTRIAL COMMODITIES

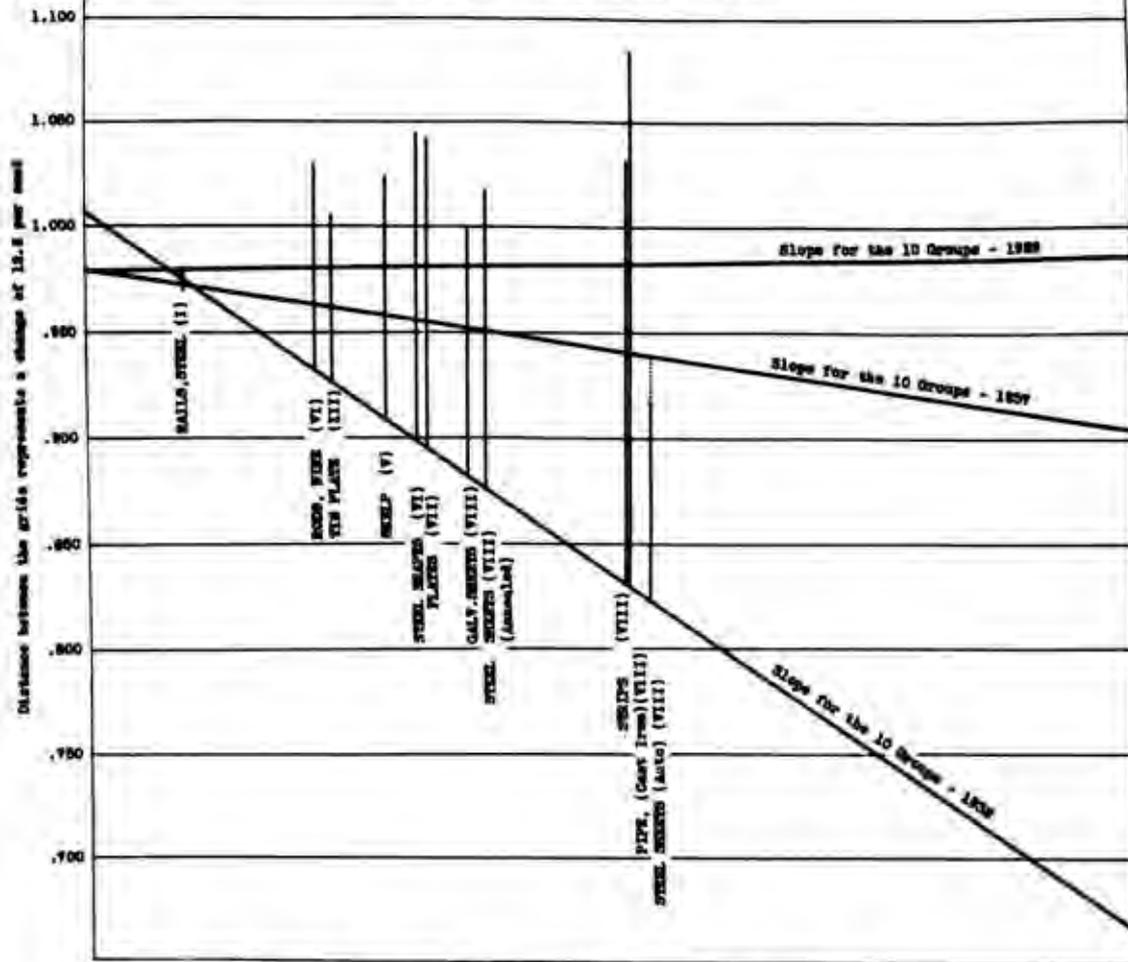
1934 AVERAGE = 100



NOTE: FUEL AND LIGHTING MATERIALS OMITTED.

PERCENTAGE CHANGE  
(in logarithms)

CONFIDENTIAL  
DECLINE AND RECOVERY OF SPECIFIED STEEL PRODUCTS  
For the respective years 1929, 1932, 1937.



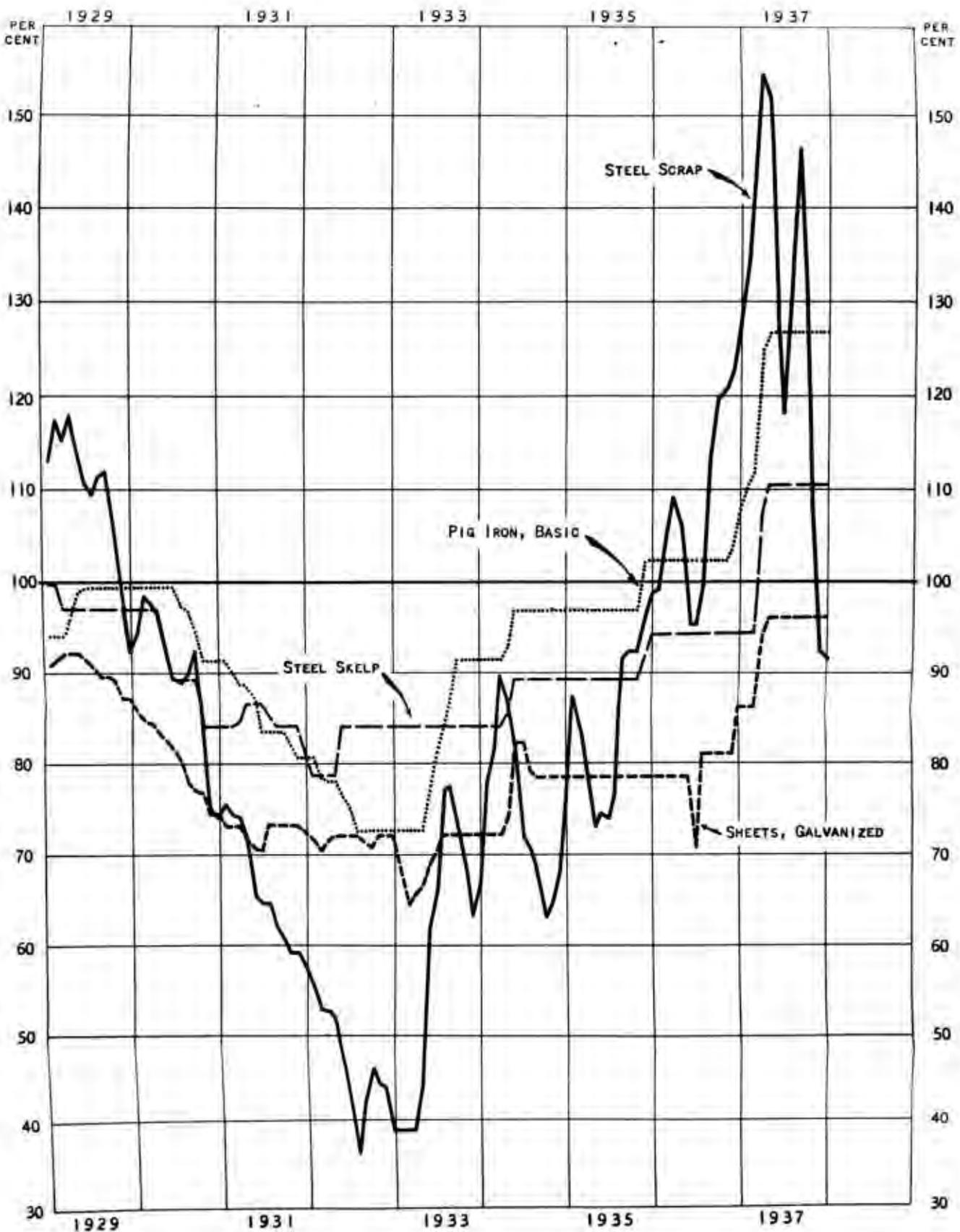
NOTE: Distance between 1929 and 1932 lines represents the per cent decline 1929 - 1932.  
Length of vertical line represents per cent recovery 1932 - 1937.

## DECLINE AND RECOVERY IN SPECIFIED STEEL PRODUCTS

BLS Code No.	Group	Item	Per cent		Total	Corresponding	
			1929-32	1932-37	Change '37	Per cent	Per cent
			Decline:Recovery	Compared	with	1929-32	1932-37
			1929-32	1932-37	1929-32	1929-32	1932-37
438	VII	Plates	18.2	40.6	15.0	30.9	30.0
439	I	Steel Rails	1.4	-1.2	-2.5	5.8	5.3
442	VI	Wire Rods	10.8	25.1	11.6	29.1	30.8
446	VIII	Steel Sheets (annealed)	20.7	38.5	8.3	44.0	54.7
448	VIII	Galvanized Sheets	20.6	31.3	4.2	44.0	54.7
449	V	Skalp	15.6	30.7	10.3	27.3	21.5
451	VIII	Strips	29.6	59.2	12.1	44.0	54.7
452	VI	Steel Shapes	17.6	39.8	15.3	29.1	30.8
455	III	Tin Plate	11.9	19.8	8.0	15.4	12.0
434	VIII	Pipe, Cast Iron	29.7	101.9	42.0	44.0	54.7
447	VIII	Steel Sheets (auto)	30.9	24.6	-13.9	44.0	54.7
ALL COMMODITY PRICE			31.9	33.0	-10.2		

APPENDIX VIII

WHOLESALE PRICES OF FOUR IRON AND STEEL COMMODITIES.  
1926 = 100



APPENDIX IX

### Cost and price of finished steel

The photostated chart shows, per gross ton of hot-rolled steel output, the earnings of wage-earners in blast furnaces, steel works and rolling mills, and the theoretical "cost" of iron ore, limestone, and coke plus the actual cost of purchased steel scrap. The "cost" figures for iron ore, limestone, and coke are those assigned by the steel producers, and, of course, vary but little over the period 1926-1938. However, I think this is reasonably satisfactory, since a large part of the cost of these materials to the producer is transportation cost (possibly 50 percent is transportation cost, which shows little or no change from one period to another.

Tables 1 to 5 show the various steps in the process of estimating wage-earner cost per gross ton of hot-rolled products. Monthly figures thus obtained in Table 5 are, however, unsatisfactory, so another method has been used to compute the monthly figures for 1936, 1937 and 1938, using the annual figures shown in Table 5 as a basis.

Tables 6 to 9 and Charts 1 and 2 show the steps followed in computing the monthly wage-earner cost per ton of hot rolled output. This was done by estimating the number of man hours required at various capacity levels.

Tables 10 and 11 show how the estimates of the combined cost of iron ore, limestone, and coke per gross ton of pig iron output were obtained.

Tables 12, 13 and 14 show the method used in computing the consumption of pig iron and purchased scrap per gross ton of hot rolled steel output.

- 2 -

Tables 15, 16, and 17 explain the estimates of the cost of purchased steel scrap per ton of hot rolled steel output.

Table 18 shows the combined cost of raw materials and labor, the price of finished steel, and the margin by years. Table 19 gives the same figures by months. Table 20 shows corresponding monthly figures with wage rates throughout 1936 and 1937 assumed to be at their 1929 level.

## B.L.S. index of payrolls in blast furnaces, steel works and rolling mills

1923-25 = 100

Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Average
1926	101.6	104.9	106.8	106.0	103.0	102.1	96.3	98.4	102.7	107.4	104.2	102.6	103.0
1927	96.5	102.6	106.0	106.9	101.5	99.7	89.3	93.6	91.6	91.9	90.0	90.7	96.7
1928	89.8	100.7	102.7	100.7	103.1	99.5	94.0	100.3	99.1	105.5	106.6	104.8	100.6
1929	104.6	109.7	112.2	115.0	116.4	114.5	107.8	114.1	112.5	109.9	102.7	95.3	109.6
1930	95.0	104.5	103.5	104.5	101.6	95.8	81.6	79.2	76.2	76.2	68.3	66.3	87.7
1931	62.7	69.1	71.8	70.9	64.9	55.7	49.3	47.0	40.5	38.1	35.9	36.8	53.6
1932	33.0	34.6	33.4	30.4	29.5	25.0	21.6	21.7	22.8	25.7	25.9	25.0	27.4
1933	24.9	27.2	25.3	27.5	33.0	40.2	46.8	58.5	53.3	53.4	47.6	48.4	40.5
1934	46.4	51.9	58.8	66.9	74.4	77.6	53.9	49.5	42.0	44.1	46.9	52.3	55.4
1935	60.7	71.8	71.2	70.1	68.8	63.9	59.0	69.3	72.3	74.4	74.7	81.0	69.8
1936	76.6	76.8	83.1	89.1	92.9	94.5	92.5	98.1	97.7	101.8	105.0	115.4	93.6
1937	115.9	118.5	127.2	145.6	145.6	123.4	132.4	142.3	129.7	118.9	92.9	75.5	122.3
1938	61.7	64.7											

Actual Weekly Payrolls in Blast Furnaces,  
Steel Works and Rolling Mills

(In thousands of dollars)

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Average
1926	13,032	13,456	13,699	13,597	13,212	13,096	12,352	12,622	13,173	13,776	13,366	13,161	13,212
1927	12,378	13,161	13,597	13,712	13,019	12,789	11,442	12,006	11,750	11,788	11,544	11,634	12,402
1928	11,519	12,917	13,173	12,917	13,225	12,763	12,057	12,865	12,712	13,532	13,674	13,443	12,900
1929	13,417	14,071	14,392	14,751	14,931	14,687	13,828	14,636	14,430	14,097	13,173	12,224	14,053
1930	12,186	13,404	13,276	13,404	13,032	12,288	10,467	10,159	9,774	9,774	8,761	8,504	11,252
1931	8,043	8,863	9,210	9,094	8,325	7,145	6,324	6,029	5,195	4,887	4,605	4,720	6,870
1932	4,233	4,438	4,284	3,899	3,784	3,207	2,771	2,783	2,925	3,297	3,322	3,207	3,513
1933	3,194	3,489	3,245	3,527	4,233	5,156	6,003	7,504	6,837	6,850	6,106	6,208	5,196
1934	5,952	6,657	7,542	8,581	9,543	9,954	6,914	6,349	5,387	5,657	6,016	6,709	7,105
1935	7,786	9,210	9,133	8,992	8,825	8,196	7,568	8,889	9,274	9,543	9,582	10,390	8,949
1936	9,825	9,851	10,659	11,429	11,916	12,122	11,865	12,583	12,532	13,058	13,468	14,802	12,006
1937	14,866	15,200	16,316	18,676	18,676	15,829	16,983	18,253	16,637	15,251	11,916	9,684	15,691
1938	7,914	8,299											

Source: B index of payrolls times \$12,827,000.

Regraded-Unclassified

## Total payrolls in blast furnaces, steel works and rolling mills

(In millions of dollars)

Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year
1926													688.9
1927													646.6
1928													674.4
1929													732.7
1930													586.7
1931													358.2
1932													183.7
1933													270.9
1934													370.5
1935													466.6
1936	43.5	40.8	47.2	49.0	52.8	52.0	52.6	55.7	53.8	57.8	57.8	65.1	627.7
1937	65.9	60.8	72.3	80.1	82.7	67.9	75.2	80.9	71.4	67.6	51.1	42.6	818.1
1938	35.1	33.2											

Source: Actual weekly payrolls times number of weeks in month or year.

## Production of hot rolled steel products

(In thousands of gross tons)

Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year
1926													34,819
1927													32,335
1928													37,178
1929													40,594
1930													29,197
1931													18,987
1932													10,352
1933													16,604
1934													18,807
1935													23,830
1936	2,184	2,117	2,386	2,822	2,890	2,856	2,822	3,024	2,990	3,259	3,091	3,158	33,600
1937	3,504	3,283	3,873	3,763	3,836	3,136	3,394	3,615	3,209	2,545	1,623	1,107	36,889
1938	1,212	1,192	1,408										

Source: Yearly figures from Annual Reports of the American Iron and Steel Institute. 1937 estimated by applying the same percentage increase to the 1936 figure as was shown by the American Iron and Steel Institute estimates of sales of steel products, less shipments to members of the industry for conversion into further finished products, from 1936 to 1937. Monthly figures in 1936 and 1937 estimated by applying to the annual totals the percentages which each month's steel ingot output was of the year's ingot output. 1938 monthly figures estimated to be equal to 70 percent of ingot output.

Estimated manufacturing labor cost per gross ton of hot rolled steel products  
(In dollars)

Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year
1926													19.79
1927													20.00
1928													18.14
1929													18.05
1930													20.09
1931													18.87
1932													17.75
1933													16.32
1934													19.70
1935													19.58
1936	19.92	19.27	19.78	17.36	18.27	18.21	18.64	18.42	17.99	17.74	18.70	20.61	18.68
1937	18.81	18.52	18.67	21.29	21.56	21.65	22.16	22.38	22.25	26.56	31.48	38.48	22.18
1938	28.96	27.85											

Source: Total payrolls in blast furnaces, steel works, and rolling mills divided by the production of hot rolled steel products. The monthly estimates in this table were revised.

Average hourly earnings of all wage earners  
in blast furnaces, steel works and rolling mills

(In cents)

Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year
1926	63.4	63.7	63.4	63.7	63.5	62.7	62.8	62.3	63.4	63.4	65.7	65.6	63.6
1927	64.7	64.9	64.8	64.9	64.0	64.1	63.8	63.8	64.2	64.3	64.3	64.6	64.4
1928	65.0	65.0	65.0	64.0	64.3	64.1	63.7	63.9	64.8	65.0	65.6	65.6	64.7
1929	66.4	65.6	65.0	65.2	65.2	65.1	64.6	65.0	65.9	65.9	65.4	65.3	65.4
1930	67.4	66.7	66.2	66.6	66.2	66.0	66.0	66.0	65.2	65.8	65.8	65.4	66.1
1931	67.8	65.2	65.1	65.7	65.6	65.3	64.7	64.9	63.4	58.6	58.3	58.8	63.6
1932	59.4	59.7	59.5	54.9	54.0	50.1	50.2	49.4	50.1	49.9	50.0	50.2	53.1
1933	48.4	48.3	48.6	47.9	48.8	48.2	48.3	55.3	57.0	56.4	58.3	58.5	52.0
1934	58.5	59.0	59.3	63.4	64.7	64.4	63.5	64.0	64.4	64.8	65.6	66.2	63.2
1935	65.1	66.8	66.8	66.7	66.3	66.2	65.7	66.0	66.2	66.3	66.3	66.7	66.3
1936	66.1	65.7	66.2	66.3	66.2	66.7	66.9	66.8	66.1	66.4	67.3	73.0	67.0
1937	72.6	72.7	74.8	85.0	86.6	85.4	85.8	86.0	84.2	83.7	82.8	82.8	81.9
1938	81.8	82.6											
1939													
1940													
1941													

Source: 1926-1932: NIOB  
1933- : BLS

Wage Earner Man Hours per Week in Blast Furnaces,  
Steel Works and Rolling Mills

(In millions of hours)

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Average
1926	20.56	21.12	21.61	21.35	20.81	20.89	19.67	20.26	20.78	21.73	20.34	20.06	20.77
1927	19.13	20.28	20.98	21.13	20.34	19.95	17.93	18.82	18.30	18.33	17.95	18.01	19.26
1928	17.72	19.87	20.27	20.18	20.57	19.91	18.93	20.13	19.62	20.82	20.84	20.49	19.94
1929	20.21	21.45	22.14	22.62	22.90	22.56	21.41	22.52	21.90	21.39	20.14	18.72	21.49
1930	18.08	20.10	20.05	20.13	19.69	18.62	15.86	15.39	14.99	14.85	13.31	13.00	17.02
1931	11.86	13.59	14.15	13.84	12.69	10.94	9.77	9.29	8.19	8.34	7.90	8.03	10.80
1932	7.13	7.43	7.20	7.10	7.01	6.40	5.52	5.63	5.84	6.61	6.64	6.39	6.61
1933	6.60	7.22	6.68	7.36	8.67	10.70	12.43	13.57	11.99	12.15	10.47	10.61	9.99
1934	10.17	11.28	12.72	13.53	14.75	15.46	10.89	9.92	8.36	8.73	9.17	10.13	11.24
1935	11.96	13.79	13.67	13.48	13.31	12.38	11.52	13.47	14.01	14.39	14.45	15.58	13.50
1936	14.86	14.99	16.10	17.24	18.00	18.17	17.74	18.84	18.96	19.67	19.97	18.42	17.75
1937	20.48	20.91	21.81	21.97	21.57	18.54	19.79	21.22	19.76	18.22	14.39	11.70	19.16
1938	9.67	10.05											

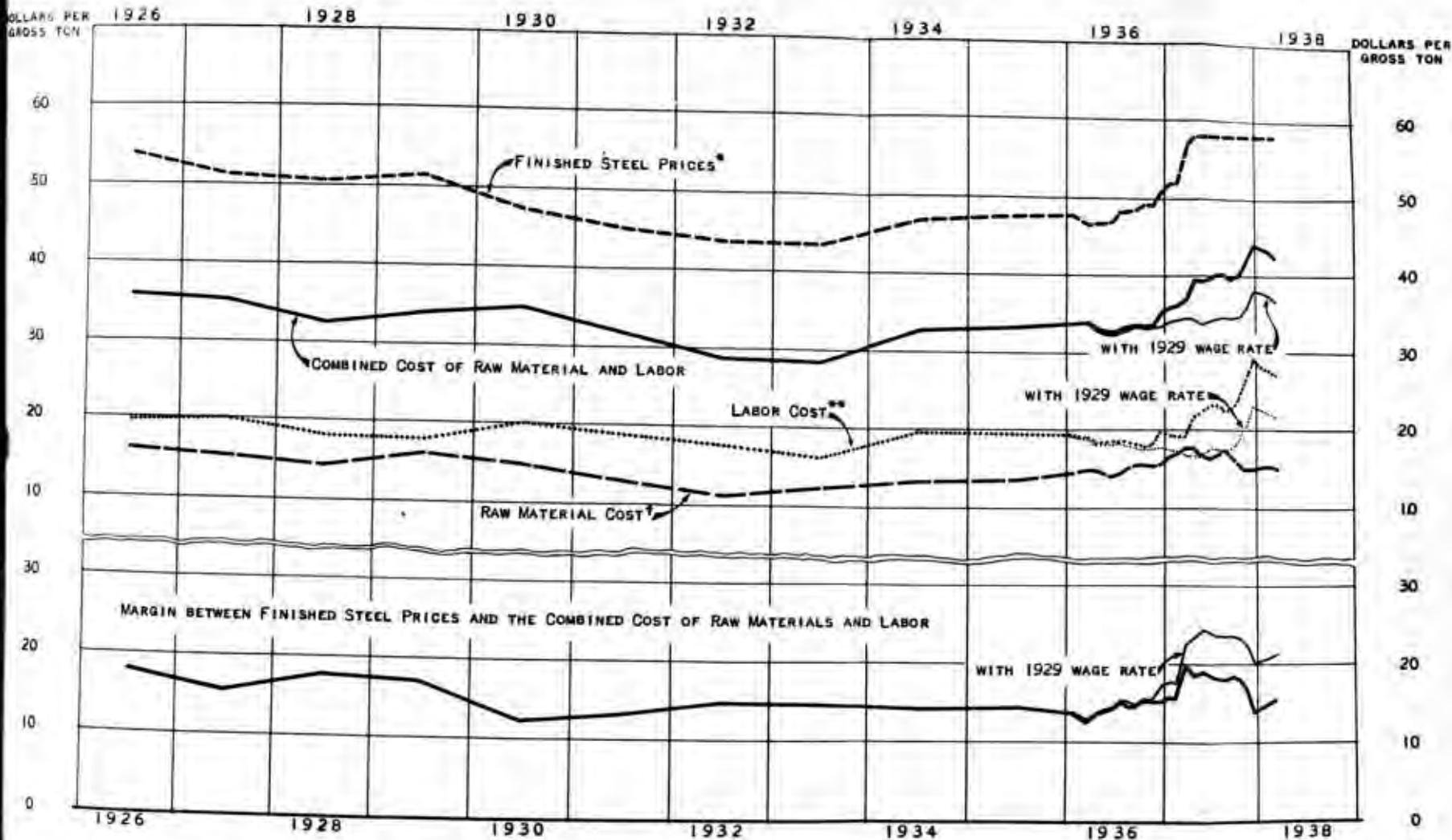
Source: Weekly payrolls in blast furnaces, steel works and rolling mills divided by the average hourly earnings.

Wage Earner Man Hours per Quarter in Blast Furnaces,  
Steel Works and Rolling Mills and Rate of Operations  
in the Steel Industry

Year	Wage earner man hours in millions of hours					Rate of operation in steel industry % ratio to capacity			
	1st	2nd	3rd	4th	year	1st	2nd	3rd	4th
	quarter	quarter	quarter	quarter		quarter	quarter	quarter	quarter
1926	271.5	273.6	265.9	272.1	1083.1	89.9	84.5	82.1	79.9
1927	259.1	266.6	241.1	237.8	1004.6	86.0	81.7	69.2	66.7
1928	250.5	263.3	257.0	272.2	1043.0	86.1	84.0	82.4	87.8
1929	273.7	295.5	288.3	263.9	1121.4	92.4	99.5	93.2	71.3
1930	249.8	253.6	202.5	180.3	886.2	78.8	74.1	56.3	43.9
1931	169.9	162.6	119.3	106.3	558.1	49.8	45.2	30.9	27.0
1932	94.2	89.0	74.5	86.0	343.7	26.1	19.6	15.6	17.5
1933	87.9	116.0	166.4	145.5	515.8	18.1	35.0	48.9	31.8
1934	146.6	189.8	127.8	122.8	587.0	41.5	55.0	24.0	29.3
1935	169.1	170.0	170.8	193.7	703.6	50.2	43.8	46.2	54.0
1936	199.0	231.8	243.3	254.3	928.4	54.8	70.1	71.3	77.2
1937	271.1	269.4	266.2	194.1	1000.8	85.2	84.5	79.6	40.7
1938						31.6			

Source: Man hours per week times number of weeks in the quarter.  
Rate of operations from the American Iron and Steel Institute.

**FINISHED STEEL PRICES AND COST OF RAW MATERIALS AND LABOR**  
 Yearly, 1926 through 1935; Monthly 1936 to Date

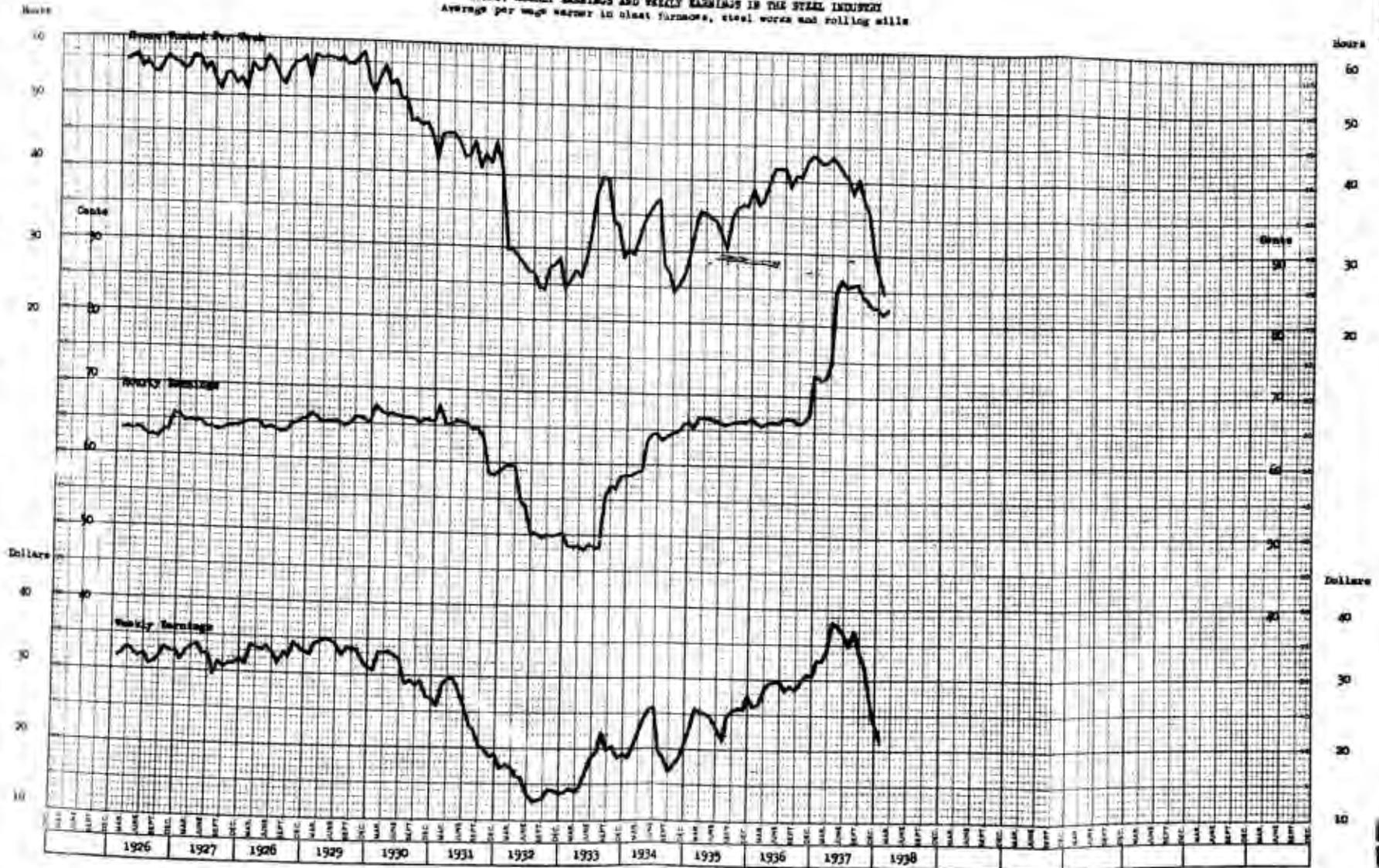


\* IRON AGE COMPOSITE PRICE.

\*\* WAGES IN BLAST FURNACES, STEEL WORKS AND ROLLING MILLS PER GROSS TON OF HOT ROLLED STEEL OUTPUT.

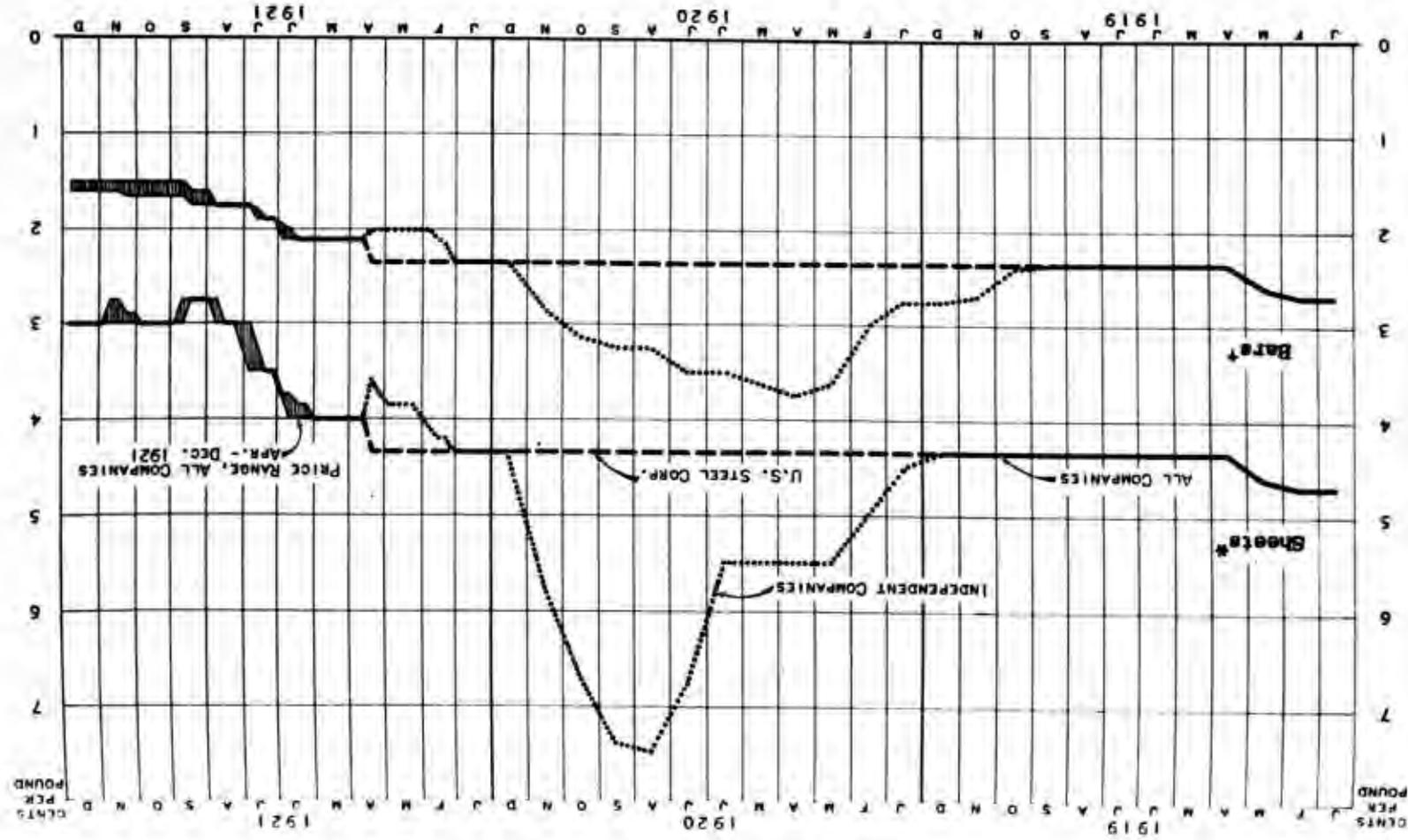
† ESTIMATED COST OF IRON ORE, LIMESTONE, COKE, AND PURCHASED SCRAP PER GROSS TON OF HOT ROLLED STEEL OUTPUT.

HOURS, HOURLY EARNINGS AND WEEKLY EARNINGS IN THE STEEL INDUSTRY  
Average per wage earner in blast furnaces, steel works and rolling mills



APPENDIX X

\*SHEETS: #28 BLACK SHEET AT PITTSBURGH  
 †BARS: SOFT STEEL BARS AT PITTSBURGH



STEEL SHEET AND BAR PRICES  
 Monthly, 1919-1920; Weekly, 1921

Regraded Unclassified

## Steel Prices in 1919, 1920, and 1921

## 1.

The period from late 1919 to early 1921 was unique in the price history of the steel industry in that prices charged by the United States Steel Corporation and prices charged by the so-called independent steel companies varied widely on identical products. Throughout the period the Corporation's prices were unchanged, but independent prices shifted frequently. In August 1920 independents were selling steel sheets at a price 72 percent above the Corporation's price, while early in April 1921 independents were selling sheets 17 percent below the Corporation's price. In April 1921 an Anschluss was effected, and from that time until the present the price policies of Corporation and independents have been virtually identical, except when one or the other may have indulged in sporadic price cutting.

## 2.

Soon after the Armistice, November 11, 1918, Judge Gary, Chairman of the U. S. Steel Corporation, called a meeting of the leading steel manufacturers for the purpose of discussing recommendations with regard to steel prices to be made at a meeting of the War Industries Board called for on December 9. A subcommittee of the steel manufacturers decided to make reductions of \$5 or \$6 a ton, which were put into effect during that month. The December prices remained in effect until March 21, 1919, when additional price cuts averaging about \$6 a ton were instituted as a result of a conference between representatives of steel manufacturers and the Industrial Board, appointed by Secretary of Commerce Redfield.

The prices of bars and sheets (shown on the attached chart for the period 1919-1921) which were adhered to throughout most of the year 1919 by both the U. S. Steel corporation and the independent steel companies were, then, prices fixed as a result of meetings between the steel manufacturers and, first, the War Industries Board, and, second, the Industrial Board. The steel bar price was reduced from its fixed wartime level of 2.90 cents a pound to 2.35 cents, a cut of 19 percent; and the steel sheet price was reduced from its fixed wartime level of 5.00 cents a pound to 4.35 cents, a cut of 13 percent.

The year 1919 was a fairly good one in the steel industry. The output of ingots and castings dropped sharply from the 1917 peak of 45,100,000 gross tons to the 1919 total of 34,700,000 tons, but production in 1919 was, nevertheless, in excess of that in any other year except the three war years, 1916, 1917, and 1918. The percent of capacity operated in 1919 was 63.6, based on the inflated capacity figures prevalent in those days; in terms of actual capacity operations were probably close to a 70 percent rate. In 1937, which was at least a moderately good year for the industry, output was 72.4 percent of capacity.

## 3.

The general agreement to hold to the prices of March 21, 1919 was formally abandoned as early as April 1919 after the refusal of the Railroad Administration to pay for rails the prices announced in the Industrial Board (March 21) schedule. For a time, however, the independent mills generally adhered to the March 21 schedule, especially those which had large deliveries to make of steel booked at the Industrial Board prices. Late in 1919 a scramble for steel began, partly due to a country-wide inflationary sentiment and partly due to the delay in making steel deliveries caused by the steel strike of 1919. The steel market became a "seller's market," buyers began placing orders with two or more producers, and independent steel companies' prices began to rise. In April 1920 the strike of the railroad switchmen hampered delivery of both steel raw materials and finished steel products, causing an even more frantic scramble of buyers.

The history of steel sheet and bar prices during 1920 is shown on the attached chart. The U. S. Steel Corporation adhered throughout the year to the Industrial Board prices of March 21, 1919. Independent company prices increased tremendously; in some cases actual prices received on limited tonnages were even higher than the peak prices shown on the chart. The top price shown on the chart for sheets is 7.50 cents a pound, 72 percent above the Steel Corporation price of 4.35 cents; the top price shown for bars is 3.75 cents a pound, 60 percent above the Steel Corporation price of 2.35 cents. Similar price disparities were common on most of the other finished steel products. The price situation was described by the Iron Age as "unparalleled."

It is not hard to understand why the independent steel companies changed all the markets could bear. It is less easy to understand the Steel Corporation's reluctance to raise prices. Judge Gary said later that the Corporation stood for "..... fair prices, neither unreasonably high nor unreasonably low, for fair treatment of competitors, customers, employees, and the general public." This expressed policy, which would have won the approval of St. Thomas Aquinas, may have contributed to the moderation of the Corporation in 1920. Possibly more to the point is the fact that the Corporation had sold farther ahead than the independents in 1919 and had entered 1920 with 8,265,000 tons of unfilled orders on its books, which did not put it in a position to take on prompt delivery business. Furthermore, the Corporation was able to book large tonnages of forward business for delivery in 1921, while the independents booked little or no forward business. In the light of the price decline of 1921 the Corporation gained greatly from this policy.

For the year 1920 as a whole steel business was exceptionally good, not only from a profitable but also from a production standpoint. Output

- 3.-

of ingots and castings was 42,100,000 tons, only a little less than that in the war years, and 22 percent ahead of the 1919 total. The independents were able to make a more favorable showing in comparison with 1919 than was the Steel Corporation, despite the higher prices charged by the independents; independent output increased 31 percent as compared to a rise of 12 percent for the Steel Corporation.

4.

Independent company prices reached their peak in August 1920. A gradual decline in demand became apparent about that time and prices started to fall, gradually at first, and then with extreme rapidity. By late November independent prices had reached the Steel Corporation level. At the end of the year production of the independents had dropped from practically full capacity to about 30 percent of capacity. Output of the Steel Corporation was about 90 percent of capacity, remaining at that level because of work on forward business contracted for earlier in the year.

About the first of February 1921 independents began cutting below the Steel Corporation prices in an effort to get additional business. The price cuts deepened until by the first week in April independents were selling sheets at 3.60 cents a pound, 17 percent below the Corporation price of 4.35 cents; and bars were being sold at 2.00 cents a pound, 15 percent below the Corporation price of 2.35 cents. Output of the independent companies dropped from about 30 percent of capacity late in December to 20 percent during the latter part of March, despite the price reductions.

Meanwhile the Steel Corporation's operations, which had held up well during January at about 90 percent of capacity, fell off in February to about 80 percent and then declined sharply to 40 percent in the first week of April, as forward orders placed in 1920 began to be filled. The Corporation was not able to book new business during most of this period since it was being undercut by the independents.

The Corporation's price policy was being attacked by the Comptroller of the Currency, John Skelton Williams. In his annual report Mr. Williams charged that the Corporation's prices were much too high. Judge Gary replied to this criticism early in February. About February 15, Mr. Williams sent a letter to Judge Gary in which he said that "evidence that the United States Steel Corporation is selling its products at reasonable prices and accepting smaller profits would be an example and an inspiration to" working people, manufacturers, wholesale and retail merchants, and farmers, whereas "no insidious, sneaking propaganda of . . . apostles of ruin could put in the popular mind so much poison as refusal by" the U. S. Steel Corporation "to do its part toward solving a great and difficult problem." To this Judge Gary replied at great length early in March.

- 4 -

Possibly as a result of attacks on the Corporation's price structure, but more likely because the Corporation was losing business to independents, the Corporation formally reduced its quotations as of April 13, 1921. This was the first price change the Corporation had made in over two years, or since March 21, 1919. Simultaneously, independent prices were slightly increased, and from that time until the present, so far as the writer is aware, the Corporation and the independents have followed substantially the same price policy, except for irregularities brought about by sporadic price-cutting. The period from September 1919 through March 1921 was apparently unique in that Corporation prices and independent prices on identical products varied widely.

5.

The steel trade thought that prices had been stabilized as well as equalized at the April 13 level. However, price cutting set in almost immediately and by the first of June Iron Age price quotations recognized a lower market on sheets, as is shown by the chart. All producers, including the Corporation, were meeting competition as it developed.

On July 5 the Bethlehem Steel Company formally reduced its quoted prices to the actual market level. The Steel Corporation shortly followed suit. This may have been the first instance of a price setting policy which has been practiced many times since: one of the large steel companies, a U. S. Steel subsidiary or Bethlehem or Republic, announces new quotations and after a decent interval all other companies fall in line. When prices are rising the new quotation represents an actual increase in the price of steel, but when prices are falling the new quotation represents only an adjustment of formal quotations to actual market conditions.

Bethlehem had hardly announced the new quotations when price cutting broke out again. By the middle of July there was talk of "aggressive competition between Steel Corporation and independent steel in the Chicago market." Throughout the industry the producers, including the Corporation, showed "willingness to name a price that will take the business." On August 2 Judge Gary took pains to correct a report in the Wall Street Journal of the same date which said that the Corporation was apparently taking the lead in price cutting on at least one product; the Judge said that the Corporation was not making any reductions except to meet the prices of leading independent manufacturers. Late in August, however, the Iron Age referred to widespread reports of aggressive price cutting by the Steel Corporation.

September 10 the long series of price declines was broken when the Corporation announced higher prices on wire products. Independent producers

- 5 -

followed the Corporation's advances. A week later independent companies put up sheet prices and the Corporation followed suit shortly thereafter. By the end of September the most drastic part of the 1921 liquidation was over, although the market as a whole continued to decline until February 1922. The lowest price reached for steel sheets was 2.75 cents a pound, as shown on the chart, but steel bars hit a low of 1.39 cents in February and March 1922, as compared to the low of 1.50 cents on the chart.

The year 1921 was the worst the steel industry had ever experienced up to that time. Total output was less than half that of 1920. The Steel Corporation cashed in heavily on its price maintenance policy of 1920, which enabled it to book so much 1921 business that its output declined only 43 percent from 1920 to 1921 while independent output declined 61 percent.

Table No. 1

## Steel Prices in 1919, 1920, and 1921

Source: The Iron Age

Year	Month	:Soft steel bars at Pittsburgh:# 28 black sheets in Pittsburgh			
		: in cents per pound		: in cents per pound	
		: U. S. Steel	: Independent	: U. S. Steel	: Independent
		: Corporation	: companies	: Corporation	: companies
1919	January	2.70	2.70	4.70	4.70
	February	2.70	2.70	4.70	4.70
	March	2.61	2.61	4.61	4.61
	April	2.35	2.35	4.35	4.35
	May	2.35	2.35	4.35	4.35
	June	2.35	2.35	4.35	4.35
	July	2.35	2.35	4.35	4.35
	August	2.35	2.35	4.35	4.35
	September	2.35	2.35	4.35	4.35
	October	2.35	2.39	4.35	4.35
	November	2.35	2.69	4.35	4.35
	December	2.35	2.75	4.35	4.35
1920	January	2.35	2.75	4.35	4.48
	February	2.35	3.00	4.35	5.00
	March	2.35	3.63	4.35	5.50
	April	2.35	3.75	4.35	5.50
	May	2.35	3.63	4.35	5.50
	June	2.35	3.50	4.35	5.50
	July	2.35	3.50	4.35	6.75
	August	2.35	3.25	4.35	7.50
	September	2.35	3.25	4.35	7.38
	October	2.35	3.13	4.35	6.69
	November	2.35	2.87	4.35	5.77
	December	2.35	2.35	4.35	4.35

Table No. 2

## Steel Prices in 1919, 1920, and 1921

Source: The Iron Age

1921 week ending	Soft steel bars at Pittsburgh in cents per pound				1921 week ending		Soft steel bars at Pittsburgh in cents per pound	
	U.S. Steel Corporation	Independent companies	U.S. Steel Corporation	Independent companies			U.S. Steel Corporation	Independent companies
			#28 black sheets at Pittsburgh in cents per pound	#28 black sheets at Pittsburgh in cents per pound				
July 4	2.35	2.35	4.35	4.35	July 5	1.90	3.50	
11	2.35	2.35	4.35	4.35	12	1.90	3.50	
18	2.35	2.35	4.35	4.35	19	1.80 - 1.90	3.25 - 3.50	
25	2.35	2.35	4.35	4.35	26	1.75	3.00 - 3.50	
Aug. 1	2.35	2.35	4.35	4.35	Aug. 2	1.75	3.00 - 3.25	
8	2.35	2.15	4.35	4.20	9	1.75	3.00	
15	2.35	2.10	4.35	4.20	16	1.75	3.00	
22	2.35	2.00	4.35	4.10	23	1.75	2.75 - 3.00	
					30	1.60 - 1.75	2.75	
Sep. 1	2.35	2.00	4.35	4.00	Sep. 6	1.60 - 1.75	2.75	
8	2.35	2.00	4.35	3.85	13	1.60 - 1.75	2.75	
15	2.35	2.00	4.35	3.85	20	1.50 - 1.65	2.75 - 3.00	
22	2.35	2.00	4.35	3.85	27	1.50 - 1.65	3.00	
29	2.35	2.00	4.35	3.85				
Oct. 5	2.35	2.00	4.35	3.75	Oct. 4	1.50 - 1.65	3.00	
12	2.35	2.00	4.35	3.60	11	1.50 - 1.65	3.00	
19		2.10		4.00	18	1.50 - 1.65	3.00	
26		2.10		4.00	25	1.50 - 1.65	3.00	
Nov. 3		2.10		4.00	Nov. 1	1.50 - 1.65	2.90 - 3.00	
10		2.10		4.00	8	1.50 - 1.65	2.90 - 3.00	
17		2.10		4.00	15	1.50 - 1.60	2.75 - 3.00	
24		2.10		4.00	22	1.50 - 1.60	2.75 - 3.00	
31		2.10		4.00	29	1.50 - 1.60	3.00	
Dec. 7		2.10	3.85 - 4.00		Dec. 6	1.50 - 1.60	3.00	
14		2.10	3.85 - 4.00		13	1.50 - 1.60	3.00	
21	2.00 - 2.10		3.75 - 4.00		20	1.50 - 1.60	3.00	
28	1.95 - 2.10		3.75		27	1.50 - 1.60	3.00	

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 11, 1938.

TO Secretary Morgenthau  
 FROM Mr. Taylor

Subject: British request with respect to interpretation of the exchange clause in the proposed trade agreements.

Question:

The British have asked us (via Mr. Bewley) whether a 10 cent change in the dollar-sterling rate would be regarded as a justification for invoking the hedge clause in the following paragraph of the proposed trade agreement with the United Kingdom:

"In the event that the rate of exchange between the currencies of the United States of America and the United Kingdom varies considerably from the rate obtaining on the day of the signature of this Agreement, either Government, if it considers the change in rate so substantial as to prejudice the industry or commerce of its territory, shall be free to propose negotiations for the modification of this Agreement or to terminate this Agreement in its entirety on thirty days' written notice."

Recommended answer:

Inasmuch as a definitive answer to the question asked involves an interpretation of a provision in a contemplated trade agreement between the two Governments, which is primarily a State Department matter, the Treasury Department cannot, of course, answer the question for this Government.

*W.T.*  
 Answer given verbally to Bewley  
 May 19, 1938.  
*W.T.*

May 11, 1938.  
11:57 a.m.

H.M.Jr: Hello.

Operator: Hogate. Go ahead.

H.M.Jr: Hello.

Kenneth C.  
Hogate: Hello, Mr. Secretary.

H.M.Jr: How are you?

H: Fine. I hope you are.

H.M.Jr: How's ~~the~~ great softball player?

H: Well, it's almost getting around time for it.

H.M.Jr: That's right.

H: Have you been up to the farm much?

H.M.Jr: We've been up the last two week-ends, and I've never seen the country more beautiful.

H: I don't think I ever have. I've never seen so many flowers that usually are strung out all over the spring all in blossom at the same time.

H.M.Jr: That's right.

H: Yes, it's been a wonderful spring.

H.M.Jr: The reason I'm calling you is this. I wonder if as a friend - whether you can tell me anything about Johnny Hanes that I ought to know.

H: Ah - everything that I know about him is to the good, with the exception of the extent to which he may be embarrassingly - I'm sure he's not dishonestly - involved in this Whitney situation.

H.M.Jr: Uh-huh.

H: You probably know something about that.

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

-2-

H: Ah - the - the - the story is here - now, I don't know whether it's true or not - the story is here that he - that he has a half interest in a loan of \$216,000 which was made to Whitney, and that he - consequently he advanced Whitney somewhat over a hundred thousand dollars.

H.M.Jr: Recently?

H: Ah - yes, I think so. Now, I don't know the date, but it was outstanding at the time of Whitney's failure.

H.M.Jr: Well, how - well, I'm so interested on these things - how would have been kept from coming to light?

H: The - the loan, as I understand it, is not in his name, and - ah - I guess that everybody who was investigating the thing just didn't - didn't see any point in bringing it out.

H.M.Jr: Well, would you tell me in whose name it is?

H: I can. I think I can find out, but I don't know right now.

H.M.Jr: Well, could you?

H: Yes, I'm pretty sure that I can. Shall I call you back on that later?

H.M.Jr: Yes. I tell you, I'd like to call you.

H: All right.

H.M.Jr: Because I'm going home this afternoon. I'm taking a half a day off. It happens to be my birthday.

H: Well, congratulations.

H.M.Jr: What - thank you - what would be a good time to call you? What time do you leave your office?

H: Ah - well, I'll be here until quite late. Any time.

H.M.Jr: What do you call late?

H: Any time up till six o'clock.

-3-

H.M.Jr: Any time up till six.

H: Yes. I'll probably be here later, but in any event certainly - if that isn't late enough, why, ...

H.M.Jr: Oh yes. Oh yes. I want to give you all the time necessary.

H: Well, I think I can find this out in about an hour or so.

H.M.Jr: You do.

H: Yes.

H.M.Jr: Of course the important thing would be to know the name, you see.

H: Yes. Now, the only other thing that I - that I know about is that - you know, in the testimony up here before the S.E.C. - ah - Hanes was indirectly quoted as having - having a feeling that the Whitney thing should be hushed up. You saw that testimony, I expect.

H.M.Jr: No, I didn't.

H: He went on the stand and denied that that is true.

H.M.Jr: Yes.

H: People with whom I talk say that that is true, that his denial is not true.

H.M.Jr: I see.

H: That - that he did express that opinion.

H.M.Jr: Uh-huh.

H: And immediately after his denial the S.E.C. adjourned, and I think permanently - at least, they haven't been resumed since - adjourned their hearings here.

H.M.Jr: Uh-huh.

H: Now, neither one of those things reflected in any way dishonorably on him, but ....

H.M.Jr: Well ....

-4-

H: ... the feeling that I had - and I heard about it in this morning's news - was that he was more or less being shoved out of the S.E.C. to avoid any possibilities of embarrassment on his part, and that another job was being made for him.

H.M.Jr: No, that's not correct. No, I - I sought him out.

H: You did?

H.M.Jr: Yes, I did.

H: Well, I think you're quite right in doing so.

H.M.Jr: No, I sought him out.

H: I say I think you're quite right in doing so.

H.M.Jr: Yes.

H: Because he's a man of - he's a man of confidence ...

H.M.Jr: Yes.

H: .. and capability; and had a fine reputation.

H.M.Jr: Yes.

H: And the only thing that - that I know that you need be concerned about at all is just to make sure that this Whitney thing doesn't explode in your face in any way.

H.M.Jr: Well, I'm going to make damn sure.

H: This is all between ourselves, of course.

H.M.Jr: Absolutely.

H: I know nothing else that you need look into at all and - if you'll get satisfied on that point.

H.M.Jr: Yes.

H: I think he'd make a fine man for you.

H.M.Jr: Uh-huh.

-5-

- Q) And there's nothing that I've heard of in connection with the Whitney case that really reflects on - on his honor in any way at all.
- H.S.Jr: Un-nun.
- Q) I mean there's no reason way he shouldn't have lent Whitney some money. If he was under this delusion that everybody else was, that the fellow was honest and ....
- H.S.Jr: Well, were they under that delusion?
- H: Yes. Oh, there's no question about that.
- H.S.Jr: Oh, really?
- Q) Yes. There's no question about that. Ah - and - ah - of course, they - they look like saps today....
- H.S.Jr: Yep.
- H: ... in the light of what's been revealed.
- H.S.Jr: Yep.
- Q) But nevertheless that's - that's exactly the way they felt.
- H.S.Jr: Well, would you want to see a man Assistant Secretary of the Treasury that loaned Whitney over a hundred thousand dollars?
- H: Well, I don't want to answer that offhand.
- H.S.Jr: O.K. All right.
- Q) I'd like to think about that.
- H.S.Jr: All right.
- H: Now, you understand what I'm telling you on that story, too. I can get - I think I can get you the name.
- H.S.Jr: Yes.
- Q) In which he is purported to have a half interest in the loan.

-6-

H.M.Jr: Right.

H: What I'm telling you is - I don't know to my personal knowledge; it's just gossip around the Street.

H.M.Jr: Yes.

H: And pretty widely - I don't mean irresponsible quarters; it's - it's - it's assumed to be a fact.

H.M.Jr: Right. Well, I can't tell you how much obliged I am, and I'll call you up in several hours.

H: All right, that'll be fine. I'll be here all after- - any time, say, after three o'clock, from three to six.

H.M.Jr: O.K.

H: All right.

H.M.Jr: Thank you so much.

H: Good-bye.

May 11, 1938.  
12:01 p.m.

H.M.Jr: Hello.

Operator: Chairman Douglas.

H.M.Jr: Hello.

Operator: Go ahead.

H.M.Jr: Hello, Douglas.

William O. Douglas: Yes, Mr. Secretary.

H.M.Jr: Are you alone?

D: Yep.

H.M.Jr: Look, Douglas, I - as a result of this thing of Hanes being on the ticker ...

D: Yep.

H.M.Jr: ... I was told by somebody in New York that called me up, that he understands, and he can't vouch for it, that Hanes has got a half interest in a \$200,000 loan to Whitney. Do you know anything about it?

D: Ah - no, you better - you better talk to Hanes. Have you talked to him about it?

H.M.Jr: No, I'm going to.

D: Better get hold of your facts, because I - I just - I just wouldn't know.

H.M.Jr: What?

D: I just wouldn't know the details. I've never - when Johnny came on here, he took all of his financial transactions, and so on, his interests, investments, and so on, and went over them for the purpose of letting me know what they were, and for the purpose of determining whether or not he had satisfied the provision of our statute...

H.M.Jr: Yes.

D: ... as respects Commissioners engaging in business

-2-

transactions. Now, that's a thing - a detail that I'd - I'd have to check up with on - on Johnny. I'd be very - very much surprised if that's true. I doubt it.

H.M.Jr: Well, I'm going to ask him myself.

D: Oh sure, I would. He'll tell you, right off the bat.

H.M.Jr: The other statement that was made was that when he testified, when the S.E.C. was holding hearings up in New York - that Hanes testified ....

D: Yes.

H.M.Jr: ... that he did not think that this Whitney thing should be gone into.

D: No, that's - that's absolutely false.

H.M.Jr: Yes.

D: You see, their - that's absolutely false. I've read over that transcript, and what one of these so-and-so's up there was trying to do was to smear the Commission.

H.M.Jr: Pardon me?

D: What one of these so-and-so's that was testifying up there was trying to do was to smear the Commission.

H.M.Jr: I see.

D: By - he made a charge, based upon hearsay, that he - that he talked to somebody who talked to somebody who talked to somebody, and so on, to the effect that the Commission was trying to suppress this case.

H.M.Jr: Uh-huh.

D: That was a goddam lie.

H.M.Jr: Uh-huh.

D: Johnny Hanes got on the stand - he had been up in New York handling it for us - and told precisely what we were going to do ...

H.M.Jr: Uh-huh.

-3-

- D: ... which was nothing more nor less than ascertaining the extent to which the public was involved; and secondly, if the public was involved, to see what steps could be taken to protect the public against loss.
- H.M.Jr: Uh-huh.
- D: That's all.
- H.M.Jr: Uh-huh.
- D: And we're always concerned in their - with that phase of the thing.
- H.M.Jr: Right.
- D: And we're - there's absolutely no suggestion on his part or on anybody's part connected with the Commission that the thing be suppressed, that the charges be delayed, or that Whitney be continued in business. That's absolutely clear.
- H.M.Jr: Now, may I ask you one more thing, as long as we're on this thing?
- D: Yes.
- H.M.Jr: Is there anything that I ought to know that I don't? I mean have I asked the wrong questions?
- D: Ah - what do you mean?
- H.M.Jr: Anything, I mean, that ...
- D: Not a thing.
- H.M.Jr: ... that - that reflects on Hanes....
- D: Absolutely not.
- H.M.Jr: ... in any way.
- D: Not in - absolutely not. He's a hundred percent guy.
- H.M.Jr: Yes.
- D: Absolutely. There's absolutely nothing.

HMJr: Well....

D: I went into that very, very carefully before he came on here.

HMJr: Uh-huh.

D: Very carefully.

HMJr: Uh-huh.

D: And I reviewed it up and down the Street, and every conceivable source, and I was absolutely satisfied.

HMJr: Fine.

D: Absolutely. And I made a very careful check. As a matter of fact, I - one thing that bothered me, just between you and me, at the time, before I gave the green light to the boss on it, was the connection with a big investment trust that we were investigating.

HMJr: Yes.

G: We went into that very carefully with our staff.....

HMJr: Yes.

D: ...and there's absolutely nothing that I found or that my staff found that reflects at all upon Johnny. He's a - so far as performance and character and whatnot are concerned and ability - he's a hundred per cent.

HMJr: Fine.

D: Absolutely.

HMJr: Well...

D: And ah....

HMJr: Well, I'm going to ask him this afternoon - I'm - because....

D: You ask him and he'll - he's a guy that'll give you a hundred per cent answer.

HMJr: Yeah. I'm going to ask him.

D: Sure. I would.

HMJr: Yeah.

D: Sure. Just satisfy yourself.

HMJr: Because the source that this came from couldn't be laughed off.

D: Yeah. Yeah. What did this source say....?

HMJr: This source said that he had a half interest in the \$216,000 loan to Whitney.

D: Yeah. Well, now, what does this source say about his testimony?

HMJr: The testimoney, he said, was that he came up there and ah - was supposed to have testified in some way that - the inference was that he wanted to sort of have this thing not gone into in a public way. And...

D: Oh, that's - that's just - that fellow is - whoever is saying that...

HMJr: Yeah.

D: ....is wittingly or unwittingly just....

HMJr: Well, he didn't say he heard it, you see, but he wanted me to know this - having seen this on the Ticker.

D: Yeah. Well, that's - it's just a God-damned lie.

HMJr: Well, I'm - well, the point is that (laughingly) both in your shop and mine we've got to be better than Caesar's wife.

D: Sure. Absolutely.

HMJr: Better than Caesar's wife.

C: Absolutely. But I can tell you on that one....

HMJr: Yes.

C: ...that - on which I have personal knowledge that it's a - it's an absolute lie, there's nothing to it - that the only thing that Johnny was doing - he was in constant communication with me on the thing...

HMJr: Fine.

D: ...was trying to find out the extent to which there were any members of the public involved as creditors in that Whitney debacle.

HMJr: O. K.

D: And if he found that there were substantial credits held by the public then we were going to try to take some steps to insist that the public didn't lose any money or that they were properly taken care of and that the wolves up in Wall Street didn't swallow them too.

HMJr: Fine.

D: See?

HMJr: Thank you so much.

D: O. K.

HMJr: Thank you.

JR

GRAY

Brussels

Dated May 11, 1938

Rec'd 12:35 p.m.

Secretary of State,  
Washington.

53, May 11, 5 p.m.

My 51, May 9, 2 p.m.

In the Chamber of Deputies yesterday Minister of Finance explained in detail the amount and reasons for the budget deficit and some of the Government's recommendations. He was followed by the Prime Minister who asked three things:

One. An early vote on the two taxation proposals approved by the Finance Commission (first, the so-called crisis tax substituted by the Commission for the Government's progressive surtax, see my despatch No. 212 of April 13, and the other, the increases in customs duties and excise taxes);

Two. The establishment of a special committee composed of senators and representatives of the majority parties to consider the problem of meeting the budget deficit; and

Three. A vote of confidence not on any specific measure but on the Government's policy as a whole. It is expected

-2- #53, May 11, 5 p.m., from Brussels.

expected that the vote will be taken today.

I had occasion to talk with the Prime Minister last night and he seemed somewhat pessimistic about the prospects of obtaining a majority.

GIBSON

W'C:SMS

RECEIVED  
MAY 11 1953  
THE WHITE HOUSE  
WASHINGTON

JR

GRAY

London

Dated May 11, 1938

Rec'd 1:25 p.m.

Secretary of State,  
Washington.

394, May 11, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

The French control held the franc at 177.75 during the morning and acquired a fair amount of sterling; later in the day the rate was raised to 177.70 but the amount of business done declined. The total intake of foreign exchange was larger than yesterday.

Although the spot belga has fluctuated between 29.57-52 the pressure has lessened somewhat today and the city's impression is that "the Belgium situation is better".

KENNEDY

WVC:DDM

*By phone to Cochrane*

MAY 2 1950

Please inform M. Marchandeu that:

1. I was very much shocked and surprised at the message which Marchandeu sent me.
2. I did not consider that under the tripartite agreement we had been consulted, but that he had simply informed us.
3. We will execute any orders on Tuesday that we receive from the French to buy or sell francs for their account, but in doing so we in no way acquiesce in the new French proposal, and, while I agreed to do this Tuesday, we are not committed beyond Tuesday.
4. Before we commit ourselves in any way, I wish to consult with the British.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: 748, May 12, 9 a.m.

(Section four)

Janssen feels, as suggested in the above-quoted memorandum, that with the compression in Belgian business, in line with general contraction of world affairs, no new expansion of credit is necessary, and that the policy which he has outlined of refusing to give new credit to Belgian economy in the present circumstances is merely a maintenance of the status quo of credit and not deflation. The National Bank of Belgium has ample resources to protect the currency and Janssen's banks are in good condition. Janssen supervises capital movements but depends upon his credit policy to obviate any necessity for exchange control.

He told me that political opponents of the present Government were finding it impossible to urge devaluation since Professor Baudhuin, their principal economics writer, has written a book quite recently approving the monetary policy adopted by Van Zeeland, which policy still continues. Recurring statements by Einzig in the London FINANCIAL NEWS that Belgian finances can never be righted until Paul Van Zeeland returns to power are resented by the Government. There seems to be little enthusiasm in

Belgium

-2-

Belgium for such a move, but this story hurts the belga on the exchange markets.

I called at our Embassy on Wednesday morning and talked over my Brussels visit with Counselor Tuok and Ambassador Gibson. I lunched at Janssen's home at noon where Soudan, Minister of Finance, and Maurice Frere, his assistant, were the other guests. (Maurice Frere worked with Van Zeeland on the latter's report.) I presented the compliments and best wishes of Secretary Morgenthau to the Minister of Finance.

The Minister of Finance was keenly interested in knowing the details of the French monetary step of last week and seemed appreciative of my coming to Brussels to get in touch with him. Appropriate decisions could have been taken in Brussels Wednesday night to protect the belga the following morning, had the French informed the Belgians even on that night when the final Franco-Anglo-American negotiations were concluded. As a consequence, they resented their failure to be informed in the premises by the French.

Soudan experienced a difficult time in the Belgian Chamber defending his financial measures on Tuesday afternoon. An imposition of taxes sufficient to cover a budget deficit of approximately one billion, two hundred million francs had been asked for by the Government. All but two

of

-3-

of the tax measures had been thrown out by the Finance Committee, leaving one for a crisis tax and another for a customs tax which would provide for only 782,000,000 . . . of the deficit. The Government requested that these two measures be passed immediately and recommended the setting up of a Parliamentary Committee from both branches to work out methods for economies and for remedying the remaining deficit amounting to 400,000,000 belgas. The above measures were the basis on Wednesday evening, of a vote of confidence by which the Government was sustained by 101 to 76, <sup>there being</sup> eight abstentions.

Before returning to Parliament yesterday noon, Soudan had been rather hopeless about the outlook for the Government, feeling that the French devaluation had been a most unfortunate blow to his country.

He was encouraged to go ahead with his fight in Parliament by Frere and Janssen, who insisted that the present Government has a better chance to carry through the necessary measures than any other Government that could be constructed from the parties as they now exist, no one of them having a majority. While the French monetary move had come as a shock, they argued, it was too early to say that it was yet hurting Belgium economically. They were both of the opinion that Belgium could keep her prices down better than France and that time would be required to see

how

-4-

how much damage would be done. They also thought that costs would so rise in France that this last depreciation of the franc would leave little advantage just as previous depreciations have been dissipated by her higher costs of production. Janssen and Soudan thanked me after the luncheon for coming to see them and promised definitely to inform me if Belgium should decide upon any unforeseen monetary move in order for me to transmit such information to Secretary Morgenthau. They made the request that we reciprocate in similar circumstances and not surprise them as France had done. (Frere told me aside that as he was bringing Soudan to lunch, the latter had wondered if the purpose of my visit to Brussels was to tell them of some contemplated monetary move on the part of the United States.)

The key position now occupied by Belgium in the international monetary situation was realized by the three Belgians. That is to say, should the belga fall, pressure would immediately increase upon the Dutch florin and the speculators would move in a circle as they did prior to the crumbling of the gold bloc. They are confident that the belga can be held and feel that there is no need for changing it. However, I gained the very definite impression that it is believed, and by Frere especially, that it was a mistake to tie the belga so firmly to gold after its last devaluation.

-5-

devaluation. While no change should be attempted in the present circumstances of stress lest it be interpreted as devaluation, they admitted that eventually the belga should be freed from its present binding relation to gold and should be managed perhaps against sterling as the French franc is now managed, or through some system such as is followed in Switzerland or the Netherlands. They said that such a measure should be undertaken only when conditions are absolutely calm or if and when Great Britain and the United States might themselves be taking some monetary action simultaneously.

From the luncheon Frere took me to our Embassy. On the way he said that Janssen was proving a splendid Governor of the National Bank and he thought his efforts in the present crisis would prove successful. Even if the Government now in office should fall, Janssen intends to pursue his present policy. It would not prove surprising to Frere if this Government should yet be defeated in the near future. This does not worry him, however, as he feels that it would be even better to take a chance on forming a stronger Government than to have one continuing in power which is <sup>rather</sup> ineffective.

The conversations between the Belgian Ministers of Foreign Affairs and Economics and Messrs. Marchandean and Bonnet were participated in by Frere who was in Paris last Sunday.

-6-

Sunday. I was told confidentially by Frere that no new treaty was envisaged as a result of the fall in the French franc and that no concession has been made by France to Belgium. However, it was arranged that the industrialists of France and Belgium whose business is of a competitive nature should get together to arrive at a joint price policy under government supervision which would prevent undue advantages or sufferings by either group. Frere believes that something may be worked out along these lines but expects no great concessions from the French.

An account of my visit was given to our Embassy before I left Brussels yesterday evening at four o'clock. Upon my arrival at Paris, I telephoned to Secretary Morgenthau a summary of the above.

End of Section eight and of message.

BULLITT

RECEIVED  
FEB 21 1946  
U.S. DEPARTMENT OF STATE

EA:DJW

OFFICE CORRESPONDENCE

DATE May 12, 1938.

CONFIDENTIAL FILES

SUBJECT TELEPHONE CONVERSATION WITH

L. W. Knobe

BANK OF FRANCE.

I called Cariguel at 10:30. Could it be said, I asked him, that French capital was returning as a result of the recent devaluation? He replied that francs so far had been purchased primarily by those who had a short position to cover and by business concerns that had branches in France. The wealthy French individuals as well as <sup>big</sup> corporations, had not as yet started repatriating. He was hopeful as to the future but thought that from now on it would be harder to push the franc up. A great deal remained to be done and everything would depend upon the decrees to be published next week.

I stated that we had seen figures as high as £80,000,000 in foreign exchange and gold, supposedly accumulated by the French since the middle of last week. Was that correct? Cariguel thought it was in that neighborhood. (I have the impression that that figure represents the minimum of gain for the French and that the total may well have been higher.)

I asked his opinion as to the future of the belga; could that currency be able to stay on the old basis? The answer to that Cariguel thought depended primarily on the development of the political situation, the trouble in Belgium being more political than economical. In that respect the situation remained very precarious even though the Belgian cabinet had been granted a vote of confidence this morning.

LWR:KW

Regraded Unclassified

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 12, 1938, 9 a.m.

NO.: 748

FROM COCHRAN.

In accordance with the instructions which the Secretary of the Treasury gave me over the telephone, and which were confirmed by telegram No. 266 of May 10, noon, from ~~the~~ Department, I left Paris on Tuesday at 6:10 p.m. for Brussels. The National Bank of Belgium Governor, Janssen, met me at the train. We talked for an hour at my hotel.

Governor Janssen told me that on Monday there had been continued heavy pressure on the belga. Tuesday morning when he got back from Basel he immediately proceeded to raise the official rediscount rate from 2 to 4 percent. He said that if the market had not responded, he was prepared to raise the rate even higher. Afterwards he called a meeting of private bankers, and they all agreed to a credit policy, insisting that if Belgium's liberal policies were to continue such self-discipline was necessary.

Around Tuesday noon, following the above steps, the pressure on the spot belga lightened, and there was a narrowing of forward discount rates.

The Governor circulated to private banks a memorandum that evening. The memorandum was based upon the morning's agreement. I give below a translation of this confidential

memorandum;

EA:LWN

END SECTION ONE.

BULLITT

Regraded Uclassified

HM

SPECIAL GRAY

Paris

Dated May 12, 1938

Rec'd 10:45 a.m.

Secretary of State,  
Washington.

748, May 12, 9 a.m. (SECTION TWO).

The representatives of a certain number of banks conferred this morning with the Chairman of the Banking Committee with respect to the circumstances which had led to the increase of two per cent in the different rates of the National Bank.

At the conclusion of this conference the following program was adopted as best responding to the necessities of the moment.

This program is in perfect conformity with the policy of the National Bank.

All efforts of the banks should be directed towards the avoidance of an increase in the volume of credits utilized in Belgium, such an increase being obviously without economic justification.

It goes without saying that the prevention of an increase in the volume of credit should not involve

-2- 748, May 12, 9 a.m. from Paris

(contraction?)  
a contradiction of credit. The fall in the price of raw materials and the diminution of economic activity make it possible to affirm that the volume of credit utilized by Belgian economic (#) during the past year should be sufficient to assure normal industrial and commercial activity.

Therefore :

One. The banks should refrain from granting any new credit not justified by perfectly normal industrial or commercial transactions. Credits requested by those who are not engaged in business will be refused except in quite exceptional cases.

Two. The banks should permit the utilization of acceptance credits, Treasury credits and discount credits actually granted to clients only:

(a) Within the limits of average utilization during the period April 30, 1937 to May 1, 1938.

(b) Upon justification by the credited party of strictly commercial credit requirements.

The attention of the banks is especially invited to the fact that the paper which does not correspond

to

-3- #748, May 12, 9 a.m., from Paris.

to these conditions will not be accepted for rediscount by the National Bank.

Three. The banks should refrain from substituting themselves the one for the other in the granting of any Treasury, acceptance, or discount credits.

Four. As concerns paper drawn by foreign clients on Belgian concerns, or handed over by foreign banks to Belgian banks, the banks will only accept such paper for discount subject to the agreement of the National Bank to rediscount it.

Five. The banks will refrain from the reimbursement of the deposit and creditor accounts of their clients before the time fixed."

BULLITT

HPD

(\* ) Apparent omission.

PARAPHRASE  
SECTION ~~THREE~~, TELEGRAM NO. 748 OF MAY 12, 1938, FROM PARIS

Besides the provisions mentioned above, the Governor told me that he had decided not to grant foreign branch banks in Belgium rediscount facilities. In the present circumstances, he said, these branch banks will have to depend upon their parent concerns for aid.

On Tuesday Governor Janssen had a telephone call from Governor Fournier of the Bank of France. Apparently a protest about this ruling had been made to Governor Fournier by one of the five French banks doing business in Belgium. On Wednesday noon Governor Fournier again telephoned to Governor Janssen stating that this rule was involving a battle between the French franc and the belga, and that if it were not rectified, it might become a diplomatic incident. Governor Janssen said he stood his ground, insisting that he is free to take such a measure in self defense, in a crisis such as Belgium is facing.

No statements to the press have been made by Governor Janssen, and he has discouraged the Government from issuing any. Belgium does not need to make a monetary change, he insists. The Government has apparently accepted his judgment, and the National Bank apparently has been given a free hand in protecting the belga.

The Governor told me that had it not been for the Belgian political crisis coinciding with the attack on the  
belga,

- 2 -

belga, he would have let the speculators go even further before setting them back.

Governor Janssen feels that Belgium does not need any new comprehensive economic plan. To keep the prices down is the main element to him.

END SECTION THREE.

BULLITT.

EA: LWW

RECEIVED  
MAY 13 1941  
TREASURY DEPARTMENT  
U.S. DEPARTMENT OF THE TREASURY  
WASHINGTON, D. C.

## GROUP MEETING

May 12, 1938.  
9:30 a.m.

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

H.M.Jr: I feel better today, and I've had more fun. From now on I'm going home every day at noon. I had a lot of fun.

Bell: Why not make it uniform?

H.M.Jr: Well, this is all in the family. Where's McReynolds? I guess he's working.

Bell: (Laughing) He's working.

H.M.Jr: Yes, well, he is.

Upham: He went out with Marshall.

H.M.Jr: This is the most peculiar thing that's happened since I've been Secretary of the Treasury. At 11:30 Forster's assistant over at the White House sends over a telephone request: "Please make out a commission for the Comptroller of the Currency. Don't fill in the name and don't send it back through the usual channels."

So as soon as that came in I walked across the street and filed my protest on the ground that, first, my understanding was that the President promised O'Connor that he would not fill it, and that, second, ....

(McReynolds comes in)

How's the battle of Charley West? Have you heard?

McR: He's still in there.

-2-

H.M.Jr: And that I just didn't think that West was the fellow for it.

So at 1:30 McIntyre called me up at the house - "What about West?"

I said, "I'm a hundred percent opposed to him. I will not endorse him."

"All right."

"Well, how do you feel, Mac?"

"Well, if I told you, the wires would melt," says McIntyre.

So I just checked here with Diggs, and he called up Jimmy Roosevelt at 11:30, and at 11:30 Charley West was Comptroller of the Currency, and at 2:30 Jimmy Roosevelt's secretary called back to tell me there had been a little hitch-up and the thing hadn't been cleared yet.

So this is what I want to do at my press conference, if you fellows think it's good. They will undoubtedly ask me, and you can see that they ask me, "What about Charley West?"

Well, I thought I'd say this: "Well, Charley - talking about Charley West, I want to say that I think O'Connor made a first class Comptroller of the Currency. He has gone back to California to run for office. Amongst his attributes which I rate number one is his great loyalty to Franklin D. Roosevelt. I'd like to during his absence treat Mr. O'Connor just the way I treated Miss Roche and give him ample time to turn around. And if within a reasonable time Mr. O'Connor wants to come back to the Treasury, as far as I'm concerned I'm going to do everything possible to keep the position open, to give him ample time, because I admire so much the quality in him of loyalty to President Franklin D. Roosevelt."

Gaston: I should say that would be all right if it doesn't tie your hands any further than they are already

-3-

tied. I wouldn't put any new shackles on my hands as to that position.

H.S.Jr: What do you mean?

Gaston: Well, I mean if O'Connor has a promise to that effect, I think that would be all right to say. If he doesn't ....

H.S.Jr: He has.

Gaston: If he has a promise ....

H.S.Jr: He's got the President's promise. He's got mine. I just checked it.

Gaston: That pretty well implies that O'Connor, if he wants the job back again, can have it.

H.S.Jr: Yes; well, I do. No, I do.

Gaston: If there is a bargain to that effect, I'd say all right; otherwise I wouldn't tie my hands.

Gibbons: Will that put you in the position that future office holders - that a Collector of Internal Revenue who wants to run for office can go out and resign and come back?

H.S.Jr: Well, as a matter of fact, we have, but this is a peculiar case, and I'm perfectly sincere that there isn't anybody in this town who is more loyal to Franklin D. Roosevelt than Jefty O'Connor. He did not want to go out there. He was practically forced to go out there to run. He didn't want to go. Jim Farley told me - he said, "God, I've got the darndest time making O'Connor go. He wants to keep one foot in Washington and one foot out there. I never had such a time in my life."

He was forced to go, and he was given the promise that this position would be kept open for him. Now, I'm not going to be any part or parcel - and Diggs said he's got telephone calls that it means the defeat of O'Connor. What you going to snap that fellow down for?

Gibbons: Oh yes.

-4-

- H.M.Jr: You know, in politics the one thing above everything else is the question of good faith.
- Gibbons: You know, Charley came in and asked me ....
- H.M.Jr: Now, isn't it so? Above everything else it's the question of good faith.
- Gibbons: Sure.
- H.M.Jr: Well, I'm not going to be part and parcel of it.  
"Well, what do you think of Charley West?"  
"Well, I'd like to get a letter of recommendation from his most recent employer."
- Gaston: That's off the record.
- Gibbons: That puts me on the spot.
- Gaston: That's off the record.
- Oliphant: What did Charley ask?
- Gibbons: Charley - oh, six weeks ago he came in and wanted to know about Josephine Roche. "Why don't you go in and talk to Secretary Morgenthau? I know he thinks very well of you." In other words, I figured he was going to put it up to me to ask you, so I just bounced it back.
- H.M.Jr: Well, I had a talk with Harold yesterday.
- Oliphant: That's the best part of it.
- H.M.Jr: "Why, he isn't worth \$2500 a year. What's anybody worrying about him for?"  
So I said, "Well, he's a good two by four county politician."  
He said, "Henry, don't exaggerate so."
- Gibbons: Well, you know, Jim told me one day when we were discussing Charley - Jim said, "I searched for him for a week, couldn't find him."

-5-

- H.M.Jr: Incidentally, I talked to Jim twice yesterday and Jim is a hundred percent in my corner on this thing. He goes so far as to say he gravely doubts whether Charley West could get confirmed, and he told the President that yesterday. I don't know, but he gravely doubts it. But just as a matter of common decency, I thought I'd say that this morning.
- Gibbons: Well, that was my reaction when I heard the thing yesterday. They've been kidding Jefty and leaving him out on the end of a limb, putting him out there and sawing it off.
- H.M.Jr: Absolutely. I don't want to be any party to it.
- Gaston: You haven't made any recommendation for Comptroller of the Currency, and that's why.
- H.M.Jr: O.K. O.K.? Anybody?
- Oliphant: Now, let's see - I'm just thinking out loud - it's quite likely that you will be called down on the Hill on his confirmation.
- H.M.Jr: Yes. On who?
- Oliphant: On Charley West's confirmation.
- H.M.Jr: Yes. O.K. "Well, I'm opposed to it."
- Oliphant: Senator Harrison ...
- H.M.Jr: "Opposed to his confirmation."
- Oliphant: I wonder how good it is to bring out this deal - "If you go out and run, we'll hold this job open for you." I mean that's the way the opposition would talk about it. It is partly the thing, I think, that Steve mentions.
- H.M.Jr: Oh, I'm willing to run that risk.
- Gibbons: You ought to do something for Jefty if they want him nominated. He hasn't got a Chinaman's chance, you know.
- H.M.Jr: Well, this is deeper than that, Herman. Herman?
- Oliphant: I think I know how deep it is.

-6-

- H.M.Jr: Oh, let me have a little fun. I will not recommend him, and Harold Ickes is going up on the Hill and talk plenty. He said - he told me he would.
- Oliphant: That's right, but to talk plenty you have to be in an absolutely bullet-proof position. Can I say what's on my mind?
- H.M.Jr: Yes, we're all saying.
- Oliphant: Well, I don't want to spoil your fun.
- H.M.Jr: Go ahead, it's all right.
- Oliphant: It would be all right, I suppose, if you gave a man a leave of absence for three months to go out and run for Governor. Right?
- H.M.Jr: We didn't give him a leave of absence.
- Oliphant: I'm saying if we did, just stating a hypothetical case.
- H.M.Jr: O.K.
- Oliphant: Now, if he nominally resigns with the understanding he is to be reappointed, I think it is in substance a leave of absence.
- Gibbons: It's a subterfuge.
- Upnam: His term expired a couple days ago. Would end if he hadn't resigned. His term expired.
- H.M.Jr: All right, we can handle it this way, Sir Galahad (to Oliphant).
- Oliphant: O.K., I don't want to spoil the fun, but I want to see the road clear down on the Hill.
- H.M.Jr: This fellow from the banking magazine says, "Mr. Morgenthau, have you recommended Charley West's appointment?" "No."
- Gaston: "I haven't made any recommendation."
- H.M.Jr: "I have not." Period.

-7-

Gaston: Period.

Taylor: Period.

Gaston: My chief objection to the other thing is, it seems to place you in opposition to the White House - that they want to appoint him.

Taylor: Too much fun for a May morning.

Magill: Yes.

H.A.Jr: Oh God, what a crowd! What a bunch of cautious sissies! Oh, what a bunch of cautious sissies! And then they write all this stuff up about old conservative Morgenthau. If they only knew this Non-partisan Leaguer here (Gaston).

Gaston: I guess I'm one of the four horsemen.

H.M.Jr: Boy, you and Viner, Riefler, and Gaston!

Bell: You'd be right liberal if it weren't for the advice you got.

H.M.Jr: Absolutely. Dan and I want to do lots of things, but they hold us down all the time.

Oliphant: Maybe it's holding you down now to be free later. Then you'll be perfectly free when you go down on the Hill.

H.M.Jr: When I can say - see, they ask the question, have I recommended Charley West for appointment, and I'll say, "I have not."

Gaston: Absolutely. That tells the story.

H.M.Jr: Can I also say, "Before I recommend him, I'll wait for a letter from his most recent employer"?

Taylor: Uh-uh!

Upham: Say that off the record.

Oliphant: Say that off the record.

-8-

- H.A.Jr: O.K. All right. All right? See that they ask me the question. Will you do that?
- Gaston: Oh, there is no doubt about it being asked, because Charley West told the newspapermen yesterday that he was going to be appointed, that he had been promised it.
- H.A.Jr: Now, with the assistance - I know it's terribly - I got my problems today - with the assistance of Gaston and White - it's triple-confidential - I wrote this letter yesterday, and I think it's a very good letter, and I'll read it to you. I left it over there at one o'clock.

"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?"

Whoever thought that one up was a good one. Was that you (Gaston) or Harry?

White: No, it was Herbert.

H.A.Jr: Very good, very good.

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

Helli: That's in the agricultural bill. I understand there's a provision in the agricultural bill that raises that ban on last year's Act. So they can do that.

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

"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,"

I think it's a good letter. What?

Taylor: Excellent.

White: Just one minor thought. Do you get the reaction where, in the first sentence, it says "and to stabilize in time," that that re-suggests that you want to take measures again .....

H.A.Jr: Yes, I got that too late. I was sorry for that.

White: It can be easily changed.

H.A.Jr: Well, it's gone. It was delivered at one o'clock yesterday.

White: Excuse me. I didn't ....

H.A.Jr: It was delivered by hand. I thought it was unfortunate, but it's gone.

Now, I want some more help from my letter writers, you two. I want another letter to the President. I want to point out to him these instructions which were given to me and in turn that I passed along as

-10-

follows, see? This is on February 12 - I called Aubrey Williams.

I said: "I've just left the President, and he asked me to get in touch with you and Bell and give you this message. And I want to impress upon you that this is entirely the President of the United States and comes to me as much as a surprise as it will to you, unless maybe you know about it. Neither Bell nor I did. The President said, 'Tell Aubrey Williams this. Let's take a city like Cleveland, where we are convinced, from our own information, they do not have enough money to take care of the need situation. Let's say that they had a thousand - one - twelve hundred people in need. Williams says with the money available, two hundred fifty million, he can take care of one thousand people, which leaves two hundred people which neither the Federal Government nor the city of Cleveland can take care of, because they haven't got ample funds.'

"Williams: Yes.

"H.M.Jr: He said, 'I then would want Williams, not to put a thousand people at work, but to put eight hundred people at work and put the other four hundred people on home relief.'

"Williams: Oh my God!

"H.M.Jr: Now, I want you - and I said, "Now Mr. President, what you're telling me is terrifically important, please repeat it once more until I get it exactly right. So he repeated it exactly right. I said, "How do you want it handled?" He said, "Well, if Williams is satisfied that the local organization is all right, let the local organization handle it and let him give them the money. If he's not satisfied with the local organization, let him set up his own." He said, 'That's unimportant.' But he said, 'That is the way I want it handled, and we haven't got the money - haven't got the legal right, I want it put into this Bill that you and Williams are going up on the Hill this afternoon.' Now he was very positive, and I want you to be a thousand per cent sure that this is his idea, and comes to me as a complete surprise. I don't know where he got it from, but those are his orders.

-11-

"Williams: Yes.

"H.M.Jr: Now Bell is sitting here with me. Bell said that he doesn't think we have the legal right to do that.

"Williams: Well I do, I think we have.

"H.M.Jr: Well would you have your lawyers examine it?

"Williams: Yes. Yes, I'll do that right away.

"H.M.Jr: and I don't know where it comes from, I didn't ask, but he was very, very positive that this was what he wanted, in places where we were satisfied that the communities didn't have enough money to take care of the need.

"Williams: All right. I'll find out before we get up there whether we've got - it all depends on the Comptroller's interpretation.

"H.M.Jr: Well, if there's any doubt about it, let's get the legal right. Bell says he thinks that direct relief can only be administered by Resettlement.

"Williams: Well that's what I thought too, but I talked it over with Gill last week, and Gill didn't agree with me. He said that he thought we also could give direct relief."

Now, I'm sure that those people never did this thing. And I read this thing, which was an excellent report on Cleveland, and I think it's one of the most outrageous things that were there are these hundreds of thousands of people in Cleveland starving. I read the paper - in Chicago it's going to be the same thing, and these so-and-so's don't carry out the President's orders.

I want to go on record in a letter about this conversation. Send the President this, then show him Chicago and simply say, "Mr. President, this thing is so serious..." - something like that, I don't know. I want you two fellows to think it over. Here he foresaw this whole thing February 12 - now to handle this thing, and they - I know that

-12-

they haven't done it. Here's this thing in Cleveland; the same thing is coming on in Chicago. And I want to go on record. I wanted to go out to Cleveland. Mrs. Morgenthau won't let me on account of my health. I wanted to go.

But I want this letter based on this thing. Now, I say the Hopkins organization is letting the President down and the whole country down. The President gave them the out.

Remember this whole thing?

Bell: Uh-huh.

H.M.Jr: Huh? Well, it's all here. →

Bell: Nothing can be done about it. You checked up on that.

White: Does that Cleveland report that you have contain figures?

H.M.Jr: Very accurate.

White: And you're satisfied that they're authoritative.

Gaston: I'm not satisfied with the figures, but it's simply written from the Cleveland papers. I'll show it to you.

H.M.Jr: Well, based on that and based on what's going to happen in Chicago, I want to point this out to the President. And you can - I don't - when you get to it, I'd just later on call up Aubrey Williams and ask him if he ever carried out the President's orders. But if they had, we wouldn't have that trouble out there now.

Gaston: Well, they certainly didn't give Cleveland any money for direct relief.

H.M.Jr: Haven't had it anywhere. I want to walk over and show that to the President. Just outrageous! Just being let down every day. Every day he's let down.

Who's got anything of interest?

-13-

Magill: (Nods nothing)

Oliphant: (Nods nothing)

Gaston: Got a Coast Guard officer coming in here at 10 o'clock with a delegation, to get a Distinguished Flying Cross.

H.H.Jr: What do I say?

Gaston: Well, I've got a little memorandum out there.

H.H.Jr: All right.

Taylor: On National Mortgage Association financing, Jesse has changed and he wants to handle it by subscription through his own organization.

H.H.Jr: 25 million?

Taylor: 25 million.

H.H.Jr: Five-year?

Taylor: Five-year two's.

H.H.Jr: Two's.

Bell: How do you mean through his own organization? He's going to take it all?

Taylor: No, he's going to use his regional offices to handle the subscription. The Fed doesn't want to do it because it's - it isn't a direct guaran- - I mean it isn't a direct obligation where it has a full guaranty on it. They were originally talking about handling it on an auction basis. Well, he's changed his mind on that and would rather handle it on a subscription basis.

H.H.Jr: O.K. All right, Dan?

Bell: All right with me.

H.H.Jr: Georgie? Talk fast.

Hess: That confidential memorandum that came over from the

-14-

White House on inventories is in the paper. I marked it with red. It doesn't mention it, but that's the gist of the memo. Just mentions "corn-crib economics."

H.M.Jr: Those men coming down on Tuesday?

Haas: I'm working on it.

H.M.Jr: O.K.

Haas: Yesterday I made a misstatement here.

H.M.Jr: Tch! Tch! Tch!

Haas: The wrong man. I meant Roberts in the National City Bank.

H.M.Jr: It's all in the family.

Haas: That's all.

Taylor: I've got one other thing. On this hearing that I'm going to this morning, I'm going to say that we're questioning the advisability of these amendments for three reasons, possibly four. One is that it broadens the field of these organizations; two, that it lowers the standards; three, that liquidity is given by the Federal Government and we question how much liquidity is needed in that situation; and, four, the tax thing.

H.M.Jr: Uh-huh. And aren't you going to put a fourth reason in?

Taylor: That is the fourth one.

H.M.Jr: And the fifth one: you don't like Fahey's cigars.

Taylor: Well, I'll see whether that's brought up or not.

H.M.Jr: That's the best one. If Fahey ....

Taylor: I mean where that's going to lead to I don't know.

H.M.Jr: You've got it all right. I'll back you up. But don't forget Fahey's cigars.

-15-

Taylor: Well, that's included in lowering the standards.

Upham: (Nods nothing)

H.M.Jr: Harry?

White: A few things, but they can wait until tomorrow. Mexico.

H.M.Jr: Méjico.

White: Gold.

H.M.Jr: Did you have a nice talk with that doctor, ex-banker, of Germany?

White: Very good.

H.M.Jr: Smart fellow.

White: Very able chap. Did you know he was not going back?

H.M.Jr: Oh yes. He's finished, out.

Lochhead: The French francs are quiet but not better. The belgas have improved quite a lot this morning, but it's not so much from the vote of confidence in the Cabinet, but the fact that overdrafts were cut out this morning and force a certain amount of covering.

H.M.Jr: Cochran called me up at home last night. I don't know why. But the Belgians have put on some rules and regulations that have made Fournier, of the Bank of France, perfectly furious, and which doesn't permit them, I guess, to operate quite as freely in the belga. But he said he'd write us full details. Had a very successful meeting, liked it very much and all that.

Incidentally, when Butterworth protested about two of them going, he didn't mention the fact that he would be absent when the Misses Kennedys were presented in court. He forgot to mention that, the son of a gun. I think I'd like to write him - you (Lochhead) do; I don't want to do it - write

-16-

him a little note, cutting out the picture, and simply say - say something funny. Just let him know that we know. You do it. Let him know that we know that was the day. What? Say we were surprised that he gave up going to it. Something.

McR: Maybe he had his knee breeches all ready.

H.M.Jr: Maybe he had his knee breeches all ready. Just a little note.

You (Gibbons) are in my corner on O'Connor.

Gibbons: Oh yes. Just simply sawing off the limb. That was my first objection.

H.M.Jr: I got more gossip yesterday. Just can't wait for a day ....

Gibbons: That's assuming everything O'Connor told me about what Jimmy and the President said to him ....

H.M.Jr: I'm just full of gossip. Do you think Governor Murphy would make a good Secretary of Commerce?

Gibbons: Doesn't pay his bills, does he?

H.M.Jr: Was that necessary?

Gibbons: Some suits some time ago.

H.M.Jr: Well, don't laugh it off.

Gibbons: Secretary of Commerce?

H.M.Jr: Yes. Enough from the White House - oh, I had a good day yesterday. I'm going to stay home lots of days. I find the way to get what's going on in Washington is not to come to the Treasury.

Dan? Listen, now that Byrd demanded we disclose what these 19 independent agencies are going to do - when you going to do that? They're going to ask me about that at the press conference.

Bell: Are they?

H.M.Jr: Byrd and I both don't know.

- Bell: There are not 19. There's a statement in the testimony.
- Gaston: I have the testimony in here, and Dan has a table in here.
- Bell: Total authorization is about 13 billion, as he pointed out.
- H.M.Jr: You don't want to give a little speech at my press conference on it?
- Bell: In the 13 billion is included 4 billion 750 million dollars for Home Owners Loan Corporation, of which a billion eight has lapsed.
- H.M.Jr: I don't want to bother with the details, but you put it all in there.
- Listen, I asked you two fellows to give me some stuff to attack the Comptroller General first. What happened to you?
- Bell: Well, we're still - we're sort of waiting for the report. There's no report gone out.
- H.M.Jr: I thought we'd attack first.
- Bell: We've got a memorandum on it.
- H.M.Jr: Want me to do it?
- Bell: No.
- McR: I'm doubtful that you're going to have a report.
- H.M.Jr: Will you (Chsuncey) please get nine copies of General Foch's Army Tactics entitled "Attack First" and give each one of these people a copy. By General Foch - Army Tactics - "Attack First." Will you?
- Bell: Depends, I think, what flank you're on as to whether you attack first.
- H.M.Jr: All right, anything else, Dan?
- Bell: I have a couple matters that I'd like to discuss with you and Mr. Mac some time - as to this payroll report, and the other is making some arrangement for liquida-

-18-

tion of this accounting organization by July 1.

H.M.Jr: Well, do you think that's going to happen?

Bell: Yes, I think so.

H.M.Jr: Well, I made some headway the other night. We were over there for one hour and fifty minutes, Senator Byrnes and I.

Bell: You really made some headway?

H.M.Jr: Oh yes.

Cheuncey: Want to ~~bet and~~ let me be the stakeholder, or something?

H.M.Jr: No, I don't want to bet yet.

Bell: Isn't sure enough.

H.M.Jr: I only bet when I'm sure. I only bet when I'm sure. But I haven't lost yet.

Bell: Well, I hadn't heard from what happened in the conference. I just assumed there couldn't be anything done.

H.M.Jr: Just so busy working for Charley West I haven't had any time.

Oliphant: Couldn't it be pointed out specifically how that would tie into the Cleveland and Chicago situation?

H.M.Jr: What's that?

Oliphant: Your plan would tie in with the Cleveland and Chicago situation - how it would solve it. You see?

H.M.Jr: Well, you (Gaston) get what he means?

Gaston: Yes. Yes.

H.M.Jr: Here's helium; she floats - I don't know, a lot of stuff in there (handing pile of papers to Oliphant).

Did I ever vote on that thing? Did they ever have

-19-

a meeting?

Oliphant: No, Johnson of Customs was present and ....

H.M.Jr: Johnson of Customs?

Oliphant: No, Robinson of Customs - present and not voting.

H.M.Jr: We never voted.

Taylor: Yes, we did.

H.M.Jr: Well, get together, boys, get together.

White: Yes, we voted.

Easton: Favorably.

Taylor: We ....

H.M.Jr: What?

Taylor: We voted favorably.

H.M.Jr: Well, is there any record?

White: Yes.

H.M.Jr: Where?

Taylor: Form of a letter, I think.

H.M.Jr: Well, would you mind, please, letting it all go to Mr. Oliphant's hands, so I can find out who voted on whose instructions, and how? Anybody that's got anything, will they please turn it over to Mr. Oliphant? Because I called up yesterday and I still don't know who represented me, and there must be something in writing. This thing simply says it was War, Navy and State that voted. No reference to the Treasury having voted. Now, it's a fight, I want to get in on it.

McIntyre? McReynolds, excuse me. McReynolds, you look noble this morning. What did you swallow, anything? Everybody happy?

-20-

McR: Not very.

H.M.Jr: No? What's the matter?

McR: I just got a few little private fights with the C.I.O. and a few things like that.

H.M.Jr: Did you see Blaisdell?

McR: (Nods yes)

H.M.Jr: Interested?

McR: Very much. He's coming back to talk to me today or tomorrow. We had a long talk.

H.M.Jr: Swell. All right.

May 12, 1938

9:15 a. m.

Present:

Mr. Marshall Diggs  
Mr. Upham  
Mr. McReynolds (later)

HM, Jr.: At 11:30 yesterday morning, I called up Colonel McIntyre and said that I had heard a rumor that they were going to appoint Mr. Charlie West as Comptroller of the Currency and I said 'I wish you would please tell the President that just as a matter of common decency that I should be first consulted.'

Then about half past eleven or so, McReynolds gave me a little slip where Forster's assistant telephoned our personnel man and said to send over a commission for Comptroller of the Currency, but leave the name blank and don't send it back through the usual channels.

Well, based on that, I took it over and went to see Miss Le Hand and said, 'This is just outrageous' and that I wanted the President to know about it and that it was my understanding that when O'Connor left he had assurances from the President his position would not be filled and I did not think it should be; furthermore, I did not think Charlie West was the caliber of man to be made Comptroller.

I am taking a chance on you (Diggs), young fellow.

At half past one, McIntyre called me up and said it was all a misunderstanding; the President had meant to talk to me the night before, but in the excitement of conversation he had forgotten and would like to know if I would approve of Charles West and I said positively no. I said to McIntyre, 'What do you think of Charlie West as Comptroller?' He said, 'If I told you, the telephone wires would melt.'

Have you heard anything?

Mr. Diggs: I called, when I heard the rumor at about a quarter of one, I called Miss Durand and said, 'I understand we have a new Comptroller of the Currency.'

-2-

She said she did not know anything about it, but to wait a minute. She called in over the wire and Jimmie said, 'Yes; that it would be West.' I said, 'That's fine.' That's all. Then about 2:30 she called me back and said, 'Don't say anything about that; there is not a clearance on it yet.'

HM, Jr: Do you know what assurances O'Connor got before he left about filling his position?

Mr. Diggs: He told me the President assured him it would not be filled until after the election and when I had lunch with Jimmie, two or three weeks ago, Jimmie told me the same thing, so you can imagine how surprised I was.

HM, Jr: This is what I thought I would say. I don't want to do anything, only to help O'Connor. Unquestionably I will be asked at my press conference 'What about West?' I thought I would say this: that in the first place, O'Connor made an excellent Comptroller of the Currency; that when he left here -- furthermore there was nobody in this town who was more loyal to the President of the United States than O'Connor, and it was my understanding that we would treat his position just as we did Josephine Roche and give him ample time to take care of his affairs, and as far as I was concerned, until Mr. O'Connor let me know definitely that he was not coming back, I would recommend nobody to succeed him. I am going to stress the loyalty of himself to the President. Do you think it is what we call a nifty?

Mr. Upham: Suppose his name has gone up?

HM, Jr: I can answer you that in a minute. You heard it hasn't, but I will call up and find out.

Mr. Upham: If his name has gone up to the Hill, it will embarrass you.

HM, Jr: I don't embarrass that easily.

Mr. Upham: It might be embarrassing to the President.

HM, Jr: Well, that's the trouble.

-3-

Mr. Upham: Doesn't it sort of give away that you don't know and don't care.

HM, Jr: I don't care. But I wanted to ask this gentleman, would it be embarrassing to Mr. O'Connor?

Mr. Diggs: I think it will be very fine for you to make the statement.

HM, Jr: I am treating you as one of my own inner group. That means that nobody should ever know this except Mr. O'Connor. No tips to anybody.

Mr. Diggs: I understand. I appreciate it.

(Mr. McReynolds came in)

HM, Jr: What's the word on West?

Mr. McReynolds: No word. Forster is not in.

HM, Jr: Well, between now and press conference, you can find out.

Mr. McReynolds: They promised to call me the minute he came in. If they don't call in a few minutes I will call back.

HM, Jr: From O'Connor's standpoint, my saying that would help him?

Mr. Diggs: I think so.

HM, Jr: And if West was put in, wouldn't that be harmful to Mr. O'Connor?

Mr. Diggs: It was in the paper out there and also the day before and another one last night.

HM, Jr: Is it known he's running in the Primaries? Is he publicly a candidate?

Mr. Diggs: Oh, yes!

HM, Jr: I told J. F. T. O'Connor, as far as I am concerned, I would make no recommendation. I won't sign the god damn thing. Can they send it up if I don't sign it?

-4-

Mr. McReynolds: The President can make the recommendation without any reference to you.

Mr. Upham: They took it out of the Banking Act of 1935.

HM, Jr: Then what's all this fuss about having my initials? But at 2:30 Miss Durand told you ....

Mr. Diggs: She voluntarily called me, and said it had not got clearance.

HM, Jr: If you hear anything, you get hold of this fellow (UPham) and you two walk in.

I talked to Farley yesterday. He's in our corner.

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May 12, 1938

11:30 a. m.

Present:

Mr. Magill  
Mr. Oliphant  
Mr. Reynolds

HM, Jr: The question is -- I am starting from scratch -- vacancy of Assistant General Counsel, position to be filled of tax legislation on the Hill for next year. I hear all kinds of rumors that Mac is going budgetary. I thought we would have a nice family party and see who can out-swivel.

Mr. Magill: I am betting on Herman.

HM, Jr: Now, Mac, suppose you state the case. I understand you once studied law. Vacancy of Assistant General Counsel, somebody to handle tax legislation after Magill's return to Columbia. I hope to find an Assistant Secretary. What will his duties be? Will he take over Internal Revenue from an administrative standpoint or not. Who will handle representation on the Hill? I thought Magill had a fellow. I did not want to move until I got the complete picture. I am the only one in the room who has no candidates.

Mr. McReynolds: He would not come into your tax picture.

Mr. Oliphant: Then wouldn't you need legislation giving you another Secretaryship. When Ras goes back you want an Internal Revenue Secretary.

Mr. Magill: No. If I go you have a vacancy ...

HM, Jr: No. I have enough places.

Mr. Magill: On your Assistant Secretaryship, that is, from one point of view, is common to your whole problem. On the other hand, what that fellow does, I should suppose, would depend almost wholly on what kind of fellow he is. Most anybody you get can handle the administrative side of Internal Revenue for you.

-2-

Mr. Oliphant: There isn't one chance in a hundred of finding a person who can handle administrative and legislative as well as Magill.

HM, Jr: I think you are right.

Mr. Magill: I would shoot for the fellow who can handle the administrative work. For my part, I don't have much hope for what kind of legislation we can get next year.

HM, Jr: I don't agree. I would have said the legislative side would be the most difficult.

Mr. Oliphant: Running of the Bureau is a big job.

HM, Jr: I have that person -- Harold Graves.

Mr. Magill: Why not him for your Assistant Secretary?

HM, Jr: No, I don't think he wants that.

Mr. McReynolds: No, he does not want that.

Mr. Magill: Graves does one aspect of that work -- reorganization business -- very well. On the other hand, there is a terrible lot of stuff besides what Graves is doing. For example, Wenchel comes in to see me after having talked to Herman Oliphant and he has got the American Smelting and Refining Company case for 1928 involving \$11,000,000. They have their attorney and he, acting for the Company, got in the inventory amendment. There is no reason why Graves should know a thing in the world about that kind of question and I don't see how he could.

I had my secretary keep track of what I signed. I signed 114 items in that particular week. I won't say all are dynamite, but a good 100 out of 114 are dynamite.

HM, Jr: I think the place to start is what kind of an Assistant Secretary do we want. What will his duties be? And I take it we have never sat down and talked this through before.

-3-

Mr. Magill: The trouble is, I just don't know your man. The only two possibilities I can think of I have given you and both, apparently, are out of the picture. Knollenberg, he's going to Yale.

HM, Jr: Isn't there anybody else in the whole country? This fellow at Harvard -- who is it?

Mr. Magill: Maguire? Good man!

Mr. Oliphant: I have my man.

HM, Jr: For Assistant Secretary?

Mr. Oliphant: Rogge. SEC. From Chicago.

Mr. Magill: I don't think Maguire is quite forceful. Awfully good man, good experience, good knowledge.

HM, Jr: How about Rogge?

Mr. Magill: I don't really know him.

HM, Jr: Using him as an example, if he came in he would have four months to get broken in. Then he goes into the Assistant Secretaryship in charge of ....

Mr. Magill: ... Internal Revenue.

HM, Jr: Then what about representation on the Hill?

Mr. Oliphant: Tarleau.

HM, Jr: What title? Where does he fit? Out of what funds does he get paid? What title?

Mr. Oliphant: Revenue would pay him. He would be exclusively Revenue.

HM, Jr: Where is he being paid from now?

Mr. McReynolds: I think he's on Revenue roll now.

HM, Jr: How much?

Mr. Magill: \$7500.

-4-

HM, Jr: To whom would he be responsible?

Mr. Magill: To the Assistant Secretary.

Mr. McReynolds: I don't know enough about Rogge to know whether he could carry this burden. Has he had any experience on Revenue law?

Mr. Oliphant: Yes. I suppose the larger percentage of his practice has been in tax work.

Mr. McReynolds: I would not be surprised if Rogge would make a pretty good man. If you had him as Assistant Secretary with Revenue assigned to him, with Tarleau and Blough coming down the line to take care of tax stuff, it might work out all right.

HM, Jr: One more thing, and we will talk about it tomorrow. Does any of this affect the vacancy of Assistant General Counsel?

Mr. McReynolds: There are two vacancies: the one that Clarence had, and Kent.

Mr. Oliphant: I hope Kent's successor will be released from tax legislation, because I could use him on other stuff. Possibility of taking legal work of the Comptroller's Office. Our thought about Bernstein was we would watch him and see if he was Assistant General Counselship material. He's carrying all that load on monetary and finance, and doing a fine job.

HM, Jr: Then it gets down to -- is money available to fill these positions to hold up and support the hand of an Assistant Secretary who is going to be in charge of Internal Revenue and tax legislation?

Mr. McReynolds: They have to be paid from Revenue rolls. They have \$50,000,000 and if you spend it there you don't spend it somewhere else.

HM, Jr: If I get it straight, you will have an Assistant Secretary in charge of all tax matters. Under him you will have Blough, tax research, and Mr. "X" or Mr. Tarleau to represent us on the Hill. All of them would be responsible to him and would not be in the office of the General Counsel?

-5-

Mr. Oliphant: That's right. We agreed on that some months ago, that while hitherto tax legislation has been in the Legal Department, it be taken out of the Legal Department, at my suggestion, and put under an Assistant Secretary in charge of taxes.

Mr. Magill: You keep the Legislative Division which is to do routine; everything except taxes.

HM, Jr: We will let it cook for 24 hours.

oOo-oOo

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: May 12, 1938, noon

NO.: 395

FROM BUTTERWORTH.

FOR TREASURY.

STRICTLY CONFIDENTIAL. I have inquired of Rothschilds, who confirm that the movement of gold to Canada from France was for account of the Bank of England - presumably on behalf of the equalization fund of the British.

The British Treasury, when asked about this movement stated that "the explanation is the one that leaps to the eye" - in other words, it has been found difficult in the past to create quickly a gold reserve on the American continent "for use in case of need". Therefore such a reserve is in the process of being accumulated at the present time.

Bewley, I gathered, knew of this move so that he would be in a position to explain. Nevertheless, for the purpose of confirmation it seems important to report the above.

KENNEDY.

EA:JFW

Thursday  
May 12, 1938  
11:17 a.m.

337

HMJr: Hello.

Operator: The Vice President.

HMJr: Hello.  
Just a moment, sir.

John  
Garner: Hello.

HMJr: Henry talking.

G: How are you?

HMJr: I'm all right. I thought you might like to know that I said at my press conference that I had not recommended Charly West for the Comptroller of the Currency.

G: That you aren't going to appoint him?

HMJr: I had not recommended his appointment.

G: Well, that's what I'm - I got that all mixed up - I....

HMJr: No. I announced publicly at my press conference.

G: Well, God bless you, you've got a lot of guts as well as sense.

HMJr: They asked me - "Have you recommended him?" And I said, "No, I have not."

G: Yes. Well, that's right.

HMJr: And I said so publicly and I said so a half an hour ago and I wanted to tell you.

G: God bless you. May you have health and happiness and live always.

HMJr: Then I called up Harold Ickes and said, "Harold, where's that letter recommending Charly West?"

G: Yeah.

HMJr: "I'm waiting for it."

- 2 -

G: Yeah.

HMJr: So Harold said, "Didn't you get it, Henry?" That's funny, it must have gone astray."

G: Yeah. (Laughs heartily)  
All right, old top, I'll see you tomorrow.

HMJr: Thank you.

JR

GRAY

London

Dated May 12, 1938

Rec'd 2:45 p.m.

Secretary of State,  
Washington.

400, May 12, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

The franc has been held again today between 177-11/16 and 3/4 and the French fund acquired an appreciable amount of sterling most of it during the afternoon.

The belga has reached a gold point; whether any gold shipments from London to Antwerp have actually been arranged cannot now be ascertained. The drastic limitation of credit facilities by the Belgium banks has produced a squeeze and thus given technical support to the currency.

DDM:CSB

U.S. DEPT. OF STATE  
KENNEDY

MAY 12 1938

MAY 12 1938

MAY 12 1938



DEPARTMENT OF STATE  
WASHINGTON

May 12, 1938.

My dear Mr. Secretary:

In accordance with a telephone request from your Office, I enclose herewith one copy of paraphrase of a confidential report dated May 3 from Mr. Wilson in Paris.

Sincerely yours,

*Herbert Feis*

Herbert Feis,  
Adviser on International  
Economic Affairs.

Enclosure:

Paraphrase, No. 689 of  
May 3 from Paris.

The Honorable

Henry Morgenthau, Jr.,  
Secretary of the Treasury.

*Cable 689 is  
filed in  
Stehelzator  
Avery  
under date  
of 5/13/38*

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 12, 1938, 5 p.m.

NO.: 751

FROM COCHRAN.

Feature of exchange market today is the belga which has strengthened against both sterling and French franc but moving rather abruptly as banks find their positions difficult or uncertain with regard to belga business as a result of new Belgian credit policy. Understand Credit Lyonnais for instance claims unfair treatment on the ground that National Bank of Belgium not only refuses to rediscount foreign paper submitted by this bank's Brussels branch but also paper emanating from Belgian firms and covering Belgian commerce.

So far there has been no complaint from National City but it appears that Guaranty Trust is annoyed about the policy.

Apparently considerable sterling was gained by French control today at 177.70 and also a fair amount of dollars at 35.70 through Morgans; today was certainly a better day than yesterday. Rentes are lower and money is easier, with further reductions in interest on ordinary treasury bonds and on national defense bonds. Official rate of the Bank of France was lowered from 3 to 2 1/2 percent today.

BULLITT.

EA:LWY

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE MAY 12 1938

TO Secretary Morgenthau

FROM Herman Oliphant

The following is what the Treasury has had to do with the helium matter:

1. On September 3, 1937, Robinson, of the Customs staff, attended a meeting of the Munitions Board, which was considering the regulations governing the allotment of helium. He registered himself as present, but not voting.

2. These regulations were sent to you, as a member of the Munitions Board, by Secretary Hull on September 4, 1937, and on the same day Wayne Taylor, as Acting Secretary, wrote the Secretary of State that the Treasury had no objections to the regulations. This letter came up through Customs in the regular way and bore the usual initials, including my own.

3. On October 20, 1937, the Secretary of State forwarded to you the application for allotment of helium to Germany.

4. Apropos of this, I sent to Wayne Taylor, on November 13, 1937, a memorandum giving seven reasons why this application might well be disapproved.

Thereafter I discussed the matter with Mr. Taylor, who said we should write a letter saying we had no objections to granting this application. Accordingly, the attached letter, signed by Mr. Taylor "by direction of the Secretary" and initialed by myself and Thompson's office, went forward to the Secretary of State on November 18, 1937.

5. On December 30, 1937, the Munitions Board met to consider the Annual Report, Dr. White attending for you. This report did not go into the proposed shipment of helium to Germany. However, another aspect of helium was considered, distantly related to the question at issue. This new aspect dealt with a recommendation to liberalize some of the provisions controlling the export of helium. Dr. White brought it back to the Treasury and it was signed by you on his recommendation.

6. Following newspaper reports of Secretary Ickes' interest in the matter, I called your attention, on April 13, 1938, to a number of the reasons advanced in my memorandum to Mr. Taylor, which supported the position that Secretary Ickes was reported to be taking. You telephoned Secretary Ickes for an appointment for me to see him, which I did on that day, taking Mr. Bernstein with me. At Secretary Ickes' direction, all of these reasons were given by Mr. Bernstein to Felix Cohen, who was handling the problem for Secretary Ickes.

7. Finally, you have received from Secretary Hull, under date of May 9, copies of letters sent by State, War and Navy to Secretary Ickes. To this no response has been made. Nor has the Department commented on exchanges of letters between State Department and various members of Congress, copies of which have been sent to you at various times.

Enclosure.



( C O P Y )

NOV 18, 1937.

Dear Mr. Secretary:

I wish to acknowledge receipt of your communication of October 30, 1937 (ca), and enclosures, in which you request that you be informed whether the Secretary of the Treasury recommends that an allotment of helium be granted to American Zeppelin Transport, Incorporated, in accordance with its request, under paragraphs (6) and (7) of the regulations governing the exportation of Helium Gas, approved by the National Helium Control Board and the Secretary of Interior, pursuant to the provisions of Public No. 411 - 75th Congress, First Session.

The Secretary of the Treasury is not in a position to express an opinion with reference to numerous technical matters involved in a decision on the question of granting an allotment of Helium, under the regulations approved pursuant to Public No. 411 - 75th Congress, First Session. However, since there is no information in the possession of the Treasury Department which would warrant a contrary decision, the Secretary of the Treasury has no objection to granting the request of American Zeppelin Transport, Incorporated, for an allotment of Helium in the amount set forth in its request.

In Direction of the Secretary:

Very truly yours,

(Signed) Wayne C. Taylor

Assistant Secretary of the Treasury.

The Honorable

The Secretary of State.

WJH:es typed 11.16.37

Initialed: HO HH WNT

**Treasury Department**

1938 MAY 12 PM 1 07

344

TELEGRAPH OFFICE

23 W E 54 DL

AB LOSANGELES CAL 933A MAY 12 1938

HENRY MORGENTHAU JR

WASHN DC

THANKS FOR YOUR MAGNIFICENT STAND, SINCERELY HOPE EFFICIENT AND  
LOYAL BUREAU WILL NOT BE DISTURBED, YOUR GREAT RESPONSIBILITIES  
ARE ENOUGH WITHOUT ADDING A SINGLE DISCORDANT NOTE, NO MATTER  
WHAT HAPPENS MY ADMIRATION FOR YOU WILL NOT BE DIMINISHED, YOU  
AND I LABORED TO PERFECT AN EFFICIENT AND LOYAL BUREAU, IT SHOULD  
NOT BE WEAKENED

J F T O'CONNOR

100P

5/12/38

10 am

The Secretary addresses Lieutenant Olsen:

For conspicuous heroism, skill and good judgment displayed in the line of your duties, and on the recommendation of the Permanent Board and the Commandant of the United States Coast Guard, I take pleasure in presenting to you, Lieutenant Carl Olsen, under authority granted to me by the Congress, this Distinguished Flying Cross, an emblem of exceptional and noteworthy service to your country and its citizens. I believe that the heroism and the fine officerly qualities you displayed in the face of great danger are typical of the devotion to duty and to the fine ideals of the Coast Guard that have marked your service. I congratulate you on ~~the~~ this well-deserved honor.

I also congratulate you, Admiral Waesche, and you, Captain Chalker, on the splendid morale and efficiency of the officers and men of the flying service of the Coast Guard, displayed on many occasions that go unmarked and typified by such exceptional deeds as that performed by Lieutenant Olsen and his crew and shore associates.

May 12, 1938

At a meeting with the President and Bell, the President approved the letter which Bell and I were to sign to Carter Glass and made several suggestions which are being incorporated in the letter because, as he says, Hopkins says that he can do the accounting with 500 people and it takes Bell 3,000 men and he thought we ought to straighten that out.

While the President was letting me send up a letter, neither Mr. Bell nor I got the feeling that he would fight for those principles.

On the so-called relief letter, he read it and said, 'It's all right' but he said, 'Have you talked to Hopkins about it?' He said, 'This is distinctly Hopkins' business.' I said, 'Do you approve it?' He said, 'Yes, but it's Hopkins' business. You are butting in on it.' I said, 'Suppose Hopkins joins me and signs the letter' and he said, 'Yes, absolutely.'

Hopkins will be here at 4:30.

The President said, 'What about Mexico?' He said, 'It's getting much worse,' and I said, 'Yes. We have an idea which is only half thought through, but I did ask Cordell Hull, this morning, to designate somebody to work with us on it and he designated Feis.' I said, 'What would you think of the idea of our loaning 200,000,000 ounces of silver to the Mexican Government at a reasonable rate of interest for 10 years. This silver would come out of the excess silver we have on deposit over and above the amount that we need against our silver certificates outstanding.'

Bell said, 'You mean silver seigniorage'. I said, 'No, I don't.' He said, 'It's about the same amount.' I did not argue with him.

I said, 'We would make this loan to the Mexican Government provided that they would coin it into silver pesos. We might help them coin it. Provided that they would sign the trade treaty and straighten out the oil situation.'

The President said, 'Would you give up possession of the silver,' and I said, 'Yes.' I said, 'Yes.' I

-2-

said, 'After all, in the room we can admit it isn't worth much sitting in our vaults and Key Pittman would be for it because it would mean that we got rid of that much silver and would have to buy that much more additional.' He said, 'Would it need legislation?' I said, 'Yes.'

He said, 'How much interest would you charge them?' I said, '3%.' He said he thought that was too much. He thought 2% would be enough.

I said, 'I am very human and after the last paragraph in the Mexican note to England where they so courteously reminded them of the English debt to the United States, I feel very kindly disposed to the Mexicans.' The President said, 'So did I.' He said, 'Wasn't that a peach!'

I said, 'What do you think about it?' He said, 'It sounds interesting,' but he says, 'I am like you; I want to think it over.'

I said, 'If we went ahead with this, we could do what we have suggested before and to the State Department twice: after we have got this down on paper, we could invite President Cardenas to come up here to Washington to see you and sign the agreement here.' The President liked that idea.

(Note: This idea was given to me this morning by Harry White.)

oOo-oOo

final draft.

May 16, 1938

My dear Mr. Chairman:

I am addressing this communication to you in connection with H. J. Res. 679, appropriating money for the continuation of work relief and otherwise to increase employment by providing loans and grants for public works projects. The appropriations contained in this resolution are for the same general purposes as those made in the Emergency Relief Appropriation Acts of 1935, 1936 and 1937. In the former acts, however, the funds for relief and work relief were appropriated for expenditure in the discretion of the President subject to specified limitations on the amounts which could be expended for various classes of projects. This resolution appropriates the money directly to the various designated spending agencies.

Immediately following the passage of the Emergency Relief Appropriation Act of 1935 I issued an executive order creating the Works Progress Administration for the purpose of exercising administrative supervision over the work relief program. In that same order I vested in the United States Treasury Department three important service functions, namely, accounting, <sup>(2)</sup> disbursing <sup>(3)</sup> and procurement. I did this because I felt that the size and character of the program required that maximum safeguards be thrown around the funds; second, that there should be some central agency in which the accounting and reporting functions should be centralized;

- 2 -

and third, because I felt that since all financial transactions of the Government necessarily center in the Treasury Department, that Department was the logical place for the accounting activities. I had a further thought in mind. In Government fiscal procedure there are three different control functions which an accounting system should provide. First, control over limitations imposed by the Congress; second, limitations imposed by the executive within the authority granted by the Congress; and third, administrative limitations to be exercised within the bounds of legislative and executive authority. In addition to these the Treasury Department is also vitally concerned in all matters involving the receipt and expenditure of public money. The United States Government is the largest institution in the world. It carries on its functions under a highly decentralized accounting system. It is decentralized not only geographically but also organizationally. The multitudinous accounting units operate individually and there is no place where their financial data are coordinated. It is impossible to procure from such a decentralized accounting organization prompt financial reports of sufficient uniformity to provide a working means for financial management.

Because of the broad authority which the Congress vested in the Chief Executive in connection with the expenditure of funds appropriated for work relief, I determined to set up an accounting system which would be independent of the spending agencies and through which I could not only exercise independent executive control, but could also procure promptly at frequent periodic intervals coordinated financial statements showing

- 3 -

the status of the program as a whole. I believe that the results thus obtained fully justify its continuance.

The emergency Treasury accounting organization is composed of 56 State offices. There is maintained a separate office in each State and possession with the exception of New York and California where offices are maintained in Albany, New York City, San Francisco and Los Angeles. These offices stand between the administrative officer and the disbursing officer. They therefore perform a double function: first as a check on administrative agencies which incur obligations; and second, upon disbursing officers who pay such obligations. Since April 8, 1935, the Treasury has accounted for almost 8 billions of dollars and has rendered accounts of its expenditures to the General Accounting Office at 15-day intervals.

In connection with this matter your especial attention is directed to the fact that this Treasury accounting organization keeps not only the accounts relating to the Works Progress Administration but also to approximately 50 other agencies which receive allocations under the Emergency Relief Appropriation Acts. They also maintain individual borrowers' accounts for loans made by the Resettlement Administration (now the Farm Security Administration); they compute the interest on such loans and render bills to borrowers for amounts due; they see that the limitations fixed by the Congress on amounts authorized to be expended on various classes of projects are observed, and that limitations fixed by the President on individual projects within such classes are also observed. They make an administrative examination of allotments, obligations and pay rolls and vouchers before payment; they control collections owing

- 4 -

into the possession of disbursing officers; they provide an independent administrative check upon the accounts of disbursing officers before they are sent to the General Accounting Office for audit and settlement; they make a complete accounting every ten days for incorporation in a general financial statement showing the status of the program. The summary of such statements is printed in the Daily Treasury Statement once a month.

In the resolution I have observed that the appropriation for the office of the Commissioner of Accounts and Deposits, page \_\_\_\_, line \_\_\_\_, as passed by the House of Representatives, is only \$2,000,000 and the House report indicates that this amount is intended for liquidation of the Treasury emergency accounting activity. After careful consideration, I strongly recommend that the Congress authorize the continuance of this activity for the purpose of exercising accounting control over the funds appropriated in the resolution. This would require an increase in the appropriation from \$2,000,000 to \$8,000,000 and insertion of the words "for Administrative Accounting". This may seem a large sum of money for accounting although actually it is less than 2/5 of 1 per cent of the money disbursed.

There is attached for the information of the Committee a memorandum showing the functions and services performed by this organization, the volume of work handled, and the results obtained.

Faithfully,

HFB; HLE; HEE

Second draft

352

My dear Mr. Chairman:

After conference with the President, and with his full knowledge and approval, we are addressing this communication to you in connection with H. J. Res. 679, appropriating money for the continuation of work relief and otherwise to increase employment by providing loans and grants for public works projects. The appropriations contained in this resolution are for the same general purposes as those made in the Emergency Relief Appropriation Acts of 1935, 1936 and 1937. In the former acts, however, the funds for relief and work relief were appropriated for expenditure in the discretion of the President subject to specified limitations on the amounts which could be expended for various classes of projects. This resolution appropriates the money directly to various designated spending agencies.

Immediately following the passage of the Emergency Relief Appropriation Act of 1935 the President issued an executive order creating the Works Progress Administration for the purpose of exercising administrative supervision over the work relief program. That same order vested in the United States Treasury Department three important service functions, namely:

1. Accounting.
2. Disbursing.
3. Procurement.

The President did this because he felt that the size and character of the program required that maximum safeguards be thrown around the funds; second, that there should be a single agency in which the accounting and reporting functions should be centralized; and third, because he felt that since all financial transactions of the Government necessarily center in the Treasury Department, that Department was the logical place for the accounting activities.

Under H. J. Res. 679, the disbursing and procurement functions would continue to be handled by the Treasury Department, but under the present wording of the bill the Treasury would not continue to handle the administrative accounting functions.

Because of the broad authority which the Congress vested in the President in connection with the expenditure of funds appropriated for work relief, he determined to set up an accounting system which would be independent of the spending agencies and through which he could not only exercise independent executive control, but could also procure promptly at frequent periodic intervals coordinated financial statements showing the status of the program as a whole. He believes that the results thus obtained fully justify its continuance.

The emergency Treasury accounting organization is composed of 86 State offices. There is maintained a separate office in each State and possession with the exception of New York and California where offices are maintained in Albany, New York City, San Francisco and Los Angeles. These offices stand between the administrative officer and the

- 3 -

disbursing officer. They therefore perform a dual function: first as a check on administrative agencies which incur obligations; and second, upon disbursing officers who pay such obligations. Since April 8, 1933, the Treasury has accounted for almost 8 billions of dollars and has rendered accounts of its expenditures to the General Accounting Office at 10-day intervals.

In connection with this matter your special attention is directed to the fact that this Treasury accounting organization keeps not only the accounts relating to the Works Progress Administration, but also those relating to approximately 50 other agencies which receive allocations under the Emergency Relief Appropriation Acts. They also maintain individual borrowers' accounts for loans made by the Resettlement Administration (now the Farm Security Administration); they compute the interest on such loans and render bills to borrowers for amounts due; they see that the limitations fixed by the Congress on amounts authorized to be expended on various classes of projects are observed, and that limitations fixed by the President on individual projects within such classes are also observed. They make an administrative examination of obligations, pay rolls, and vouchers before payment; they control collections coming into the possession of disbursing officers; they make an independent administrative examination of accounts of disbursing officers before they are sent to the General Accounting Office for audit and settlement; they make a complete accounting every ten days for incorporation in a general financial statement showing the status of the program. A summary of such statements is made public in the Daily Treasury Statement once a month.

- 4 -

In the resolution it is observed that the appropriation for the office of the Comptroller of Accounts and Deposits, page 4, line 28, as passed by the House of Representatives, is only \$2,000,000 and the House report indicates that this amount is intended for liquidation of the Treasury emergency accounting activity. After careful consideration, we strongly recommend that the Congress authorize the continuance of this activity for the purpose of exercising accounting control over the funds appropriated in the resolution. This would require an increase in the appropriation from \$2,000,000 to \$8,000,000 and insertion of the following after the figure "\$1,800,000" appearing in line 4 of page 5:

Provided, that all funds appropriated and made available by this title, shall be accounted for in the same manner, and by the same agencies, as funds appropriated and made available under the Emergency Relief Appropriation Act of 1937".

Very truly yours,

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Secretary of the Treasury

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Acting Director of the Budget

Honorable Carter Glass, Chairman,  
Committee on Appropriations,  
United States Senate.

KFS:HW

*Handwritten signature*  
356

NOT SENT

My dear Mr. Chairman:

After conference with the President, and with his full knowledge and approval, we are addressing this communication to you in connection with H. J. Res. 679, appropriating money for the continuation of work relief and otherwise to increase employment by providing loans and grants for public works projects. The appropriations contained in this resolution are for the same general purposes as those made in the Emergency Relief Appropriation Acts of 1935, 1936 and 1937. In the former acts, however, the funds for relief and work relief were appropriated for expenditure in the discretion of the President subject to specified limitations on the amounts which could be expended for various classes of projects. This resolution appropriates the money directly to various designated spending agencies, subject to approval of WPA and NYA projects by the President.

Immediately following the passage of the Emergency Relief Appropriation Act of 1935 the President issued an executive order creating the Works Progress Administration for the purpose of exercising administrative supervision over the work relief program. That same order vested in the United States Treasury Department three important service functions, namely:

1. Accounting.
2. Disbursing.
3. Procurement.

In the resolution it is observed that the appropriation for the office of the Commissioner of Accounts and Deposits, page 4, line 28, as passed by the House of Representatives, is only \$2,000,000 and the House report indicates that this amount is intended for liquidation of the Treasury emergency accounting activity. After careful consideration, we strongly recommend that the Congress authorize the continuance of this activity for the purpose of exercising accounting control over the funds appropriated in the resolution. This would require an increase in the appropriation from \$2,000,000 to \$8,000,000 and insertion of the following after the figure "\$1,800,000" appearing in line 4 of page 5:

**"Provided, that all funds appropriated and made available by this title, shall be accounted for in the same manner, and by the same agencies, as funds appropriated and made available under the Emergency Relief Appropriation Act of 1937".**

If there is any question in the mind of your committee that the present system of accounting results in duplication, or that a change in the system will save a large amount of money, it is suggested that the committee call the Director of the Bureau of the Budget and the Administrator of the Works Progress Administration before it in order that the whole subject may be clarified.

Very truly yours,

\_\_\_\_\_  
Secretary of the Treasury.

Honorable Carter Glass,  
Chairman,  
Committee on Appropriations,  
United States Senate.

\_\_\_\_\_  
Acting Director of the Budget.

My dear Mr. President:

I am very much concerned about the direct relief situation, especially in such midwestern cities as Cleveland, Detroit and Chicago, where the industrial recession is most sharply felt. There is a similar situation in smaller cities in the same area. They have had to meet a direct relief load far beyond what they had budgeted and in the case of the Ohio cities, notably Cleveland, they ran up against provisions of State law which prevented them raising additional municipal revenue or adding to their debt. You have, of course, noticed the stories in the papers about the sit-down strikes of relief dependents in Cleveland, which was forced to stop issuing food orders on April 30th and to put the employees of the Relief Administration on a "no pay" basis pending a special session of the Legislature at which they hope to get authority to raise new money. Other Ohio cities are in a somewhat similar plight, although the emergency elsewhere seems to be not so acute as in Cleveland.

The Cleveland newspapers report that as of April 30th there were 87,000 persons on the direct relief rolls, the highest number they have had at any time, while WPA has 63,000 persons on its work rolls.

The Cleveland crisis has been met only temporarily by the transfer to direct relief of funds reserved for the city's share of WPA projects.

You will recall that in our conversation on February 12th you mentioned the Cleveland situation specifically and you asked me to advise Aubrey Williams that it was your wish that they should work out a plan for sharing the direct relief load with the cities where such critical situations existed. I took the matter up with Aubrey Williams over the telephone immediately after my return to my office, but so far as I have been able to find out nothing of this sort has been done. Dan Bell raised the question that day as to whether the WPA had legal authority to use funds for direct relief. Dan doubted it, but Aubrey Williams said they had the authority, and later Dan had a talk with Elliott, the Acting Comptroller General, who said he would see no reason to raise any objection if WPA funds were used in that way. I understand the new relief bill contains specific authority for direct relief.

- 2 -

The suggestion that SPA supplement local funds for direct relief in the most critical situations was, you will remember, your own. I am reminding you of it at this time because I anticipate that we shall have a repetition in other cities within the very near future of the critical situation that exists in Cleveland and because I think it quite possible that you may wish to issue direct and explicit instructions to Harry Hopkins on this point.

Sincerely yours,

Secretary of the Treasury.

The President,

The White House.

HEG/mah;bn

May 12, 1938

3 p.m.

Present:

Chinese Ambassador  
Mr. Taylor  
Mr. Lochhead

HM, Jr: I was getting worried! I thought you wouldn't sell me any more silver!

Ambassador: I was away. Just came back last night.

HM, Jr: I said to Mr. Taylor, 'We can't buy any more silver.'

Ambassador: I am glad to hear that.

HM, Jr: I said, 'Where are we going to buy our silver?'

Ambassador: That shows we have good prospect of selling you some silver.

HM, Jr: We will make it easy for you. Fifty million ounces, 10 million every two weeks.

Ambassador: The same terms as we had before?

HM, Jr: From Saturday.

Ambassador: That's right. Thank you very much. I am quite sure Dr. Kung will be very happy to hear that.

HM, Jr: How much have you got left?

Ambassador: We can sell you another lot at least!

HM, Jr: How's the war?

Ambassador: Coming along very strongly. I don't see how they stretched themselves again to Amoy.

-2-

HM,Jr: That's quite a long way off.

Ambassador: Not of much value. I think we will draw them in a little further. Of course, I am not a strategist.

HM,Jr: You are pretty close to Peking now?

Ambassador: Yes, in two directions: one, Champing (?) and the other is at the place where the trouble first started, Wamping (?). Did you get the map I sent?

HM,Jr: Yes, I did. Thank you very much.

Ambassador: Well, if there is anything we can do for you, in the way of supplying information, etc. ....

HM,Jr: I think everything is all right. You have got your orders, same terms as before and they can start Saturday and Mr. Lochhead will fix up the letters.

All right, Mr. Ambassador. Always glad to see you.

oOo-oOo

## HE RELIEF SITUATION

May 12, 1938.  
3:45 p.m.

Present: Mr. Oliphant  
Mr. Bell  
Mr. White  
Mr. Hass  
Mr. Gaston  
Miss Lonigan

H.M.Jr: Now, look, I'm quite excited, see? I happened to follow Secretary Wallace in to see the President of the United States, and they got talking about - "My God, the biggest wheat crop we've ever had, 750 million bushels" - and we either had to take eight cents out of Section 32 or get a new processing tax to raise a hundred million dollars. And so when the President got through I said, "Mr. President, I wasn't going to say anything about this until I wrote you a memorandum...." - oh yes, and then he said, "Remember, Henry, the old days in the fall of '33 when I called up and you used to buy five million bushels of wheat at a whack and keep the thing going?" I said, "You bet your life."

Now, I said, "Mr. President, did anybody talk to you about the Cleveland situation?"

He said, "No."

(Bell comes in)

Hello, Dan.

I was just telling them I asked the President whether anybody had talked to him about the Cleveland situation. He said, "No."

"You know about it, that the city can't borrow any more and that Governor Davey has refused to call a session of the legislature, using as an excuse the fact that ...."

Gaston: He ....

H.M.Jr: "... see, that they hadn't drawn the bill properly."

-2-

Gaston: Yes, he did call it for May 16.

H.A.Jr: Well, all sorts of things. "You've got the people there," I said, "and this situation is getting worse and worse, and frankly, I don't think we're doing anything about it, and nobody's excited about it." And I said, "Why can't we do what we did in the fall of '33? Why can't you call Wallace, Hopkins and myself in and let us go to work? You talk in 750,000 bushels, you're worried about it. Here people are starving. There's something wrong. There's something wrong. On one hand they're worrying about 750 million bushels, and, my God, what you do on the other hand - you've got 250,000 people starving in Cleveland and two weeks from now you're going to have the same thing in Chicago. Why can't we do things? Why can't we act the way we used to? What's the matter, anyway?"

"All right," he says, "I'll have the three of you together in the morning."

Now, what I want is this. I don't want to go over there and have everybody tell me why I can't do it. See? And I want a memorandum - I want to change this letter, see, in view of what's happened - I want to know, Dan, what we can do with the money we've got on hand now, between now and the first of July. And the thing that I'd like to do - everybody keeps telling us we can't, and I want a finished product by tomorrow morning, between you and the other fellows - is, I want to say, "Under Section 32 money, or something or other, we can grind the wheat and turn it over to the bakers of Cleveland to make into bread; we can buy so much milk, we can buy so much eggs, we can buy so much beef." And do this thing in a big way.

And when I talked - went in to talk to Steve Early, he said, "My God, don't let this leak. Davey will send a telegram and claim the credit."

I said, "Steve, I'm not interested. I came in to tell you because it's a great humanitarian thing for the President."

"God, don't let it leak. If Davey gets the credit,

-3-

it will re-elect him."

"Well," I said, "it isn't Davey." I said, "It's Cleveland, Toledo, Detroit, and Chicago."

Now, we must have enough brains around this shop to give the President something that these fellows can't argue about - that they can or can not get this stuff, see? Dan? And I'm sick and tired of being a part of this administration and seeing this thing just crack right under us and not doing anything. I've just reached my limit. I'm going to do something.

Now, the President on February 12 told Aubrey Williams to do this in Cleveland - on February 12. I ~~got~~ written record. He never did it.

Bell: What did he say to that? Did you tell him that?

H.M.Jr: I told that to the President. He said, "I remember that well."

In the light of what happened - now, we know this stuff around here, you (Bell) know your money, you know where it is, you know whether we can - we can get Tapp or somebody over here and between now and 10 o'clock tomorrow have something. Where can we get the money, Dan?

Bell: Well, I think that I can draw a letter of allocation for a million or two million or whatever you want for direct relief to be administered through WPA, out of the reserve that I have for them.

H.M.Jr: That's one thing. How about buying food?

White: Speaking in just a million, how much - how much you said, a million?

Bell: I said a million, a million and a half, two million, or whatever he wants.

White: Are you speaking in terms of a million or two, or is it 10, 15, 20?

Lonigan: You'd hit the top cities.

-4-

- G.A.Jr: I'd hit Cleveland first.
- Lonigan: The rural situation is terrible.
- Bell: The critical situation is right now in Cleveland.
- H.W.Jr: I'd say right now Cleveland, Detroit, Toledo, and Chicago.
- Lonigan: Do you want an emergency thing, Mr. Secretary, or is there any chance that they'd consider a real change in the structure?
- H.W.Jr: No, now I'm just going on a day-to-day basis, a day-to-day basis. But I mean what I want is somebody to say - I mean when we go over there tomorrow I don't want Aubrey Williams, I don't want Henry Wallace saying, "This can't be done." I want a piece of paper. I'd like it two ways, Dan, an order for the direct relief and an order to buy food.
- Bell: Well, direct relief is food. I mean they can give it in money or in food. That's what we did in '33. Now, you're thinking of Section 32. There have to be certain things determined before Section 32 operates. And the 750 million bushels of wheat that you're talking about, I take it, is the estimate of the 1938 crop.
- H.W.Jr: That's right.
- Bell: Well, that hasn't materialized yet. You may have a blight or hailstorm or anything, and that estimate may go down.
- Oliphant: You've got your present carry-over.
- Bell: What's that?
- Oliphant: You've got your present carry-over.
- H.W.Jr: Let's just talk in direct relief. We're all here in the family, we're all Treasury officials. What's the maximum amount of money that we can draw on the United States Treasury for between now and the first

-5-

of July for direct relief?

Bell: Well, I have 55 million dollars in general reserve, and Harry Hopkins has been trying for a month to get that out of me through writing little notes to the President. So far that's stuck. But he has told the President that he can't carry 2,600,000 people to June 30 with his present money, that he's got to have that 55 million.

H.M.Jr: All right.

Bell: Now, that's the way it stands.

H.M.Jr: Now, he'll argue, "I need that for work relief," see?

Bell: That's right.

H.M.Jr: All right, let's say we can't lick him on that front. Then how much could we get out of Section 32 money? If Harry says to me, "Well, that's all right, Henry, you're a great little fellow, but every dollar you take out of that 55 means that many less people go to work," so I come back and I say, "You win on that point" - I'm just arguing - "but what about Section 32?"

Bell: Well, wait before you leave that point. This money that is now in Congress - this bill that is now in Congress certainly will get through by, say, the 10th of June. That money is immediately available, so they don't have to wait till July 1 to begin to spend that.

H.M.Jr: That's right.

Bell: So that knocks his argument there.

Lonigan: Mr. Secretary, is this argument of any help: that the basic thing in WPA is that you give twice the money to every other person. It's a way of taking care of half of your people at a ....

H.M.Jr: Put it in language I can understand.

Lonigan: You can only take care of every other person. Direct relief is the way of taking care of all of your hungry

-6-

people. At least you want to give them ....

Oliphant: Food before work.

Donigan: Yes, that's what I was trying .. - very good.

Oliphant: Food before work, because in order to have work you've got to have cement, steam shovel, tools, and so on.

White: Danny's point is that before he will need this additional amount for work relief the new money will be available to him; therefore, should you have spent this whole 55 for some purpose of your own, that will not deprive him of the necessary funds, under the assumption he'll get them from the additional appropriation.

Oliphant: First, food before work, because work implies other necessary things that take money; second, you don't need it anyway, because this other will be immediately available as soon as the bill passes.

Bell: Now, Section 32 ....

H.L.Jr: There's 55 in your various pockets. How much more you got?

Bell: That's all I got. That's honest. I usually keep a little back, but I'm not doing it today. If I was talking to Harry Hopkins, it would be 45.

Section 32 is so technical that I can't tell you its provisions, but there has to be a declared surplus on the market before Secretary Wallace can use Section 32 money. In other words, he has to remove from the market the pressure that is being put on it by a surplus of commodities.

White: Well, that can be easily interpreted as the carry-over, by virtue of the fact that what is creating the pressure, in addition to the anticipated surplus, is the entire stock available. So I think there is a possibility of interpreting the carry-over as the thing which in addition to the anticipated stock is creating the surplus.

Doston: Who declares it?

-7-

- Haas: That ought to be easy.
- Bell: Well, as I understand it, - you spoke of a high figure - as I understand it, there were about 200 million bushels carry-over, and there's 750 million estimated for this year's crop, making 950 million bushels available in 1938. Now, the consumption and export demand will take about 750 million, leaving the 200 million bushels on the market. Is that right?
- Oliphant: That's right.
- Haas: There 754 of just winter wheat, exclusive of spring. If you get a spring crop ...
- H.M.Jr: Wait a minute, before you fellows go farming. Between now and the first of July, how much is in the pot and how much is left in Section 32? In other words, before we start juggling our figures, what's the answer? I mean we'll juggle them to fit the answer.
- Bell: Well, I'd have to find out, but I think there's 125 million dollars maybe in there. I'd have to look. Congress picked up some of that money in the agricultural bill.
- H.M.Jr: You could figure that out.
- Bell: Could do that tonight.
- H.M.Jr: Couldn't you?
- Oliphant: Well, what you want, then, is food available in any part of the United States between now and the 30th of June.
- H.M.Jr: Yes.
- Lonigan: Mr. Secretary, would you consider tying it in with self-help in any form?
- H.M.Jr: Now listen, lady, I'm going to move so fast you're not going to be able to see me, and I can't stop for any machinery. I want to be able, so that if the President sees this thing tomorrow - to have a

-8-

document on his desk, and a telegram goes out tomorrow afternoon to the Mayor of Cleveland giving him a check and orders. Now, we can't fuss with self-help or anything else.

Donigan: You can do it fast.

H.M.Jr: You've never seen me operate the way I did in '33. Just haven't got time. It's all right to throw the idea in. Just haven't got time. This information was kept from the President. I want to be able to call up the Mayor - what's his name? - in Cleveland.

Gaston: Harold Burton.

H.M.Jr: And say, "Mayor, I'm sending you a million dollars for food and so many bushels of wheat and so many quarts of milk, so much rice, so much food, so much this, so much beef" - whatever they want. "That will take care of you from now until the legislature meets," which is when?

Gaston: May 16. They won't get any legislation through before the first of June, probably. They're borrowing now from the WPA funds; that is, the funds that they had reserved to match the WPA grants. They expect to use about 600 million between now and the first - \$600,000 between now and June first.

H.M.Jr: The problem is - what's the dates, so I'll remember, for Cleveland?

Gaston: The legislature meets May 16 and they've got to be cared for at least until June 1.

Bell: Three weeks at least.

H.M.Jr: The point is, you can't be fooling around with this thing. Just got to send this fellow a check.

Gaston: Still have a problem when they get their authorizing legislation. Only authority to borrow and levy local taxes.

Bell: Be some time before they get money out of that.

Gaston: So I'd say until the first of July they've got to be ...

-9-

H.M.Jr: Now, how much - would it be safe to tell Wallace that - to get ready for this, so he'll be thinking about it?

Bell: If he's going to get a call tomorrow, he ought to know and be studying it.

H.M.Jr: (On phone) Secretary Wallace, please.

Haas: Doesn't this Surplus Commodities Corporation have stocks of various commodities, etc.?

H.M.Jr: Ten million dollars. Isn't that right?

Bell: Very small, and I don't think they are ~~the~~ commodities that ....

Haas: Prunes or some things like that.

Bell: Yes. They gave those away. One time they had seven million dollars worth of hides. Can't very well be used.

Lonigan: That's what I want.

Oliphant: Probably hard to locate it too.

Lonigan: Food?

Oliphant: Surplus commodities.

Lonigan: It will make work all along the line, this will.

H.M.Jr: (To Gaston) Re-read this letter. In view of this, I don't think that's the kind of letter we should send, just giving him the facts.

Gaston: I think we better put in some of these other facts in there now and make it a little sharper.

H.M.Jr: I'd like to put it in writing, that's the only thing. I told him I'd send him something.

White: Well, there has to at least be a reference to the previous statements.

H.M.Jr: I don't think this letter fits this situation, Herbert. I thought that that ....

-10-

Gaston: Well, after you've told him verbally, it doesn't - it's a little outdated.

White: It's too long, I think, and not sharp enough. Should be brief and sharp.

Gaston: In view of what you've told him, we can save a lot of space on that.

H.M.Jr: Is Stokes coming in?

Gaston: He's coming in at 4:15, yes, sir.

H.M.Jr: (On phone) Hello. - Oh, gosh.  
What about telling Aubrey Williams in advance?

Bell: Be in the papers tomorrow morning.

H.M.Jr: All right, I won't.

Gaston: Might be worth while to ask them if they have done anything by way of supplementing direct relief.

White: If we're going to work with them, I think certainly ....

H.M.Jr: There is nothing in the papers.

White: Well, but ...

Oliphant: Come out tomorrow if he hears.

Gaston: As far as the Cleveland papers showed, all they did was send surplus commodities in there - apples, oranges, and rice.

H.M.Jr: Aubrey Williams (On phone)

Conigan: On the administrative side, you're really adding bread to the surplus commodities. Isn't that what it amounts to?

Bell: You could either add bread to the surplus commodities or give a check to the relief administration to be spent only for bread.

White: There may be other surpluses.

-11-

- Lonigan: I mean insofar as it applies to agricultural surpluses - ten million dollars.
- H.M.Jr: (On phone) Hello. - Let that go. What about Aubrey Williams?
- White: There's oranges and eggs, I think, Dan.
- H.M.Jr: Dan, could I have from you two pieces of paper tomorrow? One, how the President could allocate money for direct relief to the city of Cleveland, see? Two, if possible, supposing he wanted to do it through Section 32, how would he do that, see?
- Bell: (Nods yes)
- H.M.Jr: And then a third memorandum showing for his own information how much money is available for cash direct relief and for direct relief through Section 32, what is the maximum he could draw on for those two. Huh? That isn't crowding you too much, is it? You've got your people. Huh?
- Bell: No. Got some hearings on, but I can put somebody on it.
- White: You wouldn't want to talk to Tapp direct, if you can't get Appleby? He's the man that works under him.
- H.M.Jr: Oh, we've got the stuff here and those fellows - I mean the work can be done here. It gets down to this. Hopkins is out of town.
- (On phone) Hello. - Where is he? - No. - Well, tell her to tell Williams it's urgent. I'd like to talk to him. Now, wait ....
- Who else is there over there?
- Bell: Gill is next in line.
- H.M.Jr: Corrington Gill, is he available? (On phone)
- Hermen, you got any suggestions as to - does that cover it?
- Eliphant: This covers it.

-12-

- H.M.Jr: I'd like a letter for the President tonight, Herbert.
- Oliphant: Section 32 - just a question of checking up on Section 32.
- H.M.Jr: Herbert, how about just giving him the facts and that summary you gave me. That was a peach of a summary. Why not send this over?
- Gaston: I think I'd give him this letter if you want something immediately, unless you want me to rewrite it. Seems to me it gives him the picture very well.
- H.M.Jr: (On phone) Hello, Corry Gill. (Record of conversation follows:)

Thursday  
May 12, 1938  
4:06 p.m.

HMJr: Hello.

O: Mr. Gill.

HMJr: Hello.

Corrington  
Gill: Hello.

HMJr: Corrie Gill...

G: Yes, sir.

HMJr: Morgenthau.

G: Yes.

HMJr: How are you?

G: Fine. Thank you, sir.

HMJr: Gill, are we giving the City of Cleveland any food?

G: No food directly except through the Surplus Relief Corporation - I believe they're still giving them some.

HMJr: What does it amount to? --- How much?

G: I doubt it very much, but I haven't any figures on it.

HMJr: Uh huh. But it can't.....

G: The difficulty with those commodities at the present time as I understand it, Mr. Secretary, is that they don't have a wide variety of staples to give out.

HMJr: Yeah.

G: But they might have apples...

HMJr: Yes. Right.

G: ...or something like that that aren't always the most useful at the moment.

HMJr: But with the exception of that I mean in the City of Cleveland we're not helping out with the direct relief that's what it amounts to?

- 2 -

G: Absolutely no.

HMJr: We're not?

G: No.

HMJr: Are we anywhere else?

G: Not anywhere in the country.

HMJr: Not anywhere in the country.

G: Now bear in mind that there are still about a little more than two million dollars of old relief funds still in these States - distributed all over. I think Ohio, as a matter of fact, has a little bit of money.

HMJr: Well, I mean, through the whole United States there's two million dollars?

G: That's all of the money that we granted two years or more ago.

HMJr: But there's nothing left?

G: No. That's all.

HMJr: And....

G: And during - since the Works program started...

HMJr: Yeah.

G: ...we have not made a direct relief grant at all.

HMJr: Corrie Gill, let me ask you this: When we did do it - take a - supposing we were going to do it in a case like the City of Cleveland....

G: Right.

HMJr: ....to whom would we - to whom would they make the check payable?

G: Well, now, in the old days we would make it - we made it payable to the Governor.

HMJr: Oh huh.

- 3 -

- G: And only the Governor. Then, remember Governor Davey got into this terrific battle.
- HMJr: I certainly do.
- G: And we Federalized the State....
- HMJr: Yeah.
- G: ...as far as relief and took it away from Governor Davey.
- HMJr: Yes.
- G: And set up a Federal Relief Administration....
- HMJr: Yeah.
- G: ...in the State and did it directly with that agency.
- HMJr: Well supposing we were going to do it again - ah - is there any machinery left there so we could do it directly to the city?
- G: There is a relief agency in the Cleveland - in the City of Cleveland, yes.
- HMJr: A Federal one?
- G: No, no. Purely local.
- HMJr: Well I mean.....
- G: It's a public body though.
- HMJr: Well, I mean, so we could say - for instance if we decide to give "X" dollars we could make the check payable to that?
- D: I would say to the Mayor or to the head of the welfare agency of Cleveland, yes.
- HMJr: I see. Now, how many other situations are there in the United States which are as bad as Cleveland?
- G: Oh, I can think of a half a dozen.
- HMJr: Name them.
- G: Detroit...

- 4 -

HMJr: Yeah.

G: Toledo...

HMJr: Yeah.

G: Flint...

HMJr: Flint?

G: Yeah.

HMJr: Yeah.

G: Grand Rapids is rapidly becoming so with the shutting down of the furniture factories.

HMJr: Yeah.

G: Ah -

HMJr: Hello.

G: Some of these small textile towns are pretty badly hit.

HMJr: All right. Now, give me figures - what does it cost to take care - to feed properly a thousand people a week?

G: A thousand people a week? Well, now, let's see.

HMJr: I mean, approximately.

G: A thousand families that is?

HMJr: A thousand families.

G: Yeah.

(Short pause)

G: Ah - for supporting them, which would mean paying probably the rent - or some rents anyway, a gas bill, electric bill, food and a little bit of clothing - it could be done for twenty thousand a week.

HMJr: Twenty thousand?

- 5 -

- G: That's - Yeah. That's not on the highest standard but it could be done for twenty thousand.
- HMJr: Dollars?
- G: Yeah.
- HMJr: A week?
- G: Yeah.
- HMJr: Ah - Well, when you - I thought when you had people on direct relief you figured only twenty-five dollars per month?
- G: Yeah. Well, that was the average for the country you see, and that was heavily weighted with rural people and people in small towns.
- HMJr: Uh huh.
- G: But when you hit Detroit, Toledo and Cleveland you are up in the high brackets.
- HMJr: Yes. It sounds - I mean that sounds high but I am in no position to argue.
- G: Well, some of these budgets - I wish I could remember right off hand the budget for families in New York City - ah -
- HMJr: Hello. Hello.
- G: Yes.
- HMJr: What were you saying?
- G: I was trying to remember what the budget figures are in New York City - what they allow up there.
- HMJr: Yes. I saw some figure somewhere - I thought it was around forty-three dollars a month, I think.
- G: Well, you see the average for the country when we were giving direct relief....
- HMJr: Yes.
- G: ...was running about oh - around thirty dollars a month, but in that figure was all this deep south and rural population all over the country. When you get into the cities you really get into some fairly high money. We made a study of fifty-nine cities...

- 6 -

HMJr: Yes.

G: And the minimum maintenance budget for a family - an average family - came to twenty-one dollars a week.

HMJr: I see.

G: And that was pretty minimum too. I mean there were no luxuries in that list at all.

HMJr: Yes. Well, of course sixty-five dollars a month for work relief is what you - all you pay a family now.

G: Well - yes. Of course we/have <sup>never</sup> maintained that a security wage was - supported anybody in luxury.

HMJr: No. No. Neither do I. Now let me ask you - let me get away from that for a moment.

G: Right.

HMJr: Have you got off hand - I mean how many people are on distress in Cleveland?

G: How many people are on WPA?

HMJr: No - in distress.

G: Oh - in distress in Cleveland? I have - I haven't got it right in front of me but I can get it in three minutes - the number that are on direct relief and the number that are on the Works Program - Now, wait just a second - I think I've got - here's WPA for example, this week ending April 30th...

HMJr: Yeah.

G: ...we had 63,502...

HMJr: Yes.

G: ...in Cuyuga County, which is Cleveland.

HMJr: Yes.

G: Now, I haven't got the direct relief by cities I don't believe before me -

- 7 -

HMJr: Look, I tell you what - would you do this for me? Hello.

G: Yes.

HMJr: What I'd like to know is the picture in Cleveland, Toledo, Detroit and Flint.

G: Right.

HMJr: And Chicago.

G: Right.

HMJr: And if there are any others that you might think of.

G: Uh huh.

HMJr: And could you make some - I mean, people on work relief and then people on direct relief and if you have any figures - I mean I want to know what the relief situation is. You see?

G: I'll be very glad to do that for you.

HMJr: Now, could I - how could I get that so I could have it, say by - in my office at nine o'clock tomorrow morning?

G: I can have it at your office at nine o'clock tomorrow morning.

HMJr: And be sure it gets to me, will you?

G: I'll be very glad to. - Through Mrs. Klotz would be the best way, wouldn't it?

HMJr: Well, she's sick unfortunately.

G: She is? Well I'm sorry.

HMJr: So if you would give it to John Kieley - K - i - e - l - e - y

G: Yesh. I know him.

HMJr: Yeah.

G: All right. Fine, Mr. Secretary.

HMJr: Thank you so much.

G: Righto.

-13-

- Gaston: That figure was 87,000 on direct relief.
- H.M.Jr: Well, you people got the idea. Now think about it. And I'm going to town on this, that's all. I mean this is - just on a - to take care of this thing, so the morale of the country just doesn't go to pot while they're trying to make up their mind.
- Lonigan: It will break it open.
- H.M.Jr: Break what open?
- Lonigan: The situation.
- H.M.Jr: Yes.
- Lonigan: It's been - it's been ....
- H.M.Jr: Well, what I'm trying to do, Miss Lonigan - the thing is that this isn't being brought to the President's attention forcibly. And I'm simply amazed that here I am - as I told him, I'm supposed to have two glass eyes and be old "Money Bags" and I'm sitting up nights worrying about a situation like this. And I said, "Won't you let me go back, won't you let me go to Cleveland, won't you let me do what I did in '33? Let me go out for a week." God, I used to do this kind of stuff, instead of sitting at a desk and just pushing a pen. But his people aren't on their toes, and this thing is just going to crack up in their face, and instead of being ahead of the game they wait until this thing blows up and somebody blows up the City Hall or murders the Mayor of Cleveland - something like that; then they get worried. Some children die, a mother turns on the gas and kills herself and a baby; then they'll get worried.
- Sell: You'd like to have a letter of allocation.
- Ollivant: I think this is all right. Leave out that last paragraph and not muddle up that question. Just leave out that last paragraph.

By Scripps-Howard Newspaper Alliance

382

CLEVELAND, May 12 -- Its relief funds and credit exhausted, Cleveland is struggling precariously with its worst relief crisis since the great depression, facing the grim alternatives of curtailing essential city services or permitting 75,000 people to go hungry.

Only a generous allotment of WPA money--greater than in any comparable city--stands between the city and a relief problem that appears to be insoluble by other means.

Cleveland leaders trace the city's plight to the dilatory attitude of Ohio's Governor, Martin L. Davey. Although apprised two months ago that on May 1 the city's relief funds would be exhausted, and that state help would be vital if suffering was to be averted, he waited until May 1 to call a special session of the legislature.

The call is for May 13, which makes any state aid before June 1 improbable.

This leaves Cleveland with the struggle to find around \$800,000 to feed its 25,000 relief families during the rest of May.

The only funds available since May 1 have been \$20,000 contributed by private relief agencies, designed to meet the direct emergencies, and \$120,000 diverted by the City Council from funds previously appropriated as the city's share of WPA projects.

Mayor Harold H. Burton has warned that further diversions from WPA sponsorship funds would be suicidal, in view of the important role of WPA in meeting Cleveland's unemployment problem.

WPA is pouring a million dollars a week into Cleveland, providing employment for upwards of 80,000 heads of families.

When the city entered May without relief money, officials sought credit from wholesale grocers. The grocers refused, pointing out that the city already owed them \$2,000,000 in unpaid-for food orders, some more than a year old.

Landlords and the utility companies have promised not to evict relief tenants or shut off utility services, accepting the moral obligation of the city for payment.

The entire staff of relief workers has been on a volunteer basis since May 1, the city finance director being unable even to give them a pledge of future payment.

By diverting WPA funds, the city has managed to supply reduced rations to those families in greatest need. A supply of federal surplus commodities has likewise alleviated conditions. But officials are convinced that there is much unrevealed suffering.

those who hesitate to raise a clamor at relief stations.

383

The Workers Alliance and Communist organizations have sought to capitalize on the situation, demanding that the city use its sinking fund to finance relief, and calling sitdown strikes in relief stations. These have been peaceable, even good-humored.

Last December Cleveland estimated its relief need for the year at \$9,000,000. The state appropriated funds on a two-for-one matching basis which netted \$2,755,000.

Needs for the rest of the year are placed at \$6,000,000. The city is asking the state to provide one-half, and to pass legislation enabling the city to raise the rest by local taxation.

The legislature, dominated by rural members unsympathetic to the vast relief needs of the cities, is expected to balk. Little help in this direction can be expected from Gov. Davey, who is unpopular in the cities and who is basing his campaign for a third term on an appeal to the smaller communities.

In the meantime, a committee of leading Clevelanders is seeking means to finance food orders for the rest of this month. It appears inevitable that city employes will go payless, and that such services as garbage collection and street cleaning will be curtailed or halted, until the legislature acts.

\*\*\*\*\*

My dear Mr. President:

I have the honor to recommend the reappointment of the following members of the United States Board of Tax Appeals for a term of twelve years each. The present terms of these members will expire on June 2, 1936:

Charles Rogers Arundell - Oregon  
 John W. Kern - Indiana  
 Clarence V. Opper - New York  
 John A. Tyson - Mississippi

The last three of these members were appointed by yourself to fill vacancies on the Board; Mr. Arundell was originally appointed to the Board on September 1, 1925, by President Coolidge. I am informed that these men have performed satisfactory service as members of the Board, warranting their continuance in office. I am transmitting, herewith, nominations for your use in the event that you approve these reappointments.

Faithfully,

/s/ E. Dorgan, Jr.

The President,

The White House.

Original - Mr. Magill gave to Mr. McReynolds  
 with nomination sheet - 5/12/36 - 2:30 P.M.

Note: Initialed file is in Harper's 413 - Miss Flanagan - room 353

EM/mrl - typed 5-11-36.

Thursday  
May 12, 1938  
4:45 p.m.

HMJr: Yes.

Henry  
Wallace: ...that we can start paying in June - it'll advance  
it about two months if the Connally Amendment goes  
through and there's every reason to think it'll go  
through.

HMJr: Fine. Now, Henry, in strictest confidence....

W: It depends, by the way, Henry, on just when it does  
get through. as fast as we can go.

HMJr: In strictest....

W: Go ahead, and pardon me.

HMJr: All right. Thank you. In strictest confidence,  
after you left I started talking to the President  
about the Cleveland situation....

W: Yeah.

HMJr: ...which he was not entirely familiar with. And -  
ah - tremendously interested. And I suggested -  
he said something about - he had wheat in his mind  
due to you being there...

W: About what?

HMJr: Hello.

W: He said what, you say Henry?

HMJr: He was talking about wheat, you see.

W: Oh, wheat, yes.

HMJr: So I said, "Well, Mr. President...." And then he  
talked about how I bought a lot of wheat in thirty-  
three and then I got on this thing and I said, "Why  
don't you have Hopkins and Wallace and myself to-  
gether tomorrow morning and let's do something for  
these people in Cleveland right away. They need it  
terribly." And...

W: They need what, Henry, wheat?

- 2 -

- HMJr: They need food - food.
- W: Well now, the Surplus Commodity Corporation can help that.
- HMJr: Pardon me?
- W: I say our Surplus Commodity Corporation can help on that.
- HMJr: Well, it's - it's that plus cash if necessary. The reason I'm calling you tonight is so that - the President was very insistent it be kept very quiet, see? - that you have time to think this. And I've got Danny Bell working on it - on how much money there is available in case the President wanted to give both food and cash to the Mayor of Cleveland. See?
- W: Now, I - would it be all right if I got Jesse Tapp to work on the food end of it?
- HMJr: Absolutely.
- W: All right.
- HMJr: Now the - I mean, that's the purpose of my calling you and I - and we just can't let this thing spread and sit here and not do anything. See?
- W: Yeah.
- HMJr: Because something's got to be done in those - and we've got the money.
- W: Yeah.
- HMJr: And it's either Section 32 money or taking some cash out of the Treasury.
- W: Well, are those people actually going hungry there, Henry?
- HMJr: Well, I haven't - you see, they - their authority to borrow expired and this Governor Davey has refused to call the Legislature to give the city of Cleveland a chance to vote on it.
- W: Uh huh.

- 3 -

- HMJr: Now he's going to do it on May 16th but even then until they get the thing through - their critical situation is from now until the first of June.
- W: I see.
- HMJr: And they're in a desperate situation.
- W: Yeah.
- HMJr: And a half a million dollars in food or money or one or the other from now would just make all the difference in the world and we'd keep our pledge - we're not going to let people go hungry.
- W: Absolutely. We've got to keep it.
- HMJr: Now, we've given it and we're not keeping it; now that's just the size of it.
- W: Well, all right, we'll snap into it as fast as we can, Henry.
- HMJr: And Bell said tomorrow morning he'll have a memorandum telling us the maximum amount of money that is available and I know the President is going to send for you, Hopkins and me.
- W: All right. We'll be ready.
- HMJr: Thank you.
- W: Goodbye.
- HMJr: Goodbye.

Friday  
May 13, 1938  
9:25 a.m.

HMJr: This is the Secretary of the Treasury.  
Robert Olesen: Yes, sir.

HMJr: Doctor Olesen, have you any way of finding out how many people are on direct relief in the city of Cleveland?

O: On direct relief in the city of Cleveland?

HMJr: Yeah.

O: I wouldn't think so.

HMJr: You have no way?

O: No, sir. I'd think that would come under - ah - probably under Mr. Hopkins.

HMJr: I know that. But I've got figures which I don't think are correct.

O: I see. From his office?

HMJr: Yeah.

O: No, sir, I don't think so, but I can...

HMJr: Do you know the health officer of Cleveland?

O: We can get in touch with him.

HMJr: Would you - would he - isn't there some way you could call him on the phone and ask him?

O: I surely could.

HMJr: Well - without saying that it's for me - that we just want to know.

O: Surely. He wouldn't need to know at all. We'd just ask it in our own behalf.

HMJr: I wish you'd phone the...

O: How many people on direct relief .....

- 2 -

HMJr: I want to know how many people are receiving direct relief in the city of Cleveland - be sure to get it either whether it's individual or families. I don't know how they figure it there, you see?

O: Yes. But we'd find out whether it was for individual families or for individuals, whatever method they have.

HMJr: Yeah. And - how much cash ....

O: How much cash is being distributed for a certain time?

HMJr: Per week.

O: A week?

HMJr: Yeah.

O: Yes, sir. We can do that.

HMJr: Hello.

O: know, but we'll certainly sound him out.

HMJr: Yes. I want you to use the telephone.

O: All right.

HMJr: Confidentially, this is for the President.

O: All right, sir. We'll try....

HMJr: But I don't want my hand disclosed or his. Hello.

O: Yes, sir.

HMJr: And I want the same for Toledo...

O: Toledo and Cleveland...

HMJr: Detroit...

O: Uh huh.

HMJr: Hello.

- 3 -

O: Yes, sir.

HMJr: And Flint.

O: Flint, Michigan.

HMJr: Yeah. Those - and ....

O: Four.

HMJr: And Chicago.

O: And Chicago is five.

HMJr: Yeah. Cleveland, Toledo, Detroit, Flint and Chicago. I've been given figures by Hopkins' office and I think they're all inaccurate.

O: I see.

HMJr: They just don't check with the newspapers at all.

O: Well, we'll - we'll first see whether the health officer will be the best person to give us that...

HMJr: Well....

O: Probably he will.

HMJr: If not - ah - but, use a little initiative, please.

O: All right, sir.

HMJr: And I don't want it disclosed that it's my office...

O: All right, sir. We'll phone.

HMJr: But I want to know how many - it's either individual or how they get it but not - sometimes they say families - you know what I mean.

O: Yes, sir.

HMJr: And how much cash they're receiving...

O: A week.

HMJr: ..per week. And if they - and then if they also know what other benefits besides.

- 4 -

O: Uh huh.

HMJr: If they receive....

O: Other than cash benefits?

HMJr: Yes.

O: All right, sir.

HMJr: And, the sooner the better.

O: Thank you. We'll get busy.

HMJr: Yeah.

O: Thank you, sir.

## GROUP MEETING

May 13, 1938.  
9:30 a.m.

Present: Mr. Magill  
Mr. Bell  
Mr. Gaston  
Mr. Gibbons  
Mr. Haas  
Mr. White  
Mr. McReynolds  
Mr. Upham  
Mr. Lochhead  
Miss Chauncey  
Miss Lonigan  
Mr. Foley

H.M.Jr: George, this thing of the United States Steel gives me an idea on inventories. Why don't we ask the 28 companies that are giving us figures to give us their inventory position, say, as of - once a month from now on, going back - if they'll go back a year. See?

Haas: Some of them may not be able to do it, because they don't keep a perpetual inventory. But some of the big ones do.

H.M.Jr: I think that will be very helpful.

Haas: Very good.

H.M.Jr: Steve, I sent over these appointments for the court, and it comes back - said I never took it up with the President.

Now, what's the financial picture on this ....

Oh, before that we'll take care of you (Magill), because you want to go.

Magill: I haven't anything particular. Still holding up the tax bill in Congress for the benefit of the American Smelting and Refining Company. I imagine the American Smelting and Refining is going to get away with it, but I don't know.

(Lonigan comes in)

H.M.Jr: I'll talk to you about that.

I've just got this thing - I wanted you to just sit in on this part, Miss Lonigan. Here are some figures from Mr. Gill in which he says the number of cases on relief in Cleveland are 27,000; Toledo,

-2-

8,700; Detroit, 44,000; Flint, 11,000; Chicago, 104,000. And I don't believe it. I think that the figures are phony.

Gaston: That must be families, that Cleveland figure. The figure they give out is 87,000 persons on relief.

Bell: What does that say?

H.M.Jr: Number of cases receiving relief. There's something wrong.

(On phone) Corrington Gill, please.

Well, very confidentially, I asked the Acting Surgeon General to call up the health officer of each of these five cities on the telephone and ask him how many cases are on direct relief, how much money they are receiving, what are the benefits. Let me know just as soon as they can.

Lonigan: Mr. Secretary.

H.M.Jr: Yes.

Lonigan: The chief statistician of the Social Security Board in charge of relief statistics is one of the two most distinguished persons in the country on relief figures - Miss Jeeter and Ralph Hurlin.

(Phone rings)

H.M.Jr: Who did I ask for?

Bell: Corrington Gill.

H.M.Jr: (On phone) Hello, Gill. (Record of conversation follows:)

Friday  
May 13, 1938  
9:33 a.m.

394

HMJr: Hello.

Corrington  
Gill: Hello.

HMJr: Gill....

G: Yes, sir.

HMJr: Good morning.

G: Good morning.

HMJr: Those figures that you gave me on direct relief....

G: Uh huh.

HMJr: Now take Cleveland - 26,940 - is that families?

G: That's families.

HMJr: Oh, well, it didn't say so.

G: Oh, I'm sorry. It's cases.

HMJr: Well, that's cases - well, in each case is that families?

G: No. A case isn't quite a family because it includes single people.

HMJr: Well, now, for instance, is 26,940 in Cleveland - How can I compare that with 8,700 in Toledo?

G: Well, those are comparable.

HMJr: Well then, what do you multiply by?

G: Ah....

HMJr: Is it two and a half or three or what?

G: Well, on direct relief - let's see - it's almost four to a case.

HMJr: Four? Four?

G: Yes. Well, in WPA it's four and we've got the larger cases so I guess it's a little less than that. I'd say it's about three and a half.

- 2 -

HMJr: You don't know?

G: About three and a half.

HMJr: About three and a half?

G: For direct relief and it's about four on WPA because they given us the bigger families.

HMJr: Well, what figure should I use?

G: Three and a half for direct relief.

HMJr: Three and a half?

G: Right.

HMJr: Thank you.

G: O. K.

-3-

(Foley comes in)

- H.M.Jr: I'll get this thing photostated and we'll see. And you (Lonigan) can check this - could check it with this woman you're talking about?
- Lonigan: Yes, sir. No figures on individuals mean anything. They haven't any figures on numbers on relief.
- H.M.Jr: (To messenger) Get half a dozen copies of that photostated.
- I mean when they give me this figure, as you say, is the statement accurate? Where did they get it from?
- Lonigan: Miss Jeeter probably got it.
- H.M.Jr: How do you spell her name?
- Lonigan: J-e-e-t-e-r. She and Ralph Hurlin are the two national authorities on ....
- H.M.Jr: Who is the ...
- Lonigan: Ralph Hurlin, in the Russell Sage Foundation.
- H.M.Jr: And they keep figures too?
- Lonigan: As many as there are. The figures they have are all the good figures there are.
- H.M.Jr: But you say Miss Jeeter would know. I'll give you a photostat of this in a few minutes.
- Lonigan: Corry has no direct information.
- H.M.Jr: O.K. Well, that's something anyway. Well, we'll see how these compare with Miss Jeeter's figures. Now, Dan, on the money on this thing, where are we?
- Bell: Section 32 first. There was available during the year 125 - round figures, 1938, I'm talking about.
- H.M.Jr: Yes.
- Bell: We have to reserve 65 million of that for cotton,

-4-

and Congress picked up 17 million of it and reappropriated it for their AAA program, and we have allotted to the Secretary of Agriculture for exportation and diversion and domestic consumption 42 million 500 thousand. That's a total of 124 million five, leaving only 476 thousand unallotted. Now, of the 42 five which we have allotted to the Secretary of Agriculture, he has given 32 five to the Agricultural Surplus Commodities Corporation, with instructions to buy ....

H.M.Jr: How much?

Bell: 32 five, with instructions to buy surplus commodities over the country, and what they try to do is distribute those commodities evenly among the states for relief purposes. There is now about 8 or 9 million dollars in the till with which they are purchasing commodities, and which will be distributed among the various states. But upon direction from the President they could distribute those commodities at critical points rather than distribute them evenly among the states.

Now, of the 17 million which Congress has picked up and reappropriated - that says "not to exceed" 17 million - there probably will be a saving of almost 10 million in that fund. So I think we can pick 10 million out of that balance and transfer it to the Surplus Commodities Corporation, making about 18 million that would be available in that place.

H.M.Jr: There is only 10 there.

Bell: There is only between 8 and 9 there now, but I think we can pick up 10 million dollars of that balance which Congress appropriated for AAA.

H.M.Jr: I see.

Bell: Now, this corporation is now buying and shipping to Cleveland, Detroit, Toledo, and other critical points in the East, surplus commodities of rice, dried beans, Irish potatoes, cabbages, dried apples, and some fresh apples, - they are now feeding the people in Cleveland. They tell me that that's about the only help they get -

-5-

is from the Surplus Commodities Corporation.

H.M.Jr: They're also giving them oranges at Nyack which they're playing baseball with.

Bell: And surpluses of prunes are now being shipped from the West and will be available for distribution in the East in a few days. There will also probably be available in the East in a few days surpluses of grapefruit, oranges, and probably some skim milk.

H.M.Jr: Where did you get that from?

Bell: That was written by one of my assistants around here on agriculture. He got it from the man in the corporation.

H.M.Jr: I see.

Well, that isn't very encouraging, is it?

Bell: Well, that's about 18 million dollars you can get for those various critical states if you wanted to.

H.M.Jr: But it gets down to Wallace - can Wallace declare wheat a ....

Bell: No, he can't buy wheat.

H.M.Jr: Why not?

Bell: Because it isn't a surplus and will not be until June or July.

H.M.Jr: Could you (Haas) put up an argument against that?

Haas: I think it's a question of what is meant by a surplus in the Act. I could look it over and see.

Bell: No, I think it goes a little further than that. They are required to buy whenever it looks as though the parity price - or the price of wheat is going below the parity price.

Haas: What the definition of surplus ....

-6-

- Bell: Well, they have a definition for parity price and they can buy wheat whenever it gets down around that parity price.
- H.M.Jr: Well, Wallace is trying to get a hundred million dollars processing tax to take care of wheat. He was there yesterday. That's what started me off.
- Haas: They think wheat's going to 60 cents.
- Magill: Hundred million? Two hundred million, last I heard.
- H.M.Jr: Well, it was a hundred million yesterday.
- Lonigen: I think it's the matter of rain. You'd have to know the prospects of July or August, isn't that the difficulty?
- H.M.Jr: Well, if you don't mind, that's one thing that George - that's particularly his field.
- White: Supposing you did find wheat was a surplus crop. How much money could you really spend on bread? Very much? If it had to be spent on wheat. Does it amount to a great deal?
- H.M.Jr: Yes. It would help a lot.
- Haas: I could talk to Jesse Tapp. I know him very well; we used to work together.
- H.M.Jr: I talked to Wallace. He was working on it last night. But I'll ask him how he's coming along. I'll ask him now how he's coming along.
- (On phone) Secretary Wallace.
- Bell: Want to go to the Relief Act?
- H.M.Jr: Please.
- Bell: There is in the general reserve on the Relief Act - it's been unallocated, remains unallocated - 55 million, 453 thousand, of which 34 million, 147 thousand is immediately available.
- H.M.Jr: How much?

-7-

Bell: 34 million, 147 thousand. There will be another 10 million available within the course of two days, and another 11 million available within the course of five days, making a total of 55 million.

Right after you had that relief question up in February, I discussed with McFarland, who is assistant solicitor of General Accounting Office, the question of whether the President could allocate funds from this 1937 relief appropriation directly to WPA for relief, whereas the Act refers to the Resettlement Administration.

H.M.Jr: (On phone) Hello.

Operator: Secretary Wallace is in a meeting for about half an hour; but she can get him.

H.M.Jr: (On phone) When he comes out.

Operator: All right.

Bell: On February 21, Mr. McFarland phoned.

H.M.Jr: What day?

Bell: February 21. Phoned me that he had taken the matter of the use of the '37 appropriation for direct relief other than through Farm Security Administration up with Judge Elliott, and he said if it became necessary for the President to make an allocation for direct relief to the WPA, he would not object.

H.M.Jr: Thank God! I put you in a letter saying that you got such a ruling.

Gaston: Well, that's what we said, that Judge Elliott said he would not object.

H.M.Jr: Sure.

Bell: Now, I have prepared here two forms of a letter allocating 10 million dollars to WPA for direct relief. And it says: "For the purpose of providing relief in accordance with the state schedule for persons in need either by direct expenditures or by assisting local

-8-

public authorities or agencies in meeting the cost of furnishing relief in the form of money, service, materials, and/or commodities to provide the necessities of life to needy persons, provided that all expenditures hereunder shall be subject to the rules and regulations formerly prescribed for the Federal Emergency Relief Administration, insofar as such regulations may be applicable ...." They can immediately on that draw a check to the states or the mayors of the cities in these states, and that has the approval of the General Accounting Office - the assistant solicitor.

Now, if the President didn't want to put any restrictions around it, we could cut out the schedule of states and cut out the proviso that it shall be expended under rules and regulations prescribed under the old Federal Emergency Relief Administration Act. But I would prefer the restrictions, because I don't think there would be any delay in drawing up new regulations on this.

H. S. Jr: Well, Hopkins was at the house last night. Before he left I mentioned this to him - you'd be interested in this, Miss Lonigan - and I told him about the instructions that the President gave to Aubrey Williams that he should do this on February 12. And Hopkins got very angry, said he knew about these instructions and that there was all this pressure and he just wouldn't carry them out. He said, "We're not going back to direct relief."

Wall: Said he wouldn't carry them out.

H. S. Jr: He said, "Who's been talking to you?"

I said, "Nobody but my conscience." I said, "There are people there who are getting a dollar and a half a week in Cleveland; that's all they're getting - per person, according to these figures." And I was simply amazed how angry he got at the thought that somebody was trying to suggest direct relief.

I said, "How would you feel if we bought the food and gave it to them in order to help Wallace use up some of this surplus wheat that he's so worried about?"

-9-

"Oh," he said, "that's an entirely different matter. That's an entirely different matter, if we do it on that basis. But I will not be a part of direct relief."

- White: What's the alternative that he offers to take care of them?
- H.M.Jr: None. Positively none.
- Bell: It looks as though, then, he is more interested in projects than human beings. That's all I've got to say.
- H.M.Jr: Positively none.
- White: Did you ask him for any alternatives?
- H.M.Jr: No, he has none.
- White: Does he believe he can take care of everybody with work relief?
- H.M.Jr: He knows not.
- White: It's an absurd alternative.
- H.M.Jr: Pardon me?
- White: It's an absurd alternative.
- H.M.Jr: Well, I just thought - we're talking here strictly confidential in the room - but I was amazed to see how angry he got at the thought of somebody having the audacity to suggest that we do what the President said we do, so that we wouldn't let the people down.
- White: Well, it sounds - something peculiar somewhere. He must have something else in mind, because I doubt very much that he takes the position that they'll either take what they're getting or virtually almost starve. I don't think he would take that position.
- H.M.Jr: Well, if you knew - Miss Lonigan's been following this for two years and she's been dinning this into my ears for two years, so I don't think she's very much amazed. Are you?

-10-

Sanigan: No, Mr. Secretary.

B.S.Jr: Well, the fact is, Harry, they are; and here these figures come in this morning and they know it, and here's the Secretary of the Treasury, supposed to have two glass eyes, and I'm sitting up nights worrying about this thing. Nobody else is worrying about it. Nobody else is worrying about it. And the facts are that - let me just - here's the letter which I sent to the President last night which covers the situation.

"I am very much concerned about the direct relief situation, especially in such midwestern cities as Cleveland, Detroit and Chicago, where the industrial recession is most sharply felt. There is a similar situation in smaller cities in the same area. They have had to meet a direct relief load far beyond what they had budgeted and in the case of the Ohio cities, notably Cleveland, they ran up against provisions of State law which prevented them raising additional municipal revenue or adding to their debt. You have, of course, noticed the stories in the papers about the sit-down strikes of relief dependents in Cleveland, which was forced to stop issuing food orders on April 30th and to put the employees of the Relief Administration on a "no pay" basis pending a special session of the Legislature at which they hope to get authority to raise new money. Other Ohio cities are in a somewhat similar plight, although the emergency elsewhere seems to be not so acute as in Cleveland.

"The Cleveland newspapers report that as of April 30th there were 37,000 persons on the direct relief rolls, the highest number they have had at any time, while WPA has 63,000 persons on its work rolls.

"The Cleveland crisis has been met only temporarily by the transfer to direct relief of funds reserved for the city's share of WPA projects.

"You will recall that in our conversation on February 12th you mentioned the Cleveland situation specifically and you asked me to advise Aubrey Williams that it was your wish that they should work out a plan for sharing the direct relief load with the cities where such

-11-

critical situations existed. I took the matter up with Aubrey Williams over the telephone immediately after my return to my office, but so far as I have been able to find out nothing of this sort has been done. Dan Bell raised the question that day as to whether the WPA had legal authority to use funds for direct relief. Dan doubted it, but Aubrey Williams said they had the authority, and later Dan had a talk with Elliott, the Acting Comptroller General, who said he would see no reason to raise any objection if WPA funds were used in that way. I understand the new relief bill contains specific authority for direct relief."

Is that still in?

Bell: No, that's questionable.

H.R.Jr: Will you check that?

Bell: It's questionable under WPA. In the first section of the bill it says "direct relief." When they get out of the WPA section, they say "for the following classes of projects."

H.R.Jr: Now listen, that's what you're in here for, Ed Foley, see, and I lay great stress on that, Foley. See?

Foley: Yes.

H.R.Jr: "The suggestion that WPA supplement local funds for direct relief in the most critical situations was, you will remember, your own. I am reminding you of it at this time because I anticipate that we shall have a repetition in other cities within the very near future of the critical situation that exists in Cleveland and because I think it quite possible that you may wish to issue direct and explicit instructions to Harry Hopkins on this point."

And I say that, and that's not signed by a reliefer, but signed by me. Now, all ....

You (Magill) want to go?

Magill: May I?

-12-

H.M.Jr: Listen, if you want some help on that thing - I think that's outrageous.

Magill: I do too.

H.M.Jr: Well, I'm going to - I'm willing, if necessary, to make a statement to the press or something.

Magill: Well, I'm supposed to see Doughton now.

H.M.Jr: Well, if you want to, call me up.

Magill: I won't say very much about - I mean I won't bring you into it.

H.M.Jr: Well, I'm willing to say something.

(Magill leaves)

(On phone) Hello. (Conversation with Corrington Gill follows:)

Friday  
May 13, 1938  
9:51 a.m.

405

HWJr:  
Govrington  
Bill:

Yeah.

I thought that you'd better know this - personally and confidentially - they have this two hundred thousand dollars in Cleveland which is in a general fund...

HWJr:

Yes.

SI

...and we have a perfect agreement with the Mayor and the City Council that that is to be used for direct relief as little as possible because they're trying to get - Cleveland and all the other cities are trying to get the State Legislature to appropriate money the first of the week.

HWJr:

Yeah.

SI

Now, they've got, they claim, thirty million dollars in surplus in the State Treasury from Davey's tax policy and no relief in the last three years down there - by State contribution to relief. And they're trying to hold this down with as little publicity that - no publicity that they have money to put the heat on the State Legislature Monday.

HWJr:

Well, how much of the two hundred thousand have they used?

SI

They have two hundred thousand remaining I find.

HWJr:

Yeah.

SI

They've already used three hundred thousand of a five hundred thousand general fund in the city of Cleveland.

HWJr:

Well now, you mean they had five hundred thousand of Federal money?

SI

Oh, no. It's all local money.

HWJr:

All local money?

SI

It's all local money.

HWJr:

Well - and of the five hundred thousand they still have three hundred left or two...?

- G: They have two hundred left; they have used three hundred I find - during the past - about three months.
- EMJr: They have two hundred left?
- G: That's right.
- EMJr: Well I think that's been in the papers if I'm not mistaken. I've read the papers and that isn't confidential information; I think that's all in the papers.
- G: Well, that may be, but the - what they are trying to do is to use as little of it as possible so as to keep the heat on the State Legislature the first of the week in the special session....
- EMJr: In other words they're going to let the people go short of food?
- G: No, they haven't done that - they haven't - at least they claim and our field people say that the people out there are being taken care of.
- EMJr: At a dollar and a half per week per person?
- G: I don't know what the amount....
- EMJr: Well, that's what I understand it is - a dollar and a half per week per person.
- G: I don't know what amounts have....
- EMJr: Yeah. Well, that's what I understand it is.
- G: Uh huh.
- EMJr: A dollar and a half per week per person is what I understand they're getting.
- G: Uh huh.
- EMJr: And I also understand that they're not getting subsistence - I mean they're not getting enough to eat.
- G: Ah - I did hear last night from our field people that the Surplus Commodities are at the present time - in Cleveland - are quite varied and not,

- 3 -

as I had thought, very limited. They're giving potatoes and cabbage and some meats and other vegetables.

HMJr: Yeah. All right. Thank you.

G: All right. Fine.

-13-

- Gaston: That money they are using is the money budgeted for the city's share of the WPA projects.
- Bell: Sponsor's contribution.
- H.M.Jr: Yes. Where were we?
- White: I'm a little troubled about this position, Mr. Secretary. I'm not sure that you have canvassed the facts of the situation as well as you usually do on this before you begin to take any aggressive action, and ....
- H.M.Jr: What are you worried about?
- White: That you'll start something that you wish you hadn't.
- H.M.Jr: Why?
- White: Well, I'm not sure that you have all the facts and the data on it.
- H.M.Jr: Well, what are the facts which you suggest my getting?
- White: I think it might be possible to get a presentation of their case at some conference which you might have, see whatever facts they set forth in answer to your question, and then be able to evaluate them. For example, the dollar and a half per person - I don't know, but that, if it's billed at the price that they're paying for these surplus commodities, may be equivalent to a ....
- H.M.Jr: They don't pay a cent. That's all a gift.
- White: Well, the dollar and a half is in addition to that, I mean there may be some other things.
- H.M.Jr: Sure, but what I've asked is that the President meet with Hopkins, Wallace, and myself this morning, that we get the facts.
- White: Well - except that a good many of those you might be able to get before that occasion, so you come there equipped.
- H.M.Jr: So therefore I've asked the Surgeon General to call up the Health Commissioner of Cleveland and to get

-14-

the facts from him. So that's in the process now. I mean I've asked him to call. Because I don't believe these facts that the Hopkins people tell us on direct relief, because I don't think - I hate - I've said this only after two years - I think that they don't want the President to know what the conditions are, and I think they withhold the information because they don't want direct relief and they don't care how much the people suffer.

Gaston: That statement of Corry Gill's as to how much money is available, about five hundred thousand; figures out almost exactly on the basis of the case load they reported. It figures out almost exactly one dollar and a half per person per week for the month April 30 to June 1. They're counting on help from the legislature possibly by June 1, not earlier, and that five hundred thousand would figure just about a dollar and a half per person per week from April 30 to June 1.

H.A.Jr: It's four and a half dollars per case, and their case are - there are three people to the family.

Gaston: Well, I had the family figures the other way. I had 37,000 persons on relief, and figuring a dollar and a half per person per week, they get about \$130,000 a week. That will give you \$520,000 for four weeks.

H.B.Jr: Well, here's F. Raymond Daniell, one of the best reporters in America, who says this about Cleveland.

"While curtailed relief is still being administered to .... (words not understood) .... at least 20 percent below subsistence standards. For instance, a family of three receives four and a half dollars a week."

Gaston: Well, that checks absolutely with those other figures, in the other papers.

H.A.Jr: Yes. I mean this is the confidential information. "The cities must find additional funds to carry on relief until remedial state legislation becomes effective. Only about \$110,000 of the \$500,000 set aside for the city's participation in WPA remains available."

-15-

Here's the confidential information: "...and a minimum of \$70,000 a week is needed." He's got the whole thing.

Gastoni: Yes, yes.

Lonigan: Mr. Secretary, may I suggest to you the possible advantage of having a representative of Social Security at your conference?

H. J. Jr.: I don't think the President would stand for it. I don't think that he'd stand for it, Miss Lonigan. I don't want to get excited, but Social Security and the Hopkins organization sit here and do nothing.

Lonigan: Social Security can't, but they have the facts.

H. J. Jr.: But they don't talk. They should be vocal.

Lonigan: Well, I agree with that.

H. J. Jr.: I mean how can a person have anything to do with an organization called "social" and sit here and see people - and see people starve?

Lonigan: They couldn't spend a dollar.

H. J. Jr.: But they could be vocal. I mean there's such a thing as bringing it to somebody's attention, and it just - it just turns my stomach to hear Henry Wallace want a hundred million dollars to have the people grow less wheat and then - and with people not getting enough to eat. Now, there's just something cock-eyed, crackpot, about this administration. I mean it just goes against all decency and human understanding that they should be trying to find ways and means to grow less.

Gibbons: Yes.

H. J. Jr.: And there's people going hungry in America, all over America. Now, there's just something - the combination of Wallace and Hopkins refusing to do any direct relief - just something ungodly about it.

Reas: And draw the money from a mass consumers' tax, which is .....

-16-

H.M., Jr: And I'm not going to keep quiet.

(On White House phone) Oh, hello. - Oh, thanks. Hello, Tommy (Malvins Scheider). How are you? This letter that Mrs. Roosevelt wrote me about trying to get the report on Amelia Earhart. Now, I've been given a verbal report. If we're going to release this, it's just going to smear the whole reputation of Amelia Earhart, and my ..... - Yes, but I mean if we give it to this one man we've got to make it public; we can't let one man see it. And if we ever release the report of the Itasca on Amelia Earhart, any reputation she's got is gone, because - and I'd like to - I'd really like to return this to you.

(Continuing) Now, I know what Navy did, I know what the Itasca did, and I know how Amelia Earhart absolutely disregarded all orders, and if we ever release this thing, goodbye Amelia Earhart's reputation. Now, really - because if we give the access to one, we have to give it to all. And my advice is that - and if the President ever heard that somebody questioned that the Navy hadn't made the proper search, after what those boys went through - I think they searched, as I remember it, 50,000 square miles, and every one of those planes was out, and the boys just burnt themselves out physically and every other way searching for her. And if - I mean I think he'd get terribly angry if somebody - because they just went the limit, and so did the Coast Guard. And we have the report of all those wireless messages and everything else, what that woman - happened to her the last few minutes. I hope I've just got to never make it public, I mean. - O.K. - Well, still if she wants it, I'll tell her - I mean what happened. It isn't a very nice story. - Well, yes. There isn't anything additional to something like that. You think up a good one. - Thank you. (Conversation ends)

(To Chauncey) Just send it back.

Chauncey: Sure.

H.M., Jr: I mean we tried - people want us to search again

-17-

those islands, after what we have gone through. You (Gibbons) know the story, don't you?

Gibbons: We have evidence that the thing is all over, sure. Terrible. It would be awful to make it public.

H.H.Jr: Well, the 'only thing that out of this - I want you (Lonigan) to check up with Social Security. Archie, give this (photostat of WPA figures) to her and let her check, and Ed, you check the legislation, will you please?

Foley: Yes. Here's an unsigned memorandum.

H.H.Jr: Excuse me?

Foley: There is what Don said about the law.

H.H.Jr: And you two can be excused, please - Miss Lonigan and Mr. Foley.

Lonigan: Mr. Secretary, there is one factor you might wish. Yesterday Mr. Gill called it to you - the average weekly payment for direct relief was \$21 a week, and I checked on what F.E.R.A. was paying in 1935, and they had full control of general relief and they paid \$7.12 a week. That's the discrepancy.

H.H.Jr: Is that a family or person?

Lonigan: Everything is the family.

Wass: That's a United States average.

Lonigan: No, I think it's the city of Cleveland.

H.H.Jr: Well, it's four and a half now.

Lonigan: They mean the maximum you'd need for full programs.

H.H.Jr: I know. I mean - well, as I recall, it was around \$28 a month.

Lonigan: A dollar a day.

H.H.Jr: Those figures are all drilled in my brain. I never forget them. I don't know what his object was.

(Lonigan and Foley leave)

-13-

Now, where are we on this? What are you leaving me?

Bell: I'll leave you all this material if you want to.

H.M.Jr: Would you?

Bell: That's the relief money available. That's the letter that if he wants to make an allocation - that's the one that I've recommended. See, that has the schedule and the regulation. This one is wide open. Harry can use it any place for direct relief and draw his own regulations, and so forth.

That's the Section 32 money - the explanation that I gave you on the side.

H.M.Jr: Herbert, anything?

Chaston: You asked me about this man Hook who was shot down there in the Virginia mountains. He's in the hospital at Lynchburg. He was wounded in the neck and the leg, and his condition is not critical. They believe that it was genuinely a case of mistaken identity on the part of the sheriff's office. But it is one of those counties where they don't make a practice of letting the sheriff's office know when they make raids; so the mistake happened.

Tom Stokes sent me a copy of that - Scripps-Howard story. It doesn't add anything much to what we already have on the situation.

H.M.Jr: Thanks.

Bell: I told Mr. Mac that he ought to give out a statement that this man was killed because he didn't have enough money.

Chaston: I still have that transcript on that hearing, if you have any chance to look at it.

H.M.Jr: Right after this.

Bell: They're very much concerned about that. Sort of threatened last night to have it printed without correction.

-19-

- Gaston: I think I haven't told you that Bob Thornburg has been laid up with the mumps the last two weeks. Probably have it for another week. He actually has the mumps.
- H.W.Jr: Up on the Hill they're concerned? We'll do it right after this.
- Bell: Clerk of the Committee has been approached by Harrison to get this report printed.
- S.S.Jr: We'll do it within an hour.
- Gibbons: On those appointments, you know, Jimmy Roosevelt's office called me and wanted to - Harrison's been bearing down on him and they said that these appointments hadn't been sent over. Is it all right for me to call over and tell them you've sent them over and they've been sent back, so they can answer Harrison whatever he wants?
- S.S.Jr: Yes.
- Gibbons: He wanted me to call Harrison. I wouldn't get into it. But Jim thinks ....
- H.W.Jr: Jim who?
- Gibbons: Jim Farley thinks the President is going to do some shadow-boxing.
- S.S.Jr: Who did you say you wanted to call?
- Gibbons: Jimmy Roosevelt wanted me to call Harrison and tell him the names had not been sent over. That was two or three days ago. I talked to you and Magill about it and as a result of that these names have been sent over. Subsequently, within the last - yesterday or the day before - now they're back again, and I've refrained from talking to Harrison and getting mixed up in it. Now I'm going to tell Jimmy, with your approval, the names have been sent over, whether he knows it or not, and have been bounced back by McIntyre.
- H.W.Jr: That from now on when any Senator calls up we're going to refer them to the White House.

-20-

Gibbons: Yes.

H.M.Jr: We're going to refer them to the White House from now on. If anybody wants anything, it's up to the man in the White House.

Gibbons: Why should we get mixed up in it?

H.M.Jr: That's right. O.K.? I think that would be very neat. And I think we all won on Cy's friend from Ohio.

Gibbons: Oh yes. I must get hold of Bill Julian and ask him what he means by submitting a name like that.

H.M.Jr: Bobbled the whole thing.

Gibbons: But I'd like to kid Bill.

Upham: You flatter me.

H.M.Jr: You're the first man who spoke to me about him.

Max: Cy told me about him.

Gibbons: You know who really did it, in my opinion? Vic Donahey.

Upham: I won't deny it.

H.M.Jr: Did he?

Gibbons: Yes.

H.M.Jr: All right.

Gibbons: Vic has been urging him to enter the race out there for Governor.

H.M.Jr: Did you see Deanna Durbin? She goes like this (crossing fingers). Huh? At the movies. Well, I recommend it highly.

Gibbons: Well, Boston is out too.

H.M.Jr: Jim was awful funny. This is the best joke. He said, "Well, this Frenchman hasn't paid his taxes, but we'll

-21-

take another Frenchman.

I said, "Well, now many French are there?"

"A hundred sixty-seven thousand."

I said, "Well, out of that number there should be one that paid his taxes."

Gibbons: Did you read my memorandum about that political situation up there in Boston?

H.M.Jr: I skipped that because I'm not interested.

Gibbons: They haven't got a chance of winning anyhow, ~~and~~ if they claim a good point this fellow would win.

H.M.Jr: I didn't want to get bogged down with the political stuff.

Gibbons: Really very funny.

H.M.Jr: George?

Haas: Here's the status of your .... (hands papers to Secretary and speaks to him in low tone)

H.M.Jr: All right.

How's the big meeting?

Upham: Why, this fourth problem that you gave us, you know, ....

H.M.Jr: Marketability.

Upham: Regulation of the Comptroller. Each one of them is having his own brain trust do a job on that, and you asked Mr. Oliphant to have his people do a job. So we're not meeting every day. There isn't any point in their just sitting, doing that; but about Monday we'll get all that accumulated information and go at it again.

H.M.Jr: O.K.

Upham: There's no use in discussing the first three. We got agreement on one of them, I think.

-22-

H.M.Jr: What's that on, "slow"?

Upham: No.

H.M.Jr: All right.

Upham: It's on what to do with bond profits.

H.M.Jr: Anything else?

Upham: No.

H.M.Jr: Harry?

Arcnie? How's the belge?

Lochnerd: Rather weak.

H.M.Jr: Shall I make another statement?

Lochnerd: I think we'll let France make a statement over there on Belgium.

H.M.Jr: All right.

Dan?

Bell: I haven't anything.

Quincey: That's from Mr. McReynolds.

H.M.Jr: Oh yes. You can - if you can do it and still keep your character - you and Steve.

Anything else, Mac?

Mac: I've got a letter here that Oliphant had sent in. - I understand he's not available this morning - that he's prepared on this legal stuff for the Comptroller. I shouldn't think you'd want to do that in his absence.

H.M.Jr: No, no.

Now, I tell you what we'll do. I want to talk to Harry a minute, and if you (Gaston) will go to your office, in five or ten minutes I'll call you. We'll go over that stuff.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

413

DATE May 13, 1938

TO Secretary Morgenthau

FROM Mr. Haas *MA*

The following people have been invited to attend the conference on the business outlook to convene at 10 o'clock Tuesday, May 17, 1938. With the exception of Col. Ayres all of them have indicated that they will attend. Col. Ayres is attempting to make arrangements so as to permit him to join the group, and will advise me definitely later.

Seymour L. Andrew, Chief Statistician,  
American Telephone and Telegraph.

F. Leslie Hayford,  
General Motors Corporation.

Lionel D. Edie

George B. Roberts, Vice President,  
National City Bank of New York.

Walter Lichtenstein, Vice President,  
First National Bank of Chicago.

Leonard P. Ayres, Vice President,  
Cleveland Trust Company.

Friday  
May 13, 1938  
11:11 a.m.

HMJr: Hello.

Operator: Doctor Olesen.

HMJr: Hello.

Robert  
Olesen: Dr. Olesen speaking.

HMJr: This is the Secretary.

O: Yes, sir.

HMJr: Have you got any information for me?

O: Not yet. They were all five out...

HMJr: Golly.

O: ...and everybody has been enjoined to speed them  
up....

HMJr: I see.

O: ...as quickly as possible. And I think we have all  
good people out on the job.

HMJr: Well, I'm going to the White House at twelve-thirty  
on this meeting so if I get anything on it I've got  
to have it before then.

O: Well, sir (Laughs) We're just depending on the  
fellows now getting the information - they all said  
they were on it already.

HMJr: Thank you.

O: So you'll - any news that I get I'll let you know  
as quickly as possible.

HMJr: Thank you. Goodbye.

May 13, 1938.  
12:12 P. M.

H.M.Jr: Hello.

Operator: Mr. Gill.

H.M.Jr: Hello.

Corrington  
Gill: Hello, Mr. Secretary, Corrie Gill, once more.

H.M.Jr: Yeah.

Gill: There was one thing that wasn't covered adequately in that memorandum because of the haste. Both Ohio and Illinois,.....

H.M.Jr: A little louder, please.

G: +.... particularly Illinois, ....

H.M.Jr: Yeah.

G: ..... ah, has a great deal of money. Ah, the surplus in the state is over sixty million, and the sales tax, which was supposed to raise seventy million for relief is actually raising about ninety million, and what is needed by the legislature is a removal of the restriction that they can give to the City of Chicago. The money's there.

H.M.Jr: Uh huh.

G: They've got plenty of money there.

H.M.Jr: Uh huh. In ah, in ah - in Illinois.

G: In Illinois. And in Ohio, the surplus is said to be about thirty million.

H.M.Jr: Yeah.

G: Our Tax Section say "Over thirty million" in Ohio and "Over sixty million" in Illinois.

H.M.Jr: Uh huh.

G: Currently on hand.

- 2 -

H.M.Jr: Well, I guess - Harry knows all that, doesn't he?

G: Yes, he does. But I wanted to be sure that - that wasn't in the memorandum and it should have been.

H.M.Jr: I see. Thank you.

G: O. K. Fine.

May 13, 1938.  
3:53 P. M.

Operator: Operator.

H.M.Jr: Find Bell.

Operator: Right.

H.M.Jr: Hello.

Operator: Mr. Bell. Go ahead.

H.M.Jr: Hello.

D. W.  
Bell: Go ahead.

H.M.Jr: Ah, ah - Jimmy Byrnes just called me up about the relief bill.

B: Yeah.

H.M.Jr: And I said, "There are two things - one, that I had pointed out to the President this morning that the way the bill is written now, no money could be spent for direct relief."

B: Yeah.

H.M.Jr: And I gave the original copy of my memorandum to Harry Hopkins, so if you could get another one from Ed Foley - Ed Foley wrote it, you see?

B: Yep.

H.M.Jr: Second, I said that in this meeting which took place with Woodrum and you, and Sam Rayburn last Monday, the President pointed out that he did want the Treasury to do the accounting.

Hello.

B: Yeah.

H.M.Jr: And that the President had no preference; he said, "Well, what would Woodrum do?" He said, "Well, it's too late."

- 2 -

- B: Well, I - ah - I don't think the President took that stand.
- H.M.Jr: Well, he did in the telegram, anyway.
- B: He did in the telegram, but he didn't in that conference.
- H.M.Jr: Well, I didn't - I wasn't at the conference.
- B: Yeah.
- H.M.Jr: So, the outcome of that, Jimmy Byrnes is going to send for you and let you testify on that.
- B: Oh no. I've asked to be excused.
- H.M.Jr: I didn't know that.
- B: I got him just a while ago - if he wouldn't excuse me for that Committee.
- H.M.Jr: Oh, really?
- B: Yeah.
- H.M.Jr: Why?
- B: Well, I don't want to be in on it. Ah, I was left out on a limb on the other thing, and ah, on the money, and everything else.
- H.M.Jr: Well, ah, - anyway, ah - I - I - I've done what I'd like to see, from the standpoint of the Treasury. See? And, ah - let 'er ride; let's see what happens. I'll talk to you about it Monday.
- B: All right. You don't know when we're going to be sent for.
- H.M.Jr: No. Let's ah - I'll talk to you about it Monday.
- B: All right. Fine.
- H.M.Jr: Ah, this is what I - I'm doing, these days, what I think is right, and - ah - I mean, I'm not trying to put you in a hole, but, ah, I - I thought you'd

- 3 -

be delighted.

B: Ahhh ...

H.M.Jr: I thought you'd be delighted.

B: Well, ah - of course, I want to help you out.

H.M.Jr: Yeah.

B: But, ah - I think it's very important that this thing wasn't coordinated .....

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

B: Yeah. All right.

H.M.Jr: Better leave it.

B: Ah, how's the other thing coming?

H.M.Jr: Oh, ....

B: The direct relief.

H.M.Jr: Not so good.

B: Isn't it?

H.M.Jr: No.

B: (Laughs) Isn't it funny?

H.M.Jr: Isn't it funny, yeah.

B: Yeah. It certainly is. Well - all right, I'll see you Monday, then, and talk to you about it.

H.M.Jr: Thank you.

B: Right.

426

2-101

ADDRESS BEFORE THE  
NEW JERSEY BANKERS ASSOCIATION CONVENTION  
IN ATLANTIC CITY, MAY 13, 1938

BY

MARRINER S. ECCLES  
CHAIRMAN OF THE BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

Not to be released until 4:00 p.m. E.S.T.

Friday, May 13, 1938.

THE CURRENT BUSINESS AND ECONOMIC OUTLOOK

Before reviewing what seem to me to be the principal developments leading up to the present depression and what can be and is being done about it, I should like to make a statement of general principles as a broad background of this discussion.

Deficit-spending on the part of government should be undertaken in a recession to compensate for the liquidation of private debt and declining private expenditures. Conversely, the paying down of public debt offers a means of compensating for too rapid an expansion of private debt and expenditures. However, at a time when national income has attained a high level and is rapidly increasing, there should be an increase in taxes on an equitable broad basis, not only for the purpose of reducing the public debt if private credit is expanding rapidly, but also in order to provide for necessary social services. This would be desirable not merely on humanitarian grounds but it would also be economically sound as a means of maintaining a balance between savings and investment on the one hand and consumption on the other. By thus keeping up consumption at a sufficient level to absorb production, protection would be afforded to existing investment and encouragement given to new investment. Such a policy of maintaining a large volume of government expenditure, on the basis of a balanced budget and through a broad tax base, has been successfully pursued in England and some of the other democratic countries.

Since 1933 the government has taken action on many fronts to meet the readjustments and problems created by the disastrous deflation after 1929. The steps taken by the government were largely enforced by the necessity for

- 2 -

meeting intolerable economic and social conditions. During this period the public debt was increased by about \$16 billions gross. This increase was far less in the aggregate than the contraction of private debt had been and was necessary to fill in part the gap created by deflation and to restore to solvency on a national scale the country's business, which was insolvent.

Deficit-spending by the government for the restoration of activity was a major influence in increasing national income from less than \$40 billions in 1932 to approximately \$70 billions in 1937. In other words, the additional national income in this one year, 1937, as compared with 1932, was nearly twice as large as the total increase in the national debt over a period of four years. In view of this record, what becomes of the claim that this expenditure of public money was wasted or that the program of deficit-spending was a failure?

The increase in the government debt was brought about at a constantly decreasing interest cost due, in part, of course, to the excess reserves which accumulated in the banking system largely through the importation of foreign capital as reflected in gold imports. In fact, for the nation as a whole, the burden of debt was lightened, despite the increase in government debt. From 1932 to 1936, inclusive, net interest payments for the entire country, as reported in the national income estimates of the Department of Commerce, declined from \$4.9 billions to \$4.4 billions, or from 12 per cent of the national income to less than 7 per cent. In

- 3 -

effecting this program, the government sold its securities to individuals and business corporations which had idle balances, as well as to commercial banks after they had been provided with reserves. Thus the government was able to put to work existing idle funds of individuals and corporations as well as newly created deposits in the banking system. In addition to building up deposits, which had shrunk by nearly 40 per cent due to the deflation, the effect of the government's ~~action~~ was to create business that otherwise would not have been created.

The resultant debt is debt to our own people. The interest being paid on it is being paid to the individuals and to corporations and banks that are the holders of these obligations, and as they are refunded or paid off the proceeds go to our own people and institutions. This interest paid out is an expense of government. It is a charge against all of us, but the payment of this interest returns these funds to the spending and investment stream. Stated otherwise, the operations of the government in borrowing, spending and lending money, not only created new money, but resulted in a more active use of the existing supply by increasing production and distribution of goods and services, which are the only real wealth.

The greatest difficulties in dealing with the problem of deficit-spending and of management of public debt seem to me to be problems of correct timing. Obviously, public debt must not be piled up to a point where unsound inflationary results destroy the very purpose of the policy

- 4 -

I have in mind—which is to manage fiscal and monetary policy, despite the definite limitations of the effects of such policy, so that it has a stabilizing and moderating influence to offset distortions in the functioning of the general economy—distortions and violent swings between booms and depressions that impoverish and demoralize and threaten the very existence of the whole system.

Consider for a moment the importance of proper timing: Even though we had no public debt whatever, deficit-spending could be very inflationary if it came at a time when our economic machine was already working at full capacity. Merely to increase government spending, if offset by increased taxation derived from increased income, would not be inflationary. It is the spending above receipts that brings about an increase both in the supply and velocity of money. Conversely, deficit-spending at a time when private spending is declining, tends to compensate for this by increasing buying power.

The danger in wrong timing is illustrated by our experience since 1929. Although there was an unprecedented contraction in private activity, adequate deficit-spending and lending was delayed for more than three years, during which time deflationary forces gathered so much momentum that it required a far greater amount of money and effort on the part of the government to turn the tide than otherwise would have been necessary.

- 5 -

Then, beginning in 1934 and through 1935 and up until the end of 1936 we experienced on the whole an orderly recovery. The general average of wholesale prices rose from the depression lows and a reasonably sound relationship of prices was brought about, particularly as between agricultural prices, which had been out of balance during the twenties, and the rest of the price structure.

The year 1936 witnessed the most pronounced forward movement by private capital since 1929. According to estimates of our Division of Research and Statistics, expenditures on durable producers' goods in 1936 had grown to more than \$4½ billions, a gain of \$2½ billions above 1935 levels; similarly, expenditures on consumers' durable goods—houses, automobiles and household goods—amounted to over \$8 billions in 1936, a gain of \$4½ billions above 1935. The volume of domestic corporate security issues in 1936 exceeded \$4½ billions, of which \$1,200,000,000 was for new capital purposes, and commercial bank loans expanded by a billion dollars. In other words, private business expansion was going ahead at a very satisfactory rate, business indexes uniformly reflected a broad recovery, corporate profits in most lines were very largely restored and in some instances even exceeded 1929 levels, despite a smaller volume of business. However, government relief and other expenditures were not reduced and, in addition, between \$1½ and \$2 billions of bonus funds was poured into the spending stream in the last half of 1936. I want to make clear that I am not now talking about the merits of the bonus, but merely the timing of its payment. It might have been very desirable from an economic standpoint had

- 6 -

It been paid at the bottom of the depression instead of in the year of greatest recovery. Similarly, the collection of \$1 billion of social security taxes in 1937 diminished buying power at the very time an increase in retail sales was most needed. Had it not been for these two measures, national buying power would have increased less in 1936 and more in 1937. As it was, we had a very large concentration of both public and private expenditures in 1936 which gave a pronounced impetus to buying and generated, along with other factors, an inflationary psychology.

It played a large part in stimulating the probably unprecedented wave of inventory buying that took place late in 1936 and during the first quarter of 1937. In the following year, 1937, in sharp contrast there was, of course, no bonus payment and, as I have said, in that year the government began collecting social security taxes taken largely out of consumer buying power. The amount the government contributed to the spending stream declined by \$3 billions in a single year. In the first nine months of the current fiscal year cash receipts of the federal government actually exceeded cash expenditures by \$100 millions.

This drastic reversal could have been offset only by a compensating private expansion. Yet where could we look for that? The three major depressed fields, where depression had struck the hardest, where unemployment was greatest, where deferred maintenance and needed expansion were greatest, were housing and construction above all others, and in the railroad and utility industries.

- 7 -

In housing the deficit was so great that we needed to build an estimated 700,000 new units annually for five years in order to make up for the deficiency caused by the depression and take care of current requirements, assuming that we were going to maintain a standard of housing which at best for most of our people would be inadequate measured by reasonable living standards and the capacity of our economy to provide modern housing. Measured by the ability of our people to pay for housing, either through ownership or rent, on the basis of present housing costs and greatly reduced incomes, we may soon even have an excess, although we are not building at present more than 40 per cent of the amount we normally should be building.

These conditions are due to the fact that beginning in the fall of 1936, basic material prices, hourly wage rates and contractors' margins in the building trades rose sharply to what proved to be prohibitive levels so far as mass buying power was concerned. Instead of a continuation of building activity which had begun to revive in 1935, the revival was checked in the spring of 1937. Accordingly, there was no increase in activity and expenditure in this most important of all fields to offset the decline in the government's contribution.

As for railroads, the Class I roads showed net earnings of \$165 millions in 1936. Programs were under way, as fast as earnings and ability to finance them made it possible, for the purchase of greatly needed new equipment and to meet the large amount of deferred maintenance resulting from the depression

- 8 -

years. At this juncture, however, wage increases effective in the last half of 1937 amounted to \$130 millions while \$70 millions more were required to meet increased social security taxes, or combined additional costs of \$200 millions. Under these circumstances, the railroads, lacking sufficient earnings and in many instances unable to obtain new credit, were forced to a curtailment in their capital outlays for equipment and deferred maintenance.

In the private utility field there was a prospect for a considerable investment of private capital on replacement, modernization and extension, but it could not be expected that private funds would readily flow into this field so long as uncertainty prevailed as to the legal and financial status of the industry. Public expenditures in this field did not nearly compensate for the absence of private expenditure.

As I have attempted to show, the transition from large deficit-spending to no deficit-spending was not successfully completed due primarily to the fact that private capital did not expand sufficiently in the three great fields enumerated. It is evident that a condition favorable for expansion of private investment must be created or public spending and investment must be continued. Otherwise, depression is inevitable.

The combination of forces beginning late in 1936 led to a wave of inventory buying that probably has never been exceeded in so short a period. Business and banking leaders and organizations very generally were antici-

pating and some were predicting an inflationary development, even though warned by government that an inflation could and would be controlled. The predictions of inflation, the sharply rising prices of basic materials, widespread labor troubles, foreign demand for war materials, the policy of many lines of industry of advancing prices, all combined to generate forward buying which was not geared to current consumption or consumer buying power. For a period of five months wholesale prices of durable goods, which had been virtually stationary since the end of 1933, rose at the rate of 24 per cent per annum. Between October of 1936 and May of 1937 average hourly earnings in manufacturing rose 13 per cent. Between September and April the index of machine tool orders rose from 118 to 282. A survey by Dun & Bradstreet of 17,000 firms indicates that inventories of manufacturing and merchandising companies increased by \$2 billions in 1936 and \$3 billions in 1937.

The profits of many industries were larger than they had ever been, yet prices were advanced and it was only natural that under such circumstances labor should seek to obtain a larger share in the rising profits. In some cases industry increased prices far more than enough to offset increased wages, or increased wages in the hope of avoiding labor organization in their plants.

Incomes of the great mass of the consuming public did not keep pace and were, therefore, not sufficient to buy housing and other products of industry that had rapidly advanced in price.

- 10 -

The responsibility for these developments must be widely shared by business, organized labor and government. Business capitalized on a sellers' market, and in many instances, advanced prices more than was justified by increasing costs. Organized labor, in many cases, sought to increase wages and decrease hours faster than efficiency, and this resulted in rising unit costs. The rapid decrease in net government expenditures was unstabilizing. In addition, the announcement of the British rearmament program and the emergence of inflation propaganda also contributed to the excessive forward commitments by business.

While the Board of Governors of the Federal Reserve System raised reserve requirements in the summer of 1936 and again in the early part of 1937, the Board took pains to emphasize that the System's policy of monetary ease would be maintained. In March, 1937, in order to refute the contention by some banking leaders that the way to meet the situation was to tighten money, I issued a public statement in which I said:

"I do not believe that sharp price rises in certain basic commodities should be controlled at this stage of the recovery by a restrictive money policy \* \* \*. The price rises to which I refer are the result primarily of non-monetary factors including foreign armament demands, strikes and monopolistic practices by certain groups both in industry and organized labor. These conditions have in turn led to speculative security and commodity buying which serves to accelerate the price advances."

- 11 -

As for the effects of wage and price policies, I said:

"Increased wages and shorter hours when they limit or actually reduce production are not at this time in the interest of the public in general or in the real interest of the workers themselves. When wage increases are passed along to the public, and particularly when industries take advantage of any existing situation to increase prices far beyond increased labor costs, such action is short-sighted and indefensible policy from every standpoint.

"Wage increases and shorter hours are justified and wholly desirable when they result from increasing production per capita and represent a better distribution of the profits of industry. When they retard and restrict production and cause price inflation, they result in throwing the buying power of the various groups in the entire economy out of balance, working a particular hardship upon agriculture, the unorganized workers, the recipients of fixed incomes and all consumers. The upward spiral of wages and prices into inflationary price levels can be as disastrous as the downward spiral of deflation."

It is unfortunate that the speculative buying continued as long as it did, for the more intensified the unbalanced condition became, the worse

- 12 -

the aftermath was bound to be. It was also unfortunate that consumers were encouraged to purchase automobiles and innumerable other products of industry in such volume that installment consumer credit expanded at a much more rapid rate than national income. According to studies of the Russell Sage Foundation, the volume of outstanding consumer credit last year actually got back to the 1929 level. The encouragement thus given was not in the interest of the public, of business, or of labor.

Continued delay on the part of business, banking and labor leadership and upon the part of Congress and government generally, in recognizing the reasons for and the nature of the unbalanced state of the economy only defers a realistic and effective application of basic remedies. The more momentum deflationary forces accumulate, the more the country loses in real wealth because of idle facilities and idle man power, the more the national income shrinks, tax revenues decline, and the more the budget becomes unbalanced because the condition of the budget ultimately depends upon national income.

We have seen by the experience of the past six months, as well as that from 1929 to 1933, that permitting nature to take its course does not solve the problems, but only accentuates them. The longer we wait, the more difficult the problems become. Yet, we hear from some of the leaders in banking and business that we should have a breathing spell; that we should drastically reduce government expenditures in an attempt to balance the budget; that we should repeal the excess profits and undistributed earnings

- 15 -

taxes; that we should lift regulations on the stock market and the issuance of securities, and do away with machinery devised for collective bargaining. However, these alleged deterrents were not present before 1929 and did not prevent economic collapse. They were not present between 1929 and 1933 and there was no recovery. They were present when we had a large degree of recovery.

The prospective virtual repeal of the taxes complained of does not appear to have benefited business. On the contrary, business indexes have steadily gone down. I have always advocated exempting small corporations from the undistributed profits tax, and I have favored exempting from this tax all funds applied to new capital expenditure that would create employment. But the outright repeal of the tax at this time can only have the effect of accelerating deflationary forces, because business will not be inclined to pay out the sums thus saved, either in dividends or for plant purposes that would give employment while excess plant capacity exists. Instead, the disposition will be to build up idle bank balances or to pay off debts, both of which are deflationary.

Even assuming that removal of taxes and so-called restrictions on the stock and security markets to be psychologically favorable to business, the basic problems would still remain and will confront this or any other Government until they are faced and dealt with effectively.

- 14 -

As for the budget, the only road to a balance is through restoration of national income. For the government to reduce its expenditures radically at the very time that business is doing the same thing could only accentuate and not alleviate deflationary forces. Desirable as it is for the individual or for a business concern to be out of debt, we cannot preserve our system, we cannot have a debtor-creditor economy without creation of either public or private debt as a necessary mechanism of business activity.

I have favored all along and still favor compensatory action by the government and offsetting deficit-spending to counteract deflationary forces and to create a condition for revival of private activity. I see no other practical way to deal with economic forces that, if left altogether alone, disrupt and threaten to destroy our system. Reversion to a laissez faire philosophy under conditions prevailing in the modern world is out of the question and the sooner this is clearly recognized, the sooner banking and business leadership can contribute in a constructive and enlightened way to finding practical solutions for the common problems of democracy.

Since early last fall, when it became evident that we were facing a prolonged decline, I strongly advocated prompt government intervention on a broad scale to deal with the maladjustments and to restore a more balanced condition. At that time I favored a comprehensive program developed along the line of stimulating private activity quickly and directly through special inducements in the housing, utility and railroad fields, and through stepping up expenditures that would tend to maintain consumer purchasing

- 15 -

power, which is essential for the revival of business.

The conditions which now confront us have become more acute as time has run on. Our plant capacity, which was more than adequate to meet the requirements of a national income of approximately \$70 billions, has become excessive for today's rate of income. Under such circumstances, what inducement is there for industry to expand plant now? What reason do we have to expect a natural upturn quickly?

Inventory accumulations, while reduced, are still large. According to the survey I mentioned previously, the accumulated inventories in manufacturing and merchandising were \$5 billions heavier than at the close of 1935. At that time production and sales were increasing. Since last fall they have been declining, and the trend of sales has a lot to do with the business man's attitude toward inventory. To work off billions of dollars of inventories in the face of steadily declining sales is a long, slow and, of course, deflationary process. Money received from consumers is not passed along again in the form of wages, etc., but is used to retire debt or accumulate cash balances. In short, a decline in inventories, while it is taking place, is as deflationary as an expansion of inventories is inflationary.

As national income declines, imports are falling off with a consequent decline of dollar balances and ability of foreign markets to absorb American products. Likewise, foreign travel and immigrant remittances decline as national income goes down, which also has the effect of reducing foreign trade.

- 16 -

Business profits which were larger in 1936 and in 1937 than at any time since the boom of 1928-29 have declined drastically. According to Standard Statistics reports, profits of 367 industrial corporations declined 66 per cent for the first quarter in 1937 as compared with the same quarter a year ago. This inevitably means a slowing up or stoppage of expenditures for maintenance in an effort to conserve existing funds, or to pay off debt, both of which are deflationary.

Due to more abundant crops the agricultural outlook is for lower prices and hence lower incomes. Through 1936 and 1937 the restoration of balanced conditions between agriculture and industry and the revival of farm income tended to prevent the deflation from being more severe than it was. If natural forces are allowed to prevail and agricultural income declines sharply, what prospect is there of a revival of business activity arising from purchasing power in this great section of our consuming public?

Whereas automobile production for 1936 and the first three quarters of 1937 was exceeded only by the peak year of 1929, due in large part to high-pressure salesmanship and a large expansion of installment credit on unusually favorable terms both as to time and down payments, this installment indebtedness is now being reduced on balance, with the consequent result that automobile production this year is not expected to be more than one-half of what it was in 1936 or 1937. This leaves a gap of some \$2 billions in expenditures and hence in production and employment.

- 17 -

These are admittedly depressing factors which I have purposely painted in black colors because I am convinced that these are the factors which we must consider and be prepared to remedy without further delay. In the face of these facts, can private business be depended upon to go ahead of its own accord and to solve the social and economic problems thus presented, even though business be assured of an extended breathing spell? I wonder how long it would be before business decided, as it did in 1932, that it was experiencing strangulation and not a breathing spell.

The problems are not self-adjusting unless we are willing to risk a prolonged depression with all its evil train of human misery and social and economic upheaval. In the light of existing conditions, government assuredly would be subject to criticism if it failed to feel a responsibility for undertaking remedial action and failed to assert leadership of which only a government is capable in cooperation with business, labor and agricultural leadership.

Business, labor and agricultural organizations, as well as government, have grave social responsibilities. The responsibility of government is recognized by everyone, but, by and large, I do not believe that the responsibilities to the public of privately organized groups have been either recognized or discharged. I have heard much about cooperation. I have yet to hear of any organized group of industry or of labor proposing to make a serious study as to how their policies and practices may contribute to economic balance. That apparently is regarded as the exclusive responsibility

- 18 -

of government and, yet, to complete the picture, the efforts of government to discharge that responsibility are all too frequently condemned and resisted.

In the light of present economic conditions as I have outlined them, would not the government be neglecting its responsibility if it failed to act to counteract the current deflationary forces, pending efforts on the part of government in cooperation with private groups to bring about some of the adjustments necessary to establish a better balanced relationship in the various elements in our economy, so that recovery may go forward again?

The recently announced spending and lending program of the government is modest, if anything, too modest when measured by the need and gravity of the problem. It provides for a continuation of the current levels of WPA, CCC, Farm Security, and public roads expenditures. The only substantial increase is for public works, public housing and the RFC. The efficacy of the program will depend in large part on the speed with which these agencies can get under way, and to the degree to which the ordinary expenditures of the government, including armament, can be speeded up. Every effort must be made to overcome the obstacles to a quick inauguration of public works and public housing. In addition, great reliance must be placed on the degree of stimulation that the RFC can quickly create.

- 19 -

In this latter connection I hope that the opportunity for bringing about increased expenditures in modernizing railroad and utility equipment will not be overlooked. If sufficiently favorable terms and conditions are offered for a limited period by the RFC, I see no reason why hundreds of millions of dollars worth of needed new equipment and deferred maintenance should not be contracted for without delay. This would put a large number of men back to work and relieve the pressure on relief agencies. It would reach into heavy industries where the situation is the most depressed. Modern equipment is badly needed and as recovery proceeds great shortages will exist. Therefore, the time when its construction should be done is now when it will do the most good. If we wait for a recovery and a restoration of earning power, very likely there will be a combined rush to buy needed equipment at the same time, with a resultant driving up of costs and prices and creation of bottlenecks, both with reference to labor and productive facilities.

It would also help to bring about a constructive adjustment if the added wage costs imposed on the railroads in 1937 were to be suspended until such time as railroad traffic will justify them.

I feel strongly that in a time like the present, when the government is committed to a policy of restoring national income and employment, a government agency, free from demand liabilities, can safely make loans on terms and conditions that private lenders could not make because they are necessarily more concerned with immediate prospects and liquidity considerations.

- 20 -

The stimulus to utility construction would be more effective if the relations of government to the industry could be definitely determined. Personally, I believe that public funds should not be used in any way to subsidize public competition with private industry, if this can possibly be avoided without detriment to the general public interest.

The output of electric power in this country in 1937 was 27 per cent over the output in 1929. The comparable figures for Great Britain are 84 per cent, for Sweden 61 per cent, and for practically all of other important countries, except France, substantially more than the United States. This is a rough indication of the extent to which the depression set the utilities back in their growth. While all of this lag cannot be made up, a large portion can be and this will entail the necessity of billions of dollars of new construction in the future. To the extent that some of these future requirements can be anticipated now through the offer of very favorable financing terms, a major contribution toward greater economic stability both now and in the future will have been made.

Although I believe that our present economic difficulties are not monetary, nevertheless the recent monetary measures taken in conjunction with the government's program may be helpful and certainly will remove all possibility of doubt, where doubt did exist, as to the adequacy of banking resources to finance, on a most favorable basis, any public or private credit requirements. Desterilization of \$1,400,000,000 of gold not only provides additional bank reserves as the proceeds are spent, but by putting this unused

- 21 -

gold to work, reduces the required new government financing by this amount.

So much for the spending and lending program. How soon it will be effective and its ultimate magnitude depend on the rapidity with which the necessary adjustments I mentioned earlier will be made. Thus in housing, while the recent amendments to the Federal Housing Act are definitely helpful, further progress to reduce building costs is urgently needed. We are still in the position where many of the building trades unions have high hourly rates, on paper, but no jobs, and manufacturers of materials have high prices, but no orders. Action is still called for to readjust the out-of-line costs down to a point where people can afford to build houses.

Certain other prices and costs, particularly in the durable heavy goods field, are still at their 1937 peak levels and are standing in the way of increased sales and production. Reductions here would be helpful. Wholesale prices of durable goods have fallen only 3 per cent since last March, while farm prices have dropped 36 per cent. In other industrial fields, where competition is severe, and in agriculture, efforts must be made to prevent the continuation of a further deflationary spiral. For this reason I favor putting a bottom under certain wages and prices by the establishment of minimum wages. In agriculture, to prevent a cumulative deflationary process, I favor the policy of benefit payments and of putting a bottom under those farm prices, through commodity credit loans, where world markets determine the price.

- 22 -

By correcting, on the one hand, the unbalanced cost and price situation that has developed and, on the other hand, by increasing consumer buying power, I am confident that our difficulties could be solved and that we could recover the ground lost in recent months. If balance can be regained only through government deficit-spending and lending, our progress will be slower and the cost in dollars and in unemployment will be greater.

Banks can assist in restoring prosperity by affording every possible constructive aid to the revival of sound private financing, and in adapting the lending functions of the banking system to present-day conditions. Federal and state bank examination policies, as well as the Comptroller's regulation governing investment policy, need to be brought into conformity with changed conditions and modern requirements of business and industry. Bankers cannot justly be held responsible for such restrictive governmental banking policies as confuse soundness with liquidity or true worth with current depressed market values. I favor modernization of these practices and regulations, to encourage the bankers to meet changed credit conditions and needs within their own communities, and thus to discourage the alternative which is multiplication of governmental agencies set up to provide credit accommodation that the banking community could and should in normal times be adapted to extend to the public. That accords with my fundamental view that the responsibility of government banking and monetary agencies is to assist the banks to function in the most efficient way to serve the public interest.

- 23 -

I have covered a great deal of ground but I am convinced that a diagnosis of our economic ills cannot be sound unless it takes account of all of the principal lines of governmental and private activity. All parts of the economic organism react on each other and only by united action, under the leadership of government, with the support of the organizations of business, finance, labor and agriculture, can recovery be assured.

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE May 13, 1938.

TO Secretary Morgenthau  
 FROM Mr. White

SUBJECT: How much gold do we estimate will be added to our gold stock during the remainder of 1938?

Summary

1. We estimate that the net inflow of gold into the United States during the next eight months exclusive of recorded capital movements will be somewhere between \$400 million and \$900 million.

(In millions of dollars)

- |    |  |            |            |
|----|--|------------|------------|
| a. | Add for excess of merchandise exports over imports about                       | 500 to 800 |            |
| b. | Subtract for our purchases of silver   |            | 100        |
| c. | Subtract for "services" (interest, tourist expenditures, shipping, etc.) about |            | 300 to 400 |
| d. | Add for "residual items"   | 300 to 400 |            |

Not counting recorded capital movements, our gold stock should increase from \$400 to \$900 million. To this figure must be added the domestic production of gold of \$115 million, which brings our estimate to \$500 million to \$1000 million.

2. Will we gain or lose on capital account?

Capital movements under present conditions are subject to such wide variations, depending upon international political and economic developments because of the disturbed economic and political state of the world, that they are unpredictable.

Secretary Morgenthau - 2

However, it is our judgment that

- in the U.S.*
- a. before the end of the year business <sup>in the U.S.</sup> will have turned up;
  - b. the international political situation will not grow substantially better, and
  - c. the economic situation abroad will grow worse.

On the basis of those assumptions, we estimate that we will receive on recorded capital account net during the remainder of the year something between \$200 and \$500 million. That would increase our estimate of additions to our monetary gold stocks to \$700 to \$1500 million.

3. Addition of \$700 million to our gold stock -- i.e., importation of \$600 million -- will not place any significant pressure on the gold holdings of foreign countries. But an increase of \$1500 million will likely heighten the monetary difficulties of several foreign countries.

4. Should our assumption as to an improvement in business here prove incorrect, should business grow much worse in the United States, thereby giving rise to repeated rumors of further dollar devaluation, capital outflows can easily amount to several hundred millions a month. But it would take capital outflows of from \$50 to \$100 million a month to cause any outflow of gold.

May 13, 1938

(Dictated June 6, 1938)

On May 13th, Wallace, Hopkins and myself went to see the President, as a follow-up on my letter to him of May 12 (Copy attached) and to bring to his attention the situation in cities like Cleveland where people were not getting enough to eat. I had with me a memorandum allocating \$10,000,000 for direct relief, also a memorandum showing how much money was available for Surplus Commodities Corporation.

Hopkins opposed the President allocating any money for direct relief as he said we ~~must~~ not do anything to keep the States of Ohio and Illinois from allocating sufficient of their funds and if we went into it at this time it might be apt to keep them from passing the necessary legislation.

While I am dictating this memorandum almost three weeks after the conference, it was at this meeting that I first began to work on the President and Wallace and Hopkins to take care of the ill-fed and ill-clothed through Surplus Commodities Corporation. Up to that time my records show that Wallace had not been buying one dollar's worth of flour. From May 13 to May 27 he bought 135,000 barrels of flour (see the attached memorandum dated June 1 from Dr. Haas.)

From the date of our meeting, the President and Wallace began to take an interest in feeding the needy. I consider that date a most important one historically.

May 12, 1938

My dear Mr. President:

I am very much concerned about the direct relief situation, especially in such midwestern cities as Cleveland, Detroit and Chicago, where the industrial recession is most sharply felt. There is a similar situation in smaller cities in the same area. They have had to meet a direct relief load far beyond what they had budgeted and in the case of the Ohio cities, notably Cleveland, they ran up against provisions of State law which prevented them raising additional municipal revenue or adding to their debt. You have, of course, noticed the stories in the papers about the sit-down strikes of relief dependants in Cleveland, which was forced to stop issuing food orders on April 30th and to put the employees of the Relief Administration on a "no pay" basis pending a special session of the Legislature at which they hope to get authority to raise new money. Other Ohio cities are in a somewhat similar plight, although the emergency elsewhere seems to be not so acute as in Cleveland.

The Cleveland newspapers report that as of April 30th there were 87,000 persons on the direct relief rolls, the highest number they have had at any time, while WPA has 63,000 persons on its work rolls.

The Cleveland crisis has been met only temporarily by the transfer to direct relief of funds reserved for the city's share of WPA projects.

You will recall that in our conversation on February 12th you mentioned the Cleveland situation specifically and you asked me to advise Aubrey Williams that it was your wish that they should work out a plan for sharing the direct relief load with the cities where such critical situations existed. I took the matter up with Aubrey Williams over the telephone immediately after my return to my office, but so far as I have been able to find out nothing of this sort has been done. Dan Bell raised the question that way as to whether the WPA had legal authority to use funds for direct relief. Dan doubted it, but Aubrey Williams said they had the authority, and later Dan had a talk with Elliott, the Acting Comptroller General, who said he would see no reason to raise any objection if WPA funds were used in that way. I understand the new relief bill contains specific authority for direct relief.

- 2 -

The suggestion that WPA supplement local funds for direct relief in the most critical situations was, you will remember, your own. I am reminding you of it at this time because I anticipate that we shall have a repetition in other cities within the very near future of the critical situation that exists in Cleveland and because I think it quite possible that you may wish to issue direct and explicit instructions to Harry Hopkins on this point.

Sincerely yours,

Secretary of the Treasury.

The President,

The White House.

HEG/mah;bn

# OHIO MAYORS SEEK NEW RELIEF PLANS

They Will Meet in Columbus  
Today to Draft Proposals  
to the Legislature

## FUNDS NEARLY EXHAUSTED

Special Tax Bills Drafted as  
Hopkins Prepares to Ship in  
Federal Food Supplies

By F. RAYMOND DANIELL.

Special to THE NEW YORK TIMES.

CLEVELAND, Ohio, May 11.—The Mayors of a dozen or more Ohio cities where the problem of providing for the relief of the destitute has become acute will meet tomorrow in Columbus to frame a program for submission to the special General Assembly session which Governor Davey has called for Monday.

By the time the Assembly meets the emergency funds transferred by the Cleveland City Council last Monday night will have been used. The city must then find additional funds to carry on relief until remedial State legislation becomes effective. Only about \$110,000 of the \$500,000 set aside for the city's participation in WPA remains available, and a minimum of \$70,000 a week is needed.

To take money from the depleted general fund of this city would result in some workers have been on a subsistence basis since May 1 and whose regular employees have not been paid for work done in the last two weeks of April, would mean a curtailment of necessary city services such as rubbish removal and street repairs. To take more money from the WPA participation fund cuts down the hope of that agency relieving the cities later in the future.

### Barton on Air Tonight

Mayor Burton, who is to deliver a radio address to the people of his State tomorrow night setting forth the gravity of the crisis confronting the city's 75,000 persons dependent on direct relief, planned to leave immediately afterward to attend the executive committee meeting of the Ohio League of Municipalities at Columbus.

Two members of his official family, former State Senator Miles B. Evans, Public Service Director, and Joseph H. Crowley, assistant law director, preceded him there tonight.

Bills have been drawn up. It was learned, for submission to the General Assembly. These provide for new general changes in the Ohio system of administering relief, as follows:

1. That the State raise at least half the total requirements for emergency unemployment relief through appropriation, new taxes, or a combination of the two, to be distributed on the basis of source of origin.

2. That counties and cities receive concurrent taxing powers with the State to be exercised by the county upon local subdivision is required to meet relief needs within the jurisdiction. The local subdivisions to come power to levy taxes locally upon which the State has at that very time.

### Adult Allowances Too Small

While curtailed relief is still being administered to emergency families, officials admit that it is at least twenty per cent below the subsistence standard. For instance, a family of three receives \$4.25 a week. The "Workers' Alliance" is demanding "sit-ins" at two of the city's seven relief stations. There has been no disorder and no increase in petty thievery since the curtailment, however.

At the Lake Station, in the heart of Cleveland's industrial east side, populated by Croats, Lithuanians and Poles, the "sit in" is being led by Mary Todorovich who has a son fighting for the Loyalists in Spain. She said this afternoon that her followers would remain in the relief station until the State and city can provide adequate sufficient to maintain them on "a decent standard."

The leader of the Workers' Al-

liance here is Arnold Johnson, who admits membership in the Communist party. He said he would order a "sit in" at City Hall beginning Monday night to demonstrate for re-allocation of more city funds for relief when the City Council meets again.

In the meantime, it was learned that the Federal Surplus Commodities Corporation, headed by Harry L. Hopkins, plans to ship \$100,000 worth of foodstuffs over Cleveland in the next month to help feed the unemployed who are ineligible for WPA and unable to find jobs in private industry.

## U. S. REFUSES A VISA FOR BRITISH RED M. P.

William Gallocher Will Press for  
Permission to Come Here

Writings to THE NEW YORK TIMES.

LONDON, May 11.—The United States Consulate here has refused to grant to William Gallocher, long Communist Member of Parliament, a visa for a visit to the United States, the Consulate's explanation being that regulations in America already prohibit a visa.

Mr. Gallocher, who had been invited as a Federal delegate to attend the congress of the American Communist party, opening May 26, insists to persist in his application and will make a further effort through the British Foreign Office.

Writings to THE NEW YORK TIMES.

WASHINGTON, May 11.—Communists and others belonging to organizations that advocate the overthrow "by force and violence" of governments in which they do not believe are inadmissible to this country under a provision of the immigration law, which applies alike to visitors and to those seeking permanent residence.

In the case of visitors, denial of visas—as to which there is little if any room for the exercise of discretion in the interpretation of the law—has not infrequently given rise to acerbic criticism when prominent or distinguished men and women have been prevented from coming here because of their affiliations and beliefs. But when the aliens have successfully been prevented, the law has remained unchanged.

The only other case of a British Member of Parliament seeking under this law was that of the late (Sir) Basil Spence, Indian Communist. He was appointed as a member of the British delegation to attend a meeting of the Interparliamentary Union held in Washington some years ago.

## MILKMEN TO AID SCIENCE

Pittsburgh Is Seeking 'Amr  
Data From 100,000 Families

PITTSBURGH, May 11 (AP)—Science recruited the milkmen to in opening a war on "smog" this industrial city's extreme Y month smog poll.

On the door steps of 100,000 homes in the Pittsburgh district from the milkmen will leave his ordinary order, and a brown envelope will contain a

The envelope will contain a formula on the effect of a and smoke in the air. On the milkman will gather it.

From them the city health personnel and scientists participating in the WPA-Smoked plan hope to learn enough to a practical drive for the red of smog and the disease-causer.

"Smog" is bituminous coal caught in fog, a condition it here in winter and fall but sometimes becomes so dense office buildings were light and motorists need headlights in on occasions have for city breathe.

In the opinion of many authorities, "smog" is the reason why Pittsburgh's highest pneumonia death the United States.

### Medical School Regatta

The eleventh annual sail and motor boat regatta the sponsorship of the department of navigation Mary & Co., Inc., will only starting at C Lake 16 O'clock P.M. an afternoon and give enter.

455

The  
New  
York  
Times

May 11, 1938.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

The following is based on reading of Cleveland newspapers for the last two weeks.

The direct relief situation in Cleveland became acute on May 1, when the city stopped distribution of food orders to the needy and notified all employees of the City Relief Administration that they were dismissed but invited to work voluntarily until the city could arrange means to pay them. The cause for the action was that the city's budget provision for direct relief had been totally exhausted and in addition the city had gone into debt approximately two million dollars to food merchants. At that time there were on the direct relief rolls 87,000 persons, the largest direct relief load the city has had at any time since 1932. There are 63,000 persons on WPA work rolls, who, together with their dependents, make a total estimated at 189,000 persons benefiting from WPA.

The growth of the unemployment and relief problem in Ohio in the last year is indicated by WPA figures of 187,000 employed in March, 1936, 81,000 in September, 1937, and 233,360 for the week ending April 30, which was an increase of 2,928 from the previous week. Mayor Harold Burton of Cleveland estimates that between one-fourth and one-third of the entire population of 1,200,000 in metropolitan Cleveland is dependent either on direct relief or WPA.

The stoppage of food orders as of April 30 produced a very critical situation in Cleveland. Relief clients denied food orders clamored at the five district relief stations maintained by the city and many of them besieged the offices of the Mayor and the City Council. Action taken by Mayor Burton consisted of a renewed appeal to Governor Davey to call a special session of the legislature immediately so that new taxes and bond issues could be authorized, the organization of a special relief advisory committee, appeals to charitable organizations and recommendation to the City Council to transfer other funds to direct relief. The Mayor prevailed on the two principal charity organizations to transfer to the city \$20,000 to take care of

the most urgent cases and on Thursday, May 5th, when relief applicants were becoming increasingly unruly the City Council voted to transfer \$50,000 from the funds budgeted for the city share of WPA projects to direct relief. On Monday of this week, May 9th, the Council followed this up by transferring another \$500,000 from the same fund. At the same time the Mayor and the Citizens Committee secured the cooperation of landlords and public utilities companies to forestall evictions and to carry bills for light and gas. It appears that these steps may prevent any more serious trouble until the legislature has had time to act. The Mayor estimates that the emergency action taken will not handle the situation later than June 1.

One phase of the crisis has been a sharp controversy between Mayor Burton and Governor Davey. The Governor made a radio address on the evening of May 2nd, charging the city administration with extravagance in handling relief. This is disputed both by the Mayor and all of the three city newspapers, which are siding with the city administration. The Plain Dealer in an editorial on May 4th compares relief costs in Cleveland of \$24.30 per case with costs of \$42.25 in New York, \$27.98 in Chicago and \$37.38 in Detroit. The Governor takes the position that relief is a local problem and should be cared for by the cities.

City officials report that since May 1, 1937, no state funds have been available for relief. The city has expended six million dollars for relief since that time. The city, it is reported, is bound by restrictions of state law which prevent its raising additional funds by tax levies or by bond issues. A tax measure may be adopted only by a sixty-five per cent vote.

Governor Davey has called a special session of the legislature for May 13th and the League of Ohio Municipalities has presented drafts of bills which would authorize additional local taxation without the sixty-five per cent requirement and additional bond issues. City officials in Cleveland and other cities assert that they foresaw the relief crisis and have repeatedly asked Governor Davey to call a special session to change the law. Mayor Burton's telegram the last week in April asked for a session on May 2nd. Governor Davey retorted that the draft legislation presented to him by the League of Municipalities was badly drawn and more time was needed.

The Federal Surplus Commodities Corporation sent in shipments of oranges, apples and rice and distributed them to the Cleveland needy last week.

45

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 1, 1938

TO Secretary Morgenthau  
FROM Mr. Haag 

In accordance with your request of May 30, 1938, I have secured the following information from Mr. Albin, Procurement Officer of the Federal Surplus Commodity Corporation:

Purchases between April 1, 1938 and May 13, 1938:

3,642,000 lbs. dry skim milk;  
2,500,000 quarts fluid milk;  
no flour purchased during this period.

Purchases between May 13, 1938 and May 27, 1938:

880,000 quarts fluid milk;  
135,000 bbls. of flour.

Mr. Albin stated that they have recently purchased a liberal supply of rice, potatoes, butter, eggs, cabbage, prunes, and dried apples. He said they have quite a complete dietary set-up.

They have recently ordered a considerable delivery of flour, and it will be delivered at least in part before July 1, 1938. Mr. Albin states that the new purchases of flour will be sufficient to maintain the relief load for a period of two months.

NUMBER OF CASES RECEIVING GENERAL RELIEF  
Reported by Area State Statisticians  
(Partial Periods)

WEEK ENDING	Cleveland (Cuyahoga County)	Columbus (Lucas County)	Cincinnati (Wayne County)	Ft. Wayne (Dearborn County)	Cleveland (Cuyahoga County) A/
<u>1937</u>					
October 9	20,000	3,200	16,428	1,491	89,991
November 6	21,500	3,600	16,776	1,457	90,461
December 11	23,000	4,160	17,979	1,660	
December 18	25,393	6,350	23,418	1,984	98,990
December 25					
<u>1938</u>					
January 1	26,529	6,600	25,466	2,134	
January 8	28,600	7,791	22,670	1,939	
January 15	27,700	10,059	23,614	2,400	
January 22	26,656	11,551	25,579	5,147	107,260
January 29	27,684	12,621	30,792	6,725	
February 5	28,538	13,296	34,579	7,888	
February 12	29,532	12,099	38,555	8,363	
February 19	32,428	13,310	42,509	8,037	104,570
February 26	32,648	14,540	41,459	8,844	
March 5	29,796	13,116	40,766	9,365	
March 12	28,442	12,928	37,877	9,772	
March 19	29,438	12,886	38,484	9,791	105,869
March 26	29,146	12,487	39,664	9,787	
April 2	29,197	11,201	40,800	10,361	
April 9	28,834	8,962	42,004	11,408	
April 16	26,366	8,786	42,593	11,728	
April 23	26,944	8,384	43,810	12,025	104,745
April 30	26,940	8,710	44,656	11,089	

A/ Monthly data received from the Social Security Board  
B/ No data reported.

Division of Research,  
Statistics & Records  
May 12, 1938

THE WHITE HOUSE  
WASHINGTON

My dear Mr. Secretary:

By virtue of the authority vested in me under the Emergency Relief Appropriation Act of 1937, approved June 29, 1937 (50 Stat. 352), it is requested that the following funds be transferred from the appropriation made in said Act as supplemented by the Act approved March 2, 1938 (Pub. Res. 80) to the Works Progress Administration, for the purpose indicated below:

AMOUNT: \$10,000,000

PURPOSE: For the purpose of providing relief, in accordance with the attached schedule, for persons in need either by direct expenditures or by assisting local public authorities or agencies in meeting the cost of furnishing relief in the form of money, service, materials, and/or commodities to provide the necessities of life to needy persons: Provided, That all expenditures hereunder shall be subject to the rules and regulations formerly prescribed for the Federal Emergency Relief Administration insofar as such rules and regulations may be applicable.

Sincerely yours,

The Honorable,

The Secretary of the Treasury.

WORKS PROGRESS ADMINISTRATION

For the purpose of providing relief for persons in need either by direct expenditures or by assisting local public authorities or agencies in meeting the cost of furnishing relief in the form of money, service, materials, and/or commodities to provide the necessities of life to needy persons in the following states:

<u>STATE</u>	<u>AMOUNT</u>	<u>PROJECT NUMBER</u>
Illinois	\$2,000,000	O.P. 365-54-5-1
Michigan	4,000,000	O.P. 365-51-5-1
Ohio	<u>4,000,000</u>	O.P. 365-42-5-1
TOTAL	<u>\$10,000,000</u>	

THE WHITE HOUSE  
WASHINGTON

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Sincerely yours,

The Honorable,

The Secretary of the Treasury.

RB

HOME FINANCE ADMINISTRATION

For the purpose of providing relief for persons in need either by direct expenditures or by assisting local public authorities or agencies in meeting the cost of furnishing relief in the form of money, service, materials, and/or commodities to provide the necessities of life to needy persons in the following states:

<u>STATE</u>	<u>AMOUNT</u>	<u>PROJECT NUMBER</u>
Illinois	\$2,000,000	O.P. 365-54-511
Michigan	4,000,000	O.P. 365-53-511
Ohio	<u>4,000,000</u>	O.P. 365-43-5-1
<b>TOTAL</b>	<u>\$10,000,000</u>	

THE WHITE HOUSE  
WASHINGTON

My dear Mr. Secretary:

By virtue of the authority vested in me under the Emergency Relief Appropriation Act of 1937, approved June 29, 1937 (50 Stat. 352), it is requested that the following funds be transferred from the appropriation made in said Act as supplemented by the Act approved March 2, 1938 (Pub. Res. 80) to the Works Progress Administration, for the purpose indicated below:

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Sincerely yours,

The Honorable,

The Secretary of the Treasury.

dwfB

WOMEN PROGRESS ADMINISTRATION

For the purpose of providing relief for persons in need either by direct expenditures or by assisting local public authorities or agencies in meeting the cost of furnishing relief in the form of money, service, materials, and/or commodities to provide the necessities of life to needy persons in the following states:

<u>STATE</u>	<u>AMOUNT</u>	<u>PROJECT NUMBER</u>
Illinois	\$2,000,000	O.P. <del>365-42-5-1</del>
Michigan	4,000,000	O.P. 365-51-5-1
Ohio	<u>4,000,000</u>	O.P. 365-42-5-1
<b>TOTAL</b>	<u>\$10,000,000</u>	

[PUBLIC—No. 15—73D CONGRESS]

[H.R. 4000]

AN ACT

To provide for cooperation by the Federal Government with the several States and Territories and the District of Columbia in relieving the hardship and suffering caused by unemployment, and for other purposes.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the Congress hereby declares that the present economic depression has created a serious emergency, due to widespread unemployment and increasing inadequacy of State and local relief funds, resulting in the existing or threatened deprivation of a considerable number of families and individuals of the necessities of life, and making it imperative that the Federal Government cooperate more effectively with the several States and Territories and the District of Columbia in furnishing relief to their needy and distressed people.

SEC. 2. (a) The Reconstruction Finance Corporation is authorized and directed to make available out of the funds of the Corporation not to exceed \$500,000,000, in addition to the funds authorized under title I of the Emergency Relief and Construction Act of 1932, for expenditure under the provisions of this Act upon certification by the Federal Emergency Relief Administrator provided for in section 3.

(b) The amount of notes, debentures, bonds, or other such obligations which the Reconstruction Finance Corporation is authorized and empowered under section 9 of the Reconstruction Finance Corporation Act, as amended, to have outstanding at any one time is increased by \$500,000,000: *Provided*, That no such additional notes, debentures, bonds, or other such obligations authorized by this subsection shall be issued except at such times and in such amounts as the President shall approve.

(c) After the expiration of ten days after the date upon which the Federal Emergency Relief Administrator has qualified and has taken office, no application shall be approved by the Reconstruction Finance Corporation under the provisions of title I of the Emergency Relief and Construction Act of 1932, and the Federal Emergency Relief Administrator shall have access to all files and records of the Reconstruction Finance Corporation relating to the administration of funds under title I of such Act. At the expiration of such ten-day period, the unexpended and unobligated balance of the funds authorized under title I of such Act shall be available for the purposes of this Act.

SEC. 3. (a) There is hereby created a Federal Emergency Relief Administration, all the powers of which shall be exercised by a Federal Emergency Relief Administrator (referred to in this Act as the "Administrator") to be appointed by the President, by and with the advice and consent of the Senate. The Administrator shall receive a salary to be fixed by the President at not to exceed \$10,000, and neces-

ary traveling and subsistence expenses within the limitations prescribed by law for civilian employees in the executive branch of the Government. The Federal Emergency Relief Administration and the office of Federal Emergency Relief Administrator shall cease to exist upon the expiration of two years after the date of enactment of this Act, and the unexpended balance on such date of any funds made available under the provisions of this Act shall be disposed of as the Congress may by law provide.

(b) The Administrator may appoint and fix the compensation of such experts and their appointment may be made and compensation fixed without regard to the civil service laws, or the Classification Act of 1923, as amended, and the Administrator may, in the same manner, appoint and fix the compensation of such other officers and employees as are necessary to carry out the provisions of this Act, but such compensation shall not exceed in any case the sum of \$8,000; and may make such expenditures (including expenditures for personal services and rent at the seat of government and elsewhere and for printing and binding), not to exceed \$350,000, as are necessary to carry out the provisions of this Act, to be paid by the Reconstruction Finance Corporation out of funds made available by this Act upon presentation of vouchers approved by the Administrator or by an officer of the Administration designated by him for that purpose. The Administrator may, under rules and regulations prescribed by the President, assume control of the administration in any State or States where, in his judgment, more effective and efficient cooperation between the State and Federal authorities may thereby be secured in carrying out the purposes of this Act.

(c) In executing any of the provisions of this Act, the Administrator, and any person duly authorized or designated by him, may conduct any investigation pertinent or material to the furtherance of the purposes of this Act and, at the request of the President, shall make such further investigations and studies as the President may deem necessary in dealing with problems of unemployment relief.

(d) The Administrator shall print monthly, and shall submit to the President and to the Senate and the House of Representatives (or to the Secretary of the Senate and the Clerk of the House of Representatives, if those bodies are not in session), a report of his activities and expenditures under this Act. Such reports shall, when submitted, be printed as public documents.

Sec. 4. (a) Out of the funds of the Reconstruction Finance Corporation made available by this Act, the Administrator is authorized to make grants to the several States to aid in meeting the costs of furnishing relief and work relief and in relieving the hardship and suffering caused by unemployment in the form of money, service, materials, and/or commodities to provide the necessities of life to persons in need as a result of the present emergency, and/or to their dependents, whether resident, transient, or homeless.

(b) Of the amounts made available by this Act not to exceed \$250,000,000 shall be granted to the several States applying therefor, in the following manner: Each State shall be entitled to receive grants equal to one third of the amount expended by such State, including the civil subdivisions thereof, out of public moneys from all sources for the purposes set forth in subsection (a) of this sec-

tion; and such grants shall be made quarterly, beginning with the second quarter in the calendar year 1933, and shall be made during any quarter upon the basis of such expenditures certified by the States to have been made during the preceding quarter.

(c) The balance of the amounts made available by this Act, except the amount required for administrative expenditures under section 3, shall be used for grants to be made whenever, from an application presented by a State, the Administrator finds that the combined moneys which can be made available within the State from all sources, supplemented by any moneys, available under subsection (b) of this section, will fall below the estimated needs within the State for the purposes specified in subsection (a) of this section: *Provided*, That the Administrator may certify out of the funds made available by this subsection additional grants to States applying therefor to aid needy persons who have no legal settlement in any one State or community, and to aid in assisting cooperative and self-help associations for the barter of goods and services.

(d) After October 1, 1933, notwithstanding the provisions of subsection (b), the unexpended balance of the amounts available for the purposes of subsection (b) may, in the discretion of the Administrator and with the approval of the President, be available for grants under subsection (c).

(e) The decision of the Administrator as to the purpose of any expenditure shall be final.

(f) The amount available to any one State under subsections (b) and (c) of this section shall not exceed 15 per centum of the total amount made available by such subsections.

Sec. 5. Any State desiring to obtain funds under this Act shall through its Governor make application therefor from time to time to the Administrator. Each application so made shall present in the manner requested by the Administrator information showing (1) the amounts necessary to meet relief needs in the State during the period covered by such application and the amounts available from public or private sources within the State, its political subdivisions, and private agencies, to meet the relief needs of the State, (2) the provision made to assure adequate administrative supervision, (3) the provision made for suitable standards of relief, and (4) the purposes for which the funds requested will be used.

Sec. 6. The Administrator upon approving a grant to any State shall so certify to the Reconstruction Finance Corporation which shall, except upon revocation of a certificate by the Administrator, make payments without delay to the State in such amounts and at such times as may be prescribed in the certificate. The Governor of each State receiving grants under this Act shall file monthly with the Administrator, and in the form required by him, a report of the disbursements made under such grants.

Sec. 7. As used in the foregoing provisions of this Act, the term "State" shall include the District of Columbia, Alaska, Hawaii, the Virgin Islands, and Puerto Rico; and the term "Governor" shall include the Commissioners of the District of Columbia.

Sec. 8. This Act may be cited as the "Federal Emergency Relief Act of 1933."

Approved May 12<sup>th</sup> 1933

May 12, 1938.

## MEMORANDUM FOR MR. BELL:

Under Section 32 of the A.A.A. Act, there is available for the fiscal year 1938.....\$125,097,214

Reserved for cotton subsidy.....\$65,000,000

Appropriated for 1938 A.A.A. program..... 17,021,448

Allotted to Secretary of Agriculture for exportation and diversion of surplus agricultural commodities..... 12,500,000

Allotted to Secretary of Agriculture for purchase and distribution for relief of agricultural surplus commodities ... 30,000,000

Total..... 124,521,448

---

Balance unallotted..... 575,766

I am advised that, if authorized, the Agricultural Surplus Commodities Corporation can make use of between \$8,000,000 and \$9,000,000 for the purchase of surplus food commodities and ship such commodities to points of critical need. In addition, it is estimated, roughly, that \$10,000,000 of the \$17,021,448 appropriated for the A.A.A., as stated above, will not be required for that purpose and could be utilized for the purchase of surplus agricultural commodities for shipment to points of critical need.

The Agricultural Surplus Commodities Corporation is restricted by law with respect to the surplus commodities which it can purchase and distribute for relief, i.e., they can only purchase commodities in which there is a surplus that is causing price depressions below parity.

The Corporation is now shipping to Cleveland, Detroit, Toledo, and other critical points in the East, surplus commodities of rice, dried beans, Irish potatoes, cabbages, dried apples and some fresh apples. Surpluses of prunes are now being shipped from the West and will be available for distribution in the East within a few days. There will probably also be available in a few days in the East surpluses of grape fruit, oranges, and possibly some dried skimmed milk.

In addition to the above, the President can also release the \$575,766 balance of Section 32 funds in reserve.

- 2 -

It should be understood that many of the commodities which the Agricultural Surplus Commodities Corporation can supply are of a perishable nature and unless arrangements can be made for cold storage, the shipments to any point would be governed by the rate of consumption.

I am advised that there is no wheat surplus which can be purchased at this time.

  
Assistant.

DWB

## Funds Available for Direct Relief

May 13, 1938

<u>General Reserve</u>	<u>\$55,453M</u>	
Immediately available	\$34,147M	
Available in 24 hours	<u>10,041M</u>	\$44,188M
If necessary, the remainder, with cooperation of Works Progress Administration, could be made available by May 18, 1938		<u>11,265M</u>
		\$55,453M

On February 21, 1938 Mr. McFarland of the General Accounting Office phoned that he had taken the matter of the use of the appropriation for direct relief, other than through the Farm Security Administration, up with Judge Elliott, Acting Comptroller General, and Judge Elliott said if it became necessary to make an allocation for direct relief to the Works Progress Administration he would not object to countersigning the warrant.

*Printed*

## WORKS PROGRESS ADMINISTRATION

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

HARRY L. HOPKINS  
ADMINISTRATOR

May 13, 1938

The Honorable  
The Secretary of the Treasury

My dear Mr. Secretary:

I am attaching the memorandum you requested yesterday afternoon on the relief situation in Cleveland, Detroit, Toledo, Flint and Chicago.

There is one item of interest not covered by the memorandum. In the City of Cleveland, there was set up a special fund of \$200,000 to be used for materials and supervision of WPA projects. In the emergency of the last few weeks, they have twice drawn upon this fund for direct relief; mostly to unemployables, inasmuch as we were taking on as quickly as possible all employable persons who had been certified. The last allotment from these funds to the local welfare agencies of \$70,000 was made Wednesday, I believe. This sum might have been the amount you referred to when you asked if we had made a grant for direct relief in Cleveland.

I hope the memorandum will give you the information you wanted.

Sincerely yours,



Corrington Gill  
Assistant Administrator

WORKS PROGRESS ADMINISTRATION

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

471

HARRY L. HOPKINS  
ADMINISTRATOR

May 13, 1936

The Honorable  
The Secretary of the Treasury

My dear Mr. Secretary:

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I hope the memorandum will give you the information you wanted.

Sincerely yours,

Corrington Gill  
Assistant Administrator

MEMORANDUM

SUBJECT: The Relief Situation in Cleveland, Detroit, Toledo, Flint and Chicago.

The effects of the recent declines in industrial activity have been particularly severe in the cities of Cleveland, Detroit, Toledo and Flint which are heavily dependent upon the steel, automobile and related industries. Chicago likewise has been seriously affected by the depressed conditions in the area.

To meet this situation WPA employment has been steadily and rapidly expanded in those cities. Between October 16, 1937 and May 7, 1938, while WPA employment increased 79 percent for the country as a whole, the increases in these 5 cities were much greater as shown below:

City <u>A/</u>	WPA Employment		Percent Increase
	Week Ending October 16	Week Ending May 7	
Flint	1,370	9,186	571
Detroit	12,598	67,252	434
Cleveland	21,801	64,801	197
Toledo	6,403	18,836	194
Chicago	50,036	105,292	110

A/ Data covers the county in which the city is located except for Chicago.

There have been no arbitrary quota restrictions on WPA employment in these cities. In other words, the WPA has been accepting all employable persons in need referred by the local relief agencies.

Reports for the week ending May 7 indicate that the total number of employable persons certified as in need of relief who were awaiting assignment to WPA projects in each city were as follows. These persons are being assigned as rapidly as possible.

Toledo	1,000
Flint	3,000
Chicago	4,280
Cleveland	6,960 <u>A/</u>
Detroit	12,400

A/ Week Ending April 30.

The number of local relief cases in each of these cities for the week ending April 30, 1938 was reported as follows:

<u>City</u> <u>A/</u>	<u>Number of Cases</u>
Chicago	104,745 <u>B/</u>
Detroit	44,656
Cleveland	26,940
Flint	11,089
Toledo	8,710

A/ Data are for county in which the city is located.

B/ Figure covers entire month of April.

The weekly trend in the local relief rolls in each of these cities during the past few months is shown in the attached table. It should be noted that the local relief figures for each week include persons transferred from local relief to WPA during the period. This tends to inflate the local relief figures and is an important factor during periods in which a large volume of transfers is taking place.

As stated previously, eligible employable persons on the local relief rolls are accepted for WPA employment upon referral by the local relief agencies in these cities. Consequently, the local relief problem is primarily that of providing for unemployables.

In such midwestern cities as Chicago, Cleveland, Detroit, Toledo and Flint, both State and local funds are being used to meet relief costs. The funds now available are inadequate to meet the need in these cities which have been caught between declining tax income and advancing relief and welfare costs, yet it seems fairly evident that the City and State governments together have sufficient financial resources to carry direct relief costs satisfactorily in the event that a WPA program of broad scope is continued.

Additional relief appropriations are essential in each of the three states. Local revenues, being derived primarily from real estate taxes cannot be increased as quickly or extensively as State revenues which tap diversified sources. Ohio and Illinois cities, however, will be able to do a great deal more to help themselves if their State Legislatures lift the stringent limitations under which local governments are required to operate. Detroit, despite the fact that its outstanding debt is in excess of the legal limit, has worked out a plan under which the proceeds of a sizeable bond issue will be available for relief purposes immediately after the close of the current fiscal year next June 30th.

In these circumstances, early special sessions of the Ohio, Illinois and Michigan legislatures are the key to the direct relief situation.

Governor Murphy has indicated his willingness to call a special session of the Legislature, but thus far has not done so because the State can spend ahead on its biennial appropriation and also perhaps to force the City of Detroit to tap all local sources before additional State funds are made available.

Governor Davey already has called a meeting of the Ohio Legislature for next Monday, May 16th.

Governor Horner of Illinois as yet has taken no action.

Cleveland. No sooner had a special tax for relief purposes been authorized early in March than it became evident that additional levies would be required to meet coming relief needs. The City is handicapped in adding to its tax rate by the requirement that new levies must be approved by a 65 per cent favorable vote. Outstanding debt exceeds the legal limit. With a view to expanding local revenues available for relief purposes, Cleveland, Toledo and other Ohio cities will submit the following proposals to the Legislature next week:

1. Substitution of a simple majority vote instead of the 65 per cent requirement for approval of special tax legislation for relief purposes.
2. Substitution of a simple majority for the 65 per cent requirement for approval of bond issues for the local share of WPA or other Federal work project costs, and to exempt such bonds from local debt limitations.
3. Authority for cities to impose for relief purposes any tax change the Legislature has the power to enact.

Chicago. Chicago already has spent for relief a sum equal to its entire year's appropriation for that purpose. The City's contribution toward relief costs is fixed by a special tax levy. Inasmuch as the anticipated proceeds of this tax levy for the current year already have been spent, or nearly so, the City is in the difficult position of being unable to divert additional funds to relief until such time as the State enacts permissive legislation.

Detroit. Detroit already has exhausted its relief appropriation for the fiscal year ending next June 30th, and is financing its share of direct relief costs through tax anticipation borrowing.

The City hopes to get by until June 30th with this borrowing and State aid. In the meantime, although the City is over its debt limit for tax-supported bonds, it is planning to issue all or part of an authorized issue of revenue bonds against the new sewage disposal plant, place the proceeds in the sewer fund and at the end of the fiscal year appropriate this amount as surplus to the general account in which it will be available for relief purposes.

Increase in WPA Employment in Selected Cities  
between October 16, 1937 and May 7, 1938

City <u>A/</u>	WPA Employment Week Ending October 16, 1937	WPA Employment	
		Week Ending May 7, 1937	Percent Increase Over October 16, 1937
	Number	Number	
CONTINENTAL UNITED STATES	1,454,645	2,606,198	79.2
Cleveland	21,801	64,801	197.2
New York City <u>B/</u>	141,320	180,677	13.7
Chicago <u>B/</u>	50,036	105,292	110.4
Detroit	12,598	67,252	433.8
Los Angeles	26,934	50,981	15.0
St. Louis	14,998	31,314	108.8
Baltimore <u>B/</u>	4,917	6,075	23.6
Boston <u>B/</u>	16,350	22,334	36.6
Milwaukee	12,491	24,056	92.6
Minneapolis	8,397	15,330	82.6
Toledo	6,403	18,836	194.2
Flint	1,370	9,186	570.5

A/ Data apply to entire county unless otherwise indicated.

B/ Data apply to city only

May 11, 1938

## WPA Employment in Five Cities for Selected Weeks

October 1937 - May 1938.

Week Ending	City <sup>A/</sup>				
	Chicago	Cleveland	Detroit	Toledo	Flint
Oct. 30, 1937	50,047	21,919	12,467	6,057	1,222
Nov. 27, 1937	49,317	21,639	12,879	6,576	1,298
Jan. 8, 1938	60,598	25,346	15,754	7,568	1,688
Jan. 29, 1938	68,215	28,383	18,698	10,189 <sup>B/</sup>	3,339 <sup>B/</sup>
Feb. 26, 1938	80,192	41,638	32,838	10,226	4,534
Mar. 26, 1938	95,301	53,145	50,385	15,272	5,747
May 7, 1938	105,292	64,801	67,252	18,836	9,186

<sup>A/</sup> Figures are for entire county in which city is located, except Chicago.

<sup>B/</sup> Week ending February 19, 1938.

May 12, 1938.

3 1/2 persons = case

478

NUMBER OF CASES RECEIVING GENERAL RELIEF  
Reported by WPA State Statisticians  
(Partially Estimated)

WEEK ENDING	Cleveland (Cuyahoga County)	Toledo (Lucas County)	Detroit (Wayne County)	Flint (Genesee County)	Chicago (Cook County)A/
<u>1937</u>					
October 9	20,000	3,200	16,428	1,491	89,991
November 6	21,500	3,600	16,778	1,457	90,461
December 11	23,000	4,160	17,979	1,660	
December 18 B/					
December 25	25,393	6,350	23,418	1,984	98,990
<u>1938</u>					
January 1	26,529	5,600	25,466	2,134	
January 8	28,600	7,791	22,870	1,939	
January 15	27,700	10,059	23,614	2,400	
January 22	26,656	11,551	25,379	5,147	
January 29	27,684	12,621	30,792	6,725	107,260
February 5	28,538	13,296	34,579	7,888	
February 12	29,532	12,099	38,555	8,363	
February 19	32,422	13,310	42,509	8,037	
February 26	32,648	14,540	41,459	8,844	104,570
March 5	29,796	13,116	40,766	9,365	
March 12	28,442	12,928	37,877	9,772	
March 19	29,438	12,886	38,484	9,791	
March 26	29,146	12,487	39,664	9,787	105,869
April 2	29,197	11,201	40,800	10,361	
April 9	28,834	8,962	42,004	11,408	
April 16	26,366	8,786	42,593	11,728	
April 23	26,944	8,384	43,810	12,025	
April 30	26,940	8,710	44,656	11,089	104,745

A/ Monthly data received from the Social Security Board

B/ No data reported.

Division of Research,  
Statistics & Records  
May 12, 1938

Regraded Unclassified

May 13, 1938

Dr. Olsen telephoned the following:

FLINT, MICH.

Persons on relief 5/13/38	7,900
Cost of direct relief in April	\$319,581.

\* \* \* \* \*

CHICAGO

March

Families or groups of persons living together	96,520
Individuals in those groups	262,010
Direct relief money for March	\$2,775,409

April

Families or groups of persons living together	96,150
Individuals in those groups	260,170
Direct relief money for April	Not available

\* \* \* \* \*

(Dr. Olsen has complete breakdown of the March expenditures for direct relief, for Chicago, by purpose -- food, rent, etc., if Secretary wants it.)

DETROIT

Families or groups of persons living together	47,330
Direct cash payments for April	\$1,474,000

May 13, 1953

480

Dr. Olsen telephoned the following:

TOLEDO

For week ending May 11.

Persons on relief 15,603

Families or groups 3,833

For week ending May 7

Amount of money spent \$33,751  
(does not include administrative cost)

Last half of April

Administrative cost \$12,914

EG

GRAY

Paris

Dated May 13, 1938

Rec'd 4:10 p.m.

Secretary of State,  
Washington.

757, May 13, 5 p.m.

FROM COCHRAN.

French franc opened at 177.70 to the pound. Control apparently obtained no sterling during forenoon. When 2 or 300,000 pounds came in during Bourse control moved rate to 177.68. No bank seemed to have a dollar buying order from the control. Control thus continues to acquire some foreign exchange while slightly strengthening franc rate but rhythm of intake slowed up with speculative covering evidently diminishing and genuine repatriation of refugee funds beginning only moderately. Rentes lower. Official announcement expected tomorrow to give terms of new national defense loan: for 5,000,000,000 francs, books to be open short period, interest 5%, issue price 98, reimbursable within 30 years, drawings at 120, and holders or Government may demand repayment at par after first three years.

While belga improved yesterday after steps taken by central bank and vote of confidence for Government, trend

reversed

-2- #757, May 13, 5 p.m. from Paris

reversed today on report that Jansson Ministry would resign this evening.

International speculators selling belga and buying Indo-Chinese piastre. Latter unit was depreciated along with French franc. Operators believe it is to be re-valued upward for two reasons: (one) that its silver content makes it worth more than regular rate of 10 French francs to the piastre and (two) British are alleged during Daladier visit to London to have opposed a depreciation in the piastre similar to that envisaged for the franc and French are said to have offered to study the proper level for the piastre after taking the contemplated urgent action on their own currency. This is market gossip which I have not confirmed.

BULLITT

SMS:CSB

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