

May 18, 1938.
11:21 a.m.

H.M.Jr: Hello

Operator: Hello - they suggest that you call him through the White House - his other telephone is cut off.

H.M.Jr: Cut off?

O: Yes.

H.M.Jr: Oh.

H.M.Jr: Hello

O: Go ahead.

H.M.Jr: Hello

Admiral Peoples: Good morning, Mr. Secretary.

H.M.Jr: Hello Admiral.

P: Yes sir.

H.M.Jr: I hear we didn't get very satisfactory bids on this cement.

P: The - ah - the bids - ah - they opened them up this morning. They didn't get any bids on Ohio and West Virginia.....

H.M.Jr: Yes.

P:and - ah - ah - I told Collins to immediately make up a report - ah - status about it and I think the only thing we can do now is probably try to get some so-called independent in here and negotiate a contract with him.

H.M.Jr: I see. Now what I want to ask you is this. Ah - I got this note from Gaston. He said that Lehigh, North American and Lone Star said they wouldn't do business, see? Hello -

P: Yes, Mr. Secretary.

H.M.Jr: Which is the one that U. S. Steel controls?

P: Ah - I think it's Lehigh - ah - half a moment - I think it's Lehigh. I'll ask Collins, sir. Lehigh - he's in his section, I can't get in.

H.M.Jr: I don't think Lehigh is, but when you're ready to talk about it, see?

P: Yes, sir.

H.M.Jr: Uh - uh - let me know, I want to talk to you about that matter, see?

P: Yes, Mr. Secretary.

H.M.Jr: I don't think Lehigh is -

P: Well, now - well - I'll verify it, see?

H.M.Jr: Yes.

P: That is which one is controlled by the -

H.M.Jr: U. S. Steel.

P: U. S. Steel.

H.M.Jr: Yes.

P: But that's the only thing, I think we're justified now - try to - negotiate something.

H.M.Jr: But I just got a notion that we could get further with U. S. Steel than we could with anybody else.

P: Uh-huh.

H.M.Jr: I may be wrong.

P: I see, sir.

H.M.Jr: But I think that the new President would like to cooperate.

P: Uh-huh.

H.M.Jr: With the Government.

P: I see. Well, we can try them out.

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H.M.Jr: Well, before you move let's talk it over.

P: Yes, Mr. Secretary. You see, Mr. Secretary there are six states involved here. The thing will be ready now, within an hour or two.

H.M.Jr: All right.

P: They're pushing hard on it. Just as soon as they get it out.

H.M.Jr: When they're ready, give me a ring.

P: I will, sir. Thanks, Mr. Secretary.

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May 18, 1938.

Minutes of the Meeting of the Committee for the Coordination of
Treasury Law-Enforcement Activities.

Held on Wednesday, May 18, 1938, at 2:00 p.m., in Room 290, Treas-
ury Department.

Present: Mr. Graves, Assistant to the Secretary, presiding.
Admiral Waesche, Commandant of the Coast Guard.
Commander Towle, Commander, Hawaiian Section, San Francisco
Division, U. S. Coast Guard.
Lieutenant Pollio, Acting Chief Intelligence Officer,
U. S. Coast Guard.
Mr. Wilson, Chief, Secret Service Division.
Mr. Murphy, Assistant Chief, Secret Service Division.
Mr. Dow, Acting Commissioner of Customs.
Mr. Gorman, Deputy Commissioner of Customs.
Mr. Shumbart, Customs Agent in Charge of Enforcement.
Mr. Wood, Acting Commissioner of Narcotics.
Mr. Harney, Assistant to the Commissioner of Narcotics.
Mr. Avis, Assistant Deputy Commissioner of Internal
Revenue, Alcohol Tax Unit.
Mr. Koehler, Chief, Enforcement Division, Alcohol Tax
Unit, Bureau of Internal Revenue.
Mr. Burford, Special Agent in Charge (Dallas), Intelligence
Unit, Bureau of Internal Revenue.
Commander Thompson, Special Assistant to the Secretary.
Mr. Schwarz, from Mr. Gaston's office.

Mr. Graves opened the meeting by referring to Mr. Irey's illness. He said that Secretary Morgenthau is very anxious that there should be no let-up in the coordination of the Department's enforcement work, and has asked Mr. Graves to resume his supervision of this work until Mr. Irey is back again. Accordingly, Mr. Graves said, he will expect to meet with the Committee from to time as formerly, and in the meantime, to hear from any who have problems or difficulties in which he can be of help.

Admiral Waesche read his reports for the weeks ended May 11 and May 18, 1938, copies of which are attached hereto.

Mr. Graves asked Lieutenant Pollio for a statement of the liquor-smuggling situation.

Lieutenant Pollio said that in January of this year, Henry Moraze and Edward Folquet left St. Pierre for Europe. While in Holland, they purchased some 3,000 cases of alcohol and arranged for its shipment on the SS. MEROPE, which sailed from Amsterdam March 2 for Aquadilla, Puerto Rico. The 3,000 cases was actually landed at Marigot, St. Martin's, reportedly consigned to Adrian Halle, supposed to be the Mayor of St. Martin's, better known as Constant Fleming. Folquet paid \$11,400 for

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this alcohol, and is reported to have been associated in the deal with John Barnisch, alias Jack Murphy, who died recently at St. Pierre. On May 14, the AUDREY BARTLETT, registered in St. Johns, cleared from St. Martin's with 3,000 cases of alcohol for the Azores. Lieutenant Pollio ventured the opinion that the French Government, after receiving our State Department's communication on the subject, had directed Fleming to get the stuff out of St. Martin's and get it somewhere where a landing certificate can be secured. He said he thought the alcohol was actually destined for the Canadian trade.

Lieutenant Pollio said the next shipment was approximately 42,000 gallons of alcohol from Rotterdam on March 18, aboard the GRETE KURE (a ship purchased by Moraze in Denmark), ostensibly destined for St. Martin's. The R.C.M.P. have, however, notified the Coast Guard that the GRETE KURE is now hovering off St. Pierre, probably at the St. Pierre Bank. Lieutenant Pollio said that the PLAYMAID and TYEE are making frequent trips in and out of St. Pierre, which would seem to locate quite definitely the GRETE KURE. Lieutenant Pollio said that he thought this alcohol likewise was intended for the Canadian trade.

Continuing his summary, Lieutenant Pollio said the next shipment of alcohol was 400 cases on April 6 aboard the ORNEFJELL, consigned to St. Pierre-Miquelon. This was Belgian alcohol from the Skeedan distillery of Hoppe and Company which was shipped from Holland "in bond in transit" to Belgium and there put aboard ship, the Belgian authorities being powerless to stop it. Lieutenant Pollio said the ORNEFJELL went first to St. Johns, Newfoundland, where the master denied having any alcohol aboard. Search by Customs officials failed to disclose the presence of the alcohol. She then proceeded to Montreal, where she unloaded 400 cases marked for further shipment on the Belle Isle for St. Pierre. Lieutenant Pollio said the master apparently had two manifests, because the one he showed at Montreal declared the presence of the alcohol.

Mr. Graves recalled the conditions under which we agreed not to proceed against the RELDUN and other Norwegian ships; namely, that the Norwegian Government would undertake to see that no further shipments of alcohol which might get into the smuggling trade were made on Norwegian vessels. Lieutenant Pollio said he didn't think we could do anything about this shipment on the ORNEFJELL, because there has not been, and probably would not be, any attempt to bring any of it into the United States. The Administrator at St. Pierre has informed our Consulate that the alcohol is for local consumption. The quantity is obviously excessive for such a purpose. The cargo is known as the Sea Horse brand, and is consigned to an obscure merchant in St. Pierre. Lieutenant Pollio said the facts have been reported to the State Department, with the request that they communicate with the French Government.

Lieutenant Pollio said the French Steamship GELTE with 840 cases of alcohol had left Belgium on April 10 for St. Pierre. She arrived on April 26.

Lieutenant Pollio said this makes a total of 67,000 gallons of alcohol, including the 3,000 cases on the way to the Azores, which will apparently get into the smuggling trade. He said, however, that we haven't found any hovering vessels off our coast, and there is no indication that this stuff is intended for the United States.

The Norwegian SS. LOTOS cleared Antwerp March 27 for Bordeaux. On March 31, the LOTOS sailed from Bordeaux for St. Pierre with a cargo of brandies and liqueurs, the estimated quantity being 3,000 cases of brandies and liqueurs and 2,500 cases of wines.

With reference to St. Pierre, Lieutenant Pollio said that last December Mr. Gunsaulus reported that the old stocks were about gone, and that was undoubtedly the reason Moraze and Folquet made their European trip to purchase alcohol. The old stocks at St. Pierre had apparently gone into Canada, up the St. Lawrence, around the Bay of Fundy, to New Brunswick, and so on. Nothing has come into the United States. On Christmas Eve last the Canadians seized the ADMIRAL BEATTY. The boat is still under seizure and the crew under arrest. On May 4 they seized a motor boat which in late April had taken a cargo of whiskey, gin, rum, and a small quantity of alcohol, evidently the remnant of the RKIDON cargo, out of St. Pierre.

Mr. Graves asked about the narcotics-smuggling situation. Mr. Shambart said it is rather quiet now; exceedingly quiet on the Pacific Coast. The only recent activity out there was the seizure of 81 5-oz. tins of smoking opium on the U.S.S. CHAUMONT. A penalty has been assessed against the master, from which he is now seeking relief. The two men who actually bought the opium told the story of the man who furnished the money, Oleson. Oleson was convicted, and last week sentenced to 8 years and a \$1,000 fine. Bastedo and Benson were given two years and three years, respectively. The Navy mail clerk on the boat was given two months. One girl arrested in connection with the case who had \$2,800 pinned in her clothing, was released when it was determined that the money was her own and that she had nothing to do with the case. Mr. Shambart said that there was evidence that this particular activity had been going on since 1936.

Mr. Shambart said in the Yamamoto case, after extended investigation, Customs were unable to get any evidence of the handling of narcotics. They did get evidence of violation of the income-tax laws which they turned over to the Intelligence Unit. Yamamoto was convicted on the income-tax charges last Saturday and sentenced to serve 18 months on each of the two counts, the sentences to run concurrently. He was also fined \$1,000 on the first count and \$2,000 on the second count, and assessed the total court costs. Yamamoto entered the penitentiary Saturday afternoon.

Mr. Shamhart said that there was nothing else of any consequence at this time on the Pacific Coast, and that the supply of drugs was extremely limited. Smoking opium is selling wholesale at from \$190 to \$270 a 5-tael tin. Heroin is averaging \$170 an ounce, apparently coming from the East. There have been one or two small seizures of cotton morphine, of Japanese origin.

Mr. Shamhart said the same situation exists in Honolulu. The only seizure recently was a small quantity of opium from a Chinaman, whom, he believes, the Narcotics people have been after for five years. The quantity was small, but the case was important from the standpoint of the importance of the offender. The opium came from New Zealand on the MONTEREY.

Mr. Shamhart said the narcotics situation on the Atlantic Coast is extremely quiet at this time. The dealers have been very wary since the Cavaretta case last December, in which 3 Customs officers were arrested with some 19 civilians. Mr. Harney said 32 persons were indicted, some of whom they have never been able to get their hands on, including two Greeks now out in China. Sam Schwartz was extradited from France and has been sentenced to three years. Katzenburg has been extradited from Greece. He has entered a plea of not guilty, but Mr. Harney says he thinks that he will change and plead guilty. In all, about 20 of the defendants have pled guilty.

Mr. Graves asked just how important this is in its effect on the narcotics traffic in New York City. Mr. Shamhart said the amount brought in by this particular crowd was enough to take care of approximately 10,000 addicts, probably one-quarter of the entire addiction in this country.

Mr. Graves asked if the Bureau has taken any precautionary measures to prevent a recurrence of that kind of thing. Mr. Shamhart said many. Mr. Graves said he supposed they had adopted a scheme for keeping a record of the numbers of the baggage stamps. Mr. Gorman said the system they have put into effect is based on that suggested by Mr. Graves. There is a different series of numbers for each boat. Each day cards are prepared showing the first three numbers of the stamps to be used that day. The inspector must check each stamp to see that its series comes within the first three digits on the card.

Mr. Graves asked if Customs and Narcotics have any evidence about places in New York handling opium. Mr. Shamhart said he didn't know of any place handling either crude or smoking opium at this time. Mr. Harney said it is very scarce in New York now. Narcotics agents haven't been able to make a purchase for some time, and the dealers are limiting their sales strictly to their old and well-known customers. Heroin, however, is still available, and only slightly higher in price than heretofore.

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Mr. Shambart said that the Gulf area is quiet. Customs and Narcotics are working like one organization in that area.

Mr. Graves asked about the European situation. Mr. Shambart said a Chinaman who had been supplying narcotics to the crews of United States ships was arrested almost upon his arrival in New York. A few seizures have been made on the coast of France of narcotics coming out of Le Havre, but no Customs seizures have been made on direct information from our people abroad. Mr. Graves asked what the effect on the situation would be if we withdrew all the special investigators. Mr. Shambart said that would be hard to say; they have the narcotics dealers definitely identified, and are having them followed by police officials of various countries—supervising their movements, mail, telegrams, and telephone messages. In fact, Mr. Shambart said, our people definitely have the narcotics dealers "on the run" but they are not giving the Bureau any information leading to seizures.

Mr. Graves asked Commander Towle to give the Committee a brief statement of the situation in Hawaii. Commander Towle said everyone has been actively engaged for the last 18 months in organizing and developing the new Hawaiian section of the Coast Guard. Three high-speed patrol boats have been sent out—two 78-footers and one 68-footer which can cruise in excess of 23 knots. The ITASCO has been replaced by the TANAY because of the superior speed of the latter. They also have two 125-foot off-shore patrol boats, capable of about 12 knots. An intelligence unit has been organized, which is functioning very well at present.

Commander Towle said the Coast Guard is now able to trail all steamers in the Oriental trade into and out of Hawaiian waters. The patrol boats have sufficient speed and endurance to trail the Oriental high-speed passenger liners very closely while they are in the smooth waters to the lee of the islands where smuggling activities are possible. Beyond the lee of the islands, in the rougher waters of the channel off soundings the tracks are guarded by the TANAY, which has sufficient speed to keep close to all the steamers. The plane is of great assistance, Commander Towle said. It patrols the track of the steamers during daylight hours, and keeps any sampans under surveillance until it can be boarded by the patrol boats.

Commander Towle said the steamers are trailed in and out of all the ports in all the islands, and that in patrolling the tracks, boats are sent about 40 miles north of Kauai, which is about 160 miles northwest of Honolulu. Commander Towle said that of course the 125-footers do not have the speed to keep up with the fast passenger steamers, but they are used fairly effectively by placing them at "hot spots" along the tracks. Commander Towle said that he feels that smuggling by dumping to sampans has been made very difficult and very risky, and that in the smooth waters in the lee of the Islands it has been eliminated.

Commander Towle said that Customs was able to guard all the ships trailed by Coast Guard. He said Customs was pretty thoroughly reorganized, and in October, 1936, 16 guards were added. The guarding of the vessels is being handled satisfactorily. The Appraiser's examination has been made an effective search for narcotics. The effort is being made to bring the system in the Islands up to mainland standards, particularly in handling baggage. Customs have also reduced the "racket" which was being worked by Orientals in the Islands of importing merchandise in excess baggage. A corral has been set up for the examination of cargo, and additional personnel sent out to Hawaii are taking care of that effectively. Commander Towle added that in the last 18 months, Customs have greatly improved their set-up and practices.

Commander Towle said in the investigative program Customs and Narcotics are cooperating satisfactorily. This program, Commander Towle said, reached a very gratifying climax on April 18 when Eddie Ching Wan was arrested, together with Sidney H. Mole of the SS. MONTEREY. Both were apprehended with six tins of opium in their possession in the Hoffman Cafe owned by Ching Wan. (This is the case referred to by Mr. Shambart, above.)

Commander Towle said the last purchase of smoking opium they had been able to make was at \$265 a tin. This had, as he said, passed through two hands, so he figured the price to be about \$220. Mr. Graves asked if it were scarce. Commander Towle said he was skeptical that it was any scarcer than it had been. He said he thought it was continuing to come in. The mission of the investigative unit is to find out how it is coming in.

Mr. Graves asked Mr. Avis how much illicit liquor there was over there. Mr. Avis said a good deal, but in small operations. Mr. Graves suggested that Mr. Avis discuss the situation in detail with Commander Towle before he leaves Washington. Mr. Graves also asked Admiral Waesche and Commander Towle to meet with him to-morrow (Thursday) morning, for a further discussion of the Hawaiian situation.

Mr. Graves asked Mr. Harney if he had anything to add to what Mr. Shambart had reported concerning narcotics. Mr. Harney said for the last two years Narcotics have had 50 men in New York, 40 Narcotics agents and 10 Customs patrolmen, under Williams. They have been working that city "hammer and tongs" with the cooperation of the United States Attorney and the Judges up there. Mr. Harney said they have made a lot of arrests; in fact, they are responsible for half the criminal calendar in New York at this time. Mr. Graves asked how many people they have put in the penitentiary. Mr. Harney said he wouldn't want to guess. Mr. Graves asked if it would be about 50. Mr. Harney said that was a very low estimate.

In such places as Kansas City, New Orleans, St. Paul, and Chicago, Mr. Harney said he thought the situation was good.

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Mr. Avis stated that the liquor situation was generally in very good shape. He said they had just seized a 2,500-gallon continuous process alcohol plant in downtown Chicago. 45,000 gallons of mash, 9 prisoners, and 3 automobiles were taken.

Referring to the South, he said he has increased the quota by 30 men in Atlanta and Baltimore and by 10 men in Louisville. He said he is now reapportioning the force on the basis of 80 per cent in proportion to population and 20 per cent in proportion to the mash gallonage seized. Under this apportionment, the Atlanta district will get 50 more men. Mr. Avis said Atlanta ranks first in mash gallonage seized, followed closely by Baltimore, New York, and Chicago. Mr. Graves said that on his recent trip to the West, the Alcohol Tax men there complained that they were not very busy. Mr. Avis said he has taken 10 men from San Francisco and 4 from Seattle; but finally an irreducible minimum is reached below which, if there is to be any enforcement program at all, the force can not be reduced. He said he now has 9 men in the State of Montana, and although they are undoubtedly not kept busy to their full capacity, that seems to be the very smallest number that could be expected to cover that territory with any degree of efficiency.

Mr. Graves asked what is going on in the Denver district. Mr. Avis said nothing whatever. He said his people seize a 25 or 50-gallon still once in a while in New Mexico or Arizona. Seizures in Colorado are so rare as not to be considered.

While the meeting was in session, a report was received that the wire-tap bill had passed the Senate. Mr. Avis said he would like to have some time with Mr. Graves in the next day or so to get his help in pushing it through the House this session. Mr. Graves said he would take it up with Mr. Hester for Mr. Avis.

Mr. Wilson reported that the counterfeiting situation is extremely favorable. Counterfeit money in circulation for the first four months of this year was about \$131,000 as compared with about \$210,000 for the first four months of last year. At the same time, seizures from plants jumped from \$60,000 for the first four months of last year to \$113,000 for the first four months of this year. The check-forgery cases, however, are coming in in greater numbers all the time. The situation gets temporarily better in some sections of the country, only to be overbalanced by much worse conditions elsewhere. At present there are a total of 2,500 cases pending. Last month, 1,400 cases were closed up, and 1,200 new ones received.

Mr. Graves asked what proportion of the forged checks are Treasury Department checks. Mr. Wilson said about 75 per cent are Treasury Department checks, issued for P. W. A., and the Veterans' Administration. Mr. Graves asked if the Disbursing Office were in a position to control

the delivery of these checks. Mr. Wilson said that they are having difficulty in getting the Disbursing Office to change from mail delivery to personal delivery. Mr. Graves asked if that has been carefully explored by the Secret Service. He said that, as he had said to Mr. Wilson many times, it should be practical to work out with the Disbursing Office some reasonable method of delivering checks that would appear to give promise of reducing this problem. Mr. Graves asked if the Division of Accounts and Deposits doesn't exercise some supervision over the disbursing officers.

Mr. Graves asked Mr. Wilson how the Secret Service was operating under the new 15-district set-up, instead of the old set-up of 38 districts. Mr. Wilson said it was a very big improvement.

Mr. Graves asked if anyone had anything further to bring up.

Mr. Dow said that Mr. Stevens had reported to him this morning that all the Canadian distillery cases are currently paid up.

Mr. Schwarz said that he and Commander Thompson wanted to ask Mr. Graves about a plan for standardizing publicity. Mr. Graves asked if, in view of the lateness of the hour, that couldn't go over until the next meeting.

The meeting adjourned at 4:25 p.m.

CONFIDENTIAL

May 18, 1938

COAST GUARD HEADQUARTERSREPORT OF COORDINATION
ANTI-SMUGGLING ACTIVITIESBOSTON DIVISION

An absence of contraband carriers off the New England Coast was reported. Investigation of rumors that alcohol and liquor had been recently landed in the vicinity of Millbridge and Manset, Maine, was continued by Alcohol Tax Unit, Boston. Also under investigation by Alcohol Tax Unit are rumors that some contraband was landed on or about May 4, 1938, near Bar Harbor. Acting on information furnished by the Assistant Coordinator for the State of Maine, Alcohol Tax Unit, Portland, seized a substantial quantity of liquor at Ellsworth, Maine, and made two arrests in connection therewith.

Special surveillance and search were given the American Steamer EKOCHORDA when she arrived at Boston on May 11th from Mediterranean ports to prevent a possible landing of narcotics. In addition, the Japanese and British Steamers VENICE MARU and PILCOT were trailed into Boston by the Coast Guard and turned over to the surveillance of Customs.

At the monthly conference held at Boston on May 11th, the District Supervisor, Alcohol Tax Unit, Boston, reported seizure of seven stills, several automobiles and trucks, and thirty-four arrests during the past week.

NEW YORK DIVISION

The Coordinator reported that the British Oil Screws STANDARD COASTER and REG II continued smuggling operations off Nova Scotia during the week; the presence of the FREDERICK H. II at St. Pierre for engine repairs; apparent smuggling activities on the part of the PLAYMAYD and TYEE in and out of St. Pierre; information indicating the presence of the Danish Schooner GRETE KURE off St. Pierre; and the belief that the NEPSYA arrived at Trinidad, B. W. I.

Observation flights for illicit distilleries were made by Planes V-136 and V-151 in the States of New York, New Jersey, Delaware, Pennsylvania, Maryland, and the District of Columbia.

NORFOLK DIVISION

No information relative to offshore smuggling activity was received. The suspects UPSALGUITCH and LOUISE are still in an inactive status. The Panamanian suspect ANNA sailed from Southport, North Carolina, May 2nd, for Charleston, South Carolina.

A special Customs conference was held by the Coordinator on May 11th at Norfolk relative to conditions existing in and around Wachapreague and Quimby on the Eastern Shore of Virginia.

Guards were placed on four vessels and six were trailed in the Chesapeake Bay area in the interest of the prevention of narcotics smuggling.

JACKSONVILLE DIVISION

Customs Patrols, Jacksonville, Miami, Panama City and Tampa kept fourteen vessels under observation and thoroughly searched two. While keeping the Greek Steamship DIONYSSIOS STATHATOS under observation the Jacksonville Patrol seized a quart of smuggled Greek brandy from one T. G. Mercatos.

Still under investigation by the Miami, Tampa and Panama City Customs Patrols are the activities of Willard Campbell and "Red" Italiano; and rumors that marihuana is being peddled by seamen of the Moore-Mack and Bull Steamship Lines; also that marihuana is being taken on board oil tankers leaving Texas.

A conference was held at Charleston on May 13, 1938.

NEW ORLEANS DIVISION

Reports of narcotic violations are being investigated.

The Coast Guard and Alcohol Tax Unit jointly seized in the States of Alabama, Mississippi and Tennessee, eight stills, two automobiles and two seizures of nontaxpaid liquor. Nine arrests were made.

COLLECTION DISTRICTS OF LOS ANGELES, SAN DIEGO AND NOGALES

A report received indicated that a small, red, highwing monoplane had crossed the border from Mexico in the vicinity between San Ysidro and Otay Mountains and had been sighted shortly after daybreak on three mornings within a period of two weeks. A Customs officer has been stationed at a ranch house in Otay Mountain Mesa to telephone the Coast Guard Air Station at San Diego when the monoplane is sighted.

Thirty-seven vessels entering Los Angeles Harbor were trailed or picketed.

SAN FRANCISCO DIVISION

Press reports indicate that in the CHAUMONT opium smuggling case the defendants Olson and Bastida were sentenced to eight years and two years imprisonment, respectively.

Fourteen vessels were trailed during the week.

SEATTLE DIVISION

Eleven vessels were trailed in Puget Sound, Columbia River, Grays Harbor and Willapa Bay.

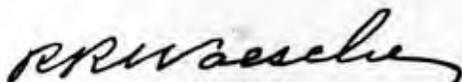
HAWAIIAN SECTION - SAN FRANCISCO DIVISION

No report received.



F. E. POLLIO,
Lieutenant, U. S. Coast Guard,
Acting Chief Intelligence Officer.

APPROVED:



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

CONFIDENTIAL

May 11, 1938.

COAST GUARD HEADQUARTERSREPORT OF COORDINATION
ANTI-SMUGGLING ACTIVITIESBOSTON DIVISION

Surface patrols were on the lookout for a possible shift of smuggling operations from the Nova Scotian to the New England coast by the contraband carriers, FREDERICK H. II, RED II and STANDARD COASTER. Mr. L. J. Perry, Captain of Company "A", Customs Patrol, reported receipt of a rumor indicating that a landing of alcohol had taken place in the vicinity of Steuben or Millbridge, Maine; also that a landing of choice liquors had been made at Manset, Maine (near Bar Harbor) about the middle of April, 1938.

Four suspected narcotic carriers were trailed into and out of Portland, Boston and Providence by the Coast Guard. On April 27th the Coast Guard assisted Customs in boarding and examining the British Steamer BARON LOVAT.

NEW YORK DIVISION

The British Oil Screws PLAYMAYD and TYEE are believed to be contacting the Danish Schooner GRETE KURE, which left Rotterdam, March 18, 1938, with a cargo of some 42,000 gallons of Dutch alcohol (Phenix brand), and which was definitely reported off St. Pierre on April 30th. The British Oil Screw NEPSYA is believed to be en route to the West Indies for a cargo of rum for the Nova Scotian smuggling interests.

Plane V-151 searched for illicit distilleries during the period April 21st to May 2nd in the States of New York, New Jersey, Delaware, Maryland and Virginia. No stills were sighted.

NORFOLK DIVISION

Guards were placed on eleven (11) vessels and four (4) were trailed in the Chesapeake Bay area.

At the conference held on April 29th at Baltimore, the conferees were advised of an article appearing in the Norfolk Ledger-Dispatch of March 28, 1938, stating that Bernard Ervin Royals and Joe Thomas West were indicted on March 28th by the Federal Grand Jury at Elizabeth City, North Carolina, on charge of slaying J. W. Jackson, Jr., of Alcohol Tax Unit, on March 8th.

NORFOLK DIVISION
(Continued)

The Coordinator also informed the conferees that guards had been placed on fifty-five (55) suspect vessels, and in addition twenty-seven (27) had been trailed by Norfolk Coast Guard units during the period March 20 - April 23, 1938.

One of the members of the Coast Guard Chesapeake Bay Boarding Group made the following report of what he observed while on board the CITY OF HAMBURG on April 22, 1938:

"While en route from Baltimore, Md., to Norfolk, Va., on the CITY OF HAMBURG, when about off Solomon's Island, at about 9:25 p.m., last night, a small boat about 60 feet in length, bridge-deck cruiser type, painted white hull with spar colored canvas over the deck, mast painted spar color, one mast, contacted the CITY OF HAMBURG. They took off the compass adjuster which had been taken on board in Baltimore. The ship had previously been adjusting her compass while en route to Norfolk on this trip. The name of the compass adjuster on board the CITY OF HAMBURG was 'Keefer'. He works for the Schmoler Compass Adjusting Company of Baltimore. This man had previously sent a telegram to 'Keefer' of Radio Corporation of Baltimore arranging for this contact. He left the CITY OF HAMBURG carrying a black suitcase.

"It was dark and I was unable to ascertain the name or number of the small boat. I also was unable to obtain this information from the skipper of the small boat due to the wind blowing and the fact that neither vessel came to a complete stop. The entire procedure took only a matter of about one minute to complete."

JACKSONVILLE DIVISION

During the period April 30 - May 2, Coast Guard Landplane V-162 cooperated with Alcohol Tax Unit in searching for illicit distilleries in Florida. Old still sites were observed but no new stills were noticed to be in operation. It is obvious that still operators are camouflaging their equipment by either covering them with foliage or setting them up in outbuildings.

A seizure of about forty (40) grains of Coca leaves found in a crew member's locker of the American S.S. PUERTO RICAN was made by Customs, Savannah.

JACKSONVILLE DIVISION
(Continued)

Alcohol Tax Unit, Miami, assisted by Customs, Immigration Border Patrol and a State Beverage Inspector, seized on April 28th near Florida City, a 300 gallon still, 117 gallons nontaxpaid liquor, 2 skiffs and an outboard motor. Four men were arrested and later released on \$500.00 bond each.

Customs Patrol, Miami, kept Willard Campbell under observation in an effort to learn the various places he might contact.

Customs Patrols, Miami and Jacksonville, kept 15 vessels under observation during the past week.

Customs Patrol, Tampa, reported seizing from a German refugee 3 Leica cameras, 1 contax camera and 1 pair binoculars, appraised at \$950.00. They also secured the sum of \$525.00 for 4 cameras and 1 pair binoculars which had already been disposed of. On April 21st the Patrol seized certain parts from a wrecked Taylor Cub Monoplane appraised at \$225.00. The plane, which belonged to one H. Thompson of Kingston, Ontario, was entered under a 90-day touring permit. Seizure was made because Thompson had sold part of the plane and had offered other parts for sale.

The above Patrol has made an investigation in connection with reported activities in narcotics in the vicinity of Moore Haven and Clewiston. An investigation was also made of reported activities of one "Red" Italiano and one Ray Buchanan, who were engaged in illegal activities during Prohibition.

An investigation by the Tampa Patrol of one Manuel Rodriguez, a refugee of Spain, suspected of dealing in narcotics, disclosed that he made trips to Mexico and that he was in some kind of racket.

The Panama City Customs Patrol reported that information had been received indicating that marihuana was being taken on board oil tankers leaving Texas by members of the crew and before entering a destined port a small boat would meet the tankers and the marihuana transferred. This Patrol also reported that the captain of the Waterman liner WACOSTA and one of the local pilots are said to be connected with a smuggling plot.

Information indicates that the seamen of the Moore-Mack and Bull Steamship Lines have been peddling marihuana cigarettes. This information has been circulated to all persons concerned by the Tampa Patrol.

JACKSONVILLE DIVISION
(Continued)



The Steamship NISHMAHA was kept under continuous surveillance while at Tampa in view of reports indicating that her crew brought a quantity of narcotics aboard while at a Poland port.

The yacht CHRISTINE from Havana Cuba, is suspected of complicity in the traffic of narcotic drugs. It is said that one Paul Engels, a German, is owner and one Enrique Ferrer, master.

NEW ORLEANS DIVISION

The Coast Guard and Alcohol Tax Unit jointly seized 17 stills and 1 vehicle in the States of Alabama, Mississippi and Tennessee. Thirty arrests were made.

No signs of offshore smuggling operations were noted by patrols.

COLLECTION DISTRICTS OF LOS ANGELES, SAN DIEGO AND NOGALES

Thirty-four (34) vessels were trailed or picketed during the week.

SAN FRANCISCO DIVISION

Twenty-four (24) vessels were trailed during the week.

SEATTLE DIVISION

Six (6) vessels were trailed in the Puget Sound, Columbia River, Grays Harbor and Willapa Bay areas.

HAWAIIAN SECTION - SAN FRANCISCO DIVISION

Four (4) vessels were trailed into and out of Honolulu, including the American S.S. PRESIDENT CLEVELAND, the master of which requested and was furnished Coast Guard assistance due to labor difficulties aboard his vessel.

F. E. Pollio
F. E. POLLIO,
Lieutenant, U. S. Coast Guard,
Acting Chief Intelligence Officer.

APPROVED:

R. R. Waesche
R. R. WAESCHE,
Rear Admiral, U. S. Coast Guard,
Commandant.

TREASURY DEPARTMENT

262

INTER OFFICE COMMUNICATION

DATE May 18, 1938

TO Secretary Morgenthau
FROM Mr. White *HDW*

Summary report on conference with Mr. Feis of the State Department relating to tentative proposal of a silver loan to Mexico. (May 16, 1938.)

In conversation with Mr. Feis emphasis was placed on the preliminary, exploratory and informal nature of the suggestion being made for their consideration.

The proposal was outlined as follows:

That a loan of 200 million ounces of silver be extended by Congressional action to the Mexican Government for possibly five to ten years, at a moderate rate of interest, returnable in silver bullion of equal weight. The loan to be made upon the following conditions:

1. The silver borrowed is to be maintained by the Mexican Government either in circulation as coins or silver certificates or as part of their monetary reserves.
2. A satisfactory settlement of the oil controversy be made.
3. Negotiation of a trade agreement between Mexico and the United States.

The State Department might at the appropriate moment as a part of the conversations now being held, suggest the possibility of such a loan. It was assumed that if the President, State and Treasury Departments considered the plan a feasible one Congressional leaders would be sounded out (before the matter was broached to the Mexicans) to ascertain whether the prospects of Congressional support for the proposal were sufficient to warrant taking up the matter with the Mexican Government.

Secretary Morgenthau - 2

Feis' comments on the proposal

Feis regarded the proposal as having very little merit. Listed below are the objections to the proposal advanced by Mr. Feis:

1. The Mexican Government is completely irresponsible and could not be depended upon to carry through any such agreement. They might, for example, sell the silver on the world market notwithstanding their promise to the contrary.

2. The Mexican people were completely incapable of operating any large scale industry let alone so complicated a matter as oil production. No settlement of the oil problem that included Mexican control over oil operations would be satisfactory. Oil production in Mexico would soon cease through technical incompetency, graft, dishonesty and irresponsibility.

3. Such a loan would establish a precedent for other Latin Americans to follow. For example, Chile might confiscate the copper mining properties of American owners in order to obtain financial assistance from the American Government.

4. The United States doesn't want to consummate a trade agreement with Mexico because we cannot grant to Mexico the concessions she would wish, though possibly some sort of treaty agreement with little real content could be arranged.

5. If a successful deal were made involving a silver loan and including a satisfactory settlement of the oil question it would be claimed by the American public that the Government made a loan in order to bail out the oil companies.

Feis did venture the opinion, after a half hour's discussion, that it might be possible to offer financial assistance as part of a larger program involving settlement of several important issues on the calendar between the two Governments (including the matter of boundary water rights) providing a reasonable settlement with respect to the oil properties (including possibly either a return of the properties to the Americans or operating the properties under some form of international trusteeship) were made prior to any suggestion of financial assistance.

Feis said he would prepare a memorandum for Secretary Hull on the subject.

May 18, 1938.

MEMORANDUM

TO: Secretary Morgenthau
 FROM: Mr. Gaston

The relief situation in Cleveland has not changed greatly since my memorandum of last week. The Legislature met in special session on Monday. The program proposed by the League of Ohio Municipalities is:

- (1) Authority for the cities to issue bonds in anticipation of future revenue from special taxes on utilities, beer and admissions already in effect under State law and earmarked for relief.
- (2) Authority to levy city taxes only on things already taxed by the State including real estate but excluding income taxation.
- (3) Passage of municipal tax bills and authority to issue bonds on a straight majority instead of the present sixty-five per cent requirement.
- (4) No new State taxes.

Action taken by the House of Representatives was the unanimous passage of a resolution authorizing the Speaker, who is from Cleveland, to appoint a committee of eleven to investigate the relief situation in the more populous counties and to propose a plan of relief. The Speaker appointed eleven rural legislators, seven Democrats and four Republicans. The strategy is obviously that nothing can be passed without the rural vote and it is necessary for them to be convinced. Governor Davoy's bills, which include an income tax earmarked for relief, were introduced. The Cleveland Press says "big business lobbies" were active in opposing relief. In the Senate a group called by the Press "hatchet men" and opposed to the national administration, were named to draft a relief and taxation bill. The House committee arrived in Cleveland Tuesday and began hearings.

Mayor Burton announced on Monday that he was asking WPA to add 7,500 or 10,000 men to their rolls in Cleveland. The News reports that this request was refused by the WPA regional director from Chicago. The Mayor had said last Friday "there will be no suffering permitted for lack of food in Cleveland" and he added that he had had full cooperation from WPA and that there had been "no disorder."

- 2 -

When the City Council met Monday evening to make another transfer from regular city funds to relief purposes, the Council chamber was besieged by a crowd of 1,000 persons, mostly relief clients. There were present representatives of C.I.O., the Association of Unemployed of Cleveland, Labor's Non-Partisan League and the Workers' Alliance. All of these representatives were permitted to speak and there were some disorderly and acrimonious scenes. Mayor Burton made a speech to the crowd asking for patience and repeating that no one would be allowed to starve, but the C.I.O. representative asserted that relief clients were getting only the equivalent of twelve cents a day and that that was "slow starvation." The Council voted to transfer \$80,000 from the budgets of regular municipal divisions, including \$25,000 from street cleaning, \$6,000 from police and \$5,000 from fire. The heads of these divisions said that this would mean that they would have to begin laying off men by June 1 or sooner if the money was not quickly replaced. This was the third transfer of regular funds, previous transfers having been \$75,000 and \$50,000.

Members of the relief crowd made known their intention of staying in the Council chambers all night. After the Council adjourned 300 remained but this number gradually dwindled to 150, who remained until morning. During the night they sent a telegram to Governor Davey telling him that the situation in Cleveland was a "disgrace."

The Legislature will not meet again until next Monday, May 23rd, when the special House committee is expected to report.

--c00--

May 16, 1938

To: The Secretary
 From: Mr. Magill

Summary of our conference with the President this
 afternoon, 2:15 to 3:00 P.M.

The President opened with a remark regarding the Pennsylvania primaries and the Secretary expressed some surprise at Mr. Farley's statement. The President asked whether the Secretary understood the political background of the statement. He then explained that the Democrats had carried Pennsylvania only twice since 1856 and that he was very anxious to see a victory there this fall. There was a serious split in the Party with the State Committee backing one set of candidates and Senator Guffey and Mr. Lewis backing another. It was important to get things in such shape that the two factions would unite for the election next fall. Mr. Farley, therefore, issued his statement on the day before the primary endorsing Governor Earle for Senator and Mr. Kennedy for Governor; Mr. Farley thought at that time that Governor Earle would win but thought it was likely that Mr. Kennedy would not. As the primary turns out Governor Earle is nominated and Mr. Kennedy is defeated. The President then asked whether in view of the fact that Mr. Farley had supported Mr. Kennedy would not Mr. Lewis and Senator Guffey be morally bound to get out and support the ticket in the fall. The President then turned to the tax bill which he had on the side of his desk and jokingly called attention to the fact that the Secretary of the Treasury had made no recommendation as to the President's action on the bill, but had merely asked for a conference to discuss the subject. The Acting Director of the Budget had merely quoted the Secretary's request for a conference. The Secretary asked whether he had not been pretty cagey in framing his letter that way. The President then asked whether we had considered that he had three possible courses of action. He could sign the bill, he could veto it or he could keep it for ten days and it would then become a law without his signature. We said we had realized that these three courses of action were open. The President said that, of course, he could not veto the bill but that at present he inclined to the third course of action, namely, permitting the bill to become a law without his signature. The Secretary observed that he liked that better than the President's previous suggestion of signing the bill but issuing a statement at the same time.

The President started to ask me about the contents of the bill but before I could say anything proceeded to summarize the bill for himself. He asked me to make notes of his comments. He said (1) that there were a large number of administrative changes which on the

- 2 -

whole were good, on balance they were rather definite gains in the line of efficient administration of the tax laws. I verified this conclusion, saying that there were a large number of administrative improvements which would not be understood by the general public but which did result in advantages to the Bureau; and that there were practically no administrative changes which were objectionable.

(2) As to its revenue aspects: I told the President that the bill would yield approximately \$65 millions less under present business conditions out of estimated total internal revenue of \$7,330 millions as set forth in the January Budget. In a good year the bill would produce around \$230 millions less, the Treasury estimated, than existing law.

(3) The bill eliminated a number of undesirable nuisance taxes.

(4) The undistributed profits tax: The tax had worked a hardship on small business. These hardships the bill corrected. The bill retained the principle of the undistributed profits tax but the differential is so small that it would probably not prevent a small group of individuals who control a profitable company from leaving the profits on their money in the company with the net result of avoiding personal income taxes which they would pay if the earnings had been distributed. On the other side the Committee did seek to strengthen the authority of the Commissioner of Internal Revenue to levy taxes against companies which failed to distribute. It is hoped that by throwing the burden of proof on the company and that by virtue of the recent decision in favor of the Treasury in the National Grocery Company case the Treasury would be able to end or reduce the use of corporate accumulations in avoidance of income taxes. Therefore, while the differential is lower the bill will help small business and it is hoped will not revive old methods of tax avoidance.

(5) The President said the existing rates of taxes on capital gains were too high. I interrupted to say that I did not think they were too high, the real objection to the existing law was that the treatment of capital losses was unfair — we taxed gains but did not allow full deduction of the losses. There were rough spots in the treatment of capital gains which could properly be eliminated. The President said to put it that way. He said to have someone look up the Democratic platforms for 1884, 1888, 1892 and following years in which the principle of taxing wealth on the basis of capacity had been expressed. Under this bill the individual with a small capital gain of \$5,000 would pay 15 percent and the individual with a \$500,000 capital gain would also pay 15 percent. This was a clear violation of the principle of taxation according to capacity.

The President asked whether he could have his statement by tomorrow so that he could study it. I said we could give it to him by that time, since he had previously expressed similar views in his

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letter to the Conference Committee. The President said that was true but the statement to the Conference Committee was too detailed and technical, this time he wanted a short simple statement.

The Secretary said why not sign the bill promptly and issue no statement. The President seemed impatient with this suggestion. He said he wanted to take time and go over a memorandum on the subject. The Secretary said that after he had gone over the memorandum he might ask the advice of the Cabinet. For instance, it might be well to get Mr. Farley's views on the political side. The President said the question was one he had to decide for himself, that it would not be interesting to ask the Cabinet about it since he already knew what their views were.

I told the President that following a previous conference I had lined up the pros and cons of the various provisions in the bill. I found that most of the amendments were technical in character and that not many undesirable provisions got in. The two main provisions in the bill he was already thoroughly familiar with. The Secretary said that I had defeated single handed a number of lobbyist amendments to the bill and he did not know how I had done it. He mentioned particularly the inventory amendment as being urged by Senator King and that the amendment Senator King proposed would have resulted in a tax gain to the American Smelting & Refining Company of \$8 or \$9 millions. The President said he would like me to write out several such illustrations for him. I said it would take several minutes to explain any one of these technical provisions to him and a longer time to explain them so that they could be understood by the man in the street. The President said what he wanted could be done in three sentences: Senator King tried to get an inventory revaluation amendment for the benefit of a large smelting company which would have cost \$8 or \$9 millions. We defeated it. The Country would take the facts from the President's statement and if Senator King or the company did not like it the burden of proof would be on them. He would like to have several such examples which he might want to use next summer.

He asked whether he could have the memorandum he had virtually dictated by six or seven o'clock tomorrow evening and I said that he could.

The Secretary then mentioned the note which he had had from the President regarding Mr. Szymczak as a possible appointee for Comptroller of the Currency. The Secretary said he thought he was an excellent man but could not imagine his taking the position since he was already receiving \$15,000 a year in his position as Governor of the Federal Reserve Board. The President said to keep him in mind. The Secretary said he was not passing on the question whether anyone should be appointed Comptroller at this time, since he had heard that there was some understanding that the position was to be kept open for Mr. O'Connor. The President said he would try to find out whether there was any basis for Mr. O'Connor's thinking that the position would be

kept open; that he, the President, had no such obligation to Mr. O'Connor.

The President said the Board of Tax Appeals appointments were giving him a lot of trouble. Senator Harrison had called on him yesterday about Mr. Tyson. The President said to Senator Harrison: did you know that Mr. Tyson was one of eight members who voted for crookedness in the Mellon case and that he was the only one of the President's appointees who had. All the other ones of the eight had been appointed by Harding or Coolidge or Hoover. Furthermore, all of the seven members who upheld the hands of the Government were Roosevelt appointees. Senator Harrison had said that he did not know that and was surprised by it. He would look into it.

The President asked how Mr. Arundell had voted. I said he had voted with the eight. The President asked where he came from. I said from Oregon; that he was a Republican, one of five out of the sixteen members of the Board. He had been elected Chairman of the Board a little less than a year ago to replace Chairman Black. He had been in the Government service working on tax matters practically his entire professional life. The President said well that he has had his feet in the trough all that time and I said yes, but they were pretty clean feet. I had examined his decisions before the Secretary made his recommendation that Arundell should be reappointed and found that in a good many cases he had decided in favor of the Government on important technical questions. Frequently, he had taken this position in dissenting opinions which were later adopted by the Circuit Court of Appeals. For example, there had been an idea that corporations could not be taxed on profits from dealing in their own securities. In a dissenting opinion Arundell had held that they could. The Circuit Court of Appeals approved this point of view and it was now generally recognized. In half a dozen or a dozen other cases he had similarly dissented in favor of the Government's position and his opinion had later been affirmed. The President said that was good and much in his favor.

He then returned to Mr. Tyson and said nothing of the sort could be said about him. The Secretary said no. He had been on the Board two or three years. The President would remember that Senator Harrison had strongly urged his appointment but he had been passed over and Senator Harrison had then been extremely nasty to the Secretary until the President finally appointed Tyson. The Secretary said he thought the real reason for appointing Tyson was to keep Senator Harrison from getting farther off the reservation. The President said, can he be farther off the reservation than he is already, the Secretary said yes; when I appeared before the Finance Committee recently Lowell Mellette's name came up in connection with his nomination as Chairman of the National Emergency Council, Harrison alone on the Committee stood up for him and he would not otherwise have been reported favorably and confirmed. The President suggested that he might horse-trade with Senator Harrison a little further. There were five things that he could think of which he would like to get from Senator Harrison. It

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would be perfectly legitimate for him to work it out this way, since the Senators were always doing the same thing to him. He would talk with Senator Harrison again in a day or so.

I told the President there were four appointments expiring on June 2nd, Messrs. Kern and Oppen, whom he had appointed very recently in addition to Messrs. Arundell and Tyson. Kern and Oppen seemed to be good men.

I suggested that it would be desirable too, if I might presume to suggest it, that the matter of the four appointments be settled promptly, since the Board unlike other Judges worked during the summer and they could not make up their calendars until they knew what members would be available.

RW

FIRST DRAFT

8
May 11, 1938

My dear Mr. President:

Pursuant to your request, I have had prepared and enclose herewith a brief statement which you might issue at the time that you sign the tax bill.

Faithfully,

The President,

The White House.

Original Mr. Magill took to 10:15 group meeting-5/18
Original Mr. Magill took to White House conference at 2:00 P.M.-5/18
and brought it back with him for revision

RM:ce

18
May 11, 1938

I have received the Revenue Bill of 1938 from the Congress and have given it my approval. This does not mean that I am fully satisfied with all of the provisions of the new Act, for I am not. In my letter of April 13th to the Chairman of the Finance Committee of the Senate and the Committee on Ways and Means of the House of Representatives, I stated as clearly as I could my views on the undistributed profits tax and the taxation of capital gains. The practical effect of reducing the undistributed profits tax to a maximum of two and a half percent and of taxing capital gains on property held more than two years at a flat rate of 15 percent will be to furnish a tax incentive to accumulate gains in corporation treasuries and not to pay them out in dividends. Gains can be realized by the sale of shares and will be subject only to a flat tax of 15 percent instead of the surtax rates which would apply if they were received in dividends. These tax reductions furnish to wealthy individuals an avenue of escape from the application of the principle of taxation according to capacity to pay.

In spite of these very serious objections a variety of reasons have impelled me to approve the Bill.

Among them are:

1. The Bill does give needed relief to many small corporations and contains other important improvements to the tax structure, which should not be sacrificed.

2. There is a widespread belief that the changes made by the Act will be helpful to business and that belief itself may be a factor in restoring the confidence so necessary to a revival of business enterprise.

3. The Act is a one-year act only. The corporation tax provisions apply only to the years 1938 and 1939 and important excise taxes expire on June 30, 1939. The enactment of a new revenue act at the next regular session is therefore made imperative.

Another and more recent reason for approval is based on faith in the democratic processes of government under the Constitution. The Congress is charged with a special responsibility with respect to revenue legislation. It is its function to hear and to weigh specific proposals, advice, and suggestions from citizens, as well as from the executive branch of the Government. Committees of both houses have held extensive hearings on this Act and this fact adds additional weight to their conclusions. I feel constrained to accept them as representing the present will of the people to the extent that it has been expressed through the constitutional channels available to them. At the same time I plan not only to observe very carefully the effects of this legislation, but to discuss publicly its effects as I see them in the light of fundamental principles of equitable taxation.

Third draft(Second draft was working draft; destroyed;
not used)

I have received the Revenue Bill of 1938 from the Congress and have given it my approval.

The Congress is charged with a special responsibility with respect to revenue legislation. It is its function to hear and to weigh specific proposals, advice, and suggestions from citizens, as well as from the executive branch of the Government. Committees of both Houses have held extensive hearings on this Act and this fact adds additional weight to their conclusions that the new Act embodies desirable improvements in the Federal revenue system.

1. The Bill contains a large number of administrative changes which will considerably improve the fairness and efficiency of tax administration.

2. The Bill eliminates a number of nuisance taxes on articles in common use.

3. The undistributed profits tax was adopted in 1936 for the purpose of equalizing the tax rates as between accumulated corporate profits and corporate earnings distributed in dividends. It has been strongly urged that the original law worked a hardship on small, growing enterprises. The Bill eliminates the undistributed profits tax as to all corporations with incomes of less than \$25,000. As to larger corporations, the Bill retains the principle of the undistributed profits tax, but the tax rate is so small that a small group of individuals in control of a large, profitable company are given a considerable tax incentive to leave the profits on their investment

Original of this draft (typed early 5/19) R.M. took to Secy's office at 9:20 A.M.
5/19-before 9:30 meeting.

Page 1
2-14-38

(Revised by Mr. Magill after the
morning conference)

- 2 -

in the company instead of distributing them; with the net result that the individuals may thus avoid the personal income taxes which they would pay if the earnings were distributed. To meet this objection, the Congress sought to strengthen the authority of the Commissioner of Internal Revenue to act against companies which are availed of for purposes of surtax avoidance. It is hoped that the new provision, together with the recent favorable decision of the Supreme Court in interpreting the prior law, will prevent the revival of the old evil of tax avoidance through the improper use of the corporation.

4. The Bill makes an advance in the treatment of capital losses, but departs from the long accepted principle of progressive income taxation, so far as capital gains are concerned. Under this Bill an individual with a capital gain of \$500,000 may be subjected to the same flat tax rate of 15 percent as the individual with a capital gain of \$5,000. Ordinary income is taxed at progressive rates and in fairness capital gains should be treated similarly.

5. The Bill for the most part maintains the productivity of the present tax system. It will produce about \$65,000,000 less than the existing law under present business conditions, taking no account of any stimulation of business which may occur as a result of its provisions. Under such business conditions as existed in 1936, it is estimated to produce about \$230,000,000 less than the existing law, or a total of _____ as against _____

- 3 -

There is a widespread belief that the changes made by the Act will be helpful to business and that belief in itself may be a factor in restoring the confidence so necessary for a revival of business enterprise. I plan to observe very carefully the effects of this legislation during the course of the next year. The Bill does not embody the thoroughgoing reform of the Federal tax system in the interests of simplicity, fairness, and economy in administration which I had hoped might be accomplished at this session of Congress. The Act is a two-year act only. The corporation tax provisions apply only to the years 1938 and 1939, and important excise taxes expire on June 30, 1939. The enactment of a new revenue act at the next regular session is therefore made imperative. In the course of the revenue revision which must then be undertaken, I hope that the Congress will accept the opportunity not only to reenact expiring taxes, but to undertake a broader program of improving the Federal tax system as a whole in the light of accepted principles of fairness in taxation.

EM:ce

draft - 5/19/39

May 19, 1938

My dear Mr. President:

I am transmitting to you herewith a memorandum on the tax bill along the lines which you outlined to us yesterday afternoon.

Faithfully,

W. H. Morgenthau, Jr.

The President,

The White House.

EM:ce

Original - Mr. Magill gave to Secretary 5/19 at 3:55 P.M.
and Mrs. Klotz sent it to the White House 5/10/38

MEMORANDUM FOR THE PRESIDENT:

I have had an examination made of the Democratic platforms for 1884 and subsequent years. The most specific declarations regarding taxation in accordance with ability to pay appear in the platforms for 1908, 1924, 1932, and 1936, quotations from which follow:

- 1908 - "We favor an income tax as part of our revenue system, and we urge the submission of a constitutional amendment specifically authorizing Congress to levy and collect a tax upon individual and corporate incomes, to the end that wealth may bear its proportionate share of the burdens of the Federal Government."
- 1924 - "The income tax was intended as a tax upon wealth. It was not intended to take from the poor any part of the necessities of life. We hold that the fairest tax with which to raise revenues for the Federal Government is the income tax. We favor a graduated tax upon incomes, so adjusted as to lay the burdens of government upon the taxpayers in proportion to the benefits they enjoy and their ability to pay. We oppose the so-called nuisance taxes, sales taxes, and all other forms of taxation that unfairly shift to the consumer the burdens of taxation."
- 1932 - "We favor maintenance of the national credit by a Federal budget annually balanced on the basis of accurate executive estimates within revenues, raised by a system of taxation levied on the principle of ability to pay."
- 1936 - "...As the requirements of relief decline and national income advances, an increasing percentage of Federal expenditures can and will be met from current revenues, secured from taxes levied in accordance with ability to pay. Our retrenchment, tax, and recovery programs thus reflect our firm determination to achieve a balanced budget and the reduction of the national debt at the earliest possible moment."

I have received the Revenue Bill of 1938 from the Congress and have given it my approval.

The Congress is charged with a special responsibility with respect to revenue legislation. It is its function to hear and to weigh specific proposals, advice, and suggestions from citizens, as well as from the executive branch of the Government. Committees of both Houses have held extensive hearings on this Bill and this fact adds weight to their conclusions that the new Act embodies desirable improvements in the Federal revenue system.

1. The Bill contains a large number of administrative changes which will considerably improve the fairness and efficiency of tax administration.

2. The Bill eliminates a number of nuisance taxes on articles in common use.

3. The undistributed profits tax was adopted in 1936 for the purpose of equalizing the tax rates as between retained corporate profits and corporate earnings distributed in dividends. It has been strongly urged that the original law worked a hardship on small, growing enterprises. The Bill eliminates the undistributed profits tax as to all corporations with incomes of less than \$25,000. As to larger corporations, the Bill retains the principle of the undistributed profits tax, but the tax rate is so low that a small group of individuals in control of a large, profitable company are given a considerable tax incentive to leave the profits on their investment in the company instead of distributing them; with the net result that the individuals

- 2 -

may thus avoid the personal income taxes which they would pay if the earnings were distributed. To meet this objection, the Congress sought to strengthen the authority of the Commissioner of Internal Revenue to act against companies which are availed of for purposes of surtax avoidance. It is hoped that the new provision, together with the recent favorable decision of the Supreme Court in interpreting the prior law, will prevent the revival of the old evil of tax avoidance through the improper use of the corporation.

4. The Bill makes an advance in its more liberal treatment of capital losses, but departs from the long accepted principle of progressive income taxation, so far as long-term capital gains are concerned. Under the Bill an individual with a capital gain of \$500,000 may be subjected to the same flat tax rate of 15 percent as the individual with a capital gain of \$5,000. Ordinary income is taxed at progressive rates and in fairness capital gains should be treated similarly.

5. The Bill reduces somewhat the productivity of the present tax system. It will produce about \$65,000,000 less than the existing law for the fiscal year 1938-39, taking no account of any stimulation of business which may occur as a result of its provisions. Under such business conditions as existed in 1937, it is estimated to produce about \$220,000,000 less than the existing law.

There is a widespread belief that the changes made by the Act will be helpful to business and that belief in itself may be a

- 3 -

factor in restoring the confidence as necessary for a revival of business enterprise. I plan to observe very carefully the effects of this legislation during the course of the next year. The Bill does not embody the thoroughgoing reform of the Federal tax system in the interests of simplicity, fairness, and economy in administration which I had hoped might be accomplished at this session of Congress. The Act is a two-year act only. The corporation tax provisions apply only to the years 1938 and 1939, and important excise taxes expire on June 30, 1939. The enactment of a new revenue act at the next regular session is therefore made imperative. In the course of the revenue revision which must then be undertaken, I hope that the Congress will accept the opportunity not only to reenact expiring taxes, but to undertake a broader program of improving the Federal tax system as a whole in the light of accepted principles of fairness in taxation.

RM:ce-

Final-5/19/38-

N.M. Jr.

In view of what you said
this morning I shall
send you my ideas on
what to do now.

In the mean time, I suggest
you consider another meeting
at your house to pick the
branches of the following:

~~Home~~
Currel
Henderson

Lubin

Blaisdell

Enikiel

White and

Hoas

The results would be:

1. You would get ideas
2. It would reorient the
town's thinking about you.

5/18 '38

N.M.

MEMORANDUM

To: Secretary Morgenthau

May 18, 1938

From: Thomas C. Blaisdell, Jr. TCB

For your information:

Mr. Corwin Edwards of the Federal Trade Commission has just given me the following information:

In 1924 the Commission issued a Cease and Desist order against the United States Steel Corporation condemning the Pittsburgh-plus system of price-making as unfair competition under the Federal Trade Commission Act. The Steel Corporation has just filed a challenge of this order, after fourteen years. It seems probable that a bill just passed by the Congress making a Cease and Desist order of the Federal Trade Commission final unless appealed within sixty days may have precipitated this challenge.

However, I suspect that it may be connected with the information which you gave me this morning regarding the refusal of certain large cement companies to bid on government contract. If the companies are the ones which I suspect, one of them is directly related to the United States Steel Corporation.

This means further: (1) You may wish to inform the Federal Trade Commission that you have an immediate interest in the way in which this case is allowed to come before the courts. (2) You may wish to indicate to the Department of Justice your interest in the matter. (3) It may influence the strategy necessary in handling the action suggested in the report of the Committee on Steel Prices.

May 18, 1938

4:30 pm

Present:

Admiral Peoples
Mr. Oliphant
Mr. McReynolds
Capt. Collins
Mr. Manning
Mr. Lawes

HM, Jr: Three Navy men, 3 lawyers and one cowboy.
My money is on the cowboy!

Admiral, I read this thing, see, and, I haven't
got the letter here.

Admiral Peoples: That was in connection with the
first opening. April 14th.

HM, Jr: You suggested bringing somebody down to
talk and I thought if we were going to bring anybody down
the best, on this Universal Atlas letter, I would ask
President of the United States Steel to come down.

Admiral Peoples: Mr. Stettinius.

HM, Jr: Mr. Stettinius. And I would like to
handle it personally and lay the whole facts before him
and say, Here's the situation. In this letter, from my
memory, they did not object to this f.o.b. matter.

Admiral Peoples: Yes, they did. I recall that
that was one of the points they objected to.

HM, Jr: Let me just read this.

Well, I still say I would like to talk to Mr.
Stettinius about this.

Mr. Oliphant: I think in a public advertising
they have advertised that they own the controlling in-
terest in this company and they have about one-third of
the total National capacity.

-2-

HM, Jr: What would you think of it?

Admiral Peoples: Fine! Excellent! Excellent!

HM, Jr: Anybody think it is a bad idea?

Admiral Peoples: I think it is perfectly bully.

HM, Jr: (Placed a call for Mr. Stettinius in New York. Told the operator: 'If he is not in his office, I don't want to follow him. I will talk to him in the morning.'))

I would just like to see what his attitude would be in view of everything and he can -- let's see, in his Universal? I will tell him just what it is all about and whether he would like to -- let me, while we are waiting, what is our power under the law? Suppose Mr. Stettinius said, How much cement do you want? Well we want

Admiral Peoples: Whatever those quantities may be in those bids.

HM, Jr: Yes. In this section. Then we get down to question of price. Suppose he says, we will sell it for \$1.60.

Admiral Peoples: We can now arrange the price very properly. That was confirmed the other day with the Acting Comptroller General.

Kr. MoReynolds: In other words, he will recognize a negotiated price against a competitive bid.

Mr. Cliphant: Isn't that what we did in the tire bids, after we had tie bids rejected?

HM, Jr: Well, this is the second bid.

Admiral Peoples: Perfectly proper.

Capt. Collins: This is the first bid. No bid at all on the three of them.

HM, Jr: Let me ask this: for whom we are getting this? Which organization of the Government?

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Capt. Collins: War Department, Corps of Engineers.

HM, Jr: What are the projects?

Capt. Collins: Three projects. I could not tell you offhand.

Admiral Peoples: Place near the point of delivery.

Mr. Oliphant: New Jersey, Ohio and West Virginia.

Admiral Peoples: And one in Oregon.

Mr. Oliphant: To further answer your question on your power: during the War we had the Lever Act under which the Government wanted us to advertise; if they could not agree on price, to take this stuff and pay them 75% down and later on adjust the difference. That legislation is not in effect now, but anticipating such difficulty we have done the necessary work on that sort of legislation.

HM, Jr: I wouldn't want to do that. But having received no bid, I take it, if Admiral Peoples is correct, that I can negotiate a private contract.

Mr. Oliphant: I would want to verify with the Comptroller General. He approved a private contract after we had twice failed to get competition.

HM, Jr: Who would normally do that? I am asking you to do this. How would you clear with the Comptroller as to whether we could negotiate a private contract in Ohio and West Virginia?

Admiral Peoples: I think there is no question. But to confirm it, I will be glad to see Mr. Elliott, the Acting Comptroller General. I take it since we have received no bids, there is no doubt in my mind he will confirm it.

Mr. McReynolds: I should think so. There have been a lot more advertisements where you received bids and you wouldn't accept them because they were tie bids, but where you get no bids I think there is no question.

-4-

Mr. Oliphant: I can tell you exactly what the situation is. I went down myself with the Admiral and talked to the Comptroller and the case we put up was where we had tie bids twice and he said we could negotiate privately on that.

Mr. McReynolds: Herman, you did not go down the last time.

Admiral Peoples: We were down last Friday.

Mr. Cliphant: The general plan for uniform handling in rejecting bids twice.

HM, Jr: But here is a question where you don't get any bids, and I don't want the War Department to get restless and run to the President. I don't see why you want to advertise again.

Mr. Oliphant: I am not suggesting that. The thing to do is clear it.

HM, Jr: Then the thing to do is for Admiral Peoples to clear it tomorrow.

Admiral Peoples: I will be glad to.

HM, Jr: Well, make it certain. I wouldn't want Stettinius to come down and -- see, if I can negotiate this thing, will you be willing to sell me some?

Admiral Peoples: I will arrange to see Elliott as soon as I can tomorrow morning.

Mr. McReynolds: In view of the background of your conference before, Admiral, I think you could clear it over the telephone. It's just a question of change of circumstances. I think he is already committed on the principle.

Admiral Peoples: And he confirmed the principle to us last Friday.

HM, Jr: I wouldn't take any chances. Whom do you take with you?

Admiral Peoples: Manning and Lawes.

-5-

HM, Jr: I would take them again. This is too important. Take the two of them again.

Admiral Peoples: Very glad to.

Mr. Oliphant: And on the other occasion when we came back, we made a record which we all signed. He won't write us to this effect and I would like to have a record of it because he could make a lot of trouble for us later.

Mr. McReynolds: That's all right. He's not bound by a preliminary opinion of that kind.

HM, Jr: I want to be sure that there is no question in the mind of the Comptroller General that we can buy under these circumstances.

Admiral: Now, we would like to go ahead on -- what's that other point, Harry, where the Army is pushing us?

Capt. Collins: On one of these they want the cement on the first of June. If we can't effect delivery in time we would like to get your clearance so they can buy themselves.

HM, Jr: How much?

Capt. Collins: 9500 bushels.

HM, Jr: In what district?

Capt. Collins: That's for three sites.

HM, Jr: Where?

Capt. Collins: Utah, Colorado and Jersey.

HM, Jr: Have you had bids out on that?

Capt. Collins: That's included in the bids about which that memorandum has been prepared, Sir.

HM, Jr: It isn't separated, you see.

Capt. Collins: No, sir. It does not show. I can give that to you, however.

-5 A-

HM, Jr: Give it to me in a special memo.

Capt. Collins: All right, Sir. I have it
heré. 5500 barrels in Jersey.

HM, Jr: That's SSC-191-A?

Capt. Collins: That's right. 191-A.

2,000 barrels, Ohio, W. Virginia.

7,500 barrels in Ohio, W. Virginia.

2,160 barrels in Colorado.

HM, Jr: Couldn't you put it on one slip of paper
and after you have done that, how much is there left in
this?

Capt. Collins: Yes, sir. I can do that.

HM, Jr: How much will be left?

Admiral Peoples: That makes a total of 15,160
barrels to come out of the 57,575 barrels that we ad-
vertised for.

Mr. McReynolds: Leaves 45,000 barrels.

Admiral Peoples: One point there is that they
have projects in hand; men on the job.

HM, Jr: You can tell them that we will decide
this thing not later than between now and Monday night.
That ought to be time enough.

Admiral: Fine, Sir.

HM, Jr: Now, in preparation, say in case he should
come down, I would like to have you put down -- I can't
work from that memo -- I would like to put down this way:
we want to buy for the Army, for this kind of project,
so much cement in this State and so much for this Depart-
ment -- what we are trying to buy, because I could read
that memorandum four times and it does not give me what
we want to buy. I can't make it out. It's all jumbled.
I would like to say, Mr. Stettinius, here we are in the

-5-

market for so many barrels of cement.

Capt. Collins: At these places in these States.

Mr. Oliphant: Do you want exact places?

Admiral Peoples: No.

HM, Jr.: The State.

Admiral Peoples: F.O.B. mills, I understand, within those States.

HM, Jr.: Because this is not a laughing matter. This is a tough situation. It gets down to whether it's worth while fighting for at this time; whether this is the place to do it, or whether it should be done in the Department of Justice instead of here. I have grave doubts, but I am going to read these letters from the cement companies very carefully and I would like to see Mr. Stettinius and see what his attitude is and there is nobody who has a more liberal attitude towards business, and if he won't do it there is not much chance of getting anybody else. But I have nothing to work with. I want total orders, if you could, on one sheet of paper, and on another sheet of paper what the Army needs by the first of June.

Capt. Collins: Yes, sir.

Admiral Peoples: And Mr. Secretary, you would want to know too, probably, the minimum, or rather the maximum figure.

HM, Jr.: You mean in price? Oh, if I get him down and he says yes, I will do business, then when he gets down to talking price I am going to let you or Collins -- I am not going to talk dollars and cents. If I can get him to agree to do business our way and agree to the principle -- as to the price 'I take it, Mr. Stettinius, you don't want to talk price. We will let the President of your cement company go over to see Admiral Peoples'. But I am going to try my best to do is have him talk principles. I am not going to get down to horse trading.

Capt. Collins: Would you care for mills and places?

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HM, Jr: It would be helpful. You, Admiral, Lawes and Manning get a definite ruling from the Comptroller General tomorrow morning.

Admiral Peoples: Yes, sir.

cOo-cOo

FEDERAL HOUSING ADMINISTRATION
MEMORANDUM

DATE May 16, 1938

TO: Mr. Morgenthau

FROM: Mrs. Shirley K. Hart
Assistant to the Administrator

SUBJECT: FIGURES FOR WEEK ENDING MAY 14, 1938

	<u>Week Ending May 14, 1938</u>		<u>Corresponding Week Last Year 1937</u>	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
<u>FOR THE WEEK:</u>				
Mortgages Selected	4,940	\$ 22,963,458	3,682	\$15,563,268
Mortgages Accepted	3,565	15,607,250	2,785	11,539,000
Premium Paying Mortgages	1,705	7,422,350	1,775	7,444,035
Property Improvement Loans (Amended February, 1938)	7,515	3,506,610		
<u>CUMULATIVE:</u>				
Mortgages Selected	406,302	\$1,705,447,062		
Mortgages Accepted	300,088	1,227,922,208		
Premium Paying Mortgages	229,781	943,507,067		
Property Improvement Loans (Amended February, 1938)	53,893	25,368,958		

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

Division of Economics and Statistics
Operating Statistics Section

Wednesday
May 18, 1938
3:10 p.m.

Herman
Oliphant:

He said bonds cannot be issued free from tax -
tax exempt....

HMJr:

Uh huh.

O:

...unless Brown's Amendment is adopted, which
Wayne and I and - and Bernie agree is perfectly
harmless. Namely, that you can issue these
bonds but not in excess of 30 billion which gives
you 5 billion of leaway...

HMJr:

Yes.

O:

And what they're afraid of is that we're going to
issue a lot of these bonds tax exempt and then years
later can't subject them to tax.

HMJr:

Oh - oh.

O:

So that Wayne and, as I say, Bernie and I all agree
that it gives you all you have now, that is, you've
got so many notes and bills outstanding now that you
can only - your leaway only runs up to thirty-one
billion.

HMJr:

Yeah.

O:

And this gives you 30 billion which is 5 billion...

HMJr:

In excess.

O:

5 billion free, you see.

HMJr:

Yeah. Is that what the Brown Amendment says?

O:

Yes, that's what his present amendment says; it
wasn't what the one you had said.

HMJr:

Oh.

O:

And they're going to withdraw this other one that
you saw.

HMJr:

Yes.

O:

And - ah - they're holding the Senate in session
until they hear from you.

- 2 -

HMJr: Well, who should I call?

O: Well, if you'll just tell me, I could - Hester can handle it.

HMJr: Oh. Well, what'll the House do?

O: Well, the House will - it will go back to the House and the House will agree to it according to Hester. They'll just move to concur when it gets back to the House that it wouldn't go back to the House.

HMJr: And they're actually holding the Senate?

O: Yes. They're holding the Senate now. So - because it was reached on the calendar and held over.

HMJr: Oh.

O: And the leaders are all there together holding the Senate.

HMJr: Where is Hester?

O: He's sitting right by me.

HMJr: Well then, who does he talk to?

O: He will call Harrison.

HMJr: Oh. Harrison?

O: Yes.

HMJr: Well, ah - supposing the two of you come in and I'd just as leave call Harrison myself.

O: All right.

HMJr: Well, will the two of you come in?

O: Right now.

HMJr: Yeah.

Wednesday
May 18, 1938
3:16 p.m.

HMJr: Hello.

Operator: Mr. Bell is talking to Senator Harrison and they want you in on the line.

HMJr: Well, why do you think

O: Just a minute now.

HMJr: Hello.

Sen. Pat Harrison: Hello.

O: There you are.

HMJr: Hello.

Harrison: Hello.

Dan Bell: Hello.

HMJr: Morgenthau.

R: Yeah. Hello, Henry.

HMJr: How are you, Pat?

H: Pretty good.

HMJr: Ah - I called....

Bell: Mr. Secretary, this is Bell. I'm on the wire too.

HMJr: Yeah.

Bell: I've been talking to the Senator about the bond bill so he'll explain to you what he's done.

HMJr: All right.

R: Why, you know the other day in the hearing answered some questions and said in view of the fact that the President's message on this tax exempt bond stuff...

HMJr: Yeah.

- 2 -

... he thought there might be a loop hole there where they could just call in all the short-term stuff and issue instead just long-term stuff - under this bill, up to forty-five billion.

Yeah.

And so that's the thing that's been worrying him.

Yeah.

And then Borah has got an idea that he's going to try to put on - ah - his provision of taxes on these tax exempt securities. See? So I'm trying to eliminate these propositions and I dare say that they'll pass this if I limit the amount of the long-term stuff to be issued to thirty billion dollars.

I see. Well, will Bell go along on that?

Well, that's what I was talking to him about.

No.

What?

No. Not the way that Senator Harrison has given it to me because what he says ^{is} that the forty-five billion is the limit and ^{what} he does is change the thirty billion to bonds and fifteen billion to notes.

Yes.

That cramps you on the note side just the same as you're cramped now on the bond side. I told him you might go along if he'd put a forty-five billion dollar limitation on notes, bonds, certificates, and Treasury bills and then add a proviso that provided that not more than thirty billion dollars in bonds should be outstanding at any one time.

Well, that would be all right.

... bility whether you issue notes or....

Well now - now, let me ask you on that, Bell....

- 3 -

B: Yeah.

H: Why wouldn't this get it then; in this proviso, the first paragraph of section one of the Second Liberty Bond Act as amended....

B: Yeah.

H: ...is amended by striking out the following - and then you know the strike out provided that the face amount of bonds issued under this section - sh twenty-five billion dollars outstanding at any one time. Just put a provision in there - provided that there shall not be issued at any one time more than 30 billion dollars of long-term paper ~~and so~~ forth.

B: You're talking about section one of that bill?

H: That's right.

B: What we'd provide is the elimination of that.

H: Yeah - you'd do that.

B: Now, what are you going to do with section two - let it stand?

H: Section two - of the Liberty Act as amended is amended to read as follows: The first amount of bonds, certificates, Treasury bills and notes issued under authority of this act - it specifically said that it was issued under the authority of the second section of the First Liberty Bond Act - should not exceed in the aggregate forty-five billion dollars outstanding at any one time - that ought not to be changed.

B: Well, then I'm afraid the other one doesn't do the trick.

H: Yeah.

B: I

H: Well, that's the way the bill comes and that's the way it's reported out.

B: Well, your proviso doesn't do the trick.

- 4 -

- B: Yeah. Well, I'll tell you what we'd better do then. We'd better just pass this over and not bring it up this afternoon and in the meanwhile you get a copy of this proposition...
- B: All right.
- H: ...and give me just as far as we'll go on it. You see?
- B: Yeah.
- H: I can fight it out just like it is.
- B: Of course that would be better.
- H: Huh?
- B: That would be better.
- H: But I think we've got a little fight on here and then a fight with Borah.
- B: Uh huh.
- H: And I didn't think that you were going to issue more than thirty billion for the Liberty or for the long-term anyhow.
- B: Well, I think that's probably right by the time Congress gets back.
- B: Yeah. And so what I'll do then is - I won't take it up this afternoon and then we can have a conference and you send me down just what it is.
- RMJr: I think that would be better because this is too important to
- H: Oh, yes, I don't want to fool with it unless it's ah - just right.
- RMJr: Well....
- Bell: Do you want me to work it out?
- H: Well, as I understand your reaction it would be all right - ah - so far as limiting the forty-five billion and to limit that not more than thirty billion of it should be issued on long-term stuff?

- 5 -

HMJr: Yes, if you give us flexibility between the bonds and notes.

H: Oh yes.

B: That's all right, I think, Mr. Secretary.

H: Yeah, you want to retain the flexibility between the bonds and notes notwithstanding the limitation is not more than thirty billion should be long-term stuff.

B: Yeah. Otherwise you're putting us back in a position on notes...

H: I understand.

B: ...that we're not in on bonds, see.

H: Well, I think that will be all right, but I think it would be best for us to wait until Friday to bring it up.

B: All right.

H: All right.

B: I'll work it out and take it up...

H: All right. Henry?

HMJr: Yeah.

H: That's best - ?

HMJr: I think yes, because this is too important and I'd like to see it...

H: I'll put it off a week. We'll have a hearing on it Friday, probably and we'll bring it up then.

HMJr: Thank you so much.

H: All right.

HMJr: Goodbye.

H: Goodbye.

B: Goodbye.

HMJr: Bell.

Bell: Yeah.

HMJr: Where are you?

B: Down in the Budget. Come around if you want me to.

HMJr: Well, the point is Oliphant and Hester are in my room, you see. They came in before this call and Hester had the agreement...

B: Yeah.

HMJr: ...with Senator Brown to do just what you're asking for.

B: Yeah.

HMJr: And has that drafted already. So supposing I tell Hester to walk down to the Budget and see you now.

B: Fine.

HMJr: How's that?

B: That'll be fine.

HMJr: What?

B: Yeah.

HMJr: Because - ah - he was handling it. You remember this morning when this thing was we agreed and you said as long as Hester was up on the Hill he'd handle it.

B: That's right.

HMJr: But I'll...

B: He just called me because he couldn't get you.

HMJr: Well, I had a call in for him. (Laughingly)

B: Well, that's the reason I had it switched; they told us on the phone.

HMJr: Yeah. I see. Well, supposing I tell Hester to walk down and see you now.

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B: All right.
HMJr: Thank you.
B: Goodbye.

May 18, 1938.
4:34 p.m.

H.M.Jr: Hello.

Operator: Mr. Helvering.

H.M.Jr: Hello.

Guy
Helvering: Hello.

H.M.Jr: Guy?

H: Yes.

H.M.Jr: Henry Morgenthau.

H: Yes.

H.M.Jr: I'm calling up to ask your advice on this question, whether the Treasury should or should not recommend a floor tax on liquor.

H: Well, I think we should.

H.M.Jr: You think you should.

H: Yes, we'll have a big exodus of stuff that's going to be awfully hard to handle if we don't do it, and we can handle that floor stuff without much trouble.

H.M.Jr: You can. Now let me ask you this. Have you written me a recommendation?

H: How's that?

H.M.Jr: Have you written me a recommendation?

H: Well, I sent one over to Magill.

H.M.Jr: Huhuh. I see.

H: Well - last Friday I should say it was. Well, I'm not sure about the date, it was just recently.

H.M.Jr: Would we still have time to get it through?

H: Well I think we would, yes.

H.M.Jr: I mean, you see the President hasn't signed the Bill yet, or does it affect that?

H: Oh, no, we couldn't get it in the tax Bill.

- H.A.Jr: But - it - it would just be a floor tax from now until the first of July, wouldn't it?
- H: No, we'd - we'd have to have a separate Bill passed, putting the floor tax on any withdrawals, and of course the tax goes into effect on July, and we wouldn't need it after that.
- H.A.Jr: I see.
- H: But the withdrawals, between now and the first of February would all carry the two dollars, and the ones after, two and a quarter.
- H.A.Jr: Oh, I see.
- H: They'd take it out and store it, that is take it out of the distillery and store it, to save this quarter, and I'm afraid that the small fellows will get hit in the eye pretty hard with that.
- H.A.Jr: Because they can't do it.
- H: They're not - they don't have the finances to pay the tax.
- H.A.Jr: I see.
- H: That is taking large amounts out.
- H.A.Jr: I see.
- H: The fellows who can raise the finance, take out large amounts, but would do that before July 1, and it would incur an awful problem on our storekeeper, gaugers, and our fellows to handle the amount that they'd want to take out.
- H.A.Jr: Huh-huh.
- H: You see, that's a pretty big saving, twenty-five cents a gallon.
- H.A.Jr: Well, I should think it'd get them all at sixes and sevens, and I should think it'd disturb just another industry.
- H: Yes, it - of course I think generally they're all in favor of this floor tax.
- H.A.Jr: Who?

H: The breweries - I mean the distillers.

H.M.Jr: They are.

H: They have no objection to it, particularly. In fact, the medium sized ones are all in favor of it, and several of the large ones.

H.M.Jr: I see. Well you say you have got a written recommendation.

H: Yes, we prepared one just a few days ago.

H.M.Jr: Huh-huh.

H: Setting out the problem, and also about ability to handle it.

H.M.Jr: I see:

H: As I recall, ended that up with a recommendation that was consistent with your policy over there. Of course, I know how they all felt about this additional -

H.M.Jr: Yes.

H: But inasmuch as they've put it on, I think that a floor tax is pretty essential in order to handle it orderly.

H.M.Jr: O. K.

H: Yes.

H.M.Jr: I'll talk. Thank you.

H: All right.

H.M.Jr: Goodnight.

May 19, 1938.
9:05 a. m.

H.M.Jr: Hello.

Operator: Mr. Stettinius of New York.

H.M.Jr: Thank you.

H: Go ahead.

H.M.Jr: Hello.

Edward R. Stettinius: Hello, Mr. Secretary.

H.M.Jr: How are you?

H: Fine thanks.

H.M.Jr: Mr. Stettinius, I am calling you up about cement.

H: Yes.

H.M.Jr: And I believe that your company is interested in Universal.

H: That's right.

H.M.Jr: Now, we've been sending out bids, under a new form.

H: Yes.

H.M.Jr: F.o.b. - mill.

H: Right.

H.M.Jr: And we've not been successful in getting any bids in Ohio, West Virginia or New Jersey.

H: Right.

H.M.Jr: I would like very much if you could come down and if you'd bring with you the President of Universal, and I'd like to talk about it, purely informally, see?

H: Right.

H.M.Jr: Not in any way that would embarrass you, I assure you.

H: Right.

- 2 -

H.M.Jr: I'd like to get your advice on it.

S: Fine. Well, I'll be delighted to do anything I can to be helpful. Now when would you suggest.

H.M.Jr: Well, - could you come tomorrow morning?

S: Tomorrow morning - yes, I - I could - I could arrange certainly either - to have the President of the Universal office, if I can't get there, I can send the President of the Corporation.

H.M.Jr: Yes. Well, - I'd like to do it at a time though, that you could come.

S: You would.

H.M.Jr: Yes.

S: Well, I'll -

H.M.Jr: If you can't

S: be there then, Mr. Secretary.

H.M.Jr: Well, if - I don't want - if it's too difficult, why I can put it over to Monday, but I would like to get sort of cleaned up if I could.

S: And you want to approach the same purely in an informal personal way at the start.

H.M.Jr: Entirely.

S: Fine. Now, what time would you suggest?

H.M.Jr: Well, I can make it - I don't know. Would you come by train or fly?

S: I'd probably take the midnight train.

H.M.Jr: Well, then - uh - let's see - nine-thirty say?

S: Nine-thirty in your office tomorrow morning.

H.M.Jr: Yes.

S: Fine, and if anything should happen whereby I can't get the President of the Cement Company, then I'll get in touch with your Secretary.

- 3 -

H.M.Jr: Yes. If you'd ask for either me or Mrs. Klotz.
K-L-O-T-Z.

S: Mrs. Klotz. Thank you very much.

H.M.Jr: Thank you. Goodbye.

May 19, 1938.
9:10 a.m.

H.M.Jr: Hello.

Operator: Mr. Young is expected at his office in about a half hour, and she'll try and locate him in the meantime.

H.M.Jr: Thanks. And then as soon as I'm through with my big staff meeting, which will be around twelve o'clock, I want to talk to Jeffy O'Connor.

O: All right.

H.M.Jr: Of course that's three hours earlier so you can't put in a call yet, but if he's not in his office, he stays at the Hotel Ambassador.

O: Yes.

H.M.Jr: So I would say it'd be safe to try it most - the minute I'm through my meeting I'll let you know.

O: All right.

H.M.Jr: Thank you.

May 19, 1938.
9:31 a. m.

H.M. Jr: Hello.

Young: Yes, Secretary Morgenthau.

H.M. Jr: Hello, Mr. Young.

Y: Yes.

H.M. Jr: I wondered whether you'd be willing to come down and talk to me, absolutely informally, about the cement bids?

Y: Yes indeed, I'd be very happy to.

H.M. Jr: Could you - would it be convenient say for you to be at my office at ten-thirty tomorrow morning?

Y: I'd be very glad to do that.

H.M. Jr: Fine.

Y: The only point that I'd like to raise now, and I hate to do it, is this, it so happens that I will not be able to read any material. I happen to be afflicted with a very bad eye strain. I'm wearing dark glasses now, and if there's something to read, I might have to bring someone with me.

H.M. Jr: Well, bring someone with you anyway, if you feel like it.

Y: Very good. Someone from my own company.

H.M. Jr: Yes.

Y: I'd be very glad to do that because I think some good could be accomplished.

H.M. Jr: It's purely on an informal basis.

Y: That's - that's quite satisfactory to me.

H.M. Jr: All right.

Y: I'll be there at ten-thirty.

H.M. Jr: And we're on standard time in Washington.

Y: I realize that.

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H.M.Jr: Right.
Y: Thank you very much indeed.
H.M.Jr: Goodbye.
Y: Goodbye.

GROUP MEETING

May 19, 1938.
9:30 A. M.

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

H.M.Jr: Mac?

McReynolds: (Nods "No.") I have nothing to report yet.

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

Bell: I have nothing, except that I'd like, sometime, to talk to you and Mac about this pay roll report. We have a long letter in here from the Secretary of Agriculture which has got to be answered.

H.M.Jr: Well, answer it and then we'll talk about it.

Bell: Beg your pardon.

H.M.Jr: Do you know what the answer is?

(Telephone.) Hello. Hello. Thank you. Hello, Mr. Young. I wondered whether you'd be willing to come down and talk to me absolutely informally about these cement bids? Could you - would it be convenient, say, for you to be at my office, say at ten thirty tomorrow morning? Fine. No. Well, bring somebody with you anyway, if you feel like it, but - yes - but it would be - it's purely on an informal basis. All right. And we're on standard time in Washington. Right. Goodbye.

McReynolds: What Young?

- H.M.Jr: Of the Lehigh Portland Cement. Reading it through (the letter) I have found a very significant statement that he puts in at the bottom here. He said: "In our letter of April 14 we stated 'if the Treasury Department so desires, we will enter into firm contracts with the Federal Government at a price f.o.b. mill for a definite quantity of cement for a specific job not requiring dealer's service.' We are still prepared to submit such bids and sincerely hope that on further consideration you may make such further revision of the proposals as to permit us to submit bids for your cement purchases."
- Oliphant: Well, that is for a specific job. He means one where he knows the location he will give you a basic price.
- H.M.Jr: I'm going to talk to him any way. I've got Stettinius coming in at nine thirty tomorrow. I want to get this thing at first hand; either we can or we can't, and if we can't we'll let the Department of Justice do their work.
- Oliphant: I think your suggestion that a price - I think your suggestion for a price committee is the answer, because the Department of Justice would say they weren't a purchasing agency.
- H.M.Jr: But in the meantime I've got to buy cement. I want to let these fellows talk and I am going to listen, and see what they've got to say.
- Mrs. Klotz, would you make a copy of this and then refer it to Mr. Oliphant for his advice. This memorandum from Blaisdell - to go to Mr. Oliphant.
- White: That idea with respect to that Interdepartmental Price Committee, functioning something like that English Price Committee - is that being held in abeyance or just dropped out of the picture?
- H.M.Jr: Only a matter of clearing it with the President. The idea is all right; I am still for the idea.
- White: But you're not pushing it along?
- H.M.Jr: That's right; I'm concentrating everything I can on the recovery bill, plus this.

(Mrs. Klotz leaves.)

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..... action I have on every day, and keeping politics out of the Treasury. I can't do everything. I'm up to my neck.

Oliphant: Would you like to have a memorandum commenting on those also?

H.M.Jr: What would that - what's the purpose of that?

Oliphant: Well, sort of observations I might get from Blaisdell.

H.M.Jr: On what letters?

Oliphant: On those cement letters.

H.M.Jr: Yes. You've got them, haven't you?

Oliphant: I can get copies of them.

H.M.Jr: I'll have to have it by tonight.

Oliphant: That's right.

H.M.Jr: Bell.

Bell: Woodring submitted to the President a brief memorandum on that bond sale of the Panama Railroad and he sends it over and says, "If you think it requires an answer, will you prepare one for my signature." It's just a memorandum along the lines of the conversation you had with those gentlemen. I should think it might be filed.

H.M.Jr: O. K.

Bell: The only other thing is, do you want to set June 1 for an Open Market meeting?

H.M.Jr: Just a second. (Looks at calendar.)

Bell: It's Wednesday.

H.M.Jr: (Hands papers to Mr. Oliphant.) Herman, this is the only set I've got of these.

June one.

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Bell: That's the only offering we have.

H.M.Jr: Who does that - Cy?

Upham: I'll be glad to.

H.M.Jr: Open Market, eleven o'clock, June one.

Upham: (Nods "Yes.")

Bell: That's all.

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

Upham: I have nothing.

H.M.Jr: You haven't? I thought today was the day for a report on marketability.

Upham: Which report do you refer to now?

H.M.Jr: The nine-thirty group - morning.

Upham: Well, I was afraid to take sides on that within the nine-thirty group because it might impair my impartiality in the other group. That lets me out - ask the others.

Gaston: Obviously Cy needs another job; he's got to have two personalities.

Bell: Apparently there is a split.

Upham: We had a meeting yesterday morning - Mr. Oliphant, Mr. Taylor, Mr. White, Mr. Haas, and I, and do I understand that you (Oliphant) were just handing in the majority report?

Oliphant: I just gave you a copy of the memo of the proposed regulations.

Upham: We discussed that and didn't get any agreement on it, I think, but since there wasn't any Chairman of the Committee

H.M.Jr: Well, let me read this out loud.

Upham: I don't know who the majority are.

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H.M.Jr: "Responding to the request for comment on the proper definition of 'marketable' as a limitation on the type of 'investment securities' in which national banks may invest, as the term 'marketable' is used in the seventh paragraph of U. S. C., Title 12, Section 24, a fair construction of this language would warrant giving to the term 'marketable' its ordinary and usual meaning, as there is no evidence of a legislative purpose to limit the term 'marketable' to any narrower technical meaning."

(Silently reading memo.)

Then he gives a draft of the regulations.

Upham: That's right.

H.M.Jr: Well, what I'm going to have to do is, I'm going to take this, and your group is going to have it.

Upham: Yes, indeed.

H.M.Jr: When, on this question of marketability?

Upham: The Comptroller, Gus Folger at least, has already revised it, but as I explained to you yesterday, the Federal Reserve Board can't make their recommendation until after their meeting on Monday, if then.

H.M.Jr: Now, they will clear it Monday or won't clear it?

Upham: Well, I should think it would take them a couple weeks to discuss it anyway.

H.M.Jr: All right. What about Leo on this question?

Upham: I don't think they will have any particular contribution to make. They are not interested; they are not governed by it.

H.M.Jr: Sometime Tuesday or Wednesday I am going to take a half a day and take everything we've got.

Upham: Of course, this Federal Advisory Council also took this.

- H.M.Jr: We'll forget that. But sometime I'll just take a half day and you give me the stuff that you've collected. You hang on to this (memorandum), in the meantime.
- Upham: I have copies of that.
- H.M.Jr: You take it, and we'll decide all that. The thing Mr. McKee's worrying about - Mr. McKee needn't worry about there being a story, because the story is that the Federal Reserve won't cooperate. If McKee's worrying, there will be a mouse coming out of the mountain. The Federal Reserve refuses to cooperate because they think by doing that, they can get legislation. No trouble in having a perfectly good front page story.
- Upham: Well, my mind is made up on this.
- H.M.Jr: Well, would you - I - well, you think we can change the thing?
- Upham: Yes.
- H.M.Jr: We can change it?
- Upham: I think we can make some changes.
- H.M.Jr: That will make it possible to get some of these smaller issues.
- Upham: Yes, some of them. Most of them not; I think most of them are not proper bank investments.
- H.M.Jr: Well, anyway, along about Tuesday or Wednesday we'll clean up all this business - the group we had down here, and everything else - we'll clean it all up, and go to town on it. I haven't had the time necessary to make up my own mind. I think it's extremely stupid, and if they don't come across with the report of the Advisory Committee, I'll ask them for it, but I think they will volunteer it.
- Upham: I hope so.
- H.M.Jr: Harry.

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- White: There's a bill that came to my attention - oh, Sweeney, from Ohio, I think - on the silver issue, Section 689. I am merely mentioning it because - it's being followed in routine fashion, isn't it? There is a routine to take care of that, isn't there, Herman?
- Oliphant: Legislation goes through the mill, for report, finally going to White, then goes to Taylor.
- White: What does, the bill or the comment?
- Oliphant: The comment.
- Taylor: That is, if the Committee asks for a report.
- McReynolds: The Committee will ask for a report.
- H.M.Jr: Does that answer your question?
- White: Yes; I just wanted to make sure somebody is following it.
- Oliphant: Yes - for some time.
- H.M.Jr: (Nods to Mr. Lochhead.)
- Lochhead: Sweden is starting in to pack a Swedish schedule on the gold to the United States, shipping about four million dollars every week on the Swedish boats as it is made available. The gold is in London; they ship it to Sweden and then to here. They will have seventy-five million all together.
- H.M.Jr: How much?
- Lochhead: They talk about a total of seventy-five. They've bought ten million dollars from us, so there will be shipments of about sixty-five more.
- The bond market is inclined to be a little firmer again - the Government bond market. They made a bid on bonds we have for sale.
- H.M.Jr: They're getting nice prices on those bonds, aren't they?
- Bell: I haven't been.

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- H.M.Jr: Top prices.
- Lockhead: One of six and three years.
- H.M.Jr: Hold them right there. Now, before I get to Taylor, what is the situation, now on this so-called Liberty Bond bill. Bell, Taylor, and Oliphant on that.
- Oliphant: Yes, this is - Mr. Hester discussed it with Mr. Bell and the thing which Mr. Hester planned yesterday to do has Mr. Bell's approval, and I think Taylor - he talked to me on the telephone - got me yesterday afternoon, Hester did, and I said that if I were doing it, and it was necessary to accept that amendment, which is to raise the bond limit to thirty billion, that I would do it.
- Bell: It's O. K. by me. I think that report's got enough flexibility to get by next year.
- H.M.Jr: Does - what I'd like, as long as everybody is in agreement on that, tell Hester to do a little trading, to see if he can get it through without any amendment, if he can. He's in the trenches, and these are his secret orders, if he can't get anything better.
- Oliphant: That will be taken up today. Harrison, after talking to you, was talking to
- H.M.Jr: Brown.
- Oliphant: Brown. It's to be taken up today.
- H.M.Jr: The only thing - tell Hester - I mean, I talked yesterday - he's dealing direct with Brown, without talking to Harrison - it most likely would have gotten Harrison sore. Yesterday when he was here he was going just to clear it with Brown. Seems to be a little crossing there.
- Bell: Brown's amendment was on the first section rather than on the last section, and after Harrison talked with you and me, he had - Brown called me and I explained to Brown his amendment was in the wrong place, and he is perfectly agreeable to accept this amendment, if you want to approve it.

- H.M.Jr: I'd like to get it without anything.
- Bell: Yes. Now Hester says Borah is going to insist on an amendment; he's going to insist on it.
- H.M.Jr: Pardon me.
- Bell: Hester says Borah is going to insist on an amendment. He's got one of his own, but he will accept Brown's amendment.
- Oliphant: He made it clear to me, it was in no sense receding. What he was doing when he was talking to you - he was trying to reflect the seriousness of the legislation situation, which, he says, we can't sense unless we are right there all the time. Borah does mean to go to town on his amendment if we can't get this.
- H.M.Jr: I say, take this if we have to.
- Wayne.
- Taylor: There
- H.M.Jr: You come right after this meeting.
- Taylor: There was one thing I was interested in, which I saw in the papers, which was apparently Roper's Advisory Council has made a report on various things, and that Mr. Delano is working on the housing thing. I just wondered if that
- H.M.Jr: Well, Mr. Delano also says - this is the time we ought to get on board and help Delano, but Delano, in the National Resources Committee - they are just all over the lot - they're writing a report on the Treasury activities for the League of Nations, and
- Taylor: We had an answer to that.
- White: That's what it looks like.
- H.M.Jr: No, but they are - Viner told me a couple months ago to watch the thing, but
- White: They cover a lot of territory.

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- H.M.Jr: They are setting up a fiscal Interdepartmental Committee, of which the National Resources should be a member.
- White: The idea is good, I think, is indicated by the fact it's quite along the lines of your ideas. The only thing, your idea is more practicable, and preceded it.
- H.M.Jr: I told Mr. Delano it's a swell idea.
- White: I don't think you can push that too far. One horse is gone - there are a lot of other horses in the stable, and that's one of the things you have in mind.
- H.M.Jr: They are not horses; they are geldings.
- Olyphant: I think if we don't hurry on with the studding we are not going to have any colts.
- H.M.Jr: Well, anyway, I still think the National Resources are still all over the lot. It's all right with me.
- Bell: I think Mr. Delano is doing this job as Chairman of that housing committee.
- H.M.Jr: I see. After Mr. - what's his name - comes to work for us
- McReynolds: Blaisdell.
- H.M.Jr: they won't be doing quite so much.
- Haas: That is one way of handling it.
- White: Lots of fish in the sea.
- H.M.Jr: Who else have they got?
- White: Gordon Dean, and several others.'
- H.M.Jr: Anything else?
- Taylor: No.
- H.M.Jr: George, here are two memoranda, one from you and one from White, in connection with food, see, and I want this thing - now on this question,

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White's written an excellent memorandum. The way I want to approach this thing, if the wheat surplus is a hundred fifty million, see; I want a plan which will take care of all of it - not in pieces. I want an excellent plan. Now White's given us one suggestion, which is a good one. I want to tie in the question of - someone said that he thought the maximum additional wheat that could be consumed was twenty-five million bushels, see? If we can get a plan which will add up to a hundred fifty million bushels - and Bill Myers is accepting that challenge, and he's working out a plan.

Haas: I'm having lunch with him.

H.M.Jr: A hundred fifty million bushels, and of course, if Blaisdell is coming with us he'll be on that, and you, as economic advisor to the London Wheat Conference

Haas: They got nowhere.

H.M.Jr: But I want - I'd like it, see, and that doesn't only have to mean wheat, but I think wheat is as good a thing to start with as anything. I wish you'd be thinking about it. I've thought of the possibility of asking Ed Babcock to come down for a week and work on that.

Haas: I think it would be very good.

Taylor: I'll be glad to tell you what they did with the baby pigs, George.

White: Incidentally, there is a very good report being put up by the National Resources Committee. It's an excellent report.

Haas: That's the lady

H.M.Jr: Who's the lady?

White: Neland.

Haas: Home economics - very good person. The President quoted in that monopoly message - quoted some of the figures from that report.

- H.M.Jr: But don't forget this wheat thing.
- Haas: I'll go right to work on it.
- Oliphant: He won't forget it if Babcock gets here.
- Haas: Dr. Collins and some of his associates - he's one of Parran's men - come over to see me and I don't know if I gave them a bum steer or not. He had worked out something - he thought in a month's time he could get together something. I told him to get together something in a couple days.
- H.M.Jr: Everything of that kind, I am shoving at you.
- Haas: The other thing is, you are seeing this steel man tomorrow. The report is all done except waiting for a few signatures.
- H.M.Jr: I'd rather - I told him it's only going to be cement, and I want to stick strictly to cement. They control it. I asked him, "Do you have a substantial interest in Universal Cement?" He said they did have, and I asked him if he knew about it, and he said, "I know all about it." I'd much rather wait - not mix the two things up. I don't want to have him think that this is just cement - just a smoke screen - and have him come down and talk about something else.
- Haas: That's right. Lubin mentioned to me, when you get on the steel, that is the man you see, very informally.
- H.M.Jr: He dropped everything to come down tomorrow.
- Haas: That's all I have.
- H.M.Jr: Herbert.
- Gaston: On that - I didn't touch Chicago on that report I gave you last night. It was on Cleveland. Of course, the Chicago situation has become very acute. Maybe you'd like to have something additional on Chicago.
- H.M.Jr: Yes. Did you see any of those men yesterday?

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Gaston: I wasn't able to get ahold of Riley. I talked to Friendly, of the News, and talked to him over the telephone, and he promised to come over. I sent him Eddie Bartelt's Chicago speech and gave him some figures and talked to him generally over the phone. He said he would come over later, but he wasn't in yesterday. I was thinking it might be a good idea to try to get the Skripps-Howard people interested in sending a good man out to the Coast and making an on-the-ground dispassionate study of the Los Angeles plan.

H.M.Jr: All right. Fine.

Gaston: I'll talk to Parker about it.

H.M.Jr: Anything else?

Gaston: That's all?

H.M.Jr: Would you just come here a minute, Mr. Gaston, and do something for me.

(H.M.Jr. and Mr. Gaston hold side conversation.)

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

Oliphant: I saw Jim Farley yesterday; all right. You may have noticed in the paper that the steel company is taking an appeal from an old Federal Trade Commission order.

H.M.Jr: Yeah. What's the significance of that?

Oliphant: It has two situations. The immediate occasion for it is the passage of recent legislation requiring an appeal within a limited time, and if they didn't appeal the last of this month they could never appeal, but the fact they do think it's worth while appealing indicates they are getting busy on the whole problem again. It's tied up with the Federal Trade Commission action against the cement companies which is now pending.

H.M.Jr: (Over telephone.) Hello. Thank you.

Well, we'll see; I see. Anything else?

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Oliphant: No.

H.M.Jr: Ros, here's an invitation from the American Bar to send somebody out in Cleveland on the Federal tax question on July 26. It's not quite as good as a trip to Canada, but maybe somebody would like to go. Will you take care of it.

Magill: (Nods "Yes.")

White: There are a few memoranda you sent to George and me. Miss Chauncey said you ought to see us.

H.M.Jr: Now - you have anything, Ros?

Magill: Yes. I had word yesterday that the Ways and Means Committee is having a meeting this morning at eleven o'clock on the subject of a floor stock tax to accompany this increase in tax on distilled spirits, which goes into effect on July 1. They had a session on it some time ago, on a proposed concurrent resolution to put this floor stock tax into the tax bill. That failed for some reason or another. Now they want - what they are considering is whether or not, I understand, they should go ahead with a resolution which has been introduced, to put on a floor stock tax as a separate thing, as a separate statute. I have been in communication with Mr. Helvering, Mr. Berkshire, and Mr. Graves on the subject and I have a memorandum from Mr. Helvering, the net of which is that we have always had floor stock taxes before when similar increases of tax on distilled spirits have come up, and it presents no unusual administrative difficulties, and, therefore, he thinks that it's all right, since there is apparent gain in revenue of somewhere between three million seven hundred fifty thousand dollars, and fourteen million seven hundred fifty thousand dollars, in his view.

You recall we wrote Mr. Doughton with respect to the old concurrent resolution and we thought that if he is involved with matters of - we might get his expressed opinion on the bill.

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In view of Helvering's statement, and Berkshire, I may say, feels the same way, and so does Graves, I am inclined to say to the Committee that we still regard it as a matter of legislative policy as to whether they are going to do it or not, but that the information that we have assembled from our own people would not present any unusual administrative difficulties, and would yield this amount of money, and is something which has heretofore been done.

H.M.Jr: Well, you have studied it; I haven't. I'm going to abide by what you people say.

Magill: It's a very confused affair. I mean, there's all sorts of cross currents with respect to it that haven't anything to do with taxes. On the tax side, I think the consideration is one

H.M.Jr: You are going to present this yourself?

Magill: I don't want to, but I suppose I'd better.

H.M.Jr: When do they meet?

Magill: Eleven o'clock. You think I'd better?

H.M.Jr: I think you'd better. What else?

Magill: (Nods "Nothing.")

H.M.Jr: All right.

Now, Mr. Taylor - long patient Mr. Taylor.

Chicago Halts Cash Relief; 91,000 Put on Short Rations

State Giving Help

The state is already providing the various communities with relief assistance out of its 3 per cent sales tax at the rate of \$2,900,000 a month. Of this amount, Chicago has been getting approximately \$1,800,000 a month. It has cost the city an additional \$1,100,000 out of its own tax income to make up the \$3,000,000 a month budget on which it has been supporting at admittedly sub-standard levels some 93,000 families—270,000 persons.

34,000 Families Are Left Dependent on Beans, Rice and Cabbage From U.S. Commodity Surplus

Already this month, the Chicago Relief Administration has distributed to 59,000 of the 93,000 families the entire state allotment for May and what was left of the city's relief appropriation for the entire year.

Sit-Ins at Stations Put Out Peacefully

Mayor Edward J. Kelly of Chicago has been seeking "painless taxes" by which the city can raise additional tax funds, but to date he has found no new source of municipal income which can produce anywhere near the amount of money the city will need for the rest of the year.

Legislature to Give Aid, but Horner Is Blocked in His Move to Afford Immediate Assistance

Demonstrations at several district relief stations today were unmarked by violence. Two attempts at sit-downs in relief stations were broken up by police peacefully last night with the threat of arrests.

From the Herald Tribune Bureau

CHICAGO, May 18.—With all direct relief funds exhausted, Chicago today followed the example of Cleveland and shut down its twenty-one district relief stations. Thirty-four thousand families—some 91,000 persons—are without their May relief checks, and face the prospect of bare subsistence for the next week or two on meager supplies of dried beans, rice and cabbage, which the Federal Surplus Commodities Corporation will continue to distribute for the time being.

Inquiry Begun in Cleveland

CLEVELAND, May 18 (AP).—Eleven Ohio legislators began taking Cleveland's relief machinery apart today. They sought to find what brought the system to the brink of a smash-up, left many needy without relief and finally drew a crowd to City Hall to sit for hours under a cloud of cigarette smoke in quiet resentment.

Pickets appeared at some of the closed stations carrying banners reading: "Soak the rich and feed the poor," and "Don't starve, fight." Signs on the doors of the stations read: "Closed until further notice. Service restricted to emergency medical care (if needed, telephone) and surplus commodities."

The legislative committee, after watching the spectacle in City Hall briefly, dug into the city's financial and relief files, visited relief stations and interviewed clients.

The Illinois Legislature will convene in Springfield Friday night, and one of the twenty-one issues listed by Governor Henry Horner in his call for a special session last night included the relief crisis here. The relief problem will receive immediate attention from the Legislature, but it is doubtful that the necessary legislation can be enacted forthwith.

The Legislature, facing an Ohio League of Municipalities estimate that \$17,000,000 was needed to see a state's larger cities through their relief needs for the remainder of 1933, authorized the committee to tour the cities for first-hand knowledge.

Governor Horner has proposed that the state set aside an additional \$4,500,000 for relief purposes for the rest of the year; expenditures to be limited to \$300,000 a month. Even if this entire monthly sum was turned over to the Chicago Relief Administration, the increased funds available would still fall short by a substantial margin of Chicago's needs.

May 19, 1938.

MEMORANDUM

TO: Secretary Morgenthau
FROM: Mr. Gaston
SUBJECT: Chicago relief.

The relief situation of Chicago is quite similar to that of Cleveland, except that the State of Illinois is much more liberal in its relief provisions than is the State of Ohio.

The Chicago Relief Administration ceased issuing direct relief checks at the close of the day yesterday, May 18th, for the reason that the city relief funds for the year have been exhausted and no more money will be available from the State until June 1. There are 93,000 cases (families) on the C.R.A. rolls. A factor of 3 is used in estimating the number of persons supported, which gives a total of 279,000 individuals. Of the 93,000 families, 59,000 got their relief checks, on an average of about \$30 to the family. The checks were issued alphabetically because of the hope of the Relief Administration that some way would be found to take care of all of them, although the money was not then in sight. Finally, with the entire fund exhausted, plus a deficit of \$1,400,000 to be covered by June payment from the State Relief Commission and no more immediately in sight, the City Relief Commission stopped issuing checks and reduced its payroll of employees from 1,500 to 400. The cases which received checks were from "A" to "Noo" in alphabetical order.

Governor Horner has called a special session of the Legislature to meet tomorrow, Friday. He will ask for an additional State relief appropriation of four and one-half million, to be expended at a rate not to exceed \$500,000 monthly. It is the hope in Chicago that the relief commission might authorize paying the entire additional \$500,000 a month to Chicago. There is serious doubt about this possibility since down-State cities are reported to be in desperate straits and there is certain to be a battle between city and down-State representatives over the allocation of any additional relief funds to be appropriated. The entire \$500,000 a month would by no means cover Chicago's needs at the present rate.

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The Chicago Relief Administration has been expending in recent months at the rate of approximately a million and a half a month in addition to the approximately \$1,900,000 which has been received monthly from the State; thus making a total current direct relief expenditure in Chicago of approximately \$3,400,000 a month. This is at the rate of about \$36.60 per case per month, or about \$12.46 per person per month, or about 44¢ per person per day. Put on a weekly basis it is about \$2.97 per individual per week.

The city had available for relief purposes during the year approximately \$5,500,000, derived from a special realty tax of 30¢ on \$100. It became apparent early in the year that this would not be sufficient, coupled with the State's grants, to meet the full relief load. It was decided, however, to go ahead on the basis of adequate relief care with the expectation of finding some other resource. This money has been completely exhausted with the partial relief payments made for May and the June State payment has been anticipated. State relief revenue disbursed by the Illinois Emergency Relief Commission is financed by the sales tax of 3¢ on each dollar. Among the measures proposed by the Governor is one to enlarge the range of commodities covered by the 3¢ tax.

The situation with respect to the 34,000 families who have not received relief checks for May is this: They are drawing some food supplies from the Federal Surplus Commodities Corporation. These are being rationed. A month's quota to a family of four is two pounds of dry beans, four pounds of butter, twelve pounds of cabbage, eight stalks of celery, thirty pounds of oranges, and two pounds of rice. In addition a limited supply of milk is being furnished by the Association of Milk Dealers of Chicago on the expectation of ultimate repayment by the city.

An unnamed officer of the WPA is quoted as having said that direct relief is "a purely local matter." Leo M. Lyons, Chicago Relief Administrator, says that he has certified between 3,500 and 4,000 additional names of employables to the WPA offices.

Organization of relief clients has appeared in Chicago as in Cleveland. The Illinois Workers Alliance is active. Since the suspension of the issuance of relief checks pickets have appeared at various relief stations bearing banners and twenty pickets occupied one office on the West Side with the announcement that they would stay until relief payments were resumed.

Mayor Kelly has announced that he has a new program of "painless taxation", not a city sales tax, to be presented to the Legislature.

NLS

- 3 -

The Chicago Daily News of Tuesday had an editorial entitled "The WPA Luxury", in which it was asserted that the 65,000 employables on the WPA rolls could be as well cared for by direct relief at less than half the cost. It concluded "The Governor of Illinois and the Mayor of Chicago seemingly would sooner engage in a fatuous search for 'painless taxes' than admit the errors of their national leader by demanding from him an adequate share for direct relief of the cash which the State has paid into the federal treasury."

--oOo--



FEDERAL SURPLUS COMMODITIES CORPORATION
1801 D STREET NW.
WASHINGTON



330

J. G. BLANDI, SECRETARY

May 19, 1938.

COMMODITY SHIPMENTS

April 1, 1938 to May 19, 1938, Inclusive.

<u>Commodity</u>	<u>Chicago</u>	<u>Cleveland</u>	<u>Toledo</u>	<u>Detroit</u>	<u>Flint.</u>
Potatoes, lbs.	1,	720,000	252,000		
Potato Flour, lbs.	200,000				
Rice, lbs.	1,080,000	300,000	240,000	800,000	240,000
Beans, lbs.	300,000	350,000	200,000	100,000	50,000
Peas (Cans)	4,320,000	48,000		48,000	
Prunes, lbs.	960,000	300,000	180,000	360,000	120,000
Butter, lbs.	500,000	260,000	126,000	441,600	60,000
Cabbage, lbs.	1,992,000	432,000	336,000	720,000	120,000
Oranges, Boxes	31,500	15,708	9,240	1,080,000	360,000
Celery, Crates.	6,290	1,850	1,110		
Dry Skim Milk, lbs.	320,000	160,000			
Apples, Fresh, lbs.		624,000	264,000	1,728,000	216,000

In addition to shipments already made diversions to these points of similar commodities in transit elsewhere are under way which will insure the maintenance of food inventories.

Shipments of wheat flour to Chicago, Cleveland and Toledo are in transit, with actual deliveries due this week.

Additional shipments of dry skim milk to all points will be made within two weeks.

F. R. Wilcox
F. R. Wilcox,
Vice President.

MEMORANDUM

Secretary Morgenthau

May 19, 1938

Thomas C. Blaisdell, Jr. *TCS*

Discussion on cement prices

For the back of your head:

1. The discussion should not turn on the specific instance of the refusal by the small group of companies to bid on a small quantity of cement involved in this particular case, but rather on the broader basis of the implications of the refusal by the companies to sell the government except on terms dictated by the cement industry.
2. It will be impossible to avoid some discussion of price of cement.
3. But the price discussion should not turn on any specific price.
4. The government does not know to what level prices of cement should be reduced but is convinced that a sizable reduction is in order.
5. The government does feel that the present general level of cement prices is under seller's control.
6. The seller's control is established through the use of the multiple-basing-point system and related practices of pricing by formula.
7. It has long been the practice in the cement industry to quote "net mill prices"; thus seemingly prices are made f.o.b. the mill. However, as long as the point of delivery is stated and the formula for computing prices known, the delivered price will be the same for all sellers irrespective of the quoted "net mill price".
8. The argument that a modification in pricing methods will affect the stockholders of the companies adversely rests on the assumption that stockholders are entitled to the benefits of "monopoly" control.

-2-

9. It is possible that the argument will be made that prices quoted on the basis of the basing point system are "competitive". However, they are competitive on the terms dictated by the seller. This is not competition as the term is generally used.

10. The argument that the dealer's service built up by the cement companies would be destroyed will not hold water in view of the fact that until 1935 all government purchases were made direct from manufacturers, and only by "agreement" as regards WPA purchases was this section of the government business handled through dealers channels. Furthermore all invitations are for carload lots of cement and no dealer service is required.

11. The government's immediate interest in the modification of the pricing system rests on the fact that the government is spending large sums of money for recovery, and the very expenditure by the government under present pricing methods in the cement industry tends to hold price levels which must be adjusted if recovery is to come about.

12. Profits in the industry will depend primarily on the achievement of volume production since costs of production are determined more by the volume of operations than by any other factor.

MEMORANDUM OF THE DAY'S ACTIVITIES

May 19, 1938

To: The Secretary
 From: Mr. Magill

1. Settlement branches in Chicago and New York

Mr. Graves called to remind me that you had asked Mr. Helvering to give you his views on the establishment of these units earlier this week. Do you want to discuss the question with Graves or me further before you see Commissioner Helvering? *

2. Liquor floor tax

The Ways and Means Committee met in executive session this morning to determine whether to hold hearings on a joint resolution proposing a 25¢ floor tax on distilled spirits in the hands of retailers, wholesalers and distillers on July 1st, when the 25¢ increase in the tax on distilled spirits goes into effect. Reference was made to your letter to Mr. Doughton on May 6th, regarding the concurrent resolution for the same purpose, in which you had expressed the view that you regarded the question as one of legislative policy. I told the Committee that the Treasury normally took the position that the imposition of excise taxes on particular commodities was one for the Congress to decide. The facts in this case are that the proposed tax had always heretofore been imposed when the tax on distilled spirits was increased. The Commissioner reported that no unusual administrative difficulty would be caused by the tax. We estimate that the tax will yield net additional revenue of \$3½ to \$4 millions. Finally the imposition of the tax seemed to be desirable in facilitating the orderly marketing of liquor under the circumstances of the proposed increase.

Members of the Committee discussed the proposal with a good deal of heat. Mr. Cooper said he thought there was some "bug under the chip" but he hadn't yet been able to find the bug. He rather thought, however, that the proposal was a device for passing on to the retailers the tax increase. Mr. Fuller strongly opposed the floor tax. Messrs. Boehne and Thompson seemed to favor it. The Committee finally voted 10 to 6 to hold a one day hearing on the resolution next Wednesday.

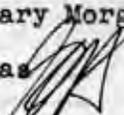
* Dictated before I saw you this afternoon.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE May 19, 1938

TO Secretary Morgenthau
FROM Mr. Haas 



Attached is a memorandum prepared by Miss Lonigan in which, among other things, the WPA figures on general relief are compared with those of the Social Security Board, and the differences between the two sets of figures shown in a separate column.

While Miss Lonigan has indicated at the top of the respective columns that the WPA figures apply to the highest week in the month and that the Social Security figures are figures for the entire month, I wanted to make sure that it did not escape your attention that the two sets of figures are compiled on a different basis. For this reason it would only be accidental if the two sets of figures were identical.

A more detailed explanation of the two series of figures is as follows:

1. The Social Security Board figures represent the number of cases receiving general relief monthly, which includes all those who receive relief at any time during the month. If a person receives relief for one week, two weeks, three or more weeks, he would be reported.
2. The WPA figures represent the number of cases receiving relief during the highest week in each month.

May 13, 1938

To: The Secretary
 From: Miss Lonigan *EL*

Miss Wyckoff checked this morning's WPA figures on general relief with those of the Social Security Board. There were minor discrepancies, in many of which WPA was higher.

In Detroit there was a very large discrepancy.

Number of cases securing general relief

Detroit (Wayne County)

	WPA (Highest week)	Social Security (month)	Variation in WPA
<u>1937</u>			
October	16,428	15,030	+ 1,398
November	16,778	16,008	+ 770
December	23,418	25,826	- 2,408
<u>1938</u>			
January	30,792	49,890	-19,098
February	42,509	68,075	-25,566
March	40,766	74,966	-34,200
April	44,656	47,288*	- 2,632

*Detroit only. The decline in April was due to increase in WPA quotas, not to any betterment in economic conditions.

The Social Security Board telephoned to Detroit and verified their figures.

* * * * *

The Social Security Board after difficulties lasting over a year made a definite agreement in writing with WPA that all relief statistics from state and local relief or welfare agencies would be collected solely by Social Security

Board.

This agreement was finally won by Social Security Board only because of the fact that the Board had continuing administrative contact with state and local agencies under their program, and WPA had no administrative contact with relief agencies whatever. WPA duplicated the work for many months without properly trained people.

At Christmas time WPA started once more having their state and local administrators collect duplicate relief figures direct from localities. Social Security Board is now receiving complaints from the state agencies.

Social Security Board has been trying for more than a year to get some kind of support within the Administration to continue a high-grade piece of work which WPA is constantly trying to sabotage. It is their belief that they cannot get such support, and their certain knowledge from bitter experience that they surely will get hidden reprisals from WPA, that has led them to a policy of silence. As they knew, they had no possible way of defending themselves.

May I again suggest that you might wish to ask the President to direct all requests for relief information to Social Security Board, as the sole authority on relief figures, by virtue both of their administrative position and of the high quality of their technical work.

3 1/2 items = case

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	25,529	6,600	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	25,579	5,147	
January 29	27,684	12,621	30,792	6,725	107,260
February 5	28,536	13,296	34,579	7,888	
February 12	29,532	12,099	38,565	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

Monthly data received from the Social Security Board
No data reported.

Division of Research,
Statistics & Records
May 12, 1938

May 19, 1938

The President said that he had a pretty confidential cable last night from Bullitt and Wilson, the Ambassador to Germany, and after a two day conference they agreed that they are both positive that between now and the 15th of August there will be a war in Europe; that Germany is going to make some move.

May 19, 1938.
10:47 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

H. M.
Haddock: Hello, Hello, Henry.

H.M.Jr: Hello, Ed?

B: Yes. How are you?

J.M.Jr: How are you?

B: Good, glad to hear from you.

H.M.Jr: Ed.

B: Yes.

H.M.Jr: I'll tell you what I'm working on the last week or so, telling you this in strict confidence, I've been taking a look at these various surplus crops that we're going to have this season, starting with wheat, you see?

B: Yes.

H.M.Jr: And they estimate a hundred and fifty million bushels surplus and they are all worried and flustered, and they're talking about a processing tax, and all that sort of thing. Well, I don't want a processing tax.

B: No.

H.M.Jr: And I've been fighting it tooth and nail. Well, you can't be negative down here. If you don't want something, then they ask what do you want? Well, I was talking to Bill Myers and my own people, and we're trying to work up a program how to use a hundred and fifty million bushels of wheat and take care of some of these people who are starving in this country, see?

B: You bet.

H.M.Jr: Which gets it to the whole question of a possibility of not only taking this, but we've now got loans on six million eight hundred thousand bales of cotton. We've got people who are practically naked and I want to take a whole look at this question after five years where are we going and this whole agricultural program, and the fact that we have it, we ought to know by now that we've been wrong, see?

- Q: Yes.
- H.A.Tr: And wheat offers the best opportunity to set up something to show the President. Wallace, instead of asking for a hundred million dollars to grow less, why don't we take whatever money is necessary and put it into the people's stomachs.
- Q: You're right.
- H.A.Tr: Now, I wondered if you didn't want to come down here a couple of days, take what everybody's got, put your brain on it and see if we can't use wheat, as an example, to set up an alternative plan other than what they've been doing for the last five years.
- Q: Huh-huh.
- H.A.Tr: And that's the whole story.
- Q: Yes.
- H.A.Tr: Now I told Bill, I said "Bill will you take your crowd and set up a plan to use a hundred - to use up the surplus wheat other than to store it or to loan on it, or to go after next year's fall crops to grow less," see?
- Q: Huh-huh.
- H.A.Tr: And then if we could - using that - 'cos I think that is the easiest one. Cotton is the most difficult. Now Bill says that with the program they've got now, that they're going to produce the farmers, this year, half as much cotton and not get a satisfactory price and their income will be cut in half, and they're just going to raise hell.
- Q: Yes.
- H.A.Tr: And I've reached this stage where I think I owe it to the President, as long as I'm here, that if I think something like that is going to blow up I'd like to at least put it on a piece of paper and say, "Well, here's an alternative plan".
- Q: Well now, Henry, when would - when should I come down?
- H.A.Tr: Well, just as soon - the sooner the better. Without too great a sacrifice on your own part.

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- B: Well, let's see. This is Thursday, isn't it?
- H.M.Jr: Yes.
- B: I think I could make it - (Give me that schedule - What was Tuesday there of next week - well, that's not important.) I think I could make it on Monday night of next week.
- H.M.Jr: Swell.
- B: All right. I'll be down. What I'll do, come over to the Treasury?
- H.M.Jr: Yes. We'll have a place where you can work, and by that time - you could get here Tuesday morning.
- B: I'll get there Tuesday morning.
- H.M.Jr: Yes. Well, drop in here at nine o'clock - nine-fifteen and I'll have Bill here and George Haas has been working on it. I've got Public Health working on it.
- B: Huh-huh. That would be - huh-huh. O. K. Henry.
- H.M.Jr: Parran's got some very interesting things on it.
- B: Parran?
- H.M.Jr: Dr. Parran.
- B: Parran. Yes. Well, I'd like very much because I'm really anxious to be of service, but I can only really conscientiously do it on constructive things.
- H.M.Jr: Well, this ought to - I imagine this would strike a sympathetic note.
- B: Yes, it does.
- H.M.Jr: And all we can do is to put a thing on a piece of paper then if the President and Wallace don't want it, at least I've satisfied myself. Now the other instrument we've got which are not using, is the surplus commodity corporation.
- B: Huh-huh.

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- H.M.Jr: And there's a grand chance there to do things.
- B: I've always felt that that was your constructive way out.
- H.M.Jr: Yes. And I've finally got Wallace, this week, to sign an order, to buy bread for people in Cleveland, Chicago, Flint and Detroit. He's doing that, he started this week.
- B: Huh-huh.
- H.M.Jr: But the way they're handling that surplus commodity, why I think it's just cock-eyed.
- B: Yes.
- H.M.Jr: And there's a wonderful chance and Bill Myers is a member of it.
- B: I know that, but he's never been affected particularly.
- H.M.Jr: Well, I got Bill - goaded and prodded him and said "Why don't you demand that a meeting be called and ask for the program."
- B: Yes.
- H.M.Jr: And he says he will.
- B: But I think that without - just at first blush, that that is a way out.
- B: Well, it is one way out. It's a constructive way to do some things.
- H.M.Jr: But I would - I'm just going to fight to the last against the processing tax on bread, at this time.
- B: Oh boy. I think it would - I hope you won't have - they won't take it.
- H.M.Jr: But you see, I've got an alternative.
- B: Yes.
- H.M.Jr: Get it?
- B: Yes, I understand.

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H.M.Jr: Well, I'm tickled to death, and you - you can be thinking about it.

B: All right. Well, I'll be down there Monday or Tuesday morning, as soon as the train gets in.

H.M.Jr: That's right.

B: Well, fine, Henry.

H.M.Jr: Thank you.

B: Goodbye.

EDA

GRAY

LONDON

Dated May 19, 1938

Received 1:40 p.m.

Secretary of State

Washington

423, May 19, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

All markets were stagnantly quiet today due mainly to a sense that important and perhaps decisive, behind the scene, diplomatic conversations are now taking place among the principal European powers.

The only exchange matter of interest was the rather heavy selling particularly in Paris of francs against the French Indo-China piastre. The piastre has recently had a further advance relation to the franc, one piastre equaling 10.05 francs. When the franc reached 160 to the pound the piastre again assumed a quasi silver coin value and therefore with the franc at 177 it would pay to smuggle them out of French Indo-China for melting. The exchange market has therefore anticipated a further downward adjustment of the piastre in relation to the franc.

KENNEDY

KLP:CSB

REB

GRAY

Paris

Dated May 19, 1938

Rec'd 2:25 p. m.

Secretary of State,
Washington.

793, May 19, 5 p. m.

FROM COCHRAN.

French press comments favorably upon yesterday's decrees amending setup of French stabilization fund giving it both more resources and secrecy. British and continental observers have uniformly appreciated usefulness of British equalization fund in absorbing shock of recent French capital withdrawals from London market.

Bank of France statement as of May 12 showed no important changes except drop of around three billion francs in deposits presumably due to withdrawal of francs by French control from its own deposit to pay for gold. Franc opened today at 177.63 but no sterling was acquired by control at this rate. On Bourse a small amount was taken and rate moved to 177.60. Exchange trading has been extremely quiet with operators hesitant because of international developments with
respect

REB

2-#793, From Paris, May 19, 5 p.m.

respect to Czechoslovakia and Spain. Forward franc more offered from London. Belgian chamber yesterday gave Spaak government vote of confidence by 132 to 38 with 15 abstentions. Nevertheless there was still some pressure on the belga today. Local operators cannot understand discount of Canadian against American dollar and failure of authorities to right it.
(END SECTION ONE)

BULLITT

CSB

Paraphrase of Section two of telegram No. 793, May 19, 5 p.m.,
from American Embassy, Paris.

I was visited today by the exchange trader of National City, who summarized views of group of French traders with whom he met yesterday. These traders said that there is no way to establish a proper value for the franc until France gets to work. (?) economic effect is achieved. Information has just reached me that this currency will depreciate indefinitely through recurring crises. They believe the business of "bearing" foreign exchanges will be active for quite a few months. The traders predict the belga as offering their next field of operations to be followed by the florin, Swiss franc, dollar and sterling in perhaps this sequence with the French franc intermittently vulnerable.

END OF MESSAGE

BULLITT

EA:DJW

May 19, 1938.
2:41 p.m.

H.M.Jr: Hello.

Operator: Mr. O'Connor.

H.M.Jr: Hello.

J.
O'Connor: Hello there my good friend, how are you?

H.M.Jr: How are you?

O: Fine, thank you. I'm glad to hear your voice.

H.M.Jr: Jeffty.

O: Yes.

H.M.Jr: The reason I'm calling you is this. What understanding did you have with anybody in or outside of the White House, as to holding that position open? The reason I'm calling you, they've recommended another man now.

O: Oh boy!

H.M.Jr: See?

O: Yes.

H.M.Jr: And I told them that I thought that you did have an understanding that it would be kept open, but I want to be awful sure.

O: Yes. Well, it wasn't definite. It's just one of those things that you can't make a deal on. I wouldn't say that it was definite at that time because you didn't - it's one of those things - I didn't think there would be any move at all made except with your permission.

H.M.Jr: Yes.

O: So I just didn't press the matter any further after my chat with you. I just dropped the whole thing, because I felt that something would be done without consulting you and that whatever you suggested would be agreeable to everybody. So I didn't make any further - didn't make any further effort to do anything on it, Henry.

- W.H.Jr: So nobody in the White House made any pledge?
- Q: No, I would say no. Definitely, I'd have to say no.
- W.H.Jr: Uh-huh. Well -
- Q: Because I felt that nothing over there would be done without your full approval and I just left it at that.
- W.H.Jr: Well that doesn't necessarily follow, unfortunately.
- Q: No, no, but I -
- W.H.Jr: Because it's been pointed out to them that two years ago it was removed that this position would be filled with the approval of the Secretary of the Treasury.
- Q: Oh, I didn't know that.
- W.H.Jr: Yes, you remember two years ago that was taken out.
- Q: Oh, it was? Well, I'd had forgotten all about that.
- W.H.Jr: Yes.
- Q: But I - but even at that the whole jurisdiction of the whole matter. There wasn't any change made in the jurisdiction of it and supervision of it.
- W.H.Jr: Yes.
- Q: So that you just couldn't function with somebody that wouldn't - wouldn't be in there with the approval of the head, because not a line of the jurisdiction of the whole system has been changed, everything was left - and why they did that I never did understand - now that you call my attention to it.
- W.H.Jr: Yes.
- Q: But the jurisdiction in every line of it and the responsibility of it is entirely with the Secretary. I don't - well, you couldn't function if - because the man that would be in there couldn't do anything.
- W.H.Jr: Yes.
- Q: In opposition to the supervision of the - and the responsibility up there in you.
- W.H.Jr: Yes. Well, I'm going to see what I can do, but -

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O: God bless you. I'm for anything you do at any
time, day or night.

H.M.Jr: All right.

O: Thank you, Henry.

H.M.Jr: Fine.

May 19, 1938. .351
2:47 p. m.

H.M.Jr: Hello.

C. M. Hester: Hello, Mr. Secretary.

H.M.Jr: Where are you Hester?

H: I'm in my office.

H.M.Jr: Well now Hester, Cooper called up Mr. Magill. Is this Bill satisfactory the way it passed the Senate? Well now, of course, it's satisfactory.

H: Now I tell you how that happened. Magill was up at the Capitol this morning before the Ways and Means Committee and while he was there Harrison called him about this matter and asked him to help get it through the House this afternoon and so Jere called Magill outside and told him about it and Magill didn't tell him that you had turned it over to me. He says "I'll talk with the Secretary this afternoon, I'll get in touch with you". Well then, I got in touch with Jere myself and told him the bill was O. K. and would he get it through this afternoon and he said he would.

H.M.Jr: Well now, do you want me to call him?

H: No, that isn't necessary, I'm taking care of it.

H.M.Jr: Are you sure?

H: Yes, I'm sure.

H.M.Jr: A hundred per cent.

H: Yes, I am. When did Magill say that Jere Cooper called him? Just recently?

H.M.Jr: Oh - this morning.

H: It was this morning that he talked with him.

H.M.Jr: Yes.

H: I've since talked with Jere, that's all right. It's taken care of.

H.M.Jr: O.K.

H: All right. Thank you.

May 19, 1938.
3:28 p.m.

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H.M.Jr: Hello.

Operator: Secretary Wallace is busy on a long distance call.
I'll wait for him.

H.M.Jr: O. K.

O: Right.

May 19, 1938.
3:36 p.m.

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H.M.Jr: Hello.

Secy.
Wallace: Yes, Henry.

H.M.Jr: Henry, I've just spent thirty five minutes with your friend Palmer. Hello.

W: Oh, yes, yes.

H.M.Jr: Now, Henry, I've checked with Ed Foley.

W: Huhhuh.

H.M.Jr: And what these men wanted twenty five thousand dollars.

W: Oh.

H.M.Jr: And we went all through that once before with Alexander and all those people and Foley feels quite sure that between now and the first of July that Alexander's outfit could lend them the money.

W: You figure it's the kind of thing we ought to get into, Henry?

H.M.Jr: Sounds good to me, at first blush.

W: Of course it gets into that old thing of me telling the folks on the hill that we weren't going to go into housing.

H.M.Jr: I know, but I mean I told them that the only place I know of where he could get the money unless it was RFC would be out of the Farm Security, but I also told Foley to look up RFC and see whether there's something for him.

W: I see, when I went before the Senate Appropriations Committee, three or four days ago that the housing matter came up again and I again made my statement.

H.M.Jr: Yes. Well, then I take it you don't want to lend it to them.

W: Well, I don't object to it providing - providing I'm square with the Congressional people.

H.M.Jr: Well -

- 2 -

- Q: So it might be that this could be looked on as an exception.
- W.A.Jr: Well - I mean I don't want to be put in a position of pleading, as I said before, you know.
- Q: No.
- W.A.Jr: And -
- Q: I tell you I'm - I'll - of course these folks over in Farm Security - they always had a sort of - they always sort of liked this housing business and I've tried to keep them out of it.
- W.A.Jr: Yes.
- Q: Simply because I thought it really better to do it some place else.
- W.A.Jr: Yes.
- Q: That is I wanted them to finish up what they had started, see what they had.
- W.A.Jr: Yes. Well -
- Q: But - but it may be that - I'll have to look at it.
- W.A.Jr: What should I tell them - they're back at Ed Foley's office now? Didn't expect me to throw it back in your lap.
- Q: No, I didn't expect that outcome.
- W.A.Jr: It was so good that I -
- Q: I thought - I just merely thought that you'd be glad to -
- W.A.Jr: Yes, but they want to know where they can get twenty five and checked up on everything that I've done on that other thing.
- Q: Of course I've rather felt that the best way for them to do is get the twenty five privately, to tell the truth. If that could be done.
- W.A.Jr: Well, do you want them to see Alexander or don't you want to start that?

- 3 -

W: Well, I'd like to have some - I'd like to have some Congressional backing on it.

H.M.Jr: Well -

W: What do you think about that?

H.M.Jr: Gosh, I don't know Henry. This is -

W: Of course, twenty five isn't much. I don't know - maybe - we wouldn't be doing the building.

H.M.Jr: No.

W: By jiminy, I'm going to have them see Alexander.

H.M.Jr: Well, should I tell them to phone Alexander in a little while and you'll arrange it?

W: Yes, I'll arrange for them to see Alexander.

H.M.Jr: O. K.

W: I won't express an attitude as to whether it ought to go that way at the present time but I'll arrange for them to see Alexander.

H.M.Jr: All right. And I told Foley to find out anything over at RFC for them.

W: All right.

H.M.Jr: All right, Henry.

W: All right, fine.

May 19, 1938.
4:06 p.m.

356

Operator: Go ahead.

H.M.Jr: Hello.

McCormack: Yes, Mr. Secretary.

H.M.Jr: Yes, Mr. McCormack

M: Is that thirty billion amendment all right?

H.M.Jr: Yes.

M: All right. Well, that's all I wanted to know.

H.M.Jr: Thank you.

M: All right, you want the House to concur on it?

H.M.Jr: If you please.

M: All right, Mr. Secretary. Goodbye.

May 20, 1938.
11:19 a. m.

H.M.Jr: Hello.

Operator: Mr. Knoke. Go ahead.

H.V.Jr: Hello.

Knoke: Yes, Mr. Secretary.

H.M.Jr: Knoke - good morning.

K: Good morning, sir.

H.M.Jr: I read your memorandum of your talk with Bolton see?

K: Yes.

H.M.Jr: And you know I kinda get these sixth senses, you know, of mine, and plus information which I've got independently, plus all this gold coming over here see. I really am getting quite nervous that I think the other fellow must be awful nervous.

K: Well, I think there's no question in both the Swedish and the British case, they are nervous about the general political situation in Europe, that is not only an assumption, that is based on their own statement. Rueff said so in his talk to Cochran and Cochran so reported in his cable from Basle.

H.M.Jr: Yes.

K: And Bolton told me definitely, in just as many words, that it was the political situation which prompted them to take the gold out.

H.M.Jr: Well, my God, if the French are going to begin to lose - losing what, a million pounds a day, sterling? Huh?

K: The French are gaining.

H.M.Jr: No, they are losing. Two days ago.

K: Well, yes, but they lost on two days - y^esterday they gained a gain.

H.M.Jr: Yesterday?

- Q: Yes. They lost on Tuesday, Wednesday, and yesterday, according to private report from - from France, they had registered small gains.
- W.S.Jr: But I still - I don't know whether you feel that - the stuff that's coming across my desk this week, I just don't feel happy about the European situation at all.
- Q: Well, that is surely the impression that I gained from - from Bolton's talk and I think he used those words that he wasn't happy over the situation there and I think he said that he had a feeling that things were drifting toward a crisis.
- W.S.Jr: Well, I just wanted to check with you.
- Q: But I think it is undoubtedly critical, I mean you can see that from Mussolini's attitude, which I think is terribly unfriendly.
- W.S.Jr: Yes.
- Q: You can rest assured that if Berlin keeps quiet for two or three days there's something brewing there.
- W.S.Jr: Huhhuh.
- Q: I mean - to offset all that, I would say that we have been through so many similar periods that I don't think it's any worse than it has been.
- W.S.Jr: All right. Thank you.
- Q: All right, sir.

May 20, 1938.
12:47 p.m.

359

Operator: Go ahead.

H.M.Jr: Hello.

J.
Farley: Who's ahead, you or Elliott?

H.M.Jr: What?

F: Who's ahead, you or Elliott?

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

F: Huh.

H.M.Jr: I think I am.

F: Have you - what are you going to do with Charlie?
Have you made up your mind?

H.M.Jr: Well - I haven't heard anything more about it.

F: Well that's going to be held up for a while anyway.
That filling of that place.

H.M.Jr: It is.

F: Yes, for your ears, not to quote me.

H.M.Jr: What?

F: Not to quote me, I just yesterday suggested that we
ride along for a few months on that.

H.M.Jr: To do what?

F: I suggested that we ride along and not do anything
for a while.

H.M.Jr: Good.

F: He didn't - he couldn't remember the name of the
man you told me about and I didn't call his atten-
tion to the name even though I know it, see?

H.M.Jr: You know it, yes.

F: I said nothing. He said that there was a name
suggested and he couldn't think of it. Well I

said I'll talk to you about it. I didn't say that I knew the name or anything about it, and didn't mention you at all, see? So that's out, but I suggested to him that he let the matter ride for some time.

H.M.Jr: I appreciate your help.

F: O. K. sir.

H.M.Jr: Thank you very much.

F: All right. You're all right outside of that, are you?

H.M.Jr: I'm all right.

F: How are you making out with your tax appeal commissioners? Did you get those straightened out yet?

H.M.Jr: Well I wrote over I was recommending the reappointment of all four.

F: They still rode over you?

H.M.Jr: He - he's doing a little trading with Pat.

F: Is he?

H.M.Jr: Yes.

F: I see.

H.M.Jr: So he said "You don't mind if I trade." I said "No, get all you can".

F: I see.

H.M.Jr: I would say, I think he's going to reappoint those.

F: I would imagine so too.

H.M.Jr: But he's having a little fun with Pat. It's all right with me as long as it stays fun.

F: What - Henry, what are they going to do about adjournment? Do you know anything about it.

H.M.Jr: No, not a thing Jim.

F: O.K. Well I'll see you later. How is Mr. Itches?

- 3 -

H.M.Jr: You're in a good humor all right.

F: I'm feeling all right.

H.M.Jr: Did you see who the President is having for lunch?

F: Huh.

H.M.Jr: See who the President's having for lunch?

F: He - he told me that the other morning.

H.M.Jr: I supposed you arranged that.

F: To be truthful with you I knew nothing about that.

H.M.Jr: Henry Wallace is here, I don't know -

F: Huh.

H.M.Jr: Henry Wallace came in, I didn't know whether you could hear him laughing or not.

F: No, I had nothing to do with that. Ask Henry if he wants - Ask Henry if he wants Ickes to endorse his candidate for the Senate out there.

H.M.Jr: (aside - If you want Ickes to endorse your candidate for the Senate out there) Did you hear him?

F: Yes.

H.M.Jr: All right. (Hearty laughter by Wallace) Can you hear him?

F: All right. Tell him I'll arrange it if he wants it.

H.M.Jr: All right.

F: I can't arrange anything else, I'll probably fall down on that one too.

H.M.Jr: O.K.

F: Thanks.

JR

A portion of this telegram must be closely paraphrased before being communicated to anyone. (B)

Paris

Dated May 20, 1938

Rec'd 1:45 p.m.

Secretary of State,

Washington.

803, May 20, 5 p.m.

(GRAY) FROM COCHRAN.

Trading on Paris exchange market very dull with French control apparently requiring only a little sterling at 177.60. Spot belga firmer in sympathy with dollar and following Senate vote of confidence in Spaak Government by 118 to 22 against, 7 abstentions, but still some pressure on forward belga. Press states National Bank of Belgium credit policy has relaxed slightly since Gerard became Minister of Finance.

Paris operators continue to bid for French Indo-Chinese piastre and rate has risen to 10.10 francs as against parity of 10. Latest gossip is that this unit may be revalued this weekend. Operators estimate that recent market purchases of piastres have been between 300 and 350 million.

French rents and share market continues irregular on account of war scare and various rumors which Prime Minister has taken pains to deny. Next series of decrees laws expected this coming week. (END GRAY)

Evidence

-2-

Evidence is being accumulated as to the "hot" character of the funds moved to France recently. Industrial concerns needing funds find no new long term capital; Government rentes have become irregular with little evidence of fresh investment therein; banks report that the new franc balances are held in extreme liquidity, and even day to day money has tightened to a slight degree. Even though speculators should hesitate to attack the franc with the control holding around seventeen billion gold francs, it is thus conceivable that in the present tense circumstances, a small incident might precipitate a hurried flight from the franc.

BULLITT

EA:DJW

RECEIVED
DEC 28 1944
TREASURY DEPARTMENT
WASHINGTON, D. C.

MEMORANDUM

May 20, 1938.

Conference was held in the Office of the Secretary
at 9:30 a. m., May 20th, 1938.

Present: Secretary Morgenthau
Admiral Peoples
Mr. McReynolds
Mr. E. R. Stettinius, President of U. S. Steel
Mr. Blaine Smith, President of Universal Atlas
Cement Company.

Secretary Morgenthau stated that he had invited Mr. Stettinius and his associate to come in for an entirely informal and confidential discussion of the Government's problem in purchasing cement. He stated the difficulties the Government had had the last four years in purchasing cement and its inability to obtain competitive bids from the cement companies, and asked whether Mr. Stettinius could suggest any basis of cooperation that could be agreed upon.

Mr. Stettinius stated he was anxious to cooperate with the Government in every possible way and welcomed the opportunity to discuss the problem in this informal manner. He stated that the basing-point system of pricing cement had grown up over a period of thirty years and that it was a matter of great difficulty to modify.

Mr. Smith stated that there were more than 30,000 local dealers who were building supply people and who constitute ninety percent of

- 2 -

their Company's customers and that it would be suicidal for them to antagonize this group of dealers by undertaking to sell directly to the Government in all cases.

Mr. Smith stated, however, that his Company was perfectly willing to deal directly with the Government on large orders that could be delivered directly to a project where the dealer would normally perform no service and would therefore not be entitled to any consideration.

The Secretary stated that he wanted to make sure that Mr. Smith was willing to go along on quoting a price to the Government without regard to the dealer in cases where the dealer had no duty to perform. Mr. Smith stated he was willing to quote a price to the Government under those conditions.

The Secretary said, "do I understand you to say that if the cement is to be delivered to a dam site, for instance, that you have no objection to shipping direct from your plant to the site, without regard to your dealer and without permitting him to participate in the deal?" Mr. Smith stated that he had not the slightest objection. He stated further, however, that he would not be willing to bid in such a case unless the Government informed them of the location of the project where the cement was to be used.

The Secretary explained that the Government had been trying unsuccessfully for four years to get other than tie bids on invitations for bids where the site was disclosed. He asked whether the Cement Company would take under consideration the question of undertaking to

- 3 -

give the Government a competitive bid within stated zones on cement to be delivered f. o. b. mill without disclosure of the site where it was to be utilized, with the understanding that the Government would not ask for f. o. b. mill prices in cases of small orders ordinarily filled by local dealers under conditions where the dealer would normally have some service to perform. Mr. Stettinius stated the he and Mr. Smith would be delighted to review this problem with the Directors and come back later for further discussion in an attempt to find a solution for the problem. It was agreed that Mr. Smith would return next Tuesday, May 24th, and discuss the matter further with Admiral Peoples.

The Secretary reviewed his position, at the request of Mr. Stettinius, as follows:

- (1) That dealers should be permitted to participate in small bids;
- (2) That he, personally, had no purpose in this negotiation to force prices below a level that would permit the companies to realize a fair profit; and
- (3) That the Government is entitled to fair competitive bids from cement companies on the basis of deliveries at mill without regard to the location of projects on which the cement is to be used.

o o o o o

367 5/20/38

FROM: MR. GASTON'S OFFICE

TO: The Secretary
.....

The Treasury reporters saw Stettinius and he gave them nothing. I have told them that if I was able to learn anything about the object of his visit I would let them know.

H.E.G.



M E M O R A N D U M

May 20, 1938.

Conference held in the office of the Secretary
10:30 a. m., May 20, 1938.

Present: Secretary Morgenthau
Admiral Peoples
Mr. McReynolds
Mr. Joseph S. Young, President of Lehigh
Portland Cement Company.

The discussion in this conference was similar to the one with Messrs. Stettinius and Smith. The Secretary made the same explanation and statement of the Government's position that was made at the prior conference. Mr. Young stated that his Company, while wishing to participate in competitive bidding for delivery of cement to the Government, would be unwilling to quote a price at the mill without knowledge of the specific place where the cement was to be used. He undertook to make plain that in a commodity, which is so expensive to transport, it is not possible to bid competitively with other mills without this knowledge. The Secretary was unable to get any modification of this attitude from Mr. Young.

oo O O oo

Myl

TREASURY DEPARTMENT

369

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Herman Oliphant

May 20, 1938

You asked for my advice on Mr. Blaisdell's memorandum to you of May 18 concerning the action of U. S. Steel in appealing from the 1924 order of the Federal Trade Commission prohibiting the use of the Pittsburgh-plus system. Since that plan is no longer used and the question is, therefore, moot, it might be well for the Federal Trade Commission or Justice to start new actions against members of the steel industry attacking the basing point system now actually in use. However, the Treasury should, in my judgment, make no such suggestion. Accordingly, no action in connection with Mr. Blaisdell's memorandum is indicated.



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: May 20, 1938

TO Secretary Morgenthau
 FROM A. Lochhead

Principal amounts of gold held under earmark by the
 Federal Reserve Bank of New York:

Swiss National Bank, Switzerland	\$184,000,000
Bank of France, France	108,000,000
Netherlands Bank, Holland	84,000,000
Sveriges Riksbank, Sweden	12,500,000
Banco de Mexico, Mexico	5,000,000

We have been advised by the Sveriges Riksbank that they are making 3 shipments to New York of \$3,800,000 apiece. Their intention at the present time is to build up a total of about \$75,000,000 of earmarked gold in New York.

Gold held under earmark by the Bank of Canada. in Canada:

The Bank of England indicated that it will ship gold to Canada to be earmarked at Ottawa to an amount of about \$150,000,000. As the Bank of Canada already holds under earmark for the Bank of England about \$65,000,000, the total amount to be earmarked in Canada would exceed \$200,000,000.

Japanese Gold:

There are 2 gold shipments of \$5,800,000 apiece on the way to the U. S. from Japan, which brings the total shipped this year up to \$50,000,000.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 20, 1938

TO Secretary Morgenthau
FROM Mr. Haas *HA*

Many of the important countries are contemplating, or have actually begun, accumulating within their own countries supplies of strategic materials. We are also giving some attention to this matter in this country. This movement may provide a basis for removing a large portion of our wheat surplus from this country to be held in store in some other country as a strategic material.

Wheat is a strategic material, and it appears that the United States is going to have a reserve carry-over of about 150 billion bushels in excess of a reasonable reserve carry-over. It would be much better, on the other hand, to have our "reserve" more diversified rather than concentrating to excess in a few commodities which we produce. For example, we might trade part of our wheat reserve for tin, rubber, etc., with some other country which would prefer to carry wheat, etc.

Doesn't this fit into one of the problems which you thought of assigning to Mr. Blaisdell?

May 20, 1938.
3:46 p.m.

372

H.M.Jr: Hello.

Operator: Admiral Peoples. Go ahead.

H.M.Jr: Admiral.

Admiral Peoples: Yes, Mr. Secretary.

H.M.Jr: At Cabinet meeting I was amazed to hear that Harry Hopkins said that he wanted to go ahead and buy seventy five million yards of cotton goods, but that your subordinates had advised against it, and then he proceeded to smear what we'd been doing in connection with advanced purchasing, and said that while maybe the cabinet members were all right, the people below them weren't and we hadn't been doing anything. Hello.

P: Yes, Mr. Secretary.

H.M.Jr: What do you know about this seventy five million yards that Hopkins wants.

P: Why - the - I haven't heard a word about it, sir. They - we've been - I know they've been buying a very large quantity and they're ready to buy anything else they want, sir.

H.M.Jr: Well now, at one o'clock on Monday I want a report not only on that but everything that we've done since we've had this committee together, see? Hello.

P: Yes, Mr. Secretary.

H.M.Jr: Which shows that when I've been telling - pushing so hard to get this thing done, I mean if we'd - it's just that sort of thing which - they work us hard on a thing like this.

P:

H.M.Jr: And it gives Hopkins a chance to smear your whole organization. Well, now, please have a report for me on Monday, what you've done and what we've done in the way of advance buying and the assistance we've had from Lubin, how we've followed his advice. I want the whole story by one o'clock Monday.

P: Yes, Mr. Secretary.

- H.M.Jr: And I want to know particularly about this seventy-five million yards.
- P: Yes, sir.
- H.S.Jr: And then the President will find out what else you can buy. I thought as far as Hopkins was concerned we had bought everything that he had the money for.
- P: They've bought everything that they've asked, that they could tell us that they wanted, Mr. Secretary. Well, I'm positive of that.
- H.M.Jr: Well, please go into it and by noon Monday let me have a written report from you for the President.
- P: Yes, sir.
- H.M.Jr: You understand.
- P: Yes I do, Mr. Secretary.
- H.S.Jr: On this whole question of coordinated buying and advance and so forth, and so on.
- P: Yes indeed, Mr. Secretary.
- H.M.Jr: Thank you.
- P: I will, sir.
- H.M.Jr: Thank you.

(acked 5/24/38)

374

**CHINESE EMBASSY
WASHINGTON**

May 21, 1938.

My dear Mr. Secretary:

I beg to refer to one of our conversations in which you asked about the progress of construction of the highway from Yunnan to Rangoon. I have received a cablegram from Dr. H. H. Kung wishing me to convey to you his deep appreciation of your interest and to inform you that the highway has been practically completed. It starts from Yunnanfu, pass through Siakwan, Paoshan and Mentse and terminates at Lashio in Burma where it effects a junction with the railway to Mandalay and Rangoon. The highway itself is about 1,400 kilometers in length

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury,
Washington, D. C.

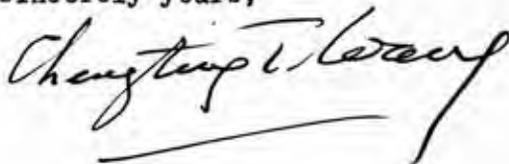
-2-

length and has a fairly good surface except the section from Siakwan to Mentse, which is comparatively narrow and not very convenient for heavy trucks. Work has already started to improve this section of about 330 kilometers.

I take pleasure in enclosing herewith a sketch showing the location of the highway and its connections.

I am, my dear Mr. Secretary,

Very sincerely yours,



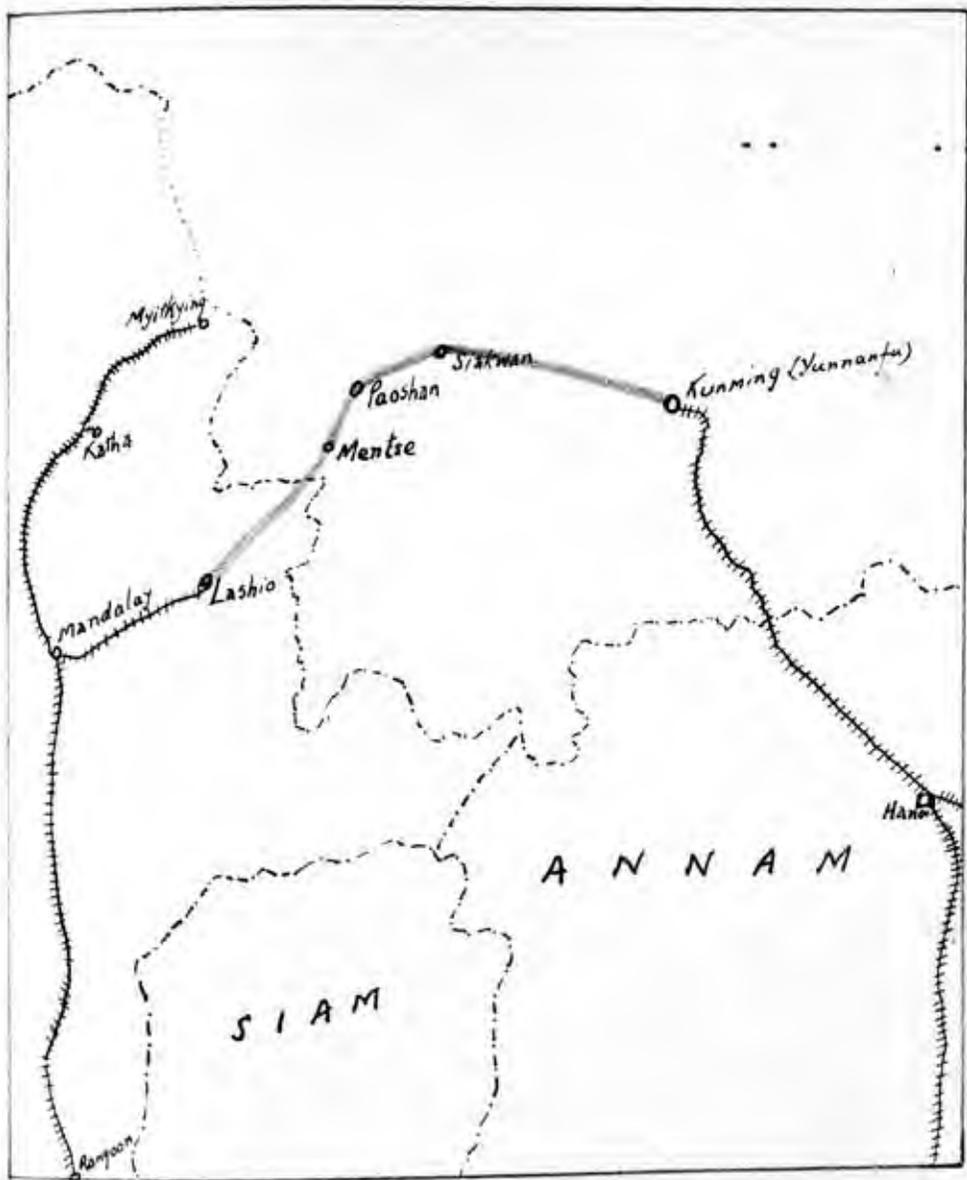
Enclosure:

One sketch

The Kunming-Rangoon Highway

HANKOW

376



o Saigon

May 21, 1938

3:45

After his return to the office from Cabinet, the Secretary called in McReynolds and Bailey, of the Budget, Bell being away for the afternoon.

HM, Jr. said to Mr. Bailey, 'I don't know a thing about this, but the President said to the Secretary of War, Have you got anything on these various army appropriations? and he said, Tell Bell we will compromise on \$18,000,000 for mobile anti-aircraft and everything else. The President said, I am saving you \$26,000,000 by doing that.

He says he wants the \$18,000,000 mobile anti-aircraft. It's meaningless to me, but they seemed to think they may want it on the Mexican border and the President wanted it kind of fast.

The thing I am tremendously interested in, there are 34,000 families in Chicago that are dependent upon the Surplus Commodities Corporation for food; not getting any money; represents 275,000 people. I suggested to Wallace that he buy two quarts of milk a day from now to the first of June for each family and the first of June, as I understand it, they are supposed to get the money. Wallace was here and said, Wouldn't Mr. Bell and Mr. Tapp work it out; it was a matter between Bell and Tapp. I had all this stuff that Bell worked with me a week ago in which he said he could either take it out of the \$55,000,000 which Bell has set aside and allocate money for direct relief or the \$18,000,000 or \$28,000,000 -- I guess it's \$18,000,000 -- available out of Surplus Commodity Corporation. But milk powder is not the same as fresh milk and I want to see if we can't break that. This is something that should go on for weeks, either they should buy this milk now or not at all, but I am tremendously interested and I think they need it very badly -- fresh milk in Cleveland; add Cleveland to Chicago -- and if Mr. Bell could straighten that out Saturday, I would appreciate it very much. I am more interested in the milk than in the anti-aircraft.

(Mr. Bailey left the Secretary's office.)

-2-

Now, Mac, this is for you. The President, when he was aboard the boat, they got an S.O.S. on his battleship that a fellow had a steel splinter in his eye and the battleship turned back and the doctor fixed up this fellow who was bound for New Orleans. Capt. Woodson, the President's Naval Aide, knows the name of the boat and the name of the man. And the President would like to know the condition of this man and whether he is recovering. Let's do one of our snappy things, do the stunt stuff, by getting word to the President tonight.

oOo-oOo

London

Dated May 21, 1938

Rec'd 9:25 a.m.

Secretary of State,

Washington.

451, May 21, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

I gather that somewhere about 85 million pounds of French funds have been repatriated since May 4 of which as much as 65 million pounds went from the London market. The financial press today place the estimates at 100 million pounds and 74 million pounds reverted.

The technical adjustments entailed in the handling of this movement were begun last week and through the market expected the pre May 4 conditions to have been restored by Wednesday of this week, the Bank of England return for that day indicates that the placing of the cash acquired by the exchange equalization account from its sale of gold is not yet completed. Bankers deposits in the Bank of England, which fell from 117 million pounds on May 4 to 88 million pounds on May 11 had recovered to only 93 million pounds on May 18. Public deposits, swollen by that portion of the exchange equalization account's cash which it had not been able to transfer into Treasury bills by "special buying"

in

FS 2-No. 431, May 21, 1 p.m. from London

in the open market and by purchase from the Bank of England, jumped from pounds 11 million on May 4 to pounds 37 million on May 11 and had only declined to pounds 28.5 million on May 18.

As the level of pounds 93 million for bankers' deposits is considered low in relation to recent levels, and as instead of an increase in securities which might have been expected in the bank return as an offset, there was a decrease in this item between May 4 when it stood at pounds 118 million for two successive weeks to 98 million on May 18, the question has naturally arisen as to whether the authorities are pursuing a deflationary policy.

As previously reported the Bank of England has been tending to keep bankers deposits high. This has been described to me as an unconscious slipping in an inflationary direction, and it is not impossible to conclude that the repatriation of French funds and its inevitable though slight resulting disturbance to the money market is being used as an opportunity to reverse this "unconscious policy". The evidence, however, is not conclusive and the financial press has not drawn this conclusion in spite of its expectation of more normal conditions by Wednesday last. The STATIST, for example, attributes the still low level of bankers deposits to the practical
difficulties

FS 3-No. 431, May 21, 1 p.m. from London

difficulties of the exchange equalization account rapidly acquiring the requisite volume of Treasury bills by "special buying". While the ECONOMIST and the FINANCIAL NEWS take into account the coming war loan dividend payments on June 1 of pounds 35 million which would naturally tend to swell public deposits at this time of year. The ECONOMIST suggests that the ~~payment~~ of war loan dividends will present an opportunity for the exchange equalization account to restore its idle capital to the banking system and urges that this opportunity be taken.

The fact that Treasury bills to be offered next Friday are to be pounds 5 million in excess of maturities is taken by the city editor of the TIMES to mean that the Treasury has found little difficulty in disbursing sufficient funds to maintain easy conditions, and that after the dividend payment on June 1 the market's balances may be expected to be so fully restored that additional outlet for the employment of funds will be welcome.

KLP

KENNEDY

On Saturday morning, May 21, at about 11:30 A. M. (N.Y. time) the Federal Reserve Bank of New York received an order from the Sveriges Riksbank of Sweden to sell one million pounds at best. Owing to the nervousness caused by the foreign situation, and the thinness of the New York market, coupled with the late hour this order was received, only 100,000 pounds could be disposed of in the open market and the remainder had to be taken by the Stabilization Fund against purchase of gold in London.

Receipt of this order was unusual as the Sveriges Riksbank has in the past always conducted their exchange operations in London, and their order was dispatched after the close of the European markets on Saturday.

Secretary Morgenthau mentioned this occurrence to Mr. Bewley, Financial Attache of the British Embassy, on Monday, May 23, and pointed out the unusualness of the transaction and the fact that it was the first order of this nature received after the formation of the Tripartite Agreement and since the Russians dumped one million pounds on our market. The Secretary suggested that Bewley draw this to the attention of the British Treasury so that if they thought Sweden should be cautioned against transactions of this nature, given without any warning on a nervous market, the Secretary would then take steps to speak to the Swedish Ambassador in Washington regarding it. The Secretary said, on the other hand, that if the British were not inclined to take any action he would do nothing further. In any case, he informed Mr. Bewley that no publicity would be given to the transaction.



COPY

Rio de Janeiro
Dated May 21, 1938
Rec'd. 3:35 p.m.

Secretary of State,
Washington.

121, May 21, 2 p.m.

Refer to Embassy's telegram 111, May 14, noon.

The Director of Exchange informs me that the Bank of Brazil will announce today that exchange contracts will be granted next week for maturities and for daily quota requirements of oil, motion pictures and ~~text~~ flour mills and firms operating on open account through April 20.

Drafts covering merchandise exclusively of United States origin, received by the Bank of Brazil for collection and which matured during the period of April 11 to April 20, inclusive, will be liquidated by sight draft on New York (See my telegram 116 of May 19.)

Please inform Department of Commerce.

CAFFERY

Copy of Statement
 which the secretary
 handed to the
 President today
 5/23/38

Account
 Deposits, endorsemnts, and receipts

Date

Class "A"

0-

Estimates and Appropriations
Fiscal Year 1939

Includes reappropriations and contract authorizations

Department or Establishment	Budget Estimate	Appropriations (Present Status)	Increase or Decrease	Status of Bill
Legislative establishment	\$ 21,862,927.38	\$ 21,694,583.50	\$ -168,343.88	Approved
Independent Offices:				
Civilian Conservation Corps.....	277,831,000.	277,831,000.	—	"
Civil Service Commission.....	77,504,000.	77,457,750.	-46,250.	"
Railroad Retirement Board.....	120,465,000.	120,465,000.	—	"
Rural Electrification Adm.....	31,720,000.	41,702,000.	+ 9,982,000.	"
Social Security Board.....	329,900,000.	329,300,000.	-600,000.	"
Tennessee Valley Authority.....	44,000,000.	44,000,000.	—	"
Veterans' Administration.....	547,917,500.	547,917,500.	—	"
Other.....	41,759,035.	41,320,990.	-438,045.	"
Total Independent Offices.....	\$1,471,106,535.	\$1,479,994,240.	\$ + 8,887,705	
Department of Agriculture.....	1,058,287,987.	1,096,426,885.	+38,138,898.	In conference
Farm Credit Administration.....	6,582,880.	6,582,880.	—	" "
Department of Commerce.....	46,782,720.	47,280,940.	+498,220.	Approved
Department of the Interior.....	146,014,266.66	145,553,460.84	-460,805.82	"
Department of Justice.....	43,667,761.	42,337,155.	-1,330,606.	"
Department of Labor.....	24,445,760.	24,332,950.	-112,810.	"
Post Department.....	564,416,661.	550,947,694.	-13,468,967.	"
Post Office.....	1/ 793,143,409.	1/ 792,770,899.	-372,510.	"
Post Department.....	17,022,970.73	16,638,750.	-384,220.73	"
Treasury Department:				
Old Age Reserve Account.....	475,000,000.	475,000,000.	—	Approved
Interest on Public Debt.....	976,000,000.	976,000,000.	—	"
Gold Certificates.....	587,515,000.	587,515,000.	—	"
Other.....	262,096,599.	257,184,299.	-4,912,300.	"
Total Treasury Department.....	2,300,611,599.	2,295,609,299.	-4,912,300.	
Department (Military).....	472,415,729.	520,788,377.	+56,372,648.	In Conference
Department (Civil).....	196,214,315.	248,444,495.	+52,230,180.	" "
Department of Columbia.....	47,744,702	2/ 47,255,155.	-489,547.	Approved
Public Works Administration.....	1,250,000,000.	1,425,000,000.	+175,000,000.	Reported in Senate
National Youth Administration.....	75,000,000.	75,000,000.	—	" " "
Farm Security.....	175,000,000.	175,000,000.	—	" " "
Public Works Administration.....	1,000,000,000.	2/ 865,000,000.	-135,000,000.	" " "
Public Buildings.....	25,000,000.	25,000,000.	—	" " "
Parity Payments.....	—	212,000,000.	+212,000,000.	" " "
Rural Electrification Loans (RFL).....	—	25,000,000.	+25,000,000.	" " "
Other.....	50,000,000.	39,905,000.	-10,095,000.	" " "
General Contingency.....	195,368,754.66	—	—	In Committee
Grand Total.....	9,980,614,977.43	10,186,652,763.34	+401,332,540.57	

Includes estimated postal revenues of \$775,000,000.
Includes U. S. revenues of \$42,255,155.
Exclusive of authority to use revolving fund to the extent of \$400,000,000.

May 23, 1938.

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I asked the President whether he would please ask Hopkins to get the milk for the children in Chicago. I told him that I was very much worried about the situation and the President made quite a few notes and promised that he would tell Hopkins at once about it.

May 23, 1938.
8:57 a. m.

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H.A.Jr: Well you can tell us whether or not that two hundred and twelve million for - payment to agriculture is still within the bill or not.

~~Senator~~ Cliff
Woodrum: Unfortunately, yes.

H.A.Jr: I see. Well -

W: And you know from past experience, as I do, that whenever they say anything to the farmer, why it's going to stay in. All you've got to do is set up a yell for the farmer.

H.A.Jr: Well, the thing I'm looking for - the reason I'm down here early is, I want to see just what the President said when he signed that bill, because we've got a notion that he said that if they voted any money for benefit payments, they'd have to raise new taxes.

W: Well that isn't all, Mr. Secretary. When they passed the farm bill, a number of us asked him, I was among them, what they expected to do in the way of benefit payments. We thought they ought to put the limits, and they said well the benefit payments would not run beyond the appropriation for soil conservation, which is a half billion dollars. Then when the agricultural bill came up, it came from the House at 4.85 and they added the other .15 to make the full half billion.

H.A.Jr: Yes.

W: Now this - just isn't fair. anybody else.

H.A.Jr: Yes. Well, I'm seeing the President in a few minutes, and I - I want to get myself straight, just where we stand, see?

W: Yes.

H.A.Jr: Because after all, as you say it isn't fair and if we're doing this why shouldn't we guarantee the factory worker a definite living.

W: Why I don't - I don't know why you shouldn't guarantee the lawyer.

H.A.Jr: Right.

W: If we're just starting in to guarantee everybody there's going to be nobody left, Mr. Secretary. That is, they forget all about it that somebody has got to pay this bill.

H.M.Jr: That's right.

W: And they're simply going to dry up - that well is getting pretty low now. You know that.

H.M.Jr: Well, I - that - that's - I'm hired to watch it.

W: And it's lower than people generally realize.

H.M.Jr: This thing creeps up on you so gently, you don't know it. First thing you know why she's gone.

W: Yes, sir.

H.M.Jr: Now let me ask you - the other thing - did they put back, so that we - so that they couldn't go in for direct relief if they wanted to.

W: Yes, that's right.

H.M.Jr: That's back.

W: If we put in the provision that they could use fifty million dollars.

H.M.Jr: Uh-huh. You limited it to that.

W: Limited to that.

H.M.Jr: I see.

W: But we had trouble getting it in at all. The first time I suggested it, they voted it down.

H.M.Jr: I see.

W: And I had to take it back in a full committee and they got it in there and we had to put that limit on.

H.M.Jr: Now that comes out -

W: Out of the lump sum.

H.M.Jr: Out of the lump sum.

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- W: Yes, not an additional sum. You see, we raised - we raised the lump relief sum from a million and a quarter - we raised that a hundred and seventy five million dollars in order to cover an additional month.
- H.M.Jr: Yes. Well, now let me ask you - is that one seventy five - could Hopkins spend that in June if he wanted to?
- W: Well -
- H.M.Jr: I mean, are you taking off the Woodrum amendment?
- W: No, we're not - we haven't taken the Woodrum amendment off.
- H.M.Jr: Well I mean - is any part of that money immediately available, or does it only become available July 1.
- W: No, I think it's all available.
- H.M.Jr: All available.
- W: It's all available, so that Hopkins can make his own apportionment. That is - as you know the Woodrum amendment merely requires an apportionment.
- H.M.Jr: Then he could spend it right away, if he wanted to.
- W: Oh, yes.
- H.M.Jr: Well -
- W: Yes, he would have to under existing laws, as well as the Woodrum amendment apportion his funds to cover the - what is now eight months. See it started on a seven months.
- H.M.Jr: Now it's eight.
- W: Now it's eight.
- H.M.Jr: Well, what's the advantage of a hundred and seventy five from Hopkins' standpoint.
- W: Oh, I don't think it's any.
- H.M.Jr: I don't think.

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- W: The whole argument that we had was for the seven months, was to tide the thing along until Congress could meet and and see what conditions were.
- H.M.Jr: Yes.
- W: So we fixed it the first of February, which would have brought Congress here for a month. Now that was just as far as we ought to have gone.
- H.M.Jr: Yes.
- W: But they added another month to it and another hundred and seventy five million.
- H.M.Jr: Well, I'm going - say I'm seeing the President in a few minutes and I'm going to ask him if he will untie my hands on this, see?
- W: And they're going to do this. I'm satisfied they're going to probably move up that rural electrification again.
- H.M.Jr: They are.
- W: That's the probable -
- H.M.Jr: Well I thought - the fellow - the head of it, said he couldn't spend more than forty million.
- W: Well, that's what he said.
- H.M.Jr: Yes.
- W: But they begin to argue, you know, that here we've got to have electricity in every farm in the country, and that there are a lot of applications, and he said he would need a greater organization. Well, then they said, we'll spend some money and get him a bigger organization. We must get rid of this money.
- H.M.Jr: Well the rural electrification, is that still at forty, or did they increase that?
- W: Well it was, you see it was forty under the independent officer's bill.
- H.M.Jr: Uh-huh.

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- Q: The House originally put thirty and the Senate raised it to forty.
- A.Jr: I see.
- Q: And finally the House and it's now forty. Then when this Bill came over, on the floor in the House, Rankin offered an amendment and put a hundred million dollars addition so that they had a hundred and forty million.
- A.Jr: My God!
- Q: And Carmody, who was the head of it, said - why he said "My organization isn't quite sufficient to spend the forty million, to say nothing of the hundred and forty."
- A.Jr: Yes.
- Q: And they said, "Well could you spend the other, if you had more organization," and of course anybody could do that.
- A.Jr: Sure. Well where does it stand now, Senator?
- Q: Well, we've cut it down to twenty-five - from a hundred to twenty-five.
- A.Jr: A hundred to twenty-five.
- Q: Yes. So that it makes sixty five million dollars a year, what we said to them, the way you fix this figure - it isn't just this year, but once you fix it, it means next year and the next year. And if we put a hundred and forty, why it's just a hundred and forty every year.
- A.Jr: Well, I read his report two nights ago, and I take it/fifty percent of the farms are electrified, and I don't think he loaned a dollar to New York last year, according to his report.
- Q: They haven't done very much.
- A.Jr: I read his report. It's a good report.
- Q: Yes.

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H.M.Jr: And what they've done is good.

W: Yes. He's a thoroughly honest fellow in his presentation.

H.M.Jr: I mean it's an excellent report, but I think- I don't think he can shove the money out any faster.

W: Why, no. He don't want it.

H.M.Jr: I see. Well - of course the thing that I'm worried about is that if we ask for additional money, they are going to put a processing tax on bread and I think that's going to be terrible.

W: Yes. Yes.

H.M.Jr: Well, thank you so much and I hope the go to work on it, I don't know.

W: Well, I hope so, but I just get so discouraged, damn.

H.M.Jr: All right.

W: You battle these things and you get run over.

H.M.Jr: Well thank you so much.

W: All right.

Monday
May 23, 1938
9:42 a.m.

HMJr: Hello, Herbert.

Herbert
Feis: Yeah.

HMJr: What's new?

F: Well, put in a nut shell it looks as though we'd get through this but temporarily each succeeding crisis is a little bit more tense and frightening.

HMJr: I see.

F: And there's still a few more voting Sundays.

HMJr: Yes.

F: Ah - this is a real crisis - ah - let me give you as I think probably the most convenient thing - I won't give you a paraphrase - I'll give you a summary...

HMJr: Yes.

F: ...as I go along on these - most consecutive single reports that we've got - this comes from London. On nine - May the nineteenth there came first the movements of - reports of German troop movements....

HMJr: Yeah.

F: ...and these were received at Prague. Beginning at that time the British Ambassador in Berlin began to discuss them with the German Government; he said that they were unfounded...

HMJr: Yeah.

F: ...he kept saying that through the 20th and 21st, but on the 21st the Czechs grew doubtful and called up one class to the colors; that led to a German protest; the Czechs replied that they were doing it just to reassure public opinion and the authority of the State in the frontier region. Ah - the British say that there's no evidence that the German troop concentration is of a menacing character but that it is on a considerable scale. Then came those - that frontier incident...

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- EMJr: Yeah.
- F: ...and subsequent to that Ribbentrop, the Foreign Minister, did raise hell.
- EMJr: Ribbentrop?
- F: Yeah.
- EMJr: Why?
- F: Well, because, on the grounds of the mobilization of the
- EMJr: He raised hell with whom?
- F: Well, it came out in every interview.
- EMJr: Well, I mean, he raised hell with the English or with the Czechs?
- F: Czechs.
- EMJr: Oh, the Czechs.
- F: Then the English kept on and were again told that the reports were unfounded but the report of the morning of the 21st to the British is that Ribbentrop is in ugly and truculent mood and greatly excited.
- EMJr: Uh huh.
- F: He told the British Ambassador that the German patience was almost at an end and that they had no confidence in the intentions of the Czechs. The British kept on working in both Berlin and in Prague, urging patience - ah - Ribbentrop reported the provocation came entirely from the Czechs and declined to advise - you see the British were trying to get him in line to negotiate.
- EMJr: Yeah.
- F: Ribbentrop is reported to have been perturbed by the British warning but told Henderson that if the worst came to the worst Germany would fight as in '14.
- EMJr: Yeah.

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- F: Then they doubled their efforts at Prague - that was the only information the British had as of last night.
- HMJr: I see.
- F: And Kennedy's comment is, "Anybody's guess is as good as the British as to how far the Germans are lying and what their intentions really are."
- HMJr: I see.
- F: "The British," he said, "have gone as far as possible in both Berlin and Prague, warning of the consequences of lack of moderation endeavoring to establish a base for peaceful negotiation of the issues. The purpose of the cabinet this afternoon was for the purpose of reviewing the situation considering Halifax' draft of the Government's statement to be made in Parliament tomorrow."
- HMJr: Uh huh.
- F: That's today. It should be coming through now on the ticker pretty soon.
- HMJr: I see.
- F: "And it's quite obvious that the British have no confidence in any German statement or promise."
- HMJr: Uh huh.
- F: And information leads him to believe the German army is not ready for a first class war and that the German command and staff fully realize this. "However, with the type of men in political power in Germany this realistic consideration would have no weight necessarily in determining events and the British feel that peace is more than ever at the hazards of an accident which gives the other nationalistic politicians around Hitler their opportunity."
- HMJr: I see.
- F: "If Germany should actually invade Czechoslovakia and France in consequence launch an attack on Germany it is the current opinion here..." - "current opinion here" now, that's not official.

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HMJr: Yes.

F: "...that Great Britain would be inevitably drawn in."

HMJr: I see.

F: Ah - that is all the main substance of the situation except to say that no one quite sees how Russia could get there.

HMJr: Uh huh.

F: She couldn't get there without having having to fight either Rumania or Poland first.

HMJr: I see.

F: Now that summary is borne out roughly by everything that we've got and including the stuff we get.

HMJr: Right.

F:

HMJr: If you get anything - really good information which is confidential either way during the day will you let me know?

F: Yeah. I'd probably want to bring it over to you. This is -

HMJr: All right.

F: ...stuff is getting pretty - but you can see enough from that, Henry, to see that it was a very...

HMJr: Very

F: ...that it is a very - in fact today I just buzzed Pierpont - Pierpont Moffett and told him I was going to report to you and summarized it a little bit more optimistically.

HMJr: Who did, Pierpont?

F: I did.

HMJr: Oh yes.

F: And he said, "No - no." He said - so we agreed on the summary I gave you, that it looks as if we'd get through this one but he - his sense is that each succeeding situation is nearer the line and there's still a few voting Sundays to go.

HMJr: All right. Well, thank you so much.

F: Right, sir.

GROUP MEETING

May 23, 1938.
9:45 a.m.

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

H.M.Jr: ~~W~~ ^W ~~h~~ ^h ~~o~~ ^o ~~r~~ ^r ~~e~~ ^e 's Bell?

(On phone) Find out whether Mr. Bell is coming down. - Thank you.

Ros?

Magill: Would it be possible some time this week to go ahead with New York and Chicago?

H.M.Jr: Well, just as soon as I get out from under this stuff that has to be done as of the moment.

McR: Harold telephoned me he thought Mr. Helvering was quite thoroughly of a notion to go ahead if he got

H.M.Jr: Well, I just haven't read his memorandum, and with all this domestic and European stuff, just - I'm taking care of the thing as of the moment. That isn't of the moment. But I'll be glad

Magill: No, that's July 1.

H.M.Jr: If you don't hear from me by Wednesday, go after me again by Wednesday.

Magill: Good.

We're working on a large general tax program for the year 1939. Have it for you some time this summer.

H.M.Jr: Well, as soon as Bell comes down I'll tell you what happened this morning. Been here since 8:30. May

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have a tax program before that. May have it today.

Magill: I must be in good condition. Doesn't seem to quicken my heart beats.

Oliphant: You're just numb.

Magill: I'm numb, I guess, that's right.

H.M.Jr: I wish I were.

Magill: That's all.

Oliphant: Nothing.

H.M.Jr: What?

Oliphant: Nothing.

Gaston: The Greeks seem to have made a lot of noise over the fact that they're going to pay us some money today, and they've got all the motion picture newsreel people calling us up to see if they can take a picture of the Greek Ambassador handing you a check today.

(Bell comes in)

H.M.Jr: In the first place, will somebody tell me what they're paying us for?

Gaston: They're paying us, I think, a small amount.

H.M.Jr: What is it, a loan?

Gaston: The Greek reconstruction loan, one of the post-war loans.

H.M.Jr: Harry, give me a memo on what it's all about, will you?

Well, I don't want to - what shall I say - have a burlesque show here. Have they paid us before?

Gaston: I think they gave us one small check once before.

White: They haven't been paying regularly. Dan, I think, knows about it.

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- H.M.Jr: Dan, do you think it's worth pictures before the newsreel camera when the Greeks hand us a check this afternoon? Is it worth that?
- Bell: No, not from our standpoint. It might be from theirs.
- H.M.Jr: I think there's such a thing as burlesquing this.
- Gaston: I kind of think so. It's evidently the Greeks that want it.
- White: Of course, the Finns have come in for so much good, favorable publicity as a consequence of it.
- Gaston: But we never have had a motion picture of it.
- McR: And they have always paid.
- White: That's right.
- Bell: We have always issued the regular press statement that - for the Finns that we have for everybody else.
- Gibbons: They didn't seek the publicity, either.
- H.M.Jr: How many votes are there in the Greeks? Will you (Gibbons) call up Jim and ask him whether it's worth it?
- Well, listen
- White: Too bad you don't eat in their restaurants, Mr. Secretary.
- H.M.Jr: What? Huh?
- Gibbons: I think it's nonsense.
- H.M.Jr: Ask Herbert Feis, will you (White)? It seems kind of - to me a little bit too much. And get me up a little memo.
- White: I'll get you a memo and get in touch with them, see what they think.
- H.M.Jr: Will you please? I'll be available between now and 12. Give you (Gaston) an answer between now and 12.

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Gaston: Right. That's all, sir.

Bell: I have a form of a press statement.

Gaston: Yes.

H.M.Jr: You (Gaston) must have been doing a lot of talking to your friends Pearson and Allen, according to yesterday's papers.

Gaston: I'm sorry, I didn't read it. But I have.

H.M.Jr: Did you (Klotz) read yesterday's?

Klotz: No.

H.M.Jr: Read it. I'm surprised the way

Oliphant: Sunday?

H.M.Jr: Yes, Sunday.the way Herbert's been talking to him. Read it.

Klotz: I'll appreciate it.

H.M.Jr: I brought it down. (Hands clipping to Mrs Klotz)

Klotz: Thank you.

H.M.Jr: What else?

Gaston: The clippings that were sent out resulted in a rather favorable notice by Fred Wile and a very caustic one by Ray Tucker, who goes out of his way to take a crack at the Treasury every chance he gets.

H.M.Jr: Who does what?

Gaston: He goes out of his way to take a crack at the Treasury every chance he gets - Ray Tucker.

H.M.Jr: What's this particular crack?

Gaston: Oh, it's - it says that the Treasury Department has been circulating the Secretary's testimony before the Committee, and that most people think that the low

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prices of the Government bonds are simply an evidence that business conditions are bad - the high prices of Government bonds.

H.M.Jr: George?

Haas: I have nothing this morning. Doing some work on this wheat, but haven't got anything that looks like an answer at all.

H.M.Jr: On what?

Haas: On the wheat surplus.

H.M.Jr: Babcock is going to be down here Tuesday. He'll put a stick of dynamite under you all.

Haas: I know of one of his suggestions that he wired to Bill Myers. Get rid of ten million.

H.M.Jr: But that's ten million.

Gaston: By the way, George Warren has gone back to the hospital again. They haven't much hope for him.

H.M.Jr: I'm sorry.

Upham: You suggested that when Mr. Diggs got ready to act on the California branches, that you and Mr. Taylor and I and he get together. He's ready any time.

H.M.Jr: Act which way?

Upham: Well, you wanted to discuss it with him, I understood.

H.M.Jr: Well, I mean absorb them or delete them or add to them?

Upham: They have applications pending for eleven branches, and he's disposed, I believe, to grant two of those applications.

H.M.Jr: Well, what - how about asking them to make good on their original statement that they were going to put up that additional capital for those two?

Upham: Well, that's one of their state banks. This has to

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do with the National Bank.

- H. J. Jr: Yes, but I'm in the Government, and I can't distinguish on the one hand the pledge that Mr. Giannini makes to the Federal Deposit - from the one hand to the other.
- Upson: No, I can't either.
- H. J. Jr: Well, you can tell Mr. Liggs for me that before I sit down and talk to him I want Mr. Giannini to make good on the promise that he made to the Federal Deposit Insurance, of which I as trustee own all the stock.
- Upson: Mr. Crowley and Mr. Giannini are supposed to be talking about that in California this week.
- H. J. Jr: Now, I can control the Comptroller of the Currency. Now, I tell him that Mr. Giannini doesn't get one thing until he makes good on the other thing with Federal Deposit, of which I am trustee for the stock.
- Upson: And several other things which don't concern branches also.
- H. J. Jr: Well, the thing is frozen until he makes good; there's no use talking to me. And I wish somebody would tell that to Mr. Giannini. But make sure that you have Giannini's statement in writing that he would put up that million dollars in capital. Have you got that? Is that a word-of-mouth thing? I want that so Crowley doesn't crawl out the way he always does. Does he say it in writing?
- Upson: We have nothing from Giannini, no.
- H. J. Jr: Well, don't put me on the end of a limb unless you have it, because Crowley would go right out the window. Unless Crowley has something in writing from Giannini
- Upson: He has nothing.
- H. J. Jr: Well then, he can't be so noble.
- Upson: Well, there are plenty of other reasons for not doing Mr. Giannini any favors.

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- H.M.Jr: Do you see the angle I want to take?
- Upham: Yes, I do.
- H.M.Jr: If Giannini, according to Crowley - I think he did it in writing; look it up -
- Upham: Surely.
- H.M.Jr: ... promised F.D.I.C. to do certain things and didn't, then why should we do something for him in another branch of the Government before he makes good? But will you go into that?
- Upham: Surely.
- H.M.Jr: Now, Dan, this is for you and the rest of them, strictly confidential. I saw the President, drew his attention to February 16, in which he said - what's that last sentence?
- Bell: That "parity payments would increase the present authorized cost, and in order to make such payments it will be necessary to provide additional revenue needed to finance them" - speaking of the agricultural bill.
- H.M.Jr: Well, the President said that he told them that fifty times, and what's he to do?
- I said, "Well, that's what I'm here for. I wanted to see you before the leaders came over." I said, "I don't want to get into this."
- "Have you talked to Wallace?"
- I said, "I don't want to get into the discussion about parity payments." I said, "I just want to know, what are you going to do about that statement you made on February 16?" I said, "If I wanted to get in, I might say, well, what about parity for the gasoline station operator? Why not just pay him parity, or anybody else?"
- "But," I said, "I don't want to get in on it. I'm just - what are we going to do about that statement that you made?"

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"Well," he said, "I've said it fifty times."

I said, "I know you have. But I'm not going to go around to lobby one way or the other. But I want to know, where do we stand on that statement?"

So after kind of hemming and hawing he said, "All right, I'll tell the leaders I'm going to send a letter up asking for additional taxes." He said they can get a very innocuous tax on - I think he said wheat and corn, which no one would pay much attention to - if we can get that on wheat and corn.

So I brought it to his attention. I fulfilled my obligation as Secretary of the Treasury and I'll just sit tight now.

Magill: You mean to raise

H.M.Jr: 212 million.

Magill: ... 200 million by processing tax on wheat and corn?

H.M.Jr: He didn't order us to do that. But this is a letter - this is a statement by the President of the United States that if they put in - what do you call it? -

Beil: Parity payments.

H.M.Jr: ... parity payments, that he would send up - he would ask - they'd have to furnish additional revenue, and as Secretary I feel it is my job to draw his attention to that. If I can't do anything about it

Magill: That's pretty nearly the poorest way to raise 200 million dollars

H.M.Jr: I think it's the worst way.

Olipphant: Entirely deflationary.

H.M.Jr: Tax on bread - if people around this town want to be political, I'd say it would be the number one bull.

Olipphant: Perfectly dumb. Ought to repeal your excises, suspend Social Security.

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- White: Did you call that to his attention when he said that's how he's going to raise the money?
- H. H. Jr: I didn't have time, but we're on record with him, either here or on the Hill, or both places - with Woughton that we're opposed to a processing tax.
- White: But it appears to me that if the President has said this additional expenditure is going to be met by additional revenue, it is your function to suggest where that revenue shall come from.
- H. H. Jr: No, no, we have taken the position definitely - no. Very definitely, no, ever since I've been here. We will draw the attention to Congress that they are short that much, but as to the kind of taxes I have said repeatedly that I will not suggest to Congress what kind of taxes. Is that right?
- Magill: Yes, I think it is.
- Olliphant: Well, I know you have stayed away from the processing thing, but the President has sent some messages suggesting the kind of taxes. Stay away from the processing tax.
- H. H. Jr: If the President would let me - after all, I'm his appointee, I'm not an elected officer - if he'll let me speak my mind, I'll speak on processing tax; not only that, but I'll speak on that thing too.
- White: I should imagine - don't know the position you have taken, but I should imagine that a consideration of the technical possibilities and which is more suitable for the occasion should at least be forthcoming from the Treasury to the President.
- H. H. Jr: Well, as a matter of fact, neither Bell nor I - I think I'm talking for both of us - are going to get very much excited, because the 212 sticks, we'll get no revenue, and I'll bet anyone three to one on it. Right, Dan?
- Bell: That's right. But what I think the President ought to do is send word to the Capitol that he'll veto the bill if the provision is in there. Everybody that voted for the bill thought at the time that the

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provision would not be put into effect unless there was additional revenue to cover it.

- H.M.Jr: and you and I both believe in pictures.
- Gibbons: That would be ten cents a bushel, wouldn't it?
- H.M.Jr: We wrote it eight cents on the wheat and two cents on cotton.
- Bell: Five cents on corn and two cents
- H.M.Jr: We had Wallace here for half an hour this morning. Get that, Harry. Wallace was here for half an hour this morning. So he knows just where I stand. Well, anyway, Dan, for both of us, I've been there and we'll see what happens.
- Bell: O.K.
- H.M.Jr: And I don't think anything will happen. But I couldn't sit in this chair and not draw his attention to his own statement.
- White: I still insist that if you advance the view that a certain method of raising revenue is bad, it must be supplemented with, in my opinion, suggestions as to what might be better ways of raising it.
- H.M.Jr: My dear Harry, I'm not going to do either of them until the President moves. I mean there's no use until he calls up either Bell or Magill or me and says, "Get me a message ready." See? Then, if he asks us to get ready a message on additional revenue and he specifies processing tax - then it's time for me to do something. But in the meantime all I've got to do is to draw his attention to that sentence which he made. Now, the next move is his. What? Is there any disagreement on that?
- White: Well, I've stated my view. Probably wrong.
- H.M.Jr: No, wait a minute, you're two jumps ahead.
- White: I thought he was fully cognizant of your attitude toward the processing tax.
- H.M.Jr: I think so. I didn't say anything this morning because I didn't have time. Only asked for five

-11-

minutes. Didn't have time.

White: And when you call this statement to his attention, it is equivalent practically to saying that you're opposed to this parity payment, which is perfectly all right.

H.W.Jr: No, I made it very clear. I said, "Mr. President, I'm not getting in on the propriety of parity payment or not. I'm simply here to draw your attention to your own statement. Now, what you going to do about it?" That's all. And he left me with the impression that he would send a message up simply asking Congress to furnish the revenue. And then he said, "If they want to furnish it, the easiest way to do would be through a processing tax."

White: Which is exactly the point of issue that I'm making: that he is not conversant apparently with the alternatives before him and he is going to take a certain position with Congress without having the benefit of your suggestions and advice as to what the other alternatives would be. I'm through.

H.K.Jr: All right.

Now, Dan, that's all I wanted from you. If you got other business

Bell: The only other thing I have is that the Appropriation Committee have hearings tomorrow on the Commodity Credit Corporation item, among some others. Do you want me to handle that from the standpoint of the Treasury?

H.M.Jr: Would you please?

Bell: All right.

H.L.Jr: Now one other thing. In talking to the President, I said, "Did you know that they have added 50 million that you can - may spend 50 million dollars for direct relief?"

He said, "No. Well, wasn't that in the House bill?"

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"No," I said, "no."

"I thought it was."

"It was not in the House bill."

So he said, "Do you think that's all right?"

I said, "No, I don't." I said, "In the plan I'm working on, you may want to spend a hundred million dollars for surplus crops and cotton to make clothing for destitute people. And if I can work up a plan, 50 million won't be enough."

So he said, "Well, tell Harry to make it a hundred."

See, he asked me how much. I said, "You ought to have at least a hundred."

So he said, "Well, call up Harry and ask him to get a member on the floor to make it a hundred."

So you (Bell) go along on that, don't you?

Bell: Yes, I think that's all right. I really don't know how much will be needed.

H.M.Jr: I don't either, but you could very easily use a hundred.

Bell: I should think so, yes.

H.M.Jr: Very easily.

Harry, this is strictly in your thing. They're beginning to sell on balance from abroad.

White: Very lightly. It's almost zero over the whole period.

H.M.Jr: What?

White: Trivial transactions.

H.M.Jr: But in view of what's happened last week

White: It hasn't showed yet. I suppose in the coming weeks

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it would increase. But curiously enough, the operations here have not reflected the increase in the disturbed situation of last week, to my knowledge.

H.M.Jr: I don't agree with you. I'm sorry. I think this - I don't agree with you. Maybe you're not up-to-date. But I think this is what the Swedes did I want to talk to you two (White and Lockheed) right after this thing. I think it is highly indicative.

White: Oh yes, but I was referring to purchases of our securities.

H.M.Jr: No, I mean this is as strong a wind - this is part of it, and I think it is this plus several other things that happened, which I think are worthy of an analysis. See? I mean I don't agree.

White: There was a very large outflow of funds the last week that we have record of, which is two weeks ago - short-term funds.

H.M.Jr: I think there is - I mean I think there is much more going on than any of us seem to know. I mean that's the way I feel.

White: Politically?

H.M.Jr: No, money, money.

Lockheed: The Bank of England

H.M.Jr: And - excuse me - I don't understand why - the reason I'm asking you, it doesn't make sense to me that - if they're worrying about Europe, why should they be selling our stocks?

White: Well, there are two worries.

H.M.Jr: Now, Harry, don't - this is too important. If you don't know, don't guess any.

White: Well, if I don't know about that, there is nothing I do know.

H.M.Jr: You don't seem to.

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- White: Well, you mean we disagree.
- H.M.Jr: No, excuse me, I don't think you're up-to-date.
- White: Not with this morning.
- H.M.Jr: I don't think you're up-to-date with this last week. I don't think
- White: Maybe we're not talking about the same thing.
- H.M.Jr: Yes, we're talking about the same thing. And if somebody disagrees with you, that seems to - you say that I don't know. I suggest you read this morning's papers. I've also talked to Feis for the last fifteen - I mean I talked to him last night at 10 o'clock, I talked to him this morning. And nobody's told me from your shop that there has been a large amount of money going out of here the last two weeks.
- White: We couldn't possibly get the figures except the week ending Wednesday, and you got the latest figures.
- H.M.Jr: Well, has anybody suggested - did anybody go up from your place to New York to find out?
- White: Why large funds are flowing out?
- H.M.Jr: I mean you've practically got a "world War over this week-end, and you sit there and say nothing significant is going on.
- White: No, I didn't.
- H.M.Jr: Well, I mean
- White: I asked you whether you meant politically or with reference to our securities.
- H.M.Jr: I meant through the foreign exchange field, is anything going on, is there any indication that these people are doing stuff with their money? I know they are. I haven't got anything from you.
- White: Well, you have more information than I have, certainly, if that's the case.

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- H.M.Jr: Well, that's what I said. Just because I don't agree with you
- White: Well, we'd better begin all over again.
- H.M.Jr: I suggest we would too. Very definitely.
- White: Well, let me finish two other things, will you?
- H.M.Jr: Go ahead.
- White: One is that the Mexican situation is proceeding according to schedule, and I don't know whether you've done anything further or whether you've heard from Hull.
- And secondly, the draft of the speech is ready if you want it.
- H.M.Jr: I mean I said the other day quietly - I mean the stuff that I have to get out of our research people with an expenditure of a quarter of a million dollars - I've got to pull it like teeth. And here we've got a thing which is nip and tuck every hour whether we're going to have a war in Europe, and I know that stuff is going out, and when I show you that they've been selling and they've been selling for the last three or four weeks - three or four days, you sneer at that.
- White: No, I didn't sneer at it. But did you see the amounts, Mr. Secretary?
- H.M.Jr: Yes. Yes.
- White: And you still think that's very important?
- H.M.Jr: And I still say, as one of a dozen things, it may be important.
- White: Well
- H.M.Jr: Because when something happens which is contrary to what people would normally do... If they fear a war, I ask you people, what does it mean?
- White: Well, I was about to explain, but you said I don't think we'll get anywhere this morning. I'll write out my views.

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- H.W.Jr: I suggest you read the cables.
- White: I don't like that implication. I think I'm right up on top of what's happening politically.
- H.W.Jr: I don't think you're on top of what was happening in the money markets last week.
- White: Unless you've got something over the telephone or something that is not available to me, which is quite possible, I'm ready to discuss that subject any time you want it, because I do keep in touch with it.
- H.W.Jr: All right. Archie?
- Lochhead: The Bank of England was on the wire just before I came in here with the Fed. They said naturally there's been nervousness over the week-end. The markets were orderly over the week-end, however. They considered that the nervousness will continue for some time, don't see any stop in it. However, he does feel - Bolton does feel that the situation as far as Germany and Czechoslovakia had definitely slackened - tension had slackened since Saturday.
- H.W.Jr: You ask Knoke for me, please, what's been going on, if he can give me a summary of what's been going on this last week - movement of capital in and out through Saturday - that I'd like to know within an hour what his opinion is, please. What do you think has been happening?
- Lochhead: Well, I think up to the middle of last week, at least, there was a little money - maybe a few securities being sold, but I think most of the money that went out was short-term money in our security field. Now I think probably you're going to get a reversal starting from about Friday, that there won't be any more going out - probably coming in again.
- H.W.Jr: Well, Archie, why should all of Europe be selling our securities at this time, even though it is a small amount?
- Lochhead: Do you say that from the European standpoint or the domestic standpoint?

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H.M.Jr: From their standpoint - Europe.

Lochhead: Well, I think probably the situation there was that a little French stuff went out, just a small amount went back, and I think probably they were raising liquid capital anyway. They're nervous over the gold situation over there. A man's scared and he's not taking a long position at any time. He's not putting money over here to make profits at the present time; he's trying to make sure he's got his hand on his money.

Gibbons: Nothing.

H.M.Jr: Mac? If anybody - if we hear anything on cement, would you let me know? You're (Oliphant) working on cement.

Oliphant: (Nods yes) They're coming in Tuesday, aren't they?

H.M.Jr: Who's they?

Oliphant: Atlas.

H.M.Jr: To see who?

Oliphant: You.

McR: No, they're coming in to see Peoples; promised to come in on Tuesday.

H.M.Jr: Atlas? Well, steel people are Universal.

McR: Oh, that's right. It's Universal. Well, the steel people are the first people we had.

Oliphant: Smith is coming down to talk to the Admiral further on Tuesday, according to the minutes.

H.M.Jr: Did he call up for an appointment?

McR: No, they made that appointment at the conference we had the other day.

H.M.Jr: Oh.

McR: You told him to come back down. Said they'd call you, but you said they better come down, so he made the definite date that day to come down Tuesday.

H.M.Jr: All right.

FEDERAL HOUSING ADMINISTRATION
MEMORANDUM

DATE 5/23/38

TO: Mr. Chauncey
FROM: Mrs. Hart
SUBJECT: FHA weekly figures

*** 16-5401

In addition to the comments on FHA series of insuring operations, Mr. McDonald has asked me to send to you for the Secretary's information a copy of a brief memorandum on residential construction in April.

S.K.H.
Shirley K. Hart

May 23, 1938

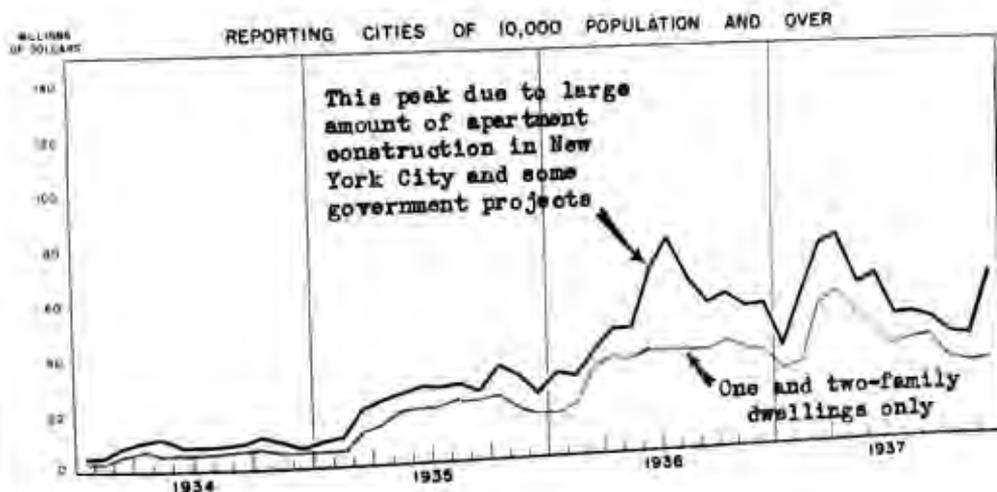
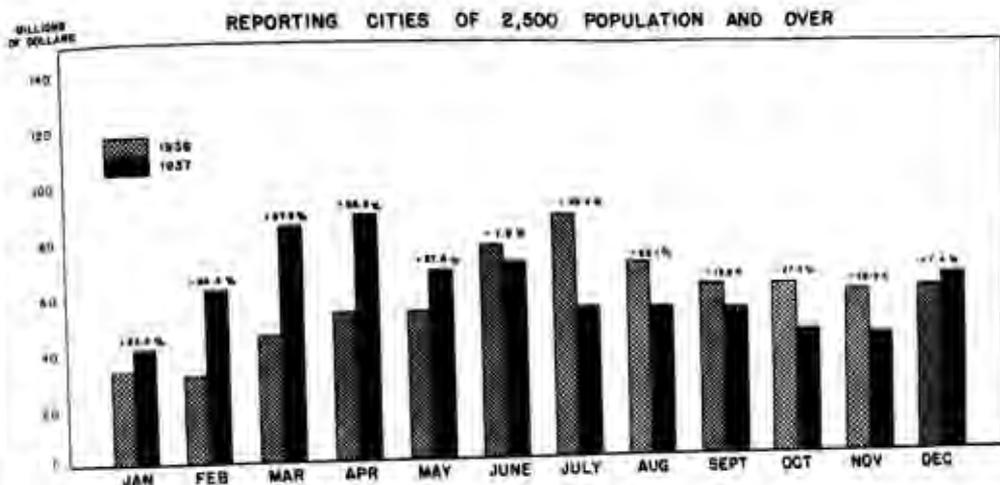
Residential Construction

The Bureau of Labor Statistics residential building permits figures for April indicate an increase of 10.8 per cent over March of this year but a decrease of around 32 per cent from April 1937. The attached chart shows the extent to which April of last year represented the peak in residential construction with a drop of almost 30 per cent in the following month. Applications for insurance in our field offices are averaging as high in the first three weeks of May this year as the peak weeks in April, and the percentage of these each week representing homes to be constructed is still around 53 per cent.

Employment in the residential construction field as indicated by the Bureau of Labor Statistics series showed an increase in April of 5.3 per cent over March and a decrease of approximately 25 per cent from April 1937.

Many business series are showing slight upward trends in May as compared with April, and our own series on mortgage insurance do not indicate that the seasonal spring peak in building this year is in a declining phase.

VALUE OF RESIDENTIAL CONSTRUCTION AS SHOWN BY BUILDING PERMITS



COMMENTS

THESE OFFICIAL SERIES REPRESENT THE REPORTED ESTIMATED COST OF RESIDENTIAL CONSTRUCTION OF ALL TYPES FOR WHICH PERMITS WERE ISSUED IN REPORTING CITIES THROUGHOUT THE UNITED STATES. THE COST SHOWN BY PERMITS MAY NOT CONFORM TO ACTUAL COST, BUT THE FIGURES NEVERTHELESS INDICATE THE DIRECTION AND AMOUNT OF CHANGE IN CURRENT RESIDENTIAL CONSTRUCTION.

THE UPPER CHART REPRESENTS THE MOST COMPREHENSIVE SERIES OF PERMITS NOW AVAILABLE. THE CITIES REPORTING ACCOUNT FOR SOME 80% OF TOTAL URBAN POPULATION, AND INCLUDE APPROXIMATELY 7,000 REPRESENTATIVE COMMUNITIES OF ALL SIZES UP TO 2,500 POPULATION. THE CITIES ARE IDENTICAL IN EACH MONTH FOR BOTH YEARS, BUT FROM MONTH TO MONTH THEY ARE NOT IDENTICAL.

IN THE LOWER CHART THE NUMBER OF REPORTING CITIES VARIES FROM 708 TO 767, BUT THIS VARIATION AFFECTS TOTALS ONLY SLIGHTLY.

DELIVER TO

C R.
ROOM

REMARKS

Figures on FHA OPERATIONS

FROM _____
*** (Name, not initials) 16-5022

May 23, 1938

SMALL HOME MORTGAGE INSURANCE

During the week ending May 21, mortgages selected for appraisal will approximate \$23,000,000 - with two offices not yet reporting, 4,820 mortgages for a total of \$22,601,278 had been selected for appraisal during the week. For the corresponding week of 1937, mortgages selected numbered 3,004, amounting to \$12,713,385.

During the past week 2,497 mortgages, or 52 per cent, covered new homes to be constructed, and during the week construction was started on 1,775 new small homes.

LARGE SCALE HOUSING PROJECTS

With the seven additional projects on which financing arrangements had been completed during the week ending May 21, under the large scale rental housing insurance program, there were 66 projects valued at approximately \$66,000,000 - in operation, under construction, or with financing arrangements completed as of that date. Of these, 19 valued at \$19,256,000 are in operation, 21 valued at \$18,000,000 are under construction, and on 33, valued at \$28,850,000, financing arrangements had been completed as of May 21.

PROPERTY IMPROVEMENT LOANS

More than 2,400 lending institutions were reporting property improvement loans for insurance, and during the week, 7,798 notes for \$3,855,279 were accepted for insurance by FHA - the second highest week since the new amendments. Approximately \$29,225,000 in property improvement loans had been reported for insurance as of May 21.

FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

421

RECENT VOLUME OF INSURING OPERATIONS

For 1938 and corresponding Period of 1937

HOME MORTGAGES SELECTED FOR APPRAISAL

Week Ending:	1938		1937	
	No.	Am.	No.	Am.
Jan. 8	1,286	\$ 5,483,184	1,967	\$ 8,565,680
" 15	1,504	6,531,300	3,286	9,566,660
" 22	1,711	7,399,975	2,167	9,447,127
" 29	1,888	8,150,840	3,372	10,091,713
Feb. 5	1,982	8,571,895	3,306	9,721,165
" 12	1,968	8,767,105	2,701	11,088,008
" 19	2,219	10,035,800	2,765	11,764,089
" 26	2,775	13,100,250	2,835	11,747,954
Mar. 5	3,899	17,613,402	3,244	13,683,500
" 12	4,470	20,386,711	3,405	14,176,560
" 19	4,697	21,293,061	4,085	16,879,710
" 26	4,863	22,568,219	3,476	14,970,848
Apr. 2	4,713	21,414,849	3,617	15,366,435
" 9	5,037	23,243,102	3,515	15,414,023
" 16	4,483	20,388,480	3,481	15,234,425
" 23	5,076	22,994,647	3,796	16,017,128
" 30	4,912	22,464,595	3,613	15,224,773
May 7	4,871	22,285,560	3,173	13,467,461
" 14	4,940	22,963,458	3,683	15,482,388
" 21*	4,820	22,601,278	3,004	12,718,385

*The insuring office reports not received.

FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

WEEKLY VOLUME OF INSURING OPERATIONS

For 1938 and corresponding Period of 1937

MORTGAGES ACCEPTED FOR INSURANCE

Week Ending:		1938		1937	
		No.	Am.	No.	Am.
Jan.	8	943	\$ 4,035,500	1,462	\$ 5,821,275
"	15	1,101	4,542,900	1,756	7,241,815
"	22	1,058	4,445,500	1,767	7,438,500
"	29	1,329	5,501,500	1,880	7,850,250
Feb.	5	1,099	4,431,000	1,811	7,424,100
"	12	1,172	4,649,900	1,778	7,410,850
"	19	1,194	4,837,100	1,869	7,702,550
"	26	1,033	4,350,200	1,867	7,524,500
Mar.	5	1,599	6,905,400	2,291	9,092,500
"	12	1,705	7,601,400	2,135	8,947,600
"	19	1,883	8,288,400	2,388	9,781,500
"	26	2,290	9,990,900	2,497	10,298,380
Apr.	2	2,642	11,601,700	2,602	10,856,395
"	9	2,947	12,703,400	2,598	10,661,655
"	16	3,256	14,330,625	2,660	10,919,110
"	23	3,751	16,514,000	2,922	12,089,160
"	30	3,517	15,676,900	2,841	11,800,100
May	7	3,251	14,375,800	2,515	10,441,900
"	14	3,565	15,607,250	2,785	11,539,000
"	21*	3,403	15,090,500	2,625	10,618,660

*Two insuring office reports not received.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: May 23, 1938

423

TO: Secretary Morgenthau

FROM: M. A. Harris

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

Treasury bond prices advanced 1 to 7/32nds further during the past week, with the average price of those issues due or callable after 8 years advancing about 5/32nds. Prices at the end of the week were about at their highs of the year and in the average about 2 3/8 points above the low of the year and only 1 1/8 points from the all-time high reached in December, 1936. The market was quiet to moderately active each day, with slightly lower prices on Monday and Tuesday being offset by rising prices the balance of the week. Activity was largely in the over-the-counter market and reports indicate trading was principally in small lots.

Prices of Treasury notes showed advancing tendencies each day, although day-to-day changes were small and trading light. Advances ranged from 1 to 3/32nds for the short maturities to 4 to 7/32nds for the longer maturities.

Corporate Bond Market

During the past week better grade utilities and investment quality industrials, particularly the convertible and share privilege variety, continued in fair demand. Moody's AAA industrial average advanced 1/2 point, the utility average 1/4 point, but the rail average decreased 1/8 point. The combined AAA average increased 1/4 point.

Medium and lower grade bonds declined during the week but price

losses were small, with the exception of the rail bonds where losses ranged to several points. Moody's BAA bond price average decreased 2 1/4 points to a position 2 3/4 points below the May 11 recovery level. By groups, the following changes were recorded in the BAA averages: rail bonds decreased about 3 1/8 points, utility bonds decreased about 1/2 point and industrial bonds were about unchanged.

New Security Issues

The only corporate financing of importance last week was the sale of \$2,000,000 of Fall River Electric Light Company first mortgage 3 1/8s of 1968. This issue was sold at an interest cost to the company of 3.0182 percent and reoffered to yield about 2.925 percent.

There are a number of offerings listed for the near future and below is given most of these. Most of the offerings are of the better grade type, but this is typical of the early stages of a new issue market. Also, most of the offerings are for refunding purposes.

<u>Issue</u>	<u>Amount</u>	<u>Purpose</u>
1. San Antonio Public Service 4s	\$19,000,000	To refund several higher coupon issues.
2. Consolidated Edison 3 1/2s	33,000,000	To retire the issue of 4 1/2s.
3. Mountain States Tel. 3 1/2s	30,000,000	To repay advances.
4. U. S. Steel 10-yr. debs.	100,000,000	Half of proceeds to repay bank loans & the balance for general expenditures.

Dealers' Portfolios

For the fourth successive week, dealers reduced their total holdings of U. S. Government securities and guaranteed obligations. The reduction this week amounts to \$16.8 millions. Changes by groups are given below:

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(in millions of dollars)

	<u>Holdings May 14</u>	<u>Holdings May 21</u>	<u>Change</u>
Treasury bonds	38.8	31.6	- 7.2
" notes (1 year)	34.6	28.2	- 6.4
" " (1-5 years)	37.0	36.6	- 0.4
" bills	0.8	4.3	+ 3.5
F. O. L. C. bonds	6.3	1.9	- 4.4
F. F. M. C. bonds	<u>3.5</u>	<u>1.6</u>	<u>- 1.9</u>
	121.0	104.2	- 16.8

Investment Accounts

The following transactions were executed in the New York market during the past week:

Purchases

\$107,000 2 7/8% of 1955/60 at 104.1 a/c District of Columbia- Teachers' Retirement Fund

Sales

\$ 3,000	2 3/4%	of 1951/54	at 103.	a/c	Pershing Hall Memorial Fund
1,000,000	2 3/4%	of 1945/47	at 106.2	a/c	Civil Service Retirement &
1,000,000	"	"	" 106.3	"	Disability Fund
<u>1,078,700</u>	"	"	" 106.5	"	"
\$ 3,081,700					

System Account

The Federal Reserve System replaced its holdings of \$59,687,000 of Treasury bills which matured last Wednesday by the purchases of \$44,860,000 of the new Treasury bill issue maturing August 17, 1938 and a total of \$14,827,000 of Treasury bills maturing between June 17 and August 3, 1938.

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The following exchanges were also made in the market:

Sales

\$ 3,000,000	3 3/8%	Treasury bonds of 1940/43
<u>4,000,000</u>	2 1/2%	" " " 1949/53

\$ 7,000,000

Purchases

\$ 2,000,000	3 1/4%	Treasury bonds of 1941
1,000,000	3 3/8%	" " " 1941/43
<u>4,000,000</u>	2 1/2%	" " " 1945

\$ 7,000,000

It was stated that these exchanges tend to equalize maturity distribution in the System Account holdings.

MEMORANDUM OF THE DAY'S ACTIVITIES

427

May 23, 1938

To: The Secretary
From: Mr. Magill

1. Los Angeles Experiment

Commissioner Helvering, Mr. Marrs, Head of the Technical Staff, and Mr. Tamm, Head of the Los Angeles unit came in today to discuss the progress of the experiment. All agreed that the most notable achievement was the better preparation of the cases which could not be settled but must be tried before the Board of Tax Appeals. The further fact is that the Los Angeles unit has made a better record so far in effecting settlements than has heretofore been made by representatives of the Bureau in the field.

2. State officials' salaries

Robert Jackson called me to say that in his view the Supreme Court decision in the Fort Authority case indicates that the Federal Government has the power to tax salaries of state officials. State officials have probably not even filed returns in the past and almost certainly have not paid Federal income taxes on their salaries. Hence, under the present law they may be subject not only to the tax but to interest and penalties for many back years. Jackson wanted us to consider whether the President might not send a new letter to Congress pointing out the desirability of immediate legislation under which the Treasury would collect taxes on such salaries for the future but not for the past. Mr. Oliphant and I expect to go into the question thoroughly tomorrow afternoon as soon as we have had an opportunity to study the Supreme Court decision.

3. Tax administration code

Professor Traynor of California has been directing the work of codifying the laws and court decisions relating to the administration of all the internal revenue laws. The job was an enormous undertaking but Traynor and his staff have now completed a good part of it. We are now making plans for the examination of his drafts by men in the Bureau of Internal Revenue and in the General Counsel's office. We then want to publish the code so that it can be examined by the public before it is actually enacted into law. If we can get the code completed and adopted it will constitute a major achievement. It will probably take at least a couple of years to complete the enactment of the code.

Rm

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 23, 1938

TO Secretary Morgenthau

FROM Mr. Haas *HAAS*

SUBJECT: The Business Situation, week ending May 21, 1938

Summary

(1) Business activity, as indicated by current statistics, continues to hold at a stable level, and the current week has seen little net change in the underlying situation. The New York Times index has improved slightly during the past three weeks, following its April decline to new lows, with the majority of its components showing improvement during the first half of May. Easy money conditions have brought further improvement in prices of Government bonds, and have doubtless been a factor contributing to stability in stock prices. New orders for products other than steel have been well maintained during the first two weeks of May, and in the case of textiles and building materials have shown distinct improvement.

(2) On the unfavorable side of the picture, commodity prices this week have turned down rather sharply, with outstanding weakness in the metal group. New orders for steel have declined slightly further, apparently in anticipation of a reduction in third-quarter steel prices, which did not materialize. Automobile production has continued its downward trend, with a slowing up of retail sales. A reactionary tendency has been evident in railroad bonds, following their recent sharp improvement. Stock prices in Great Britain have turned weaker, with railroad stocks reaching new low levels.

(3) While no surface evidence of a nearby upturn in business activity is apparent, and while the psychological effects of recent monetary measures have been disappointing, one cannot ignore the evidence of underlying business improvement provided by the rising trend of bond prices, by the recent stability of stock prices in the face of unfavorable developments, by indications of a reopening of the capital markets, and by an upturn in new orders. The length of time which may be required to translate these into a

Secretary Morgenthau - 2

rising business trend will depend to a considerable extent on public psychology. Since this is known to be affected somewhat by seasonal influences, the general tendency now is to expect that recovery will be delayed until fall.

The possibility of war between Germany and Czechoslovakia, which arose at the end of the week, introduces an immeasurable factor into the business outlook. To the extent that it leads to business uncertainty and hesitation, its immediate effect is likely to be unfavorable.

The steel situation

The important news of the week was the announcement of first-quarter steel prices at unchanged levels, except for a few minor adjustments. The maintenance of prices was apparently based on the theory that a price reduction would bring little improvement in volume of sales so long as the business outlook remained uncertain. In the past, price reductions have frequently occurred after business had begun to improve.

The announcement was not made until May 13; hence the new orders of the U. S. Steel Corporation for the week ending May 15 are likely to remain low, following the low figure of 90,000 tons (equivalent to about 25 percent of capacity) reported for the week ending May 12. During succeeding weeks, however, the volume of new orders should furnish a more or less accurate measure of the actual level of demand for steel.

The rate of steel ingot output increased fractionally this week to 31 percent of capacity, a contra-seasonal improvement following six successive weeks of gradual decline. An accumulation of orders in some districts justifying the reopening of some mills for a limited time was probably responsible. During the first three weeks of May, steel production has shown a slightly greater than seasonal reduction from the April level. The decline in new orders recently has been only partly reflected in steel output, since the industry is apparently working on a backlog of orders accumulated during April.

In the automobile industry, sales estimates and production schedules for the remainder of the current quarter are being revised downward because of a slowing-up of retail sales during April and May. As a consequence, the production of cars during the second quarter will show a considerably less than seasonal gain over the first quarter. A more or less prolonged shutdown for model changes expected during the summer, while likely to have some effect on business activity,

Secretary Morgenthau - 3

may cause less than the usual seasonal reduction in automobile steel buying, since the automobile companies this season have been buying practically no steel.

The new orders situation

The trend of new orders probably represents more accurately than any other series the basic trend of business activity. While excessive inventories of finished goods in the hands of manufacturers may prevent an upturn in new orders being immediately reflected in increased production, a continued rise in new orders must eventually result in a higher level of industrial output.

In Chart 1 we show our monthly new orders index, adjusted for seasonal variation, carried back to 1925. While our preliminary estimate for April shows some falling off from the high March level, it remains above the adjusted index for February. Since the new orders index is in terms of dollar values, and prices were higher during the early part of the period, the relationship between orders and production at that time is not so immediately apparent as during the latter part of the period.

Orders for products other than steel have improved somewhat during the first half of May. As compared with an average weekly index of 48.0 during April for products excluding steel, the second week of May shows a preliminary index of 48.9. Building materials and textiles largely account for the upturn. The decline in steel orders has reduced the total weekly index to 64.1, as compared with 70.7 during April.

Security prices

A further rise in Government bond prices has been accompanied by additional improvement in industrial and utility bonds, and has doubtless been a supporting factor in the stock market.

Stock prices have held very steady this week, slightly below their recent highs, despite weakness in commodity prices, unfavorable earnings and dividend reports, and various other depressing influences. The market declined slightly at the end of the week on the Czechoslovakian crisis, though no important amount of selling appeared, and the volume of trading remained relatively low. A persistent

Secretary Morgenthau - 4

demand for the better grade of dividend-paying issues apparently indicates that underlying the steadiness of the market is the influence of recent monetary-expansion moves. Brokers regard the failure of copper stocks to decline more than fractionally on the announcement of a full 1-cent reduction in the domestic copper price as providing some evidence that the general market is well liquidated.

A steady decline in British stock prices has aroused some apprehension over the industrial outlook outside the United States. Industrial stocks in London (See Chart 2) have declined practically without interruption since the middle of April, and rail stocks have reached new low levels.

Commodity prices

A decline in commodity prices this week, particularly in the metals group, for the most part reflects larger supplies due to an accumulation of stocks resulting from the continued low level of industrial activity in this country and some falling off in demand abroad. For certain commodities, such as wheat, it is the result of an outlook for increased supplies.

Copper prices have declined most sharply, domestic spot copper being reduced 1 cent a pound to 9 cents, following several days of declining prices abroad. An increase in American copper stocks during April to the largest total since 1937, and the expectation that foreign copper statistics for that month will also be unfavorable, were important market factors.

In judging the significance of commodity price trends, it is important to recognize the difference between a decline due to increased supplies and a decline due to decreased demand or to deflationary monetary influences. While the former may have some unfavorable effect on sentiment, it does not represent a weakening of the underlying price structure. A decline due to decreased demand, such as that in the spring of 1937, or one which reflects deflationary monetary influences, such as that in the fall of 1937, would have unfavorable implications in the business outlook.

A drop in wheat prices this week has resulted from reports of favorable crop conditions in this country and Canada, which have led to a belief in some quarters that our total wheat crop may reach a billion bushels. General expectations have been for a crop around 950 million bushels, following the Government's recent large winter wheat forecast.

Reflecting unfavorable wheat prospects in Southern Europe and a desire to build up wheat reserves, various European countries are reported to have entered the export market this week. Italy is said to have contracted for the purchase of 20,000 tons of Bulgarian grain, and to have bought one cargo each of Australian and Argentine grain. The Netherlands government recently permitted the importation of 25,000 tons of wheat (about 350,000 bushels) and is expected to purchase more in the near future. The French government has authorized the purchase of 30,000,000 bushels, of which one-third is reported to have been bought so far.

The general outlook

Following the failure of business to start a general improvement at the time of the usual spring upturn, economists and businessmen generally have turned to the belief that no recovery is likely before fall, when seasonal influences will again favor a rise, and that during the summer a mild further recession is possible.

This expectation seems largely patterned after the usual seasonal movement of business, and reflects a belief that seasonal influences will be against any upturn between now and August. While past experiences can furnish no more than an imperfect guide to future trends, it may be significant that in neither of the two business recessions most nearly comparable to this, in 1907-1908 and 1920-1921, did the usual seasonal decline prevent a gradual improvement in adjusted business indexes during the summer months.

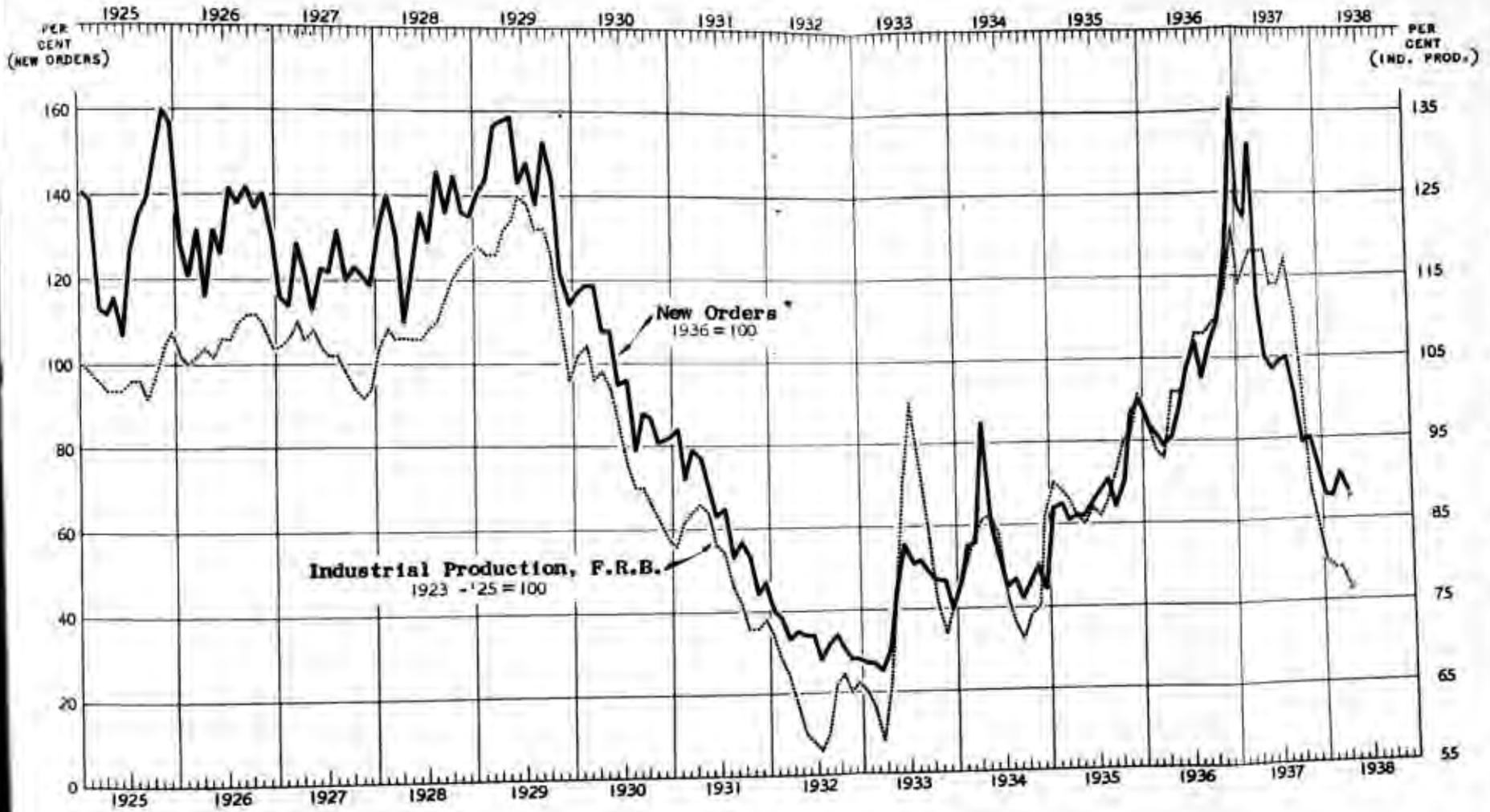
A complete liquidation of excess inventories is probably not essential to business recovery, since the adjustment of inventories may be completed during the early stages of a business upturn. An index of stocks of manufactured goods published by the Department of Commerce (See Chart 3), while not sufficiently comprehensive to be a dependable business guide, indicates that the business recovery starting in May 1921 began at a time when the stocks of goods included in this index were not far from their peak. Unfilled orders at that time, according to a Department of Commerce index shown on the same chart, had not yet reached their low.

Secretary Morgenthau - 6

Some improvement in business sentiment has been apparent during the past week or two, according to reports from sales executives in various industries to the Journal of Commerce. An upturn in business during the fall is said to be widely expected and "the opinion is rather uniformly held that business has shown its ability to resist a further sharp decline since the turn of the year, and that the trend must be upward". The reduced threat of labor domination following the defeat of C.I.O. candidates in the Pennsylvania primary has been a factor tending to improve sentiment.

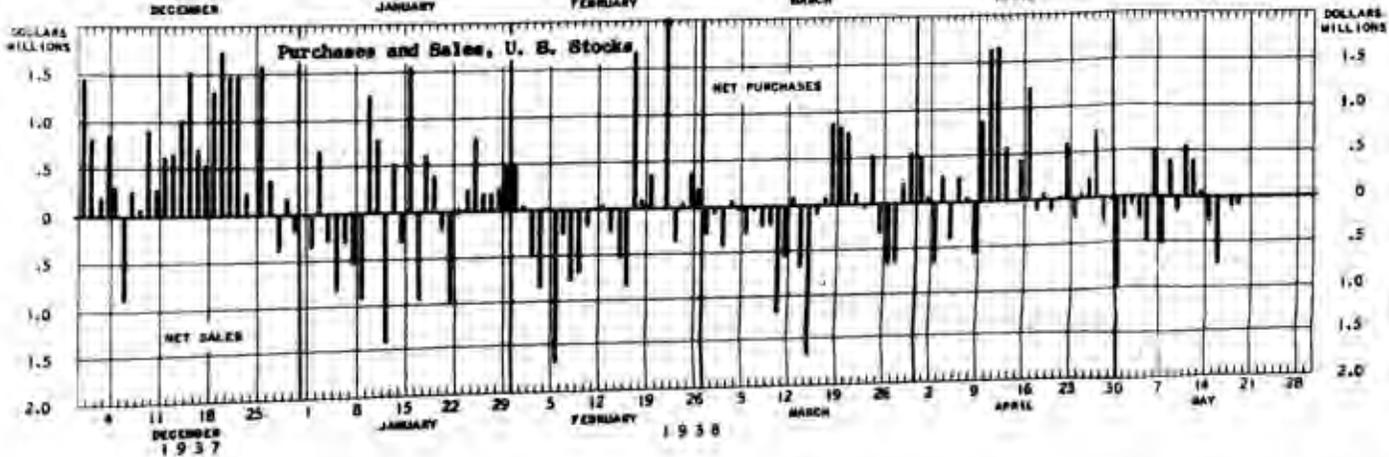
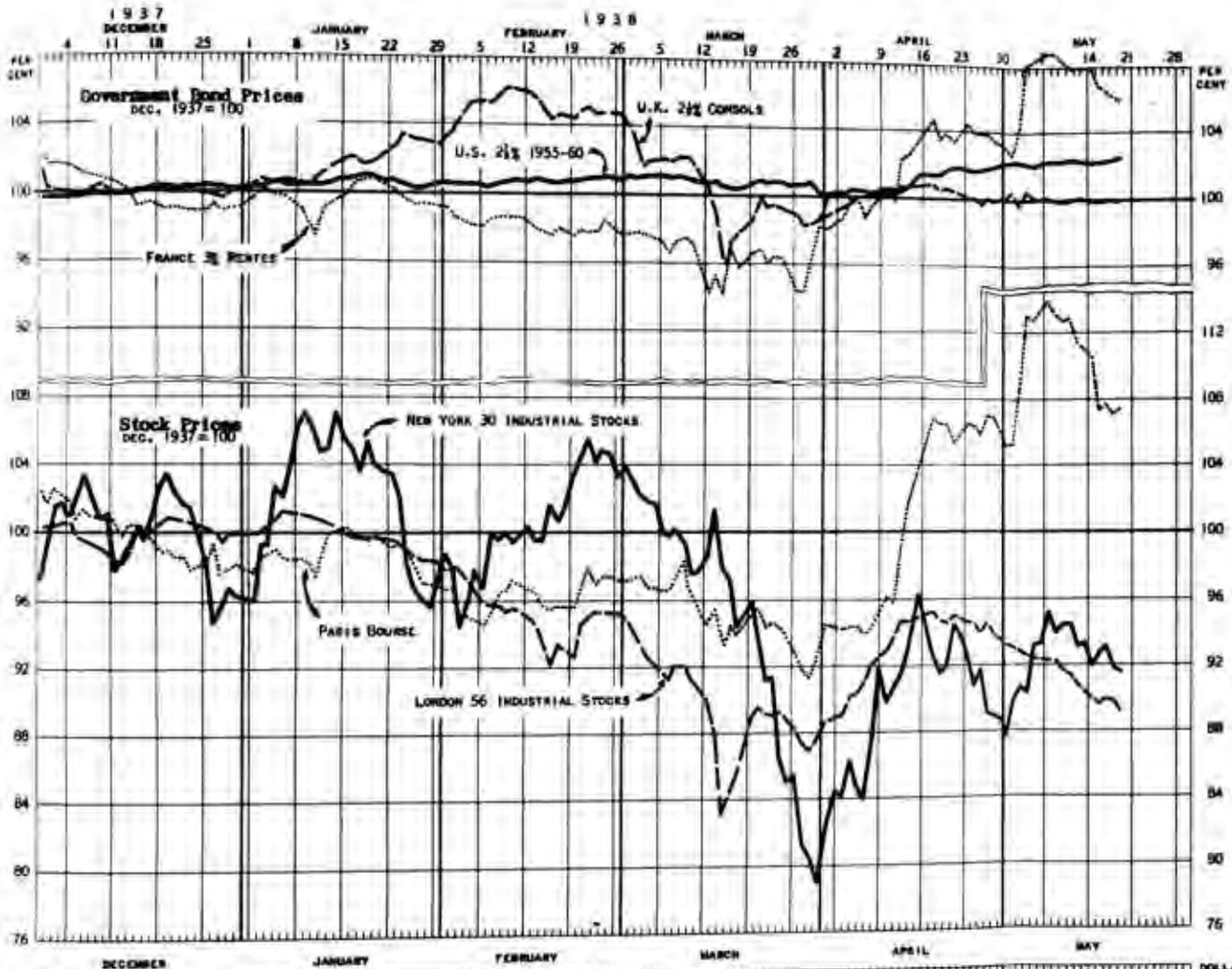
The timing of a business upturn will depend to a considerable extent upon public psychology. While seasonal influences would suggest an improvement during the fall, business may turn-upward before that time if the present level of new orders is maintained or if some new stimulus appears. The Czechoslovakian crisis, however, introduces an immeasurable but potentially important factor into the world business outlook. To the extent that it results in business uncertainty and hesitation its immediate effect may be unfavorable.

COMPARISON OF NEW ORDERS WITH INDUSTRIAL PRODUCTION Seasonally Adjusted



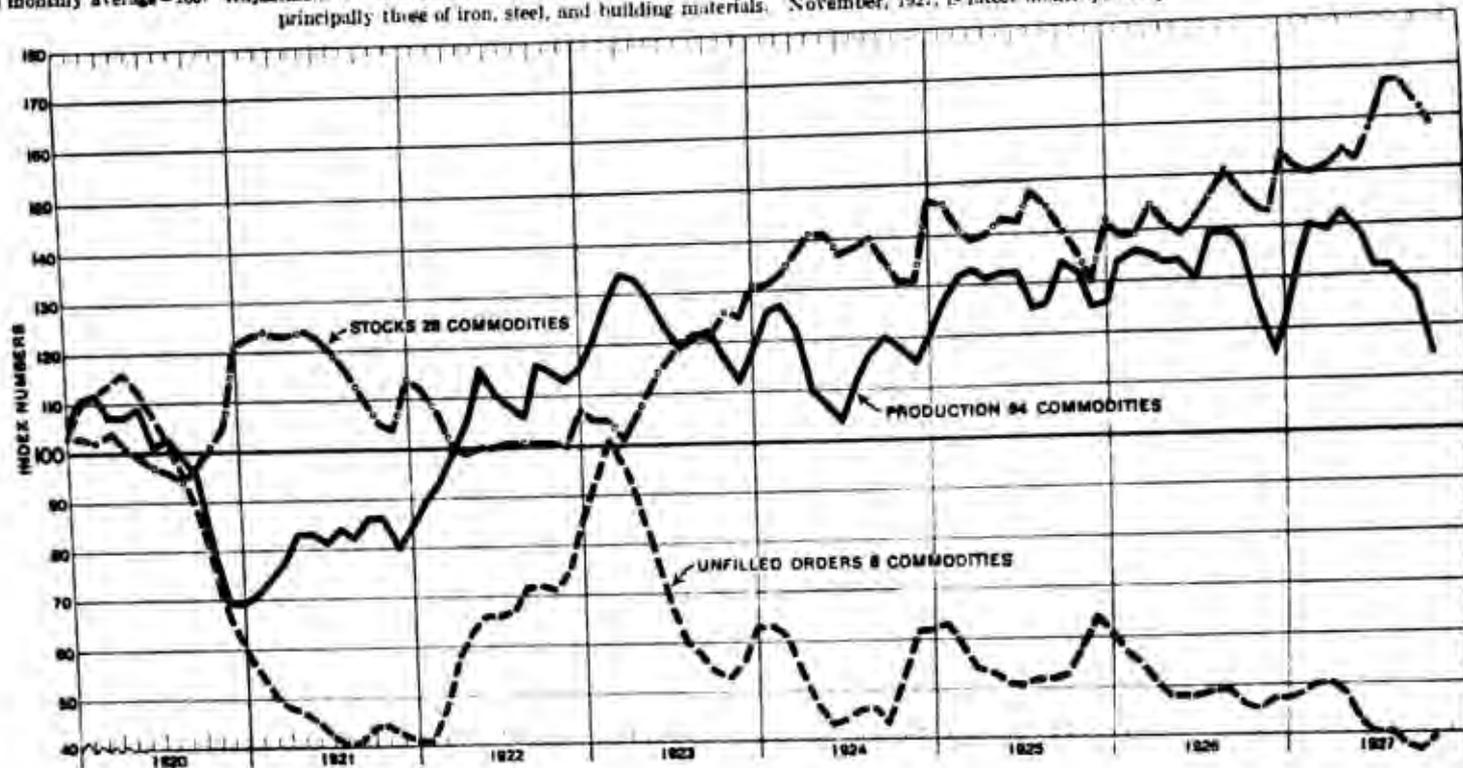
* DOLLAR VALUES

SECURITY PRICES IN U.K., FRANCE AND U.S.
AND FOREIGN TRADING IN AMERICAN STOCKS



PRODUCTION, STOCKS, AND UNFILLED ORDERS FOR MANUFACTURED COMMODITIES

[1920 monthly average = 100. Adjustment has been made for the seasonal movement of stocks and relative number of working days for production. Unfilled orders are principally those of iron, steel, and building materials. November, 1927, is latest month plotted]



TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

436

DATE: May 23, 1938

TO Secretary Morgenthau

FROM M. A. Harris

June Financing

In this memorandum it is assumed that the June financing will be confined to the refunding of the June and September notes, outstanding in the amount of 618 millions and 596 millions, respectively, a total of 1,214 millions.

From the standpoint of the market, the present time presents an excellent opportunity to refund a part of the short term debt into long term bonds, thus placing the short term market in a better position to receive later borrowing if conditions have changed, both as to open dates and amount of short term debt outstanding. The debt is being reduced by \$50 millions each week through the weekly retirement of bills and if this is continued each week through June 15th and the June tax-dated bills outstanding in the amount of 250 millions are paid off in cash, the bill debt will be reduced to \$1,150 millions, a reduction by the whole operation of \$650 millions. If then the June and September notes are refunded into bonds, the amount of that portion of the debt due in one year will be reduced to \$3,820 millions, a reduction of \$1,864 millions.

From the Treasury standpoint, a program of refunding into long term bonds is ideal as it is vastly important that the Treasury be ever ready to finance any program, regardless of market conditions. If in the future we have a declining government security market and a reluctance on the part of investors to take long term securities, it will be a relief to know that the

short term market is in such a position to receive any financing operation by the Treasury. However, I think that the Treasury, by its operations with its cash balances which influence bank reserves and excess reserves and the money market generally, has certain responsibilities which must be considered. Furthermore, it is important to the Treasury that the government security market does not rise unduly and thus become more vulnerable to later developments.

At the present time, that portion of the debt maturing within 1 year provides negligible yields and the portion due or callable within 5 years provides yields of less than 1 percent. The short term debt of the government constitutes the chief portion of the short term assets of banks and financial institutions and a paucity of such paper makes less efficient the operations of the financial structure. The strength and high prices of long bonds is due in part to the limited supply of short term obligations and the diminishing returns that they provide because banks and other investors are forced, for the sake of earnings, to go into the long term field. Thus any reduction in the short debt would further aggravate the problem of investors. As pointed out in a previous memorandum, the long term money rate is already the most sensitive money rate in the United States. As a result, fear of a price decline is ever present and if the pressure to enter the long term field becomes greater due to a further shortage of short term paper, so will the sensitiveness of the market increase. It was demonstrated last year that when banks have need to liquidate securities it was from their long term holdings and we may expect this to be true in the future. We cannot expect, under present conditions, that they will turn to the Federal Reserve System for funds.

On the other hand, if the long term market is starved, prices might rise to a dangerous level but I do feel that prudent investment policies will, to a certain extent, take into account high prices and the corresponding risk of market depreciation regardless of the cash available for use and this should be a retarding influence on the upward trend of prices if prevailing conditions continue.

From this short discussion, the question seems to evolve itself into whether the Treasury should neglect the necessity of preparing itself for unfavorable conditions in the future and continue to "mother" the market or should the acute shortage of short term paper be further aggravated by a reduction in the amount of short term debt outstanding by refunding \$1,214 millions of it into long bonds, thus making the long term rate more vulnerable to future trends? It is my suggestion that the Treasury follow a middle course as near as possible. Such a course suggests the offering of both a note and a bond to the holders of the June and September maturities.

As to a note offering, a five-year 1 1/8 percent is suggested. Such a note, based on the current market, should sell at a premium of about 7/8ths of a point, which certainly seems ample. As to a bond offering, the question is not easy to answer and the balance of this memorandum deals with this subject.

Listed below are three possibilities:

<u>Issue</u>	<u>Market Basis</u>	<u>Premium Indicated</u>
(1) 2 1/2% 1950/53 (12-15 years)	2.38 - 2.42 *	1 1/4 pts. - 26/32nds
(2) 2 1/2% 1948/58 (10-20 years)	2.30 - 2.40 *	1 3/4 pts. - 7/8 pt.
(3) 2 3/4% 1953/60 (15-25 years)	2.56 - 2.65 *	2 3/8 pts. - 1 1/4 pts.

* The first market basis is the one indicated at the first call date and on this basis the premium should be the first indicated. The second market basis and premium shown is probably the minimum that may be expected.

The logical and conservative issue would be a 2 1/2% dated 1950/53. However, it is quite possible to extend the maturity date to 1955 if an optional offering of a note is given, which is a more desirable date as far as maturity distribution of the debt is concerned. Such an issue should meet with immediate success. The 2 1/2s of 1949/53, outstanding in the amount of \$1,786 millions, are currently quoted 101.17 bid, which at this price gives a yield of 2.35 percent to the first call date and would differ from a 2 1/2% of 1950/53 only in that the 2 1/2% of 1950/53 is a longer bond by 5 months to the call date but shorter to the maturity date by 6 months, if placed in 1953. If such a bond was offered, it would in time, I believe, sell on practically the same basis as the outstanding 2 1/2% of 1949/53. The only objection, as I see it, to making an additional offering of the 2 1/2s of 1949/53 is the size of the issue and the sweetness of the offering.

The two issues with a long callable period suggested certainly have their advantages. The debt maturing in the 1940s and early 1950s is heavy and a bond callable in what may be termed the "medium length" field but yet having its maturity in the long term field would certainly be a desirable issue from the Treasury's standpoint. The main difficulties in these two issues lie in the pricing of the issue and the final interpretation will have to be left to the market. The 2 1/2s of 1948/58 if figured to the call date, as shown above, should go to a premium of about 1 3/4 points. However, if we look at the maturity date we find the market basis is about 2.62 percent, which is considerably above the 2 1/2 percent coupon rate. The 2 3/4s of 1953/63 do not have this disadvantage because if figured to the maturity date at current levels it still should sell at a small premium.

But this, I believe, is a long issue for banks to take and banks own a large part of the maturing issues. In the past it has been the experience of long bonds with long callable periods to run into difficulties sometime during their life and banks do not "warm up" quickly to such bonds. Another objection is the speculation it might lead to if the issue quickly goes to the 2 3/8 points premium, which is indicated by figuring it to the first call date.

Although I think either issue would meet with immediate success, the obvious dangers of a low coupon issue with a long callable period should not be overlooked, and, as a protection against these dangers, an optional offering of a five-year note should be made with either of the two issues.

Below is given the current bid price and the "right" premium indicated by the bid price for the June and September notes:

	<u>Bid Price</u>	<u>Right Premium</u>
2 7/8s due 6/15/38	101.15	1 point 9/32nds
2 1/2s due 9/15/38	101.23	30/32nds

May 23, 1938

441

Dear Eleanor:

The inclosed report is confidential
and for you only.

I sent Miss Lonigan not only to
Cleveland, but also to Chicago and Detroit
last week.

As I said over the 'phone, I think
we have simply got to act quickly and fur-
nish these families in cities like Cleveland,
Chicago, Toledo and Flint with a properly
balanced diet. We have the money.

Affectionately yours,

Mrs. Franklin D. Roosevelt,

The White House.

enc: copy of Miss
Lonigan's report
of 5/23/38

JR

GRAY

London

Dated May 23, 1938

Rec'd 9:25 a.m.

Secretary of State,
Washington.

RUSH.

440, May 23, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

The franc has been rather heavily offered this morning. The French control first pegged it at 177.62 then after gold fixing allowed it to go to 178-5/8 and now the British control is giving support at 178 and 29/32nds. Not much business is being done at the moment. Even the dealers criticize the French authorities for wasting their ammunition instead of immediately letting the market take the rate to the level at which a determined stand was to be made.

Dollar has of course been very much bid and has reached 4.94-3/4. The pressure was soon eased by large dollar sales in Paris by Lazards.

The demand for gold has revived and sovereigns are quoted at 8 $\frac{1}{2}$.

All other markets similarly are nervous. The jobbers have marked down security prices but the volume of trading

-2- #440, May 23, 1 p.m., from London.

trading remains small. War loan which stood on Friday at 101-3/16 is in fact now bid at 101 flat.

The general feeling is that the peak of this crisis is now past but that the ingredients remain to recreate it at any time.

KENNEDY

HPD

RECEIVED
MAY 23 1940
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

OFFICE CORRESPONDENCE
CONFIDENTIAL FILESDATE May 23, 1938.SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLANDFROM J. W. McKeon

Bolton called Mr. Knoke at 10:15 a.m.: There was a decided improvement in the European situation today with markets much more orderly, but most people apprehensive. Recent developments, without question, had had a very bad effect on business in general. Francs were weak and at one time this morning they were quoted as high as 179 to the pound. He believed that Cariguel lost certainly in excess of \$1,000,000 today trying to hold the franc. The Franc's weakness was due directly to the international situation and not to anything that had happened in France.

Belgas appeared weak and the Belgians had inquired of him over the phone whether he could give them dollars against gold; in response to this inquiry he had sold them some \$2,000,000 and as a result would probably give us gold in London; was that satisfactory? Mr. Knoke replied that he saw no objection; if, at any time, we felt we had accumulated enough gold in London we would frankly tell him so. Amsterdam appeared nervous, considering itself number two on Hitler's list, but news from Czechoslovakia were not discouraging; few believed that anything would come of this situation; nevertheless it would take at least a month to six weeks before conditions might be called normal again.

Mr. Knoke referred to the order we received from Sveriges Riksbank on Saturday to sell \$1,000,000 at best. Bolton thought that the Swedes were always quick to take action and added that both Buenos Aires and Yugoslavia had purchased dollars from him this morning (about \$1,000,000 each).

LW:KW

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 23, 1938, noon

NO.: 812

RUSH

FROM COCHRAN.

Czech-German situation caused sharp upset in franc market this morning; there was a strong demand for sterling at 177.60 when the banks opened, which was met by the French control. At 11:15 I talked with the Bank of France, and was told that at that rate the control had yielded 700,000 pounds. The rate then retreated to 178.30, and by 11:15 the control had lost a total of 1,000,000 pounds. According to my friend he was resisting at various levels, and stated positively he would not permit the rate to slip below 178.90. Much of the franc selling was local, he told me, and London was also sending in important orders.

National City Bank trader thinks early sales are by operators who had taken long positions in franc and are now covering.

Dutch florin under heavy pressure but belga firm with dollar which is much demanded. Part of sterling's resistance comes from Japanese sales of dollars against pounds. When they are ended official support presumably will be required.

HULLITT.

EA: LWW

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 23, 1938.

CONFIDENTIAL FILES

SUBJECT: **TELEPHONE CONVERSATION WITH**

TO _____
FROM **L. W. Knoke**

BANK OF FRANCE,

Mr. Cariguel called at 12:30. The market had turned today and he had sold about \$1,300,000 and decided to let the market go down; this afternoon they had not had to operate at all. He gave me today's orders, to buy at 178.75 and to sell at 178.02. On no account, however, should we let the market go above 178.75.

LWK:KW

RECEIVED

MAY 24 1938

TREASURY DEPARTMENT

Office of the Director
Federal Reserve Bank of New York

Monday
 May 23, 1938
 10:33 a.m.

HMJr: Hello.
 Operator: Mr. Hopkins stepped out of his office for a minute;
 he'll call you.
 HMJr: Thank you.
 O: You're welcome.

10:38 a.m.

O: Go ahead.
 HMJr: Hello.
 Harry Hopkins: Yes, Henry.
 HMJr: Good morning.
 H: Yeah.
 HMJr: Harry, I saw the President this morning early and -
 ah - I was going over several matters with him and
 I told him that on Saturday they had included in the
 bill that up to 50 million dollars could be spent for
 direct relief.
 H: Yes. But they take it entirely out of the WPA; they
 don't say it can come out of any one of these funds.
 HMJr: I see. Well, I got it....
 H: That's what I want them to do.
 HMJr: Well, that's what I want them to do.
 H: Yeah.
 HMJr: So the President asked me, "Is fifty enough?" I
 said, "No, not if they're going to begin to buy
 surplus crops for - ah - food and clothing."
 H: Yeah.

- 2 -

HMJr: I said if they're going to really do that and do it in a big way fifty isn't enough.

H: Yes.

HMJr: So he said, "How much?" So, I said, "At least a hundred."

H: Yeah.

HMJr: So he said, "Well, tell Harry..."

H: Yeah.

HMJr: "...to see if on the floor..."

H: Yeah.

HMJr: "...he can't get the amendment-to have it read a hundred."

H: The important thing, Henry, is that it reads that it be taken from all the funds.

HMJr: That's right.

H: And that it....

HMJr: I...

H: If that figure were 200 million I would - I would like it better.

HMJr: I'd much rather have it - ah - take it from any of the funds...

H: That's right.

HMJr: ...and not have it earmarked as to any amount.

H: That's right. Well, that would even be better yet.

HMJr: Well, that's the way it should...

H: But I don't think we can get that.

HMJr: Well, I'm simply acting as a messenger boy.

H: Yeah.

- 3 -

HMJr: And, may I leave it with you?

H: Yeah. And I'm going to get right on that one.

HMJr: But - ah -

H: And that - if we can get it kicked up why we'll get it kicked up.

HMJr: Well - ah - yes

H: If it's going to get kicked up inside of my - just inside of WPA though, I'm not going to encourage it.

HMJr: Well, I don't - I don't blame you, but you can quote me for the present thing that - that I would say that - this being direct relief and having it come out/of the funds...
all

H: That's right, Henry.

HMJr: ...without any definite

H: I get it.

EMJr: What?

H: I get it.

HMJr: Now, ah - are we in accord on that?

H: Yeah. Yeah.

HMJr: All right.

H: All right, Henry.

HMJr: Thank you so much.

H: Goodbye.

May 23, 1938.
10:55 a.m.

450

H.M.Jr: Hello. Hello.

George
Harrison: Hello. Henry?

H.M.Jr: George?

H: Yes, sir.

H.M.Jr: Good morning.

H: Good morning to you.

H.M.Jr: George, what I'm calling you about is this. I wondered if weekends, like what we went through, and what we're in now with the European situation, whether you couldn't have some personal understanding with the Presidents of the four banks that we do business with, that if some operation that they're apt to take part in, or whether they approach some foreign exchange operation that is definitely significant, see - that they'd let you know and whether you'd pass it on to me, see?

H: Yes.

H.M.Jr: See what I mean?

H: You mean - you're talking about London?

H.M.Jr: No I mean - if some private bank^{is} approached, in some way, either on this side or the other side to engage in some very large foreign transaction which - it's out of tune what's going on, you see?

H: Yes.

H.M.Jr: It might have some significance, trying to decide whether these people are going to war or not.

H: Yes.

H.M.Jr: I'd like to get it just as fast as I can.

H: Yes. You mean you're talking about New York banks.

H.M.Jr: I'm talking about the four New York banks that we do business with. That you do business with us for us.

- 2 -

- H: Yes.
- H.M.Jr: I mean they might tell you where they wouldn't tell Knoke, that's what I'm getting at.
- H: Yes. Well I'll cover that Henry.
- H.M.Jr: I mean here's the point. The Vice-President in charge of the foreign exchange might be given an order and he might not even know what it's for.
- H: Yes.
- H.M.Jr: Where the President of the bank might.
- H: Yes.
- H.M.Jr: Is that possible?
- H: Yes. Possible, but not likely.
- H.M.Jr: Well I don't know, I just wanted to cover every possible angle.
- H: Well let me think it over and I'll check up the best I can and see there's no loophole.
- H.M.Jr: If it's an impractical suggestion, forget it.
- H: Yes.
- H.M.Jr: But I just wanted to be sure that -
- H: You see these fellows - as a matter of fact most of these operating vice-presidents are much smarter about that interpreting the significance of the thing than the Presidents.
- H.M.Jr: It may not - now this is, in no way any reflection on Knoke, because nobody could be better than Knoke.
- H: Yes.
- H.M.Jr: But I didn't know that possibly above the vice-president in charge would be the president and he might know about something. Now if that's just a pipe dream, forget it.
- H: Well I think it might not be so myself, because they get everything through the bank and most of these

- 3 -

fellows now give us copies of all their cables and things.

H.M.Jr: I don't want, in any way, to upset Knoke because he is doing a swell job for us.

H: Yes. But I'll look out for^{or} it and if I think there's even any slight chance of getting something that we're not getting I'll do it Henry.

H.M.Jr: O. K.

H: All right.

H.M.Jr: Thank you so much.

H: How are you?

H.M.Jr: Pretty well.

H: Huh-huh.

H.M.Jr: I've been better and worse.

H: Huh-huh.

H.M.Jr: And you.

H: I feel first rate, thank you.

H.M.Jr: Fine... Good.

H: I'll see you next week.

May 23, 1938.
11:33 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Knoke: Knoke speaking.

H.M.Jr: Yes.

K: Mr. Secretary.

H.M.Jr: Good morning.

K: Lockheed asked me to report to you on the security operation of foreigners in this market?

H.M.Jr: That's right.

K: The figures we have before us indicate no activity whatever.

H.M.Jr: I see.

K: We have - if they are selling on a very small scale. Last week we had two and a half, the rest of the week ending the 11th, two and a half million dollars, for the week ending the 18th the indications are it will be in balance, for the last three days, the figures have been a few thousand dollars only.

H.M.Jr: Yes.

K: If they are selling at all, I would say that they are selling because of the unfavorable quarterly reports now coming out.

H.M.Jr: In United States?

K: Well, yes, of all industrial concerns reporting for the first quarter of 1938.

H.M.Jr: I see.

K: It's rather well timed and I think there's reason in that argument, for this reason, that during April foreigners were buyers here.

H.M.Jr: I see.

K: When the reports began to come out in the beginning of May they eased up on their buyers - buying, and

- 2 -

I would say at the moment they are not buying, and if they had to do anything at all it would be rather on the selling side, because the incentive isn't there to buy.

- H.S.Jr: I see. Well, that's what I want. Now, did you feel any less nervous today than you did Friday or Saturday?
- X: Oh, yes, decidedly so. I think Bolton summed it up in a nutshell when he said, "There's no panic today, there's apprehension in Europe, but a decided improvement over the week end."
- H.S.Jr: I see. Well, there's somebody in the State Department said "Unfortunately though we'll have lots of more week ends."
- X: Bolton suggested that this state of affairs would last for another month or six weeks.
- H.S.Jr: He did.
- X: Yes. Without a crisis but always getting just close to one, and everybody on tension and edge off and increasing in tension, etc.
- H.S.Jr: O.K. Very true. Thank you very much.

May 23, 1938.
11:35 a. m.

H.M.Jr: Hello.

Operator: Mr. Butterworth. Go ahead.

H.M.Jr: Hello.

Butterworth: Hello, Mr. Secretary.

H.M.Jr: How are you?

B: Very well thank you, sir.

H.M.Jr: Butterworth. I've seen all the cables and all that sort of thing but I just wondered whether you want to say anything, whether you felt any really any happier or whether this is just -

B: No I think people are happier at the moment in the sense that nothing - no more sticks were added to the bonfire.

H.M.Jr: I see.

B: Nothing more has taken place.

H.M.Jr: Uhhuh.

B: I think I telegraphed you there's a realization that the ingredients remain the same.

H.M.Jr: Yes.

B: And therefore the potentialities of the situation are still serious.

H.M.Jr: Huhhuh.

B: Especially as there's another election next Sunday.

H.M.Jr: Another one next Sunday?

B: Yes, and a third one on the twelfth of June.

H.M.Jr: My God, why can't they get all that voting done on one day.

B: Well, they have constitutions too.

H.M.Jr: I see. Well so did we once.

- 2 -

- B: And so with that realization they're very much and for instance Paris today is telling the city that they're pretty nervous about next week end.
- H.M.Jr: Who is?
- B: Paris.
- H.M.Jr: Paris.
- B: But - I mean there's no evidence to bear that out, it's simply the potentialities of the situation continue serious.
- H.M.Jr: So there's two more week ends they're going to vote?
- B: Yes, next Sunday and on the 12th of June.
- H.M.Jr: So until they get by that, we really don't know.
- B: Really don't know.
- H.M.Jr: I see. What are they voting on anyway?
- B: These are municipal elections.
- H.M.Jr: I see. I see.
- B: Control of the municipal and government.
- H.M.Jr: Right. Well, I just wondered if there was anything you wanted to add. Now let me ask you -
- B: I don't think so but the general atmosphere is very much better here and for instance the gold market which is always a pretty good index. The demand for gold dried up this afternoon.
- H.M.Jr: Let me ask you -
- B: stock market although it closed lower on the opening. It wasn't off very much on the day.
- H.M.Jr: I see. Let me ask you a personal question.
- B: Yes, sir.

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H.M.Jr: We're still playing with the idea of going down to Southern France.

B: Yes, sir.

H.M.Jr: We're also still playing with the idea of going to this Hotel Ducap.

B: Yes, sir.

H.M.Jr: Where you have been.

B: Yes, sir.

H.M.Jr: Now a number of people have told Mrs. Morgenthau that it's no place for a fifteen year old daughter.

B: For what?

H.M.Jr: For a fifteen year old daughter.

B: Fifteen year old daughter.

H.M.Jr: Yes.

B: That depends on the daughter.

H.M.Jr: Well, the daughter is all right.

B: I have no doubt about that.

H.M.Jr: No, but I mean is this a very fast crowd?

B: Very fast, but you know what the south of France is, in the summer.

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

B: Well, I don't mean that the people - I mean - behavior on the rocks and all that kind of thing is perfectly all right. The people don't wear an awful lot of clothes and all that.

H.M.Jr: Well.

B: It's a perfectly respectable place.

H.M.Jr: Well, that's what I mean.

B: For first hand information, do you know Mr. Robert Gerard?

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H.M.Jr: Robert Gerard?
B: Yes.
H.M.Jr: Not well, no.
B: Well, he goes there every summer.
H.M.Jr: He does.
B: And Mrs. Gerard was with him last summer.
H.M.Jr: Huhhuh.
B: Your girl is not going to have a lot of playmates there.
H.M.Jr: I see.
B: There's not - it's not a resort where you take a - it's comparatively dull.
H.M.Jr: Well I wondered if you'd care to drop me a personal letter and suggest places where families do go.
B: I will indeed.
H.M.Jr: Would you get it off in the next pouch?
B: I will indeed.
H.M.Jr: And also the possibility of any place in England.
B: I will indeed. Now what sort of place?
H.M.Jr: Well, of course what I - I want, and that's the great difficulty is to go some place where there's salt water.
B: Yes.
H.M.Jr: See?
B: The English seaside is not an awfully attractive place.
H.M.Jr: Well how about Northern France?
B: It's good, but it's liable to be cold.

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H.M.Jr: Yes. Well you might mention some of the places which are the more attractive in Northern France.

B: Yes. Biarritz should be the better bet.

H.M.Jr: Biarritz?

B: Yes.

H.M.Jr: Well that's down -

B: That's just north of Spain.

H.M.Jr: No, no, I wouldn't want to go there. I know I've been there.

B: Yes.

H.M.Jr: Well, give me the names of two places in Northern France.

B: Yes, sir.

H.M.Jr: Would you?

B: I will indeed.

H.M.Jr: Just drop me a line.

B: I will indeed.

H.M.Jr: Thank you.

B: Not at all, sir.

H.M.Jr: It's still very much up in the air though. I mean I only - there's one chance in five of my coming.

B: Oh! I'm sorry to hear that.

H.M.Jr: But so many people have talked to Mrs. Morgenthau and told her that she don't think it's the place to take the family.

B: Yes.

H.M.Jr: But-

B: I'll talk to my wife about it.

H.M.Jr: What?

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B: I say I'll talk to my wife about it.

F. J. Jr: Will you do that?

B: Yes.

F. J. Jr: Thank you.

B: Mr. Secretary may I ask you one thing?

W. A. Jr: Please.

B: My wife's mother and father, who spent the summer in England.

B. J. Jr: Yes.

B: And then in the south of France for this summer - I mean for this winter.

F. J. Jr: Yes.

B: My father-in-law has become very ill.

W. A. Jr: Yes.

B: And I may have to fly down there sometime this week.

F. J. Jr: That's quite all right.

B: And I - I was going to either telephone or telegraph but since you called up I just wanted to let you know so - if that's all right by you sir.

W. A. Jr: Yes, just let us know when you're away, that's all.

B: I will indeed.

F. J. Jr: Just let us know. I'm sorry, and I hope he'll get better.

B: Thank you so much.

W. A. Jr: Goodbye.

B: Goodbye, sir.

May 23, 1938.
2:52 p.m.

H.M.Jr: Hello.

Operator: Colonel Halsey. Go ahead.

H.M.Jr: Hello.

Colonel Halsey: Yes, Mr. Secretary.

H.M.Jr: I need a little help.

H: All right, you've come to the right place.

H.M.Jr: I want to talk to you confidentially. Now the President said that I should get together with Senator Barkley and Senator Harris.

H: Yes.

H.M.Jr: Sam Rayburn and then he mentioned Jere Cooper.

H: Who?

H.M.Jr: Jere Cooper, Congressman Cooper.

H: Oh, yes.

H.M.Jr: To talk over the question that he talked with the leaders this morning.

H: Yes.

H.M.Jr: How will we raise the money.

H: Yes.

H.M.Jr: If they passed a two hundred and twelve million dollar benefit payment, you see?

H: Yes. I understand.

H.M.Jr: Now, I'd like to get a meeting some one place.

H: Yes.

H.M.Jr: And in the second place Jere Cooper is not the - he doesn't succeed Vinson, you see what I mean?

H: I understand.

- 2 -

- H.M.Jr: So you'd better ask Sam Rayburn just who we should have from the Ways.
- H: All right, well that's a problem we'd have to work out with him.
- H.M.Jr: You see what I mean?
- H: Yes, sir.
- H.M.Jr: As a matter of fact, Cullen is, I think, the ranking member.
- H: On the Ways and Means.
- H.M.Jr: Yes.
- H: Yes, sir.
- H.M.Jr: So maybe they'd better have - they might want two people, you see, Cullen and Jere Cooper.
- H: Yes, sir.
- H.M.Jr: But if you could organize it and if it would be convenient, let's say, for them to see me maybe at ten o'clock in the little office next to yours.
- H: Well that would be fine. That's perfectly open to you - the only thing about it is whether I can get word to Senator Harrison - he has to go to that Spade funeral this afternoon.
- H.M.Jr: Well -
- H: But I think he'd be available. How about making it - would Wednesday be all right?
- H.M.Jr: Well -
- H: Or tomorrow afternoon?
- H.M.Jr: Hello.
- H: Yes.
- H.M.Jr: Well I should think that - let me ask Magill, he's here.

H: See if tomorrow afternoon won't do.

H.M.Jr: I mean I meant us to - (would Wednesday morning)
But when is this Bill going to pass?

H: Well I don't - I think it'll be here for oh at
least Thursday - just guessing.

H.M.Jr: I should think Wednesday.

H: Yes. Well I can make it tomorrow afternoon if
you say so.

H.M.Jr: Well they always are so busy, I hate to ask those
people on the Hill for an afternoon appointment.

H: Uh-huh. .

H.M.Jr: While if they'd give me whatever - the earlier the
better as far as I'm concerned Wednesday morning.

H: Well, let me get hold of Barkley, see what his
views are and then I'll call you back.

H.M.Jr: And, as I say, I'll make it any time Wednesday
morning, if it suits them.

H: All right.

H.M.Jr: If you wouldn't mind handling it and I don't think
they'll want any publicity.

H: Oh I understand that, I appreciate it. Of course -

H.M.Jr: Hello. .

H: Yes, that's all right.

H.M.Jr: Thank you.

H: I'll let you hear from me.

May 23, 1938.
3:16 p.m.

H.M.Jr: Hello.

Operator: Hello Mr. Jones.

H.M.Jr: Hello.

Jesse Jones: Yes.

H.M.Jr: Hello.

J: Henry.

H.M.Jr: Where are you? Sounds a thousand miles away.

J: Well, I'm ~~about~~ that far away.

H.M.Jr: Where are you? Home in bed?

J: No. I'm in a doctor's office though.

H.M.Jr: Oh, for heaven's sake.

J: See whether they're going to cut me open or not.

H.M.Jr: Oh really.

J: No, no. Just kinda being looked over.

H.M.Jr: Oh, I see.

J: What's the news with you?

H.M.Jr: Oh, nothing much. There really isn't anything particular. The worst thing of course, what you see in the papers about Europe.

J: Yes.

H.M.Jr: Which is nothing much to joke about, and -

J: I'm going ^{to} allot our little bonds this afternoon.

H.M.Jr: What's that?

J: I'm going to allot our little bonds.

H.M.Jr: Fine. What did they get, about two per cent.

J: They had two per cent.

- 2 -

H.M.Jr: Oh, I was just kidding. Is that what they get?

J: What?

H.M.Jr: Two per cent.

J: The big ones get two per cent and the little ones get a bond and the banks and dealers get the minimum of five. .

H.M.Jr: For heaven's sake. Well -

J: Million - three hundred and five million.

H.M.Jr: Well, what do you know about that?

J: That's the limit.

H.M.Jr: Yes. Well I congratulate you.

J: Well, frankly, it is what we wanted to do.

H.M.Jr: I wish it was as easy to lend it out as it is to borrow.

J: Yes.

H.M.Jr: What?

J: And then get it back.

H.M.Jr: That's - and get it back.

J: Well, I'll be seeing you soon.

H.M.Jr: Well, when you're feeling like yourself give me a ring and we'll put on the nose bag together.

J: All right, fine.

H.M.Jr: All right.

J: Thank you.

May 23, 1938.
3:50 p.m.

H.M.Jr: Hello.
Mrs. E.
Roosevelt: Hello Henry.

H.M.Jr: How are you?
R: I'm fine, how are you?
H.M.Jr: I'm well. Have you got a moment?
R: Yes.
H.M.Jr: Eleanor, I have been working with the President, Hopkins and Wallace to get additional food into cities like Cleveland and Chicago.
R: Yes.
H.M.Jr: Where these people, while they're -
R: Yes.
H.M.Jr: Waiting for the State to act on - they're so hard up.
R: Yes.
H.M.Jr: And last week I was successful - I'm doing it behind the scenes - but at least to get Wallace to declare bread a surplus so he's added bread to his list, you see?
R: Yes.
H.M.Jr: And they're going to begin to give bread to these people in addition to the beans and celery and oranges, etc., that they're getting. Now the thing that I spoke to the President about, at lunch today, was that this thing is getting worse and there's ninety thousand families in Chicago that are not getting enough to eat - was to add milk. Fresh milk.
R: Yes.
H.M.Jr: And Wallace was here this morning, and he said that he couldn't, under his surplus commodity, rule that milk was a surplus. So, it gets down to allocating some money for direct relief amounting to, maybe a

- 2 -

quarter of a million, a half a million dollars, of course -

R: Listen. Aren't you - there's a thing which they - you remember at Cornell they were working on a powdered - some kind of a powdered milk which has almost the same vitamins that real milk has. I was wondering if there was no way of getting that as a surplus commodity and distributing it.

W.M.Jr: Well, I don't know. I don't - I didn't seem to make any headway with Henry on it, but there isn't much question that they need either fresh milk or powdered milk, one or the other. As a matter of fact, I looked and - I couldn't - I mean, instead of finding out what these families need, you see, they sit back and say well we have too many oranges or too many beans or too much cabbage.

R: Yes.

W.M.Jr: But these people - I just had Miss Lonigan out there, and the condition in those four cities is just shocking, and what I'm - I don't want the thing to spread or have some poor mother commit suicide with her babies or something, and then suddenly we all get excited about it.

R: Yes.

W.M.Jr: Now the President made a lot of notes while I was talking to him, and said he would take it up with Harry. I worked awfully hard on this for ten days and I know it's out of my line, but on the other hand I don't have two glass eyes.

R: Uhhuh.

W.M.Jr: And I thought that if you agree that we can't let these families -

R: They must care for them.

W.M.Jr: And we have the money Eleanor.

R: You have the money.

W.M.Jr: Absolutely.

R: Well then I think that -

H.M.Jr: And I -

R: I'll ask Franklin about it tonight. Not as though you'd said anything, but as though I were troubled.

H.M.Jr: The papers are full of it.

R: Yes.

H.M.Jr: And if you could do it in the way we have worked two or three times.

R: Well I will, I'll do that.

H.M.Jr: And I even had all the papers drawn up ten days ago for him to sign, but they kept saying, "Well the legislature is going to meet." Well it hasn't met, in the meantime in Chicago -

R: Well, I'll do it - I'll do it tonight, just as soon as I see Franklin.

H.M.Jr: And because - you and I agree, don't we?

R: Yes, I'll - I'll do that right away, Henry.

H.M.Jr: And - thank you.

R: Oh, all right, Henry. I'll see you tonight anyway.

H.M.Jr: Oh, are we, I didn't know -

R: I think you're coming to the party. You're down as having accepted.

H.M.Jr: I didn't - are you sure?

R: It's the newspaper dance. Well, I only know that I was told by Mrs. Helm that you were coming. You were one of the -

H.M.Jr: I didn't think we were invited - I didn't -

R: Oh yes, the Cabinet is all invited.

H.M.Jr: Oh!

R: And she said this morning that you'd accepted, so I guess you and Elinor are going to turn up.

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H.M.Jr: Elinor will have to instruct me better.

R: So I hope you will. I'll look forward to seeing you. Anyway for a little while.

H.M.Jr: Sometime, if you ever have a half an hour.

R: Yes.

H.M.Jr: I've - I've done a lot of work on this whole question of getting the surplus food and cotton into the people's stomachs and on their backs -

R: Well, I'd like to.

H.M.Jr: And - we can do it - but it's just - I can't do it alone. I'd -

R: Well, I'd love -

H.M.Jr: I - I need help, and -

R: All right, we'll make time today or tomorrow or the next day.

H.M.Jr: Anytime tomorrow that suits you.

R: All right. Swell.

H.M.Jr: If you'd let me know.

R: I'll let you know tonight.

H.M.Jr: Thank you.

R: Goodbye.

H.M.Jr: Goodbye.

REB

GRAY

London

Dated May 23, 1938

Rec'd 4:55 p. m.

Secretary of State,
Washington.

445, May 23, 10 p. m.

FOR TREASURY FROM BUTTERWORTH.

Pressure on the franc lessened during the afternoon and in general the atmosphere continued to improve. Gold for example which rose to 140 shillings 7 pence, declined one and one-half pence and the demand dried up. British security prices closed slightly off on the day. War loan 100 7/8.

The clouds still hang low and the city is acutely conscious of the fact that further elections are to take place in Czechoslovakia next Wednesday, next Sunday and on June 12.

KENNEDY

CSB

RECEIVED
MAY 23 1938
U.S. DEPARTMENT OF STATE
WASHINGTON, D.C.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, Embassy

DATE: May 23, 1938, 8 p.m.

NO.: 815

FROM COCHRAN.

Paris exchange market continued nervous throughout day but pressure on franc lightened somewhat this afternoon after rate reached 178-7/8. Dollar sought by continentals. French rentes down 1.50 francs; Paris share market suffered heavy losses. New national defense loan offered with 16 francs commission on thousand francs bond. Governor General of Indo-China has denied rumor of revaluation and piastre dropped from 10.10 Friday to 10.01 today. Press report. Twenty-five million dollars worth of gold and silver crossing France by truck from Republican Spain to be shipped from Havre to New York to pay for Spanish purchases and meet loan charges.

At 6 o'clock this afternoon I talked with the Bank of France and was told that this afternoon trading had been done both ways. One and one-quarter million pounds and four hundred thousand dollars were net losses of control for the day. Closing for sterling was 178.70 to .80 with light trading.

I had a telephone conversation with Jacobson of the BIS who emphasized the importance of France holding the franc

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franc and in this international political crisis giving demonstration of some financial strength and union.

Opinion of the BIS people seems to be that a conflict will not be precipitated by Hitler now. Same impression held by Pennachio of the Bank of Italy.

BULLITT.

EA: LWW

RECEIVED
JAN 10 1938
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY
WASHINGTON, D. C.