

GROUP MEETING

May 26, 1938.
9:30 A. M.

Present: Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. Taylor
Mr. Gibbons (briefly)
Mr. Upham
Mr. White
Mr. McReynolds
Mrs. Klotz

H.M.Jr: The trip to Ithaca is off.

McReynolds: I'm glad to hear that. I was afraid for you to go in the air on a day like this.

H.M.Jr: Mr. McReynolds.

McReynolds: I've got this justification revised again, and if you don't want it this morning - you're not going to look at it today, are you?

Klotz: Uh huh.

McReynolds: (Hands report to Mrs. Klotz.) All right. I can cut off sixteen thousand more dollars off that with another revision.

H.M.Jr: You'll have it another day?

McReynolds: I don't need it another day. I can have it for you this afternoon if you want it.

H.M.Jr: Sixteen thousand dollars off, in half a day?

McReynolds: I can just substitute the pages, like the 'brief' people do, if you want to keep that.

H.M.Jr: Who will that come out of?

McReynolds: Chief Clerk's office. I'm going to eliminate the accounts down here and consolidate them with Bartelt's.

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- H.M.Jr:- Mac has done a good job on that - down from four forty to something like two fifty.
- McReynolds: Oh, I put some back in last night. Miss Lonigan has a half dozen people working for her.
- H.M.Jr: What! Half a dozen? I thought she was herself and one stenographer. The last I heard it was herself and a stenographer.
- Klotz: She's grown.
- McReynolds: I can cut everybody off the list except those two. I've got down here the group that's working up her tables.
- H.M.Jr: That's perfectly ridiculous. I don't get any of that. I've waited at least six weeks for you (Haas) to give me a plan on what Edna Lonigan has. It's been at least six weeks.
- Haas: I'll give it to you.
- H.M.Jr: I don't like to ask more than once for anything; I shouldn't have to ask more than once.
- Haas: I have it on my desk.
- H.M.Jr: Mac, as long as I am here this afternoon, with nothing else to do, I'll get out my blue pencil and go to work on it.
- McReynolds: I'll have it revised here. I just worked out last night the idea of consolidating this accounting. I don't see any excuse for maintaining separate accounts under the new system of allotment.
- H.M.Jr: I don't know of any excuse for Miss Lonigan to have anybody except a stenographer. If there is anything - I mean, I asked Haas' office six weeks ago for a justification.
- McReynolds: That's all I have.
- H.M.Jr: The last time I spoke to her she said that all she had was a stenographer.

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McReynolds: She's got quite a group. I've got a couple memoranda recommending promotions for six or seven people she's got down there.

H.M.Jr: How did it get that way? Last time I spoke to her it was herself and a stenographer.

Haas: She handles the figures - and collections - from everybody, which is a routine job.

H.M.Jr: Who approved the growth?

Haas: You asked her to do that, as I understand, and then she was using people out of the regular pool, and we were finding she was using the people all the time, so they are now in one group, working for her.

H.M.Jr: What you did was transfer some of your people over to her. I'll bet now, if you gave her a chance she'd say she still had only one stenographer. I mean, you didn't hire new people for her?

Haas: Yeah, I think that is true; I'm not sure of all of them, because she took some people that were good statistics clerks that were part of our people.

H.M.Jr: For heaven's sake, George, get your memo in. Will you get it to Mac, or me, but get it in today.

Haas: I've talked to Mac about it.

H.M.Jr: (To Mr. McReynolds:) I'll see you sometime this afternoon.

(Nods to Mr. Gibbons.)

Gibbons: Nothing.

H.M.Jr: Harry.

Gibbons: (Low conversation with H.M.Jr.)

H.M.Jr: There is a car down stairs.

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Gibbons: No, I'll take

H.M.Jr: Well, listen. I had Stanley down stairs waiting to take me to the air port. Take Stanley and the Buick.

Gibbons: I wanted to take her out

H.M.Jr: No, take Stanley and the Buick. I'll release it. I thought I was going to the air port.

(Over telephone:) Tell them down stairs Mr. Gibbons is coming down and I want Stanley to take Mr. Gibbons. Tell Stanley he's through.

White: This letter you gave me, with respect to France, we checked up and we have no information available that supports that, with the only thought in our minds that this may be an outgrowth of the agreement which was made at the last League of Nations meeting - council meeting - that each country would attempt to render individual assistance in so far as it could to China, but that three million dollar loan has received no publicity at all yet. It's a fact. It hasn't come in in any cables, and it will appear, if it's a fact, very soon. The question of tin and antimony for China, we are having a memorandum prepared on it. I don't know whether you have included in your thoughts the fact that two things have some pertinence. One is that tin especially is a matter about which the Munitions Board have been concerned, and, secondly, China themselves - practically all she produces she can export already.

H.M.Jr: I see.

White: There will be a memorandum forthcoming on the situation. Then, we have some views on the financing, that I am afraid are very much a minority opinion, but we'd like to submit them.

H.M.Jr: Will you do it in writing?

White: I say, in writing - yes.

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The fourth thing that is very nebulous, relates to the British purchase of planes here. Our air plane industry is very busy. They have over eighteen months orders for bombers in advance. So any additional sales placed doesn't do us any good, from an economic view. I wonder whether there may not be some possibility of tying up sales of planes - and what not, with the Trade Agreement, to get some concession, using the sales of the planes as one of the concessions which we are offering, not in writing, but unofficially - whether you care to pursue that or not.

H.M.Jr: Only if you and Taylor care to do that. You represent us on that Interdepartmental thing. If you want to do it, all right, but I wouldn't say.

Taylor: I wouldn't think so.

H.M.Jr: I mean, there are so many other things I start getting in - I question on these things. I'm going to make a little statement when I get through, about using our strength of money. It's all right to bring it up.

White: I thought it might be tied up with some agriculture exports, because the agricultural situation is getting so bad.

H.M.Jr: It's all right, but as I say, unless you and Taylor decide - could you, in this particular - I am giving Wesley Mitchell a - I'm using a phrase - maybe it's a very common phrase, or it may be exclusive to him. I'll try and paraphrase it, but he says something; I gather it's a thing that is used commonly in economic terms, that every person/^{who}wants to work should have the right to sell the products of his hand. That isn't just what he said, but it's something along that line, but he said it so well, I want to use it.

White: "The concepts of the rights of labor includes and is based upon the right to sell the products of your labor."

- H.M.Jr: But he put it very tersely, and I want to get it from him, and if Miss Diamond can't find it - he's written me on it - you can call him on the phone and see if you can get it from him. He said it better than I've ever heard it said before.
- White: That is the thought.
- H.M.Jr: I want to use his exact words in the end as a challenge, see?
- White: That's the thought.
- H.M.Jr: Yes - that our economy should be planned so that everybody who wants to work - that there is a market for the products of his hand, you see.
- White: Is it possible - this is a little bit distant, and it originates from somebody else - that every man who comes with two hands to the table also comes
- H.M.Jr: No, no. Tell Mitchell he used that in a conversation with me and was it - is it an original - can I say, "As Wesley Mitchell says,....." or does it belong to somebody else? "As Wesley Mitchell has said," or does he get it from somebody else? It's very good, and I never heard it put as well before, and I'd like to use it. See, Harry?
- White: I'll try to find out.
- H.M.Jr: He said it better than anybody else - you get the idea.
- White: I do. I think so.
- H.M.Jr: Anything else?
- White: No.
- H.M.Jr: (Nods to Mr. Upham.)
- Upham: I think there is nothing.

White: Oh, there is one other thing. If you're taking that bill of Senator Bailey's seriously - I don't know, but if you are, we'd like to prepare a report, possibly, for him. He's asked for a lot of information on silver, he'd like to include in the record. He's going to make a speech for it. If he's going to get anywhere with it, we'd like to prepare a memorandum before he makes his speech; he may change his report, and modify it. I'm asking today whether or not it has any chance.

H.M.Jr: Chief Scout Oliphant will report today.

Gaston: We've had several requests from the newspaper men for the Treasury's attitude.

H.M.Jr: Any report that goes up on that, "Papa" would like to read it first.

Oliphant: Yes. We're not sure - we're not sure we would make a report.

H.M.Jr: Anyway, whatever you do, I'd like to be consulted, in this case.

Oliphant: You would agree to that if there's no likelihood it will be taken seriously - it will be passed over, like lots of things, if it's not agitated.

H.M.Jr: I don't know what we usually do - fellow presses us hard enough for a report. If he's asked - I think the thing to do - we can talk about it tomorrow morning.

White: One other little fact, you might be interested in, that India has been a net exporter of silver this last quarter. India has been depended upon to absorb a lot - large amount of silver this quarter. She has been exporting. If you'd like the reasons and whatnot, I can have a brief memorandum prepared for you.

Taylor: Like the price of cotton - you'd

H.M.Jr: What, Taylor?

Taylor: You'd start with the price of cotton as the first reason for it.

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H.M.Jr: Are you (White) all exhausted?

White: I'm exhausted.

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

Upham: Huh uh.

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

Taylor: There's quite a series of more or less minor things. Would you like to hear about them?

H.M.Jr: I'd rather do it between eleven and twelve. When I'm through with my mail I'll give you a ring.

Taylor: All right, fine. One other thing, we've got some new narcotic regulations that came to me yesterday, and it wasn't apparent whether they are changing everything or clarifying anything.

Oliphant: Nothing new - question of clarifying outstanding decisions for the purpose of sending them over to the Qualification Board.

McReynolds: To get them in the Register.

Oliphant: Get them in the Federal Register.

H.M.Jr: Does that codify you?

Taylor: I am an old narcotic expert.

White: What do you mean by that?

Taylor: That's all.

H.M.Jr: As one lady used to say, she used to love to hold her grandchild and have her "curdle" on her lap.

Taylor: Have you any suggestions as to how we should - this has nothing to do with grandchildren, but have you any suggestions as to what should be done about the wires about Mr. Marshall Diggs?

H.M.Jr: Well, is he wiring us?

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- Taylor: No. The South is rising in arms.
- Gaston: Protesting against his speech?
- Taylor: No, no.
- McReynolds: Trying to get him appointed Comptroller. Very peculiar.
- H.M.Jr: On the chart, the Comptroller of the Currency is under you.
- Taylor: I also have nothing to do with political appointments, Mr. Secretary.
- H.M.Jr: In the absence of Mr. Gibbons, I refuse to accept the telegrams. Somebody came in yesterday and said I was very "chart" minded, and I like to live up to that.
- Oliphant: Have to have the benefit of your comments and suggestions.
- H.M.Jr: Until the telegrams reach one hundred, I am not interested.
- McReynolds: They may reach that by ten o'clock. They started about four yesterday.
- H.M.Jr: All right. You (Taylor) come in - eleven to twelve - I'll see you.
- George.
- Haas: I have nothing this morning.
- H.M.Jr: George, I don't know whether you know whether it's raining or not.....
- Haas: I think it is.
- H.M.Jr: but I don't think your business reports I am getting are giving me the picture. I think things are worse than you show them. I don't think that your charts on production in new waters tells the story.
- Haas: Well, we're just using the generally accepted industry.

- H.M.Jr: I can get that by taking the New York Times on Sunday and reading the Federal Reserve reports that they get from the twelve districts. I'm not getting enough original stuff. Your assumptions and the assumptions of all these economists is that we are quite at the bottom, and all that. I don't agree with them.
- Haas: I don't think the situation - I don't know of a time when the outlook is as uncertain as it is right now. I don't think you can get confidently bearish or bullish, but
- H.M.Jr: You give McReynolds, Tuesday, the people in your office - who work in your office - who are responsible for that. Who's on your pay roll who's justified - who has the experience - what is his experience in forecasting and analyzing business conditions? Besides yourself, I mean; who's on there?
- Haas: There are several people that have done it for a living. They don't all work on this report.
- H.M.Jr: I still say, who is on your pay roll?
- Haas: Say, O'Donnell, Daggitt, Seltzer, Murphy - all have done it outside of the Government. I've done it for about eighteen years.
- H.M.Jr: Let's get it down, because I'm not satisfied, see?
- Haas: I can give you a correction of that.
- H.M.Jr: I mean, I cut income tax on - a hundred seventy-five million dollars when you fellows brought it in. You fellows recommended - December forecast for this year - ninety-five per cent of the Federal Reserve.
- Haas: That was considered a
- H.M.Jr: Something the matter with the brains.
- Haas: It's a hazardous
- H.M.Jr: I know. I mean, I'm sitting here and I'm supposed to know more about it than anybody else, and you fellows come in with a forecast of - for

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the year of ninety-five, and if we hit eighty this year, we'll be lucky.

Haas: I don't think we'll get eighty.

H.M.Jr: Well, fifteen per cent off is too much.

Haas: Well, Mr. Secretary, you look back over the record of that

H.M.Jr: This was December.

Haas: I know it.

H.M.Jr: Now, some of those fellows that you met at this meeting - some meeting took place - some of those boys said eighty, someplace - the Cosmos place - but some of those fellows talked eighty. You remember?

Haas: There are always some people that are always very bearish.

H.M.Jr: I'd like to have some of those come to work for us.

(Telephone.) Hello. Go ahead. Hello, Ros. Ha, ha, ha. Exactly. Well, listen, old sweetheart, I called up the President at nine twenty to tell him I was here, so he said, "Fine," and I said, "I just wanted to let you know that I'll be here this afternoon." Yeah. I don't know what the weather is up your way, but it's raining here. Yeah. Well, it's raining here. Well, keep right on worrying. Where were you last night, on the train? Well, that - oh gosh! What do they say? Hello.

I was cut off from Dr. Magill.

Hello, Ros. He'll sign it. What statement? Well, just a minute.

Mrs. Klotz, take a note that Magill's to be the first one supposed to know it.

Mrs. Klotz has made a note; you'll be amongst the first to know it. Well, I'll tell you what you do. If you call in around four o'clock I can

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tell you what's happened, if anything. I thought the people up in New York didn't work. All right. Goodbye.

He's worrying about this questing of the House being in session and all that, etc.

Klots: Is he in New York?

H.M.Jr: Yeah.

Klots: I thought he was going to be in Canada.

H.M.Jr: He is. He went up to speak there last night.

Oliphant: The clear majority held it wasn't important that the House in which the bill originates was not in session so long as delivery was made to an agent of the House.

Haas: Mr. Secretary, I have a suggestion I think would improve your perspective on it, see? On this business outlook. You get a very wide range of judgment. There are very few people who are right consistently on it. You remember, in '37 in the spring, we were right, and we had no company, even around the Government, or anyplace else very much. I think if I took the business forecasts and give you a summary, so you can get the range, from the very bearish to the very bullish - but leave me - I, after all, it's my judgment. I may be wrong, but I think you should get mine, so you can get the perspective of the range of the various people. I'm trying to get something so you can make up your own mind.

H.M.Jr: I've got to get something more than I am. I'm not getting enough. If you want to read all these Moodys, Bradstreets, and all the rest of them and give me what you think

Haas: I'd like to have a chance to get to talk with you outside of the meeting, so my mind will be meeting yours.

H.M.Jr: I can't go and tell the President so-and-so in my shop advised me wrong. The fact remains we're fifteen to twenty per cent off the market.

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- Haas: I don't think that's such a disgraceful thing. It isn't.
- H.M.Jr: I don't see how it could be much worse.
- Haas: Oh yes. There have been errors where estimates have been down fifty per cent. When they haven't they'd decline something like this.
- H.M.Jr: Well, anyway, that's my feeling as of Thursday at ten o'clock.
- Haas: I appreciate your position.
- H.M.Jr: Something else?
- Haas: I've nothing.
- H.M.Jr: (Nods to Mr. Gaston.)
- Gaston: Gregory, of the Herald-Tribune, told me last night that the franc had sold below the level which they had undertaken to maintain it. I told him I didn't know what that level was. He was anxious to have an official statement about that. I told him on that he'd have to wait.
- H.M.Jr: He and me both.
- Gaston: I notice there is some ruse in the Texas wheat - it's just a possibility that the thing may not be so bearish in a couple weeks.
- H.M.Jr: Are you implying that somebody in the Treasury deposited that germ this morning.
- Oliphant: Seventy-two and a half cent wheat this morning.
- H.M.Jr: Herman.
- Oliphant: Three of the issues in the Mellon case were decided in favor of the Government. Our general plan, subject to final talk, said we would appeal our part of the case, and we anticipated that they would appeal. Hogan communicated with Jackson yesterday that he was authorized to say they were willing to pay up in full on those three issues. Both Andrew Mellon, R. B. Mellon, and McClintic-Marshall - and it would be, if we accepted it and agreed not to appeal, a check in excess of

two million dollars.

H.M.Jr: What made Andrew Mellon change his mind?

Oliphant: Somebody's talking for him. I think it's Hogan. I'm having the thing work up in the regular way, as if it were a regular compromise, but it's interesting.

H.M.Jr: Better put the fellows who have to do with Procurement - I am going through a process of a change in my attitude. I haven't made up my mind yet, but I am in a process and I want to let you people know what I'm thinking about, and that is that I'm very much inclined to have Procurement concentrate as a purchasing organization and not to use them as a guinea pig for the Department of Justice, to try out, test out, whether there are monopolies, etc., and so on. It takes entirely too much of my time; I can't do it properly. I don't like to do anything that I can't be on top of.

I'm going to see this cement thing through for better or worse, but I have a book, which is bound in black, which is very ominous. I haven't read it yet, but - a question of steel prices, and I just - that is what I meant by a question of dilution. I can do just about so much. I don't want to do anything and not at least think I'm doing it well. And in the case of cement, there is the Federal Trade Commission, Department of Justice - they've been fooling around with it for four years, and all this whole question of monopoly, and I just don't see why I should attempt to do something which is not necessarily my responsibility, particularly where they haven't touched it, either of the organizations hit it hard, in four years, and it takes about all a person's time if they are going to do it properly. It's a question of dilution of one's - whatever one's ability one has. I am just throwing it out. I mean, for those - McReynolds, you work on it; so does Haas; and you (Oliphant) want to come back Tuesday? I'd like to talk about it some more. But it's just a question: What are the things I should concentrate upon? What should be the objectives in the Treasury. This one, before the Department of Justice will touch it, they say they need five hundred thousand dollars.

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to do it. We'll sit down and go through this thing and get some of the smartest business men in the country. A fellow would just about have to close up shop and do that exclusively. Just like this question of prices.

Oliphant: You're having to operate for the Department of Commerce. That whole problem of prices ought to be the job of the Department of Commerce. I agree with you; it's too much - a bigger thing than we ought to have to do.

H.M.Jr: It's an enormous undertaking.

Oliphant: In the absence of the Secretary of Commerce.....

H.M.Jr: I am in doubt as to whether I should do it.

Oliphant: I don't think you should; I think the man ought to report directly to the President.

H.M.Jr: You take this cement thing; there immediately comes up the question of wages. I don't know what agreement the President has with the labor unions, and the steel companies on wages.

Oliphant: What agreement Lewis has?

H.M.Jr: Yeah.

Oliphant: You don't know that?

H.M.Jr: There is a great deal in what they say - "If wage levels are frozen, you ask us to break prices, but what are you going to do about wages? I take it that you want wages to continue where they are, and that's the basis we're working on. Now, before we break our prices, we want to say to you, we don't want to break our prices, but we do want to keep our understanding with the Administration on wages." A fellow ought to close up his desk and concentrate on it, striking at the heart of the whole country.

White: Doesn't all this demonstrate the great need for carrying out the idea that you have of this Committee? You get the ideas; you feel that they are important. That is when it should be brought up before this Committee you suggested - an

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appropriate committee carried through, and all your concern should be is to get results from the Appropriations Committee.

H.H.Jr: But, somebody to work with, Harry; that's the sad thing, I can't get anywhere, Harry.

White: I thought you were getting somewhere. Isn't this a good opportunity, probably, to reopen the question and the need.

H.H.Jr: I mean, I've just gone through this thing a week ago - and Mr. Coolidge Now I find myself with the cement thing, and these people - confidentially, Stettinius came down here at nine fifteen yesterday morning - just came down-dashed down to see me; very temperate, etc., and so on, and in a very nice way, he shoves this wage thing at me. Of course, the Administration doesn't want any wages cut. I mean, he had to do a thing like that.

A fellow wants to have full authority and can talk definitely, see, and go at the thing and concentrate on it - or only having a little piece of it, buying a few bags of cement - you can't do it.

Olliphant: You have neither the authority nor the time.

H.H.Jr: I'd be willing; I'd be willing to devote a month or two months or three months to it exclusively, if I had the authority, and I think that I'd have a chance of solving it.

Olliphant: And we'd probably make the biggest contribution to recovery that could be made. Now, on the other hand, the Government, as a whole, has such a volume of purchase, that if some central committee reported to the President, and doesn't look after it, it can be a cannon loose on a wooden ship, and just ruin economy.

H.H.Jr: All true, but what I am saying, with this group with whom I work every day and every hour, this thing has been a lesson to me, and I think that I am working on something which I can't deliver because I don't have all the cards in my hand,

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and, therefore, I want you to all think it over and talk about it again. I am going to read this price report over the week-end. Supposing I use this as an example, plus cement, and I go to the President and say, "Mr. President, if you had a Price Board, sitting constantly; that is the kind of a thing you should have. I have gone into this thing enough to know there is a dire need for such a Board, but I, as Secretary of the Treasury, with all the problems I have to do at the moment, I can't do it, because I haven't got all the cards." I've been facing this thing and, therefore, if we decide to do this thing, I think my orders to Peoples should be 'Go ahead and buy; you're a buying organization, and buy as cheaply as you can; get every discount you are entitled to. Buy in large quantities." The forward buying - that has nothing to do with it. We can still do the forward buying, still, of the Department of Labor, - determine which are the slack seasons of industry. That has nothing to do with it. It is easy for them to say, "You don't want to buy shoes in July; that's their top. Buy your shoes in October." That's a question of going back ten years and finding out when is your slack season. That's a comparatively simple matter.

This thing is just too big for one person who hasn't got the authority.

Olyphant: You don't have the authority and it's a fulltime job. Some big man ought to be giving of the time.

H.M.Jr: This is a question of swimming the channel, and I don't want to go wading. See? I don't want to get drowned either.

White: Supposing you had that other Committee - not only the Price Committee, but the other Cabinet Committee. Wouldn't they be in position to have an unofficial committee and take these problems up there and be responsible for them, so if you get that you may not have to work for the other.

H.M.Jr: If the President would take what I suggested - four Cabinet members, and three or four heads of independent agencies met with them every Tuesday,

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Oliphant: Even that ought to be part of a fulltime man's job.

H.M.Jr: As long as everybody's in agreement, I don't think we have to wait until Tuesday, Mac.

McReynolds: All right.

Oliphant: What that means is, you go ahead and buy, according to the law.

H.M.Jr: Yeah, but we're not.

McReynolds: We're not going to get in any jam with the Comptroller.

H.M.Jr: We're not going to break it - on the other hand, we're not going to do the kind of thing we have been doing the last couple months. I mean, if the Comptroller says I can buy cement, I am going to buy cement, and I'm not going to fuss with whether it's f.o.b. or whether it's another way. I am not going to fuss with it; I'm going to let the courts and the Department of Justice decide; I'm not going to fuss with it, whether it's f.o.b. or whatever it is.

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and say, "Here's the thing; what are we going to do?" I haven't been able to tell the President my cement troubles - handling it entirely on my own; haven't been able to have a chance to say - it's got to - to do it entirely on my own.

White: Would it help you to get somewhere if a realistic picture of what the fall is coming to, which I think, and a lot of others think, is very dark? It might jar the President a little.

H.A.Jr: You have to have something like a strike of every railroad employee in the United States. A national strike would jolt some of them. I don't think anything less than a national calamity would jolt the people. Please don't mention what I am saying, but it would take a national calamity and I can't tell you people, in confidence, everything I've done. My God, on this tax bill, I've talked four or five times; I've been slapped on both cheeks and kicked in the behind, and still I call up the President, and as long as I'm here I'll do everything I can to save him from doing what I think is a mistake. And I keep right on as long as I sit here doing the same thing, but what I am saying is, while I'm here, I want to do what I do with the help of you people; do it well and I don't want to do a job - say, go stick my toe in the ocean and find the water is very cold, and go deeper and deeper and finally I'll drown. But I just can't handle this.

Olipphant: What I think - finally brought them down a man reporting directly to the President, and is handling it on as wide a basis as the whole Administration, and, second, a national business figure, a man well known in national business picture, who will inspire confidence, who's accustomed to doing, and is interested in

H.A.Jr: No people should report more to the President. That is a great trouble. If we are going to do it, this Board should handle it with the President. This Board, Economic Board in War Industry, a Board sitting with the President, should handle it, but nobody more should report to the President.

Olipphant: One day he says, "We're going to build public utilities with taxpayers money," and the next

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day he doesn't.

- H.M.Jr: That sort of thing should come up at this Board meeting on a Tuesday afternoon.
- Oliphant: What I was trying to say is, the thing ought to be as wide as the Administration - it oughtn't to be confined to the Treasury Department or the Labor Department. But it will boil down to finding that national figure.
- H.M.Jr: Pending that, if you are all in agreement - pending that, then, I say, through McReynolds to Peoples, "Buy, and buy as economically as possible, but you're not a guinea pig for the Department of Justice or the Federal Trade Commission." Pending some decision on the part of the President.
- White: You're including in that, proper timing, not only according to season but also according to cycle.
- H.M.Jr: I said Department of Justice and Federal Trade Commission. This thing, Mac's been working on for years, is entirely different. That could go on just the same, because I don't mean United States, Universal Cement - nobody can interfere with us on that. It is purely our decision. The timing and all that - it has nothing to do with it.
- McReynolds: It is merely a question of finding out how much you have to buy and distributing the purchases below periods of production.
- H.M.Jr: But this is something where the fellows say, "No, we've got a decision in the courts; it's been there for four years, and we want this thing settled," etc., and so on, and it isn't within our control. This other thing is something Mac and I and Peoples and - what's the name of the economist over there?
- Oliphant: Lubin.
- H.M.Jr: The four of us can sit down and we can settle it, and we don't have to ask anybody. There, I hold all the cards; here, I don't.

May 26, 1938.
11:14 a. m.

H.M.Jr: Hello.

Operator: Attorney General Bennett.

H.M.Jr: Thank you.

O: Go ahead.

H.M.Jr: Hello.

Atty Gen.
Bennett: Henry?

H.M.Jr: Hello, Jack?

B: How are you?

H.M.Jr: Fine.

B: It's awfully good to talk with you, awfully nice to hear your voice.

H.M.Jr: Right.

B: You know this Port of New York Authority has got a lot of people upset.

H.M.Jr: Have they?

B: Now, I understand some of the collectors either have already started in to collect back taxes and a lot of the individuals who may be affected by the decision.

H.M.Jr: Oh, I'd be most surprised because there's been no orders to go out of here

B: Here's all I'd like to have you do Henry.

H.M.Jr: Yes.

B: Is to hold it up until we all have a chance to sit around and talk.

H.M.Jr: Oh, well we're not doing anything like that.

B: You're not.

H.M.Jr: No, and -

Q: Julius Henry ~~Kelam~~ ^{Cohen} called me up a little while ago, very excited, and said that people, that some of your people had started a move to collect back taxes.

H.M.Jr: No, he's cock-eyed.

Q: Well, I'll just call him back and tell him that his fears are unfounded and that you certainly - you folks won't move until you have a chance to turn around.

H.M.Jr: That's right. As a matter of fact I hope that Congress will do something to clarify that thing before they go home.

Q: Home.

H.M.Jr: See?

Q: Tell your disposition, I suppose, would be to wait and see what they would do.

H.M.Jr: That's right.

Q: Good God, you've got another year at least, or three years more to collect the back taxes if Congress doesn't act.

H.M.Jr: But that - I can assure you we've made no move.

Q: Fine.

H.M.Jr: And - we hope that Congress would clarify that before they go home.

Q: Well Henry, some of us are going to be in Washington on Tuesday and probably going to ask you to be good enough to give us a hearing.

H.M.Jr: Well, I'll have Magill here.

Q: Fine.

H.M.Jr: Because he's handling it.

Q: I'll tell Henry to stop getting frightened at shadows.

H.M.Jr: Tell Julius Henry ~~Kelam~~ ^{Cohen} to keep ^{his} shirt - under shirt on.

Q: Fine.

- 3 -

H.M.Jr: All right.

B: I'd like to tell him that.

H.M.Jr: All right.

B: Thank you Henry. Good to hear from you.

H.M.Jr: Goodbye.

TREASURY DEPARTMENT
Office of the Secretary
Secret Service Division

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MEMORANDUM
May 26, 1938

To: Mrs. Klotz

From: Mr. Murphy

I have just received the attached itinerary of the Presidential Party, Reeds-ville, West Virginia - Hyde Park, New York, May 26 -----, indicating that the party will leave Washington on Thursday, May 26 via B&O 11:15 P.M., arriving Reedsville 9:00 A.M., Friday, May 27. Leave Reeds-ville 3:00 o'clock same day and arriving Highland, New York, 7:30 A.M., May 28, (8:30 A.M., Standard Time).

As soon as we receive information on the return trip we will advise you.

and Hyde Park, N.Y.,
May 26 to - 1938.

THURSDAY, May 26.

Lv. Washington (B. and O. R.R.).. 11:55 p.m.

FRIDAY, May 27.

Ar. Reedsville, W. Va..... 9:00 a.m.

10:00 a.m. - Leave train for motor
trip of inspection.
12:00 Noon. - Luncheon. - The President
and immediate party at schoolhouse;
Press and photographers at Inn.
1:30 p.m. - Arrive Gymnasium; attend
Commencement exercises.
2:00 p.m. - Speech.

Lv. Reedsville..... 3:00 p.m.
Arrive Silver Springs, Md. 10:18 p.m.

SATURDAY, May 28.

Ar. Highland, N.Y. (West Shore).... 7:30 a.m. EST.
8:30 a.m. DST.

Members of the party:
T H E P R E S I D E N T.
Mr. John Roosevelt.
Hon. M. H. McIntyre,
Secretary to the President.
Dr. Ross T. McIntire.
Mr. H. M. Kannee,
Secret Service Agents.
Mr. H. G. Theurer.

Accompanying the party to Reedsville:
Senator M. M. Neely.
Representative Jennings Randolph.
Hon. Louis Johnson,
Assistant Secretary of War.
Dr. W. W. Alexander, FSA.
Mr. John Fischer, FSA.

News paper men:

Mr. Fred A. Storm,	United Press.
Mr. Joseph Short,	Associated Press.
Mr. George E. Durno,	International News Service.
Mr. J. C. O'Brien,	New York Herald Tribune.
Mr. Felix Belair, Jr.,	New York Times.
Mr. Walter Trohan,	Chicago Tribune.
Mr. John O'Donnell,	New York Daily News.
Mr. W. C. Murphy,	Philadelphia Inquirer.
Mrs. Elisabeth Craig,	Portland, Me., Press Herald.

Picture men:

Mr. George Skadding,	Associated Press Photos.
Mr. Hugo Johnson,	Paramount News.
Mr. Jos. Jamieson,	Times Wide World Photos.
Mr. F. T. Thompson,	International News.
Mr. John Bochurst,	Metrotone News.

Broadcasting:

Mr. Carleton D. Smith,	N. B. C.
Mr. K. B. Williams,	N. B. C.
Mr. A. E. Johnson,	N. B. C.
Mr. Clyde Hunt,	C. B. S.
Mr. Granville Klink,	C. B. S.
Miss Ann Gillis,	C. B. S.

Telegraph representatives:

Mr. Carroll S. Linkins, Western Union.

In charge of Transportation:

Mr. D. L. Moorman, G.P.A.,
Baltimore and Ohio Railroad.

May 26, 1938

My dear Mr. President:

If the attention of Congress is called to the practical situation created by the decision of the Supreme Court in the Port of New York Authority case, it should increase the likelihood of favorable action by the Congress at this session on the recommendations in your message of April 25th relating to the tax exemptions.

This case has greatly broadened the class of people subject to the Federal income tax but has left the outer limits of this enlarged category undefined. Moreover, the Court purports to declare the law as it always has been, with the result that the Bureau of Internal Revenue will, in the absence of new legislation, have no choice but to apply this decision retroactively.

The attention of the Congress should be called to the present urgent need for such legislation to remove these new uncertainties as to the classes of people to which our income tax law is to be applied and to eliminate the hardship and inequities which would flow from the retroactive application of this last Court decision.

I, accordingly, attach, for your consideration, a draft of a proposed letter along these lines to the Vice President and to the Speaker of the House.

You may be interested in the marked portion of the attached editorial on this subject which appeared in The Washington Post on May 24th.

Faithfully yours,

/s/ H. Morgenthau, Jr.

Secretary of the Treasury

The President

The White House

Enclosures
HD:lhb 5-26-38

Secretary signed early 5/26 and CGH sent the originals to The President by Dowling, Sr.

My dear Mr. Barkhead:

In my message of April 25, I urged that the time had come when the Congress should exercise its constitutional power to tax income from whatever source derived. I urged that the time had come when private income should not be exempt from Federal or State income tax simply because such private income is derived as interest from Federal, State or municipal obligations or because it is received as compensation for services rendered to the Federal, State or municipal governments. I asserted that a fair and effective progressive income tax and a huge perpetual reserve of tax exempt bonds could not exist side by side. I pointed out that those who earn their livelihood from government should bear the same tax burden as those who earn their livelihood in private employment. I suggested that the tax immunities heretofore accorded to private income derived from government securities or government employment were not inextinguishable requirements of the Constitution, but were the result of judicial decision. I stated that it is not unreasonable to hope that judicial decision would permit the elimination of these immunities. Decisions of the Supreme Court rendered since my message of April 25, particularly the recent decision in the Part of New York Authority case, have made an important and constructive contribution to the elimination of these inequitable immunities.

Since letter as above also enclosed for Mr. John N. Tanner

It is obvious, however, that these inequities can not be satisfactorily corrected by judicial decisions alone. Without legislation to supplement them, many individuals and corporations will be subjected to tax liabilities for income received in past years which they mistakenly but in good faith believed to be tax exempt. It is evident, for example, that many employees of States as well as the holders of securities of public corporations believed that the income they received from such sources was tax exempt, in view of the opinions of eminent counsel based upon earlier decisions of the Supreme Court. In the interest of equity and justice, therefore, immediate legislation is required to prevent recent judicial decisions from operating in such a retroactive fashion as to impose tax liability on these innocent employees and investors for salaries heretofore earned, or on income derived from securities heretofore issued.

In the light of these decisions there are, among the taxpayers of the Nation, inevitable uncertainties respecting their tax liabilities. There is uncertainty whether the salaries which they receive are now taxable under the existing provisions of the revenue acts; there is uncertainty whether the interest which they receive upon the obligations of governmental instrumentalities is similarly taxable; and there is an uncertainty whether the salaries and interest which they have received for past years will create an unanticipated source of tax liabilities and penalties.

In view of the fact that the Bureau of Internal Revenue will have no choice but to enforce our income tax law as declared in the latest decisions of the Supreme Court, prompt legislation is necessary to safeguard against the inequalities to which I have referred. The need, therefore, is for the prompt enactment of equitable rules, prospective in operation, which the Bureau can apply and taxpayers can observe without that mass of litigation which otherwise is to be anticipated. We are confronted with a situation which can be handled with fairness to all and with reasonable administrative convenience only through the cooperation of the Congress and the Court.

Accordingly, I renew my recommendation for legislation at this session which will make private income from all government salaries hereafter earned and from all government securities hereafter issued subject to the general income tax laws of the Nation and of the several States. The Congress will need also to consider what tax treatment, from the Federal income tax, should be accorded the income derived from securities of governmental, corporate instrumentalities hitherto issued and to compensation for services hitherto rendered to the various types of public agencies.

Very truly yours,

Hon. William B. Eastwood,

Speaker of the House of Representatives.

CLE:FLM:HO:111
Typed 5.25.36

STATE ACTIVITIES TAXABLE, SUPREME COURT DECLARES IN PORT, FOOTBALL CASES

MAY 24 1938
LEVY ON PORT AIDES

New York Times
**N. Y. Authority Officials'
Duties Found Like Those
of Private Industry**

MAGILL SEES 'MAJOR' GAIN

**No Ruling on Bond Income—
State University Sports
Called 'Business'**

By LEWIS WOOD

Special to The New York Times.
WASHINGTON, May 23.—Two decisions greatly expanding government's power to tax activities of the States, and thus upsetting long-established principles of tax immunity, were handed down today by the Supreme Court.

In a 5-to-2 decision, Under-Secretary Roswell Magill of the Treasury Department as one of the most important in a decade, the court held that salaries of officers of the Port of New York Authority were subject to a Federal income tax. The decision was written by Justice Stone.

In another decision, delivered by Justice Roberts, the court found, 8 to 2, that the government may lay a 10 per cent admission tax on tickets to football games promoted by State universities.

Justice Butler and McReynolds vigorously dissented in both cases, asserting in the first that a century of precedents had been overturned and in each that the ancient theory of State immunity had been completely swept aside. Justice Cardozo was absent during consideration of both. Justice Reed in the first.

The first opinion, far outshining the other, was based on a theory that the Port Authority is not necessary to protect the existence of New York and New Jersey. In the words of Justice Stone, the tax "either precludes or threatens unreasonably any function essential to the continued existence of State government."

Expected to Shape Legislation
The other ruling was founded on the basis that football games by the University of Georgia and Georgia School of Technology, even though a part of Georgia's educational program, were not a function of State government to be free from taxation. Justice Roberts found, in fact, that Georgia had embarked upon a business in the football exhibitions.

Following a steady line of decisions at the present time in which the court has gradually broadened the government's tax field, today's findings are expected to play an important part in revenue legislation at the next term of Congress. President Roosevelt recently demanded a breaking down of the old immunity barriers between government and State.

Mr. Magill viewed the Authority decision as affording the "strongest kind of support for the recommendations of President Roosevelt in his tax message" to Congress. The support, Mr. Magill explained, was for that portion of the message suggesting that legislation could accomplish tax exemption reform.

"The court apparently cut through the underbrush of hundreds of conflicting tax decisions," he said. "It is a major achievement in the field of taxation."

No Action as to Port Bonds
One question of great significance, recently discussed in connection with the Port Authority case, was whether the Treasury might tax the bonds of the Authority. Justice Stone specifically noted that the court did not pass on the question of taxing the income of the Authority itself.

About a year ago Attorney General Cummings, filing briefs in

government contractors case, insisted that the court go completely into a study of the principles of tax immunity. Such a request was reiterated by Justice Black in a concurrence today. The Senate Finance Committee has reported a concurrent resolution to authorize a twelve-man Congressional committee to undertake such a study.

Twenty-five States, fearful of a Federal tax, resisted the government in the Port Authority case, declaring that a decision for the Treasury would tend to destroy "the usefulness to all of the States of the authority or commission method of achieving sound and efficient results."

The court decision upset the findings of the Board of Tax Appeals and the Second Circuit, both of which held that the 1932 and 1938 salaries of Philip L. Gerhardt, industrial consultant, and Billings Wilson and John J. Mulcahy, assistant general managers for the Port Authority, were not taxable.

"The challenged taxes are upon the net income of respondents, derived from their employment in common occupations not shown to be different in their methods of duties from those of similar employees in private industry," said Justice Stone in this case.

"The taxpayers enjoy the benefits and protection of the laws of the United States. They are under a duty to support its government and are not beyond the reach of its taxing power.

"A non-discriminatory tax laid on their net income, in common with that of all other members of the community, could by no reasonable probability be considered to preclude the performance of the function which New York and New Jersey have undertaken, or to obstruct it more than like private enterprises are obstructed by our taxing system.

"Even though, to some unreasonable extent, the tax deprives the States of the advantage of paying less than the standard rate for the services which they engaged, it does not curtail any of those functions which have been thought hitherto to be essential to their continued existence as States.

"The effect of the immunity if allowed would be to relieve respondents of their duty of financial support to the National Government, in order to secure to the State a theoretical advantage so speculative in its character and measurement as to be unobtainable. A tax immunity devised for protection of the States as government entities cannot be pressed so far.

Recalls Previous Decision

"The basis upon which constitutional tax immunity of a State has been supported is the protection which it affords to the continued existence of the State. To attain that and it is not ordinarily necessary to confer on the State a competitive advantage over private persons in carrying on the operations

of its government. There is no such necessity here, and the resulting impairment of the Federal power to tax argues against the advantage.

"During the present term we have held that the compensation of a State employe paid from the State Treasury for his services in liquidating an insolvent corporation, where the State was reimbursed from the corporate assets, was subject to income tax. *McLaughlin vs. Commissioner*, decided Feb. 28, 1938.

"But the court has never ruled expressly on the precise question whether the Constitution grants immunity from Federal income tax to the salaries of State employes performing, at the expense of the State, services of the character ordinarily carried on by private citizens.

"The Revenue Act of 1917, considered in *Metcalf & Eddy vs. Mitchell*, supra, exempted the salaries of all State employes from income tax. But it was held in that case that neither the constitutional immunity nor the statutory exemption extended to independent contractors.

"In *Brush vs. Commissioner*, supra, the applicable Treasury regulation upon which the government relied exempted from income tax the compensation of 'State officers and employes' for 'services rendered in connection with the exercise of an essential governmental function of the State.' The sole contention of the government was that the maintenance of the New York City water supply system was not an essential governmental function of the State.

No Curb on Essential Functions

"The government did not attack the regulation. No contention was made by it or considered or decided by the court that the burden of the tax on the State was so indirect or conjectural as to be but an incident of the co-existence of the two governments, and therefore not within the constitutional immunity. If deprivation of that point was implicit in the decision it must be limited by what is now decided.

"We think it plain that employes of the Port Authority are not employes of the State or a political subdivision of it within the meaning of the regulation as originally promulgated, an additional reason why the regulation, even before the 1938 amendment, was ineffective to exempt the salaries here involved.

"Expressing no opinion whether a Federal tax may be imposed upon the Port Authority itself with respect to its receipt of income or other activities, we decide only that the present tax neither precludes nor threatens unreasonably to obstruct any function essential to the continued existence of the State Government.

"So much of the burden of the tax laid upon respondents' income as may reach the State is but a necessary incident to the co-existence within the same organized government of the two taxing sovereigns, and hence is a burden the existence of which the Constitution presupposes. The immunity, if allowed, would impose to an inadmissible extent a restriction upon the taxing power which the Constitution has created to the Federal Government."

Justice Butler and McReynolds insisted that the salaries of the Authority officers did not differ

from those paid to State officers the Court puts this decision. In-
 even though the Authority is a bi-
 State agency. Justice Stone had
 already dissected the famous cases
 of McCulloch vs. Maryland, Collier-
 Brush vs. Day and Indian Motorcycle.
 but Messrs. Butler and McReynolds
 said that the Supreme Court should
 affirm the lower court with these
 very cases as precedents.

Butler's Views in Dissent

Following the Indian Motorcycle
 case, said Justice Butler, writing
 the dissent:

"We recently applied the principle
 in *N. Y. ex rel Rogers vs. Graves*
 (Jan. 4, 1937) to prevent the State
 of New York from taxing the salary
 of counsel of the Panama Railway
 Company, a Federal instrumentality,
 and in *Brush vs. Commissioner*
 (March 15, 1937) to prevent the
 United States from taxing the
 salary of the chief engineer of the
 Bureau of Water Supply for the
 City of New York.

"In *Helvering vs. Thierell* (Feb.
 28, 1938), holding that the Federal
 Government has power to tax com-
 pensation paid to attorneys and
 others out of corporate assets for
 necessary services rendered about
 the liquidation of insolvent corpo-
 rations by State officers proceeding
 under her statutes, we said:

"Among the inferences which
 derive necessarily from the Consti-
 tution are these: No State may tax
 appropriate means which the United
 States may employ for exercising
 their delegated powers; the
 United States may not tax instru-
 mentalities which a State may em-
 ploy in the discharge of her essen-
 tial governmental duties—that is,
 those duties which the framers in-
 tended each member of the Union
 would assume in order adequately
 to function under the form of gov-
 ernment guaranteed by the Consti-
 tution.

"The Court, seemingly admitting
 that it would be futile to attempt
 to distinguish the cases now before
 us from the *Brush* case, overrules
 it by declaring that it must be im-
 mune from what is now decided. The
 Solicitor General did not in any
 manner raise the point on which

the Court puts this decision. In-
 deed, he expressly disclaimed in-
 tention to ask re-examination of the
 doctrine of immunity on which the
Brush case rests.

"In substance, as well as in the
 language used, the decision just an-
 nounced substitutes for that doc-
 trine the proposition that, although
 the Federal tax may increase cost
 of State governments, it may be
 imposed if it does not curtail func-
 tions essential to their existence.
 Expressly or sub silentio, it over-
 rules a century of precedents."

In concurring with the majority
 decision Justice Black said:

"We should review and re-examine
 the rule based upon *Collector V.*
Day. That course would logically
 require the entire subject of inter-
 governmental tax immunity to be
 reviewed in the light of the effect
 of the Sixteenth Amendment au-
 thorizing Congress to levy a tax on
 incomes 'from whatever source de-
 rived'; and, in that event, the de-
 cisions interpreting the amendment
 would also be re-examined.

"Testing taxability by judicial
 determination that State govern-
 mental functions are essential or
 non-essential contributes much to
 the existing confusion. I believe
 the present case affords occasion
 for appropriate and necessary aban-
 donment of such a test, particularly
 since recent decisions have already
 substantially advanced toward a re-
 examination of the doctrine of inter-
 governmental immunity.

"Surely, the Constitution contains
 no imperative mandate that public
 employees—or others—drawing equal
 salaries (income) should be divided
 into taxpaying and non-taxpaying
 groups."

Football Found to Be Business

In the case involving football
 game admissions taxes some fifteen
 States had joined Georgia in fight-
 ing the government levy on tickets.

"It is evident that these exhibi-
 tion enterprises are comparative-
 ly large and are the means of pro-
 curing substantial aid for the
 schools' programs of athletics and
 physical education," Justice Rob-
 erts stated. "In final analysis the
 question we must decide is whether,
 by electing to support a govern-
 mental activity through the con-
 duct of a business comparable in all
 essentials to those usually conduct-
 ed by private owners, a State may
 withdraw the business from the
 field of Federal taxation.

"When a State embarks in a
 business which would normally be
 taxable, the fact that in so doing it
 is exercising a governmental power
 does not render the activity im-
 mune from Federal taxation."

Justice Roberts reviewed at some
 length the case in which the Su-
 preme Court years ago declared
 that the government could, under
 the revenue laws, impose license

taxes on the South Carolina dispen-
 sary system. After noting other
 cases, he added:

"The legislation considered in
South Carolina vs. United States
 provided for a division of the profits
 of the dispensary system between
 the State treasury and cities and
 counties. Thus the enterprise con-
 tributed directly to the sustenance
 of every governmental activity of
 the State.

"In the present instance, instead
 of covering the proceeds or profits
 of the exhibitions into the State
 treasury, the plan in actual opera-
 tion appropriates these moneys in
 case of what the State deems its
 governmental obligation to support
 a system of public education.

"The difference in method is not
 significant. The important fact is
 that the State, in order to raise
 funds for public purposes, has em-
 barked in a business having the in-
 cidents of similar enterprises usual-
 ly prosecuted for private gain. If
 it be conceded that the education of
 its prospective citizens is an essen-
 tial governmental function of Geor-
 gia, as necessary to the preserva-
 tion of the State as is the main-
 tenance of its executive, legislative
 and judicial branches, it does not
 follow that it the State elects to
 provide the funds for any of these
 purposes by conducting a business,
 the application of the avails in aid
 of necessary governmental func-
 tions withdraws the business from
 the field of Federal taxation.

"The immunity implied from the
 dual sovereignty recognized by the
 Constitution does not extend to
 business enterprises conducted by
 the States for gain."

Dissent Sees State "Hurdles"

Justice Butler, in the dissent
 joined by Mr. McReynolds, wrote:

"The holding of the athletic con-
 tests in question is an integral part
 of that program of public educa-
 tion and does not cease to be such
 because it produces income. The tax
 is imposed directly on and burden-
 s that activity of the State.

"It is hard to understand how the
 collection by the State of fees for
 the privilege of attendance brings,
 even for the purpose of Federal
 taxation, its work of education to
 the level of selling intoxicating
 liquor, operating a railway or con-
 ducting any other commercial ac-
 tivity. The tax seems plainly with-
 in the rule of State immunity from
 Federal taxation as hitherto under-
 stood and applied."

Disagreements as to procedural
 points in the football case were ex-
 pressed by Justices Reed, Stone and
 Black, generally to the effect that
 the lower court had exceeded its
 authority in granting an injunction
 against the Internal Revenue Col-
 lector.

\$1,000,000 a Year Football Taxes

By The Associated Press

WASHINGTON, May 23.—Treas-
 ury officials estimated today that
 about \$1,000,000 was collected an-
 nually in taxes on admissions to
 intercollegiate football games of
 State and other public universities.

The tax has been paid under pro-
 test pending a Supreme Court rul-
 ing on whether such a tax was con-
 stitutional.

No Horse Nipponese.

Washington Post
 Those who think the Supreme Court is disinclined to give full weight to the importance of changing social conditions would do well to study yesterday's opinion on the Federal income-tax liability of employes of the Port of New York Authority. In the belief of the minority, Justices Butler and McReynolds, the judgment is one which "overrules a century of precedents." And while the majority opinion, delivered by Justice Stone, denies that assertion it nonetheless makes plain that the Court proposes to examine precedents—and if necessary discard them—in the light of current circumstance.

The basic issue involved in the case is the thorny subject of tax exemption, to which President Roosevelt a month ago devoted a special Congressional message. The New York Port Authority decision is not directly concerned with tax-exempt securities. It considers only the immunity of State officials from Federal taxation and vice versa. But some of the obiter dicta—the general observations—are of a character which gives support to the President's conviction that legislation ending tax exemption would not require a Constitutional amendment.

Of course the Court does not specifically suggest this. Indeed it emphasizes that in the case of tax-exempt salaries there is a valid distinction, favoring the first, between Federal infringement on State sovereignty and State infringement on Federal sovereignty. Nevertheless the highest tribunal implicitly sustains the "hope," expressed by Mr. Roosevelt on April 25, "that these tax immunities are not inexorable requirements imposed by the Constitution itself but are the result of judicial decision."

As far as the lengthy, and in places undigested, reasoning can be baldly summarized the opinion draws a distinction between State functions "without which a State could not continue to exist as a governmental entity" and State functions "which could be carried on by private enterprise." It is not definitely reaffirmed that employes in these basic functions of local government should be immune from Federal taxation. But it is definitely stated that this immunity should not extend to State employes in activities which are incidental for "the continued existence of the State government."

The minority opinion points out that this differentiation conflicts not merely with a long line of old decisions, but very directly with the verdict of the Supreme Court in the Brush case, a little over a year ago. The Court there held that an engineer in the employ of New York City's municipally-owned water system was not subject to Federal income tax. And the majority are evidently aware of the cogency of this criticism. In the words of Justice Stone:

In a period marked by a constant expansion of government activities and the steady multiplication of the complexities of taxing systems, it is perhaps too much to expect that the judicial pronouncements marking the boundaries of State immunity should present a completely logical pattern.

It is unfortunate, for the clarity of the current decision, that in the Brush case the Government contended that a municipal water system is not an essential governmental function, and was overruled. This forces the Court in the present instance to do a good deal of logic-chopping on tax burdens which are "so indirect or conjectural as to be but an incident of the co-existence of the two governments, and therefore not within the constitutional immunity."

The court leaves the picture confused. An employe of a municipal water works is exempt from Federal taxation. An employe of a municipal port authority is not. Employes of basic State functions may be exempted. Employes of ancillary functions, which might be handled by private enterprise, should not be exempted.

Here is room for ceaseless litigation and endless differences of honest expert opinion. It is scarcely to be expected that the Supreme Court will thrash out one by one the subtle distinctions between what are basic and what are secondary activities of State governments. And for that reason a clarifying statute, as urged by the President, on the constitutionality of which the Court would have opportunity to pass as a unit, is brought much closer by Friday's decision.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: May 26, 1938

To Secretary Morgenthau

FROM M. A. Harris

<u>Suggested Issue</u>	<u>Current Market Basis</u>	<u>Indicated Premium</u>
1 1/8% Treas. note 6/15/43 (5 yrs.)	0.90 - 0.94	1 pt. 3/32 - 29/32
2 3/4% Treas. bond 1958/63 (20-25 yrs.)	2.62 - 2.68*	2 pts. - 1 pt.

Note: If a 2 3/4% bond is offered the holders of the 2 1/2% September notes there is an extra inducement of an increase of 1/4% in interest for the three month period between June and September. This increase in interest is equivalent to .0625 cents a hundred or 2/32nds.

* These market bases, from a mathematical standpoint, appear to be the maximum and minimum that such a bond would sell on. Other factors must determine the final basis, such as the market reception at the time of the offering, the size of the issue and the feeling investors will have about taking a bond in a new field.

May 26, 1938

H. M. Jr. called the President - "I wanted to tell you that I am not flying to Dr. Warren's funeral so I will be on hand in case you need me." The President said, "All right, two o'clock."

May 26, 1938

At the Cabinet meeting today I said that business was still getting worse and that in the present form of the Recovery Bill I did not believe it would help the present situation and that it was just like putting money down the rat hole.

The bill has not yet passed and there is still time to do something on the Recovery Bill.

OFFICE CORRESPONDENCE

DATE May 28, 1928.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

J. W. McKeon

BANK OF ENGLAND.

Knocke *Bolton*
Mr. Bolton called Mr. Knocke at 10 a.m. Most of the countries in Europe were closed today in observance of a holiday, with the result that all exchanges were quiet and he expected a calm day. There still continued a persistent demand for dollars; sterling balances were also being converted into dollars.

Although Belgium was still losing ~~gold~~, the speculative movement had ceased, at least for the present, and the general European picture looked, if anything, slightly better. Mr. Knocke asked him what he thought of the latest batch of French decrees. Bolton thought Daladier was doing well under the circumstances, particularly with the modification of the forty hour week. He thought Daladier would have to go along slowly and we must not expect too much at present. He advised us of changes in the Japanese Cabinet, stating that Premier Konoye today reconstructed his cabinet appointing General Ugaki as Foreign Minister succeeding Koki Hirota and Shin Ikeda as Finance Minister succeeding Okinubo Kaya. The new Finance Minister, a Conservative, formerly head of the Mitsui Bank, was a man who Bolton thought might exert a moderating influence on the militaristic party. With reference to Japan, Mr. Knocke stated that there was reported to us this week another gold shipment of approximately \$8,000,000 due here June 9. Bolton asked whether the Japanese continued to use up their funds as quickly as before and Mr. Knocke replied that they were spending at the rate of over \$8,000,000 a week compared with about \$6,000,000 a week coming in.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE May 28, 1933.

CONFIDENTIAL FILE

SUBJECT: TELEPHONE CONVERSATION WITH

FROM J. W. McKeon

BANK OF ENGLAND.

- 2 -

Regarding Senator Bailey's resolution introduced in the Senate a few days ago, providing for a termination on June 30 of purchases by the Treasury of foreign silver, Mr. Knoke advised him that he thought nothing would be done at this session.

LWK:KW

RECEIVED

MAY 28 1933

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE May 28, 1938.

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF FRANCE

FROM L. W. Kroke

Mr. Ceriguel called me at 1:05 today from his home (there being a holiday in France). He inquired what the market was here in sterling and francs; whether we had done any business today or yesterday afternoon and I gave him the information.

LWK:KW

RECEIVED
MAY 28 1938
TREASURY DEPARTMENT
U.S. DEPARTMENT OF THE TREASURY

May 26, 1938.
4:13 p.m.

Operator: Mr. Oliphant.
O: Oliphant: Yes.
H.A.Jr: Herman?
O: Yes.
H.A.Jr: At Cabinet I asked the President -
O: What?
H.A.Jr: At Cabinet I asked the President about the tax bill.
O: Yes.
H.A.Jr: So, he said, "You mean about - " He said "It's all right, I can do it tomorrow." and I said, "Well are you sure Mr. President?" "Oh, yes" he said, "I've got a ruling from the Attorney General, it's all right". So I said, "Now are you sure?" he said "Yes" So in a few minutes, and Homer never said a word, and his face looked entirely blank, see?
O: Uhhuh.
H.A.Jr: So I was a little suspicious that he did not have a ruling, and I leaned over, I said, "Homer if you don't mind my asking you, are you sure." So he gave me a rather evasive answer and he said "Now if you have any information that you think we should have, we'd be glad to reverse ourselves, and would you have your people please get in touch with our Mr. Bell." So I said, "Well I don't know, if you've given a ruling, I don't want to." He said, "No, you may have something that we don't." See?
O: Oh, my.
H.A.Jr: Hello.
O: Oh, my God.
H.A.Jr: See? So he said -
O: Just like shoving your fist in a pillow.
H.A.Jr: Well -

- 2 -

- Q: You don't want to get in ^{that} I'm not going to get in it.
- H.A.Jr: Well, I think you have to, Herman.
- Q: What?
- H.A.Jr: You have to.
- Q: How?
- H.A.Jr: Well, you've got to call Bell up on the telephone.
- Q: Yes, I know.
- H.A.Jr: And find out -
- Q: Golden Bell.
- H.A.Jr: Find out if he really did give a ruling.
- Q: I'll find that out for you.
- H.A.Jr: And what it was based on, but Homer asked me twice to do it.
- Q: All right, now, while you were away, I'd tried to get you on the telephone. Tom is working on that thing over there.
- H.A.Jr: Who?
- Q: Tom Corcoran.
- H.A.Jr: Yes.
- Q: He's going to call me to look at the statute and verify tax rate, see?
- H.A.Jr: Yes.
- Q: Which I did. Then he asked some figure - that the President was quoted from Magill, that eighty five per cent of the capital gains was from stock transactions.
- H.A.Jr: Yes.
- Q: I tried to get Magill, and I couldn't, so I gave that to Tarleau.

- 3 -

H.M.Jr: Yes.

O: All right.

H.M.Jr: All right. And I asked the President at Cabinet what was happening, and I got no satisfaction.

O: Well, as I said - Tom says this, says, "The President told me to call you and ask you to verify these things." He says "You know what's happening." I said "No, I don't know what's happening. What's happening." Well he said, "We're writing this document and he hasn't decided yet whether or not he'll sign the bill."

H.M.Jr: He hasn't decided yet what?

O: Whether or not he'll sign the bill.

H.M.Jr: I see.

O: Well - whether or not he'll veto it.

H.M.Jr: Well, I'm asking you officially, please to call up this fellow Bell.

O: That's what he said - he said he hadn't decided as yet whether or not to veto it.

H.M.Jr: Uhuh.

O: Nice town.

H.M.Jr: Yes, but you will do that, won't you?

O: Yes. Are you going to be here tomorrow?

H.M.Jr: Yes. Yes.

O: I've had some after talks on that talk this morning, I want a chance to talk to you about it.

H.M.Jr: All right.

O: I'd like to talk to you alone, sometime.

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

O: I'll call Bell.

May 26, 1938.
4:34 p. m.

H.M.Jr: Hello.

Operator: Mr. Oliphant.

H.M.Jr: Herman?

H.
Oliphant: Yes.

H.M.Jr: Have you seen - talked to Bell?

O: I just talked to him.

H.M.Jr: Do ~~you mind~~ telling me what he said?

O: Well, he said that they had given - he said the Attorney General had given the President an oral opinion.

H.M.Jr: Yes.

O: And I couldn't get him out of it - get out of him what it was.

H.M.Jr: Yes.

O: I mean without too bluntly asking him.

H.M.Jr: Yes.

O: And I told him that - what you'd said and told him I'd had a memorandum here on it, and he asked me if I wouldn't send him a copy of the memorandum. I told him I'd be glad to do it.

H.M.Jr: Yes. Well you have grave doubts, don't you?

O: No, I haven't grave doubts. I - I think it's one of those things that's about ninety nine per cent sure.

H.M.Jr: Oh! Oh!

O: Ninety nine per cent sure. Yes.

H.M.Jr: Ninety nine per cent sure.

O: Yes. Ninety five or something like that.

H.M.Jr: Wait a minute. If the Bill would become a law, without a signature, we won't have any trouble.

O: Oh, that's perfectly clear. If he does nothing -

H.M.Jr: Yes.

O: If he does nothing, this is settled a hundred per cent that - the Bill will go into effect at midnight tomorrow night. Now -

H.M.Jr: You - you have no doubt about -

O: Oh, there's no question about that. The only doubt was whether or not if he vetoed it. He - the House would have to be in session when he sent it back.

H.M.Jr: Oh. I thought the question was that if he let it become a law.

O: Oh no, there's no doubt about that. No doubt about that.

H.M.Jr: Without his signature that the House had to be in session.

O: If he sends it back, if he wants to veto it.

H.M.Jr: No, no. Just say - supposing he doesn't touch the Bill at all.

O: Then it's law tomorrow night at midnight. Nothing needs to be done.

H.M.Jr: Nothing needs to be done.

O: No, that's -

H.M.Jr: That's what I was worrying about.

O: Nothing -

H.M.Jr: Then I'm going to stop worrying.

O: All right.

H.M.Jr: Hello.

O: Yes.

H.M.Jr: Want to bet me?

- 3 -

- O: Well, I think - I mean - I'll tell you what I'll do, I'll bet you a nickel to a dollar.
- H.M.Jr: Yes.
- O: That he vetoes it. You put up the dollar.
- H.M.Jr: A nickel to a dollar that he vetoes it.
- O: I'll put up the nickel that he will veto it. You put up a dollar that he won't veto it.
- H.M.Jr: Oh, oh.
- O: You don't want to take my nickel.
- H.M.Jr: I don't want to put up the dollar.
- O: No, when Tom said he hadn't made up his mind whether or not he'd veto it, I think that's just one of those -
- H.M.Jr: I think that's plain every day spinach.
- O: I think it was.
- H.M.Jr: Because he told me three times that he's going to - that he's not going to veto it. Three times.
- O: Huhhuh. Well, the other crowd may be working on him, I don't know.
- H.M.Jr: O. K.
- O: Talk to you in the morning.
- H.M.Jr: Goodnight.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 27, 1938, 11 a.m.

NO.: 834

FROM COCHRAN.

I refer to my telegram of May 12, No. 748.

In a letter dated May 25 the Governor of the National Bank of Belgium, Janssen, tells me that the reduction of the discount and other rates of the National Bank, which were raised on the tenth of May, is covered only by the "evolution of the international political situation"; with his letter he enclosed a copy of a confidential circular dated May 20. I quote this circular below:

"The representatives of the banks which met on May 10 have thought it opportune to confer again with the President of the Bankers Committee. At the conclusion of this conference the opinion was expressed that the special measures which had been adopted by common accord could be suppressed. It remains true nevertheless that credit must be granted and utilized only to the extent of normal and economically

justified

Page 2, #834 from Paris

justified needs and that the banks, each upon its own responsibility will continue to take particular care with respect to this principle. The National Bank of Belgium has been consulted and has expressed a concurring opinion."

BULLITT

KLP

May 27, 1938.
12:35 p. m.

H. J. Jr: Hello.

Bill: Hello, Henry.

H. J. Jr: Yes, Bill.

H: Good work. I'm butting in again on another thing that you probably have covered. The price level of the loan on wheat of course will soon be determined. Do you have the veto power on that?

H. J. Jr: No.

H: Well the story I get from Jim Wells is that men have been in the field checking up on what rate of loan and what level of loan would be satisfactory, and there's a good deal of talk about a loan substantially higher than Secretary Wallace mentioned this morning.

H. J. Jr: Yes. Well, I don't know. Sometimes I'm asked and sometimes I'm not.

H: As the stockholder, all you have to do then is to pay the bill.

H. J. Jr: I'm not sure. Would you send me a confidential memo on it?

H: Oh, I don't know that it's definite enough to do it, but the general feeling here is that sixty cents is high enough.

H. J. Jr: I see. Well, I'll look into it. Did he have a good meeting?

H: Yes, splendid. He got their support on a couple of very worthwhile things.

H. J. Jr: I think so.

H: I think it'll go places and I think it will help agriculture - help Henry in spite of himself.

H. J. Jr: Right. Thanks Bill.

H: O. K.

May 27, 1938.
12:42 p. m.

Operator: Go ahead.
Jesse
Jonas: Hello.
H.M.Jr: Hello, Jesse.
J: How are you fixed for lunch?
H.M.Jr: Well unfortunately I've got a date.
J: Oh, I'm sorry.
H.M.Jr: And I'm taking the two o'clock train to New York.
J: I see.
H.M.Jr: If you had given me a little bit notice this morning, why I could have arranged it.
J: Well, I've been attempting to call you early but I've been busy every minute.
H.M.Jr: Well -
J: What's the news with you?
H.M.Jr: Oh, nothing very cheerful. Heard anything good?
J: No, I think not. You be back Tuesday or Monday.
H.M.Jr: That's right.
J: No, well then I'll see you when you come back.
H.M.Jr: But let's have - let's say definitely to have lunch together Wednesday.
J: Well then, will you do that?
H.M.Jr: O. K.
J: Put it down.
H.M.Jr: Wednesday.
J: Thank you.
H.M.Jr: Sold.

- 2 -

J: Fine.

H.M.Jr: Thank you.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 27, 1938.

TO Secretary Morgenthau

FROM

Mr. Haas 

Conference re Disposition of Agricultural Surpluses, etc., held in Secretary Morgenthau's office at 11:00 A.M., May 27, 1938

Present: Secretary Morgenthau; Secretary Wallace; Harry L. Hopkins, Administrator, Works Progress Administration; Jesse W. Tapp, President, Federal Surplus Commodities Corporation; Herbert Gaston; Herman Oliphant; Harry D. White; Edna Lonigan; George C. Haas.

As soon as Mr. Hopkins arrived, Secretary Wallace opened the discussion by stating that the question of distributing agricultural surpluses to the people on relief rolls was rather definitely limited by the provisions of Section 32. Mr. Hopkins asked what were the limitations under this section and the amount of funds available.

Mr. Tapp said that there were \$147 millions under this section, but that about \$65 millions were already "earmarked", and that as he recalled there were only about \$78 millions remaining for use in connection with all surplus products. He said that their tentative plans included a purchase in distribution of 20 to 25 million bushels of wheat, to be distributed to the 3 to 3½ million cases on the relief rolls. He added also that their plans included the purchase of 100 thousand bales of cotton, which would be converted into 1 million mattresses; the cotton so utilized would cost about \$4½ millions. He thought it would be impossible to increase this figure because of objections which would come from the private trade, the point of contention being that the Government in many instances would be supplying mattresses to people who might otherwise buy them from the private trade. Mr. Hopkins expanded on this point, and said that last year they ran into difficulty with the trade in this regard.

Mr. Hopkins said that he had 150 thousand relief workers on sewing projects, making up cotton goods of all kinds. This number, he pointed out, was sufficient to supply all the cotton

maintaining requirements for people on relief, but indicated that the real need is for such items of clothing as overcoats, etc., and that this was a wool rather than a cotton proposition.

Secretary Wallace pointed out, as he saw it, that what the relief people need, and where an increase would be desirable from the standpoint of nutrition, is an increased consumption of vegetable and dairy products. He did not think that you could increase the net consumption of wheat very much, and asked Mr. Tapp how much net increase in consumption he expected to secure in the distribution of 25 million bushels of wheat to relief cases.

Mr. Tapp estimated 50 or 60 percent of the 25 million bushels would represent a net increase in consumption of about 10 to 15 million bushels.

Secretary Wallace stated that it had been the policy of the Surplus Commodity Corporation to purchase the products when their price was 75 percent below parity. In many cases, he said, it was much lower than that before purchases were made, and they would like to have purchases start at lower than 75 percent below the parity price.

Mr. Tapp said they were already purchasing dairy products, and pointed out that he had purchased 9 million pounds of butter over the last few months and some 60 million pounds of dry skim milk.

Mr. Hopkins indicated that the relief situation may get worse, and said he felt that the President should have broad powers in spending the money in order to deal adequately with the situation, and, further, if the funds run out the President would just have to get Congress back. He felt there was no question about that. Many items in the relief bill cannot be spent rapidly enough to do any good in the present situation. Recently, while talking with Mayor LaGuardia, who is the best operator, he said that Mayor LaGuardia indicated that it would be six weeks before he would be in shape to ask for bids on his projects, and that six months would be required before he could spend \$30 millions.

Secretary Wallace expressed the opinion that P.W.A. expenditures, as far as the present situation is concerned, are just out.

Mr. Hopkins, continuing, said the only way to spend \$30 millions in New York quickly is through W.P.A. projects, and indicated that he was all ready to go; that he had projects which would utilize goods from heavy industries. He pointed out that the advantage he has is that his projects would not be done under contracts, as is the case under P.W.A. He emphasized further that all that was needed in the present

recovery bill was one simple clause allowing the funds to be moved back and forth as the situation required it, but he did not think there was any chance of getting such a provision through Congress.

Secretary Wallace asked him who was blocking it. Mr. Hopkins replied, Senator Hayden and the whole P.W.A. crowd.

Secretary Wallace asked if it were really hopeless. Mr. Hopkins replied that he thought it was, but went on to say that he didn't think that Secretary Morgenthau thought it was hopeless, and that, as he understood it, Secretary Morgenthau thought there was a real possibility of getting the provision through Congress if the proper technique was used, and that the President might dramatize the situation before the people, and in this way influence Congress sufficiently to make the change in the act. In this connection, Mr. Hopkins indicated also that he thought the President was somewhat tied, or prevented, in suggesting a change in the bill as he just sent the message up a short time ago, and Congress was giving him essentially what he asked for.

Secretary Morgenthau pointed out that the President could say that the situation has become worse since he sent up his message, and that this would give him occasion for opening up the question again.

Secretary Wallace said that it would certainly be good politics to get the spending to move out more rapidly so as to improve the economic picture. Secretary Morgenthau said he knew, first of all, it was good business and if it was good business it would be good politics. Secretary Wallace said that good politics and good economics cannot be separated. Secretary Morgenthau said that if business didn't pick up there wouldn't be any politics.

Mr. Hopkins said that this change in the bill might be made when the bill reaches the House and Senate conference committee.

Secretary Morgenthau then read two memoranda, copies of which are attached. The first one was prepared by Mr. Haas and briefly outlined four tentative proposals for removing the wheat surplus.

Mr. Tapp, commenting on the second memorandum, said that with regard to increasing the consumption through the distribution of wheat malto, the Surplus Commodity Corporation was already moving in that direction; that they were mixing dried skim milk with the whole wheat malto and expected to dispose of 4 or 5 million bushels of wheat in this manner. With

regard to the other aspect of the memorandum, regarding the feeding of more wheat to live stock, Mr. Tapp pointed out that in his opinion this would cause a revolution in the corn belt, in that it would mean the wheat farmers were being subsidized in competition with the corn belt farmers, the competition being in the utilization of the different types of grain for live stock feed.

Secretary Wallace then discussed at considerable length just what the effect of that program would be, as he saw it. He said the net effect of the program would not be felt until some time later, but it would result in shifting the wheat surplus into a surplus of meat, dairy, and poultry products. This, in turn, would result in a drastic decline in the prices of these products. He added that to relieve this surplus situation and to distribute the excess live stock products probably \$200 millions or \$300 millions would be required.

Mr. Tapp added that without this increase in the live stock feed supply they were now apprehensive with regard to the live stock situation, and to add more live stock feed in the form of wheat would make the situation worse.

Secretary Morgenthau, referring back to the first memorandum, said there was one item on the program, i.e., the sale of wheat to China, that he could handle in ten days if he had the authority. He pointed out that he meets with the Chinese frequently, and that he was sure he would have no difficulty in handling this aspect of the surplus wheat problem. He indicated that the loan could be arranged for the export to China of flour and cotton in the form of gray goods, and that this procedure would supply also some employment here in the initial processing of the wheat and cotton. China, he said, might suggest some other things they needed, of which we also have a surplus.

Secretary Wallace, Mr. Hopkins, and Secretary Morgenthau all were in favor of this proposal and agreed to advise the President to that effect.

Secretary Wallace iterated that he was in favor of the proposal. In fact, he didn't think there could be any objection except that the Treasury now has a good sized deficit.

Secretary Morgenthau pointed out that it won't cost any more than the battleship. Secretary Wallace added that the Chinese probably are going to win the war anyway, and it would be a very effective expenditure in the long run.

-5-

Mr. Hopkins then raised the question of the exchange of agricultural surpluses for strategic materials again, a proposal mentioned in the first memorandum. He said he didn't want to see this object dropped. He added that he thought it could be done without additional legislation if there is a desire to do it, stating that he had a file on the subject which he would turn over to Mr. Oliphant.

Secretary Morgenthau then called Mr. Oliphant into the office, and Mr. Oliphant agreed to have a report for the Secretary on Tuesday morning, as to whether the plan of exchanging agricultural surpluses for strategic materials could be executed under existing legislation.

Secretary Morgenthau, Secretary Wallace, and Mr. Hopkins then agreed to report to the President that they were in favor of the two proposals for moving the surplus wheat into the export market. That is,

- (1) The loan to China, and
- (2) The exchanges of agricultural surpluses for strategic materials not available in this country.

Secretary Morgenthau said again that he thought the President should make a plea to the country in an attempt to secure the recovery money without any ties. The excuse for raising the question again might be based on restrictions which had been put in the bill and ruined its effectiveness, and also on the fact that the situation now has become very much worse than when the President sent his message to Congress.

Secretary Wallace commented further on the second memorandum which Secretary Morgenthau read, in order to clarify the point. He admitted that the loans do hold up prices and therefore may not be as effective as reducing acreage if prices were allowed to go much lower, but he added that the loan required a minimum loan of 52 percent of parity, and that this is low enough not to encourage an increase in acreage.

Mr. Tapp mentioned to Mr. Oliphant the possibility of the T.F.C. being used in connection with working out a means of handling the exchange of strategic materials with agricultural surplus commodities.

Mr. Hopkins said he thought that if you carefully selected the places where the surplus wheat was placed, that a net increase in wheat consumption in this country of more than 20 billion bushels would be secured.

-6-

Secretary Morgenthau, summing up, said if we could get 50 million bushels exported to China, 25 million bushels increase for relief purposes, 25 million bushels in connection with the crop insurance, that would give a total of 100 million bushels. Secretary Wallace agreed that this would be a distinct help.

Mr. Hopkins, speaking of the exchange of wheat for strategic materials, said that, as he recalled, the War Department estimated that an expenditure of about \$200 millions would be required for a necessary cotton reserve.

Secretary Morgenthau then said he would send a wire to Mr. McIntyre, asking for an appointment with the President on Tuesday morning, indicating that Secretary Wallace, Mr. Hopkins, and he were ready to report. Secretary Morgenthau pointed out that there were four things in which the three were in agreement:

- (1) That every effort be made to secure the recovery money without ties or restrictions so it could be used effectively to meet the present situation;
- (2) A loan to China for the purpose of exporting agricultural surplus commodities to China;
- (3) The exchange of agricultural surplus commodities abroad for strategic materials;
- (4) Increase distribution of agricultural surplus commodities to people on relief rolls.

Mr. Hopkins then commented on the relief aspect of the surplus problem, stating that what is needed is something like this - on the relief side, we need a picture of what commodities can be used, and this must fit into the agricultural picture of what surpluses are available. Secretary Morgenthau asked if such a report could be available for the President on Tuesday. Mr. Tapp replied, yes.

Mr. Hopkins raised the question of the amount of various commodities which the Army and Navy had estimated would be a necessary reserve. Mr. White was asked to secure this information from the War and Navy departments and give it to Secretary Morgenthau on Tuesday morning.

COPY

MEMORANDUM NO. 1

263

May 27, 1938

To: Secretary Morgenthau

From: Mr. Haas

Subject: Tentative proposals for removing wheat surplus

1. In the export field

- (a) Make loan to China as basis for export of wheat
- (b) In connection with building up a reserve of strategic war materials, wheat might be traded for strategic materials we are obliged to import

2. Greater absorption of wheat within the United States

- (a) Increase human consumption of wheat, by larger distribution to people on relief, etc.
- (b) Increase use of animal feed, the theory being that a substantial portion of surplus might be carried forward on the carcasses of meat and dairy animals rather than in the form of grain and feed

All these proposals are very tentative and are now in the process of investigation to determine their practicability.

COPY

May 24, 1938

MEMORANDUM

At the present time two somewhat opposing philosophies are responsible for Government policies designed to deal with the problems of crop surpluses.

One of these philosophies calls for the prevention of such surpluses by paying farmers to cut down production. The companion philosophy calls for making Government loans on a basis which prevents the prices of surplus crops going to their natural level.

Since loans above the natural price level encourage production, the above-described programs are to a degree contradictory. They are likely to lead ultimately to price fixing. There is a chance that they will not accomplish their objectives.

A Hedge

As a hedge against the possible failure of the restriction and loan programs of our Government to deal satisfactorily with surplus crop problems, it would seem wise for some Government agency to get a bit of experience with the application of a philosophy which will pave the way for natural price levels to control surpluses and at the same time enable the population at large to benefit, through improved nutrition and a general increased standard of living, from the bounties of nature.

The logical agency to use in getting such experience is the Federal Surplus Commodities Corporation, which seems to have adequate legal powers. The present threatened wheat surplus of some 200,000,000 bushels might be a good surplus with which to gain experience.

Facts

(1) Whole wheat is a most valuable human food.

The nutrition of the nation could be permanently set ahead by Government recognition of this fact.

(2) More wheat can be fed live stock.

One of the best ways to store a cereal crop is by adequately feeding live stock, from which the cereal emerges principally, as meat, milk, and eggs.

- 2 -

Suggestions

(1) The Federal Surplus Commodities Corporation might buy wheat.

It could do its buying in surplus areas and could concentrate on purchasing the lower grades of wheat and those which are not needed by the flour milling industry.

(2) Wheat purchased by the Federal Surplus Commodities Corporation might be identified in some manner as "feed wheat," available for live stock feeding but not for flour milling or human foods.

(3) The Federal Surplus Commodities Corporation might use its inventory of "feed wheat" to purchase on bid a fairly wide list of approved human foods made from whole wheat.

The processing of these whole wheat human foods would lead the processors into the purchasing of the wheat required to make them and into employing a great many men and women to operate their plants.

(4) The Federal Surplus Commodities Corporation might also trade its "feed wheat" to processors of dairy and poultry feeds for balanced rations which could be utilized by the Farm Security Administration.

Conditions Created

(1) The trading of "feed wheat" for processed whole wheat human foods and live stock feeds, in addition to furnishing supplies of excellent foods for relief feeding, would tend to lead processors up with "feed wheat." The natural result would be that these processors would push this "feed wheat" out through their channels of distribution in a manner and at prices which would tend to lead feeders of live stock in feeding areas into feeding their live stock more liberally. In this manner surplus wheat would be converted into animal products.

(2) By the terms of its trades of "feed wheat" for processed human and animal foods, the Federal Surplus Commodities Corporation could speed up or retard the utilization of its purchases of surplus wheat.

Educational Program

To further the above program and at the same time to give leadership to the idea of the utilization of the bounties of nature in this country for the welfare of the people at large, the Government might well institute a vigorous educational program designed to teach people the value of whole wheat in the various forms it is available as a human food, and to show live stock feeders how to utilize wheat in live stock rations.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 27, 1938

TO Secretary Morgenthau
FROM Mr. Haas 

Subject: Tentative proposals for removing wheat surplus

1. In the export field

- * (a) Make loan to China as basis for export of wheat
- (b) In connection with building up a reserve of strategic war materials, wheat might be traded for strategic materials we are obliged to import

2. Greater absorption of wheat within the United States

- (a) Increase human consumption of wheat, by larger distribution to people on relief, etc.
- (b) Increase use of animal feed, the theory being that a substantial portion of surplus might be carried forward on the carcasses of meat and dairy animals rather than in the form of grain and feed

All these proposals are very tentative and are now in the process of investigation to determine their practicability.

GROUP MEETING

May 27, 1938.
9:30 a.m.

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

H.M.Jr: (To McR) Another set of reports?

McR: No, this isn't George's, this is personnel.

H.M.Jr: Oh. George, Wallace and Hopkins are coming here at 11, so - on this consumption of food.

Haas: Uh-huh.

H.M.Jr: So will you be here at 11? Have Lonigan here too.

Haas: All right.

H.M.Jr: I think Lonigan better go out and spend Tuesday, Wednesday, and Thursday at Cleveland, Detroit, and Chicago. And I'm particularly interested in the food angle, see?

Haas: Uh-huh.

H.M.Jr: How much food they're getting. And she better find out - go right to the fellow who's distributing that. Double check that food stuff, will you?

Haas: Yes, sir.

H.M.Jr: And tell her to be back Friday.

Haas: Friday morning.

H.M.Jr: Spend a day in Cleveland, day in Detroit, day in Chicago, come back Friday. And see that I get a report Friday forenoon.

Haas: Yes, sir.

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- H.M.Jr: Now, what we got to tell these fellows when they come in at 11? We got anything on how to use up 200 million bushels of wheat?
- Haas: Yes. There is no single idea that's been completed. The question of export - Tapp's working on that. Maybe he should be here.
- H.M.Jr: Well, Wallace is bringing people with him.
- Haas: I see. And the question of trading wheat or other agricultural surpluses for some other material that we want to store here - he's working on that. There's a legal problem involved in that that Herman's got a man working on.
- H.M.Jr: Well, for some reason or other, the President has turned the swapping of agricultural commodities for war supplies and so forth over to Hull and Roper. But there's no reason why we shouldn't go ahead with it just the same.
- I think the way to do it so you don't get us bogged down, which they tried to do at Cabinet yesterday, is to confine ourselves to wheat.
- Haas: To wheat.
- H.M.Jr: Well, I mean try to see if we can't work it out on the basis of wheat rather than try the whole
- Haas: Yes, I think so. And if you can work out a mechanism for that, you might apply it to the others.
- H.M.Jr: That's it. And they're both against it, for different reasons.
- Haas: I couldn't find any enthusiasm.
- H.M.Jr: But we had half an hour's discussion yesterday, and the President was more than pleased to listen to it.
- Haas: Oh, is that so?
- H.M.Jr: More than pleased. And everybody in the Cabinet room was on my side, with the - except Wallace and Hopkins. But everybody.

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Oliphant: Except Wallace and Hopkins.

H.M.Jr: Yes.

Haas: There's two other big fields, one that Ed Babcock mentioned, about keeping a surplus on the backs of animals.

H.M.Jr: Yes.

(On phone) Hello. - None at all. - Well, see if you can get me an automobile map which shows the way to New York, will you? An automobile map which shows in detail the way to New York. And give it to Mrs. Klotz, please.

Letter didn't come.

Klotz: It may yet. Gets here quick.

H.M.Jr: Through the special delivery. That's what slowed it up. It didn't come regular.

Well, have something, whatever you can, George, will you, by 11?

Haas: All right. There's four different outlets, I think.

H.M.Jr: Well, keep it tentative unless you're a thousand percent sure. Say, "This is ..." - you might point in the direction of.

Haas: Well, that's the status of all of them.

H.M.Jr: Well, if you can give me a piece of paper

Haas: With the four of them. Fine.

H.M.Jr: Let's see if we got the whole business. Yes, this is

All right. Herman?

Oliphant: Cox will be here Tuesday.

H.M.Jr: Hurray!

Oliphant: (Words too low to understand) today.

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H.M.Jr: Fine.

Klotz: Give him an appointment?

H.M.Jr: Be here forenoon.

Oliphant: He'll be here all day.

H.M.Jr: Put him down tentative 10:30. 10:30.

Oliphant: 10:30.

H.M.Jr: What else?

Oliphant: Nothing.

H.M.Jr: Herbert?

Oliphant: At some later time you want to discuss that purchasing problem.

H.M.Jr: Yes. I think we'll let that slide. No decision is being made. We'll let it slide. Because I'm working on my talk from 10 to 11.

Oliphant: When do you give that?

H.M.Jr: The 16th. Too rough yet. When it gets a little more polished, I'll show it to you.

Oliphant: It pays to

H.M.Jr: What?

Oliphant: It pays to allot plenty of time to those things, because they slip up on you.

H.M.Jr: I thought - I don't know how far the boys got today. Was going to take it home with me and begin working on words. And by next week we'll read it out loud.

Oliphant: New York City Bar Association has asked me to make a speech - part of those published addresses - on problems of administration in the executive branch of the Government. I decided not to, for two reasons. First, I didn't have time to finish it, and second, Wallace and Hughes have made it altogether too interesting a subject.

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H.M.Jr: Well - O.K.

Gaston: I have a letter from this public relations man at Temple University this morning. He thinks that we should make the announcement. I should think they would do it.

H.M.Jr: Yes, definitely.

Gaston: Yes, I think I'll wire him today, tell him that they should do it.

H.M.Jr: Oh, I'd write him a letter.

And if you don't come through with the other half of that story ----

Gaston: This morning, yes.

H.M.Jr: Gaston says, "I got the most interesting piece of gossip - marvelous" - so and so, so and so - "but I don't yet have the answer to the rest of it until tomorrow."

Klotz: (Laughs)

Gaston: Must have been too hot for the telephone wire.

H.M.Jr: All right. Well, you better make good on that.

Gaston: That's all.

H.M.Jr: I think you'd better listen at 11 too.

Gaston: All right.

H.M.Jr: Get the background.

Gibbons: I haven't anything.

H.M.Jr: George?

Haas:

Here's the black book. A letter came in from American Radiator, and the part, except the "yours very truly" and the figures, I put in the book. It's very interesting, I think - the explanation of the two week increase in those figures.

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H.M.Jr: I see.

Haas: Shows that some people are thinking, I mean, and willing to put some money out. But how widespread that is

H.M.Jr: This shows how you can get fooled by one week's pick-up.

Haas: That's right. But it also has the other thing, that it is the reverse of his inventory picture. Some people are now thinking the other way.

When we were completing that steel report, Lubin asked me to tell you that he would - in fact, he suggested after you had read the report the procedure might be to see the steel men that you're going to see; but I think he would like to talk to you.

H.M.Jr: Well, I'm taking

Haas: If you haven't already.

H.M.Jr: Well, I'm way behind on my reading, and I'm taking that and anything else I haven't read this week home with me, with the hope that I don't read any of it.

Haas: All right. That wage picture there is so important; I'm sure that's one of the aspects he wants to talk about.

H.M.Jr: Well, I'm taking it all up to the country. See how I feel.

Haas: I have some other things I'd like to talk to you about. Maybe ideas that may have some value, and may not. Some time when you have time.

H.M.Jr: All right. By the description of that, I think we'll let it go over to next week.

Haas: Well, there may be something to it.

H.M.Jr: All right.

Wayne?

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Taylor: (Nods nothing)

H.M.Jr: Incidentally, I brought up at Cabinet yesterday this question of exporting or making a loan to China, as I said, with your tongue in your cheek, and lending them some wheat - money to buy flour, I said, and cotton goods rather than cotton, so we'd get the benefit of it. And that was the only thing that Wallace sparked on. "That's a good idea." See?

So the President said something about "Well, who's going to be there to pay you?"

"Well, if we make the loan quick enough, we can say that the present Chinese Government are up to date on their payments."

But that's the only thing that Wallace sparked on. And this other thing - they got into this whole question - I could just see - about trading rubber and all that business, and that will get bogged down at the State Department and some other place.

White: That introduces a procedure which the State Department is very strongly against developing in any way, encouraging in any way.

H.M.Jr: Well, I was amazed to hear the President say, "Now, Cordell, your idea of exchanging goods for goods" - and that just isn't his idea, is it? I mean isn't that the George Peek idea?

Taylor: Sure. Goods for goods - in quotations.

H.M.Jr: And I was amazed. "Now," he says, "that's your idea."

White: Nevertheless, there is a very important difference. - I mean the difference is most significant - from the State Department policy. The exchange of goods for goods, as suggested in this case, closely resembles the type of barter transactions which the State Department policy has been very strongly against.

H.M.Jr: Sure. And somebody said - oh yes, Wallace said he's against it. He said, "Wouldn't that be the way Mr. Schacht does it?" and the President said, "No."

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So I could see all around that we'd get awfully bogged down.

But if the President on Tuesday would say to me, "All right, you go ahead and negotiate with the Chinese for a loan for them to buy cotton goods and flour," I bet you we could close it in ten days.

Taylor: And the Japs?

H.M.Jr: Build another battleship.

Taylor: For them.

H.M.Jr: For them.

White: Twice as much money.

H.M.Jr: For them. For them - in quotes, or underlined. Huh? Wayne?

Taylor: I have nothing.

White: Well, this is probably no longer pertinent, then: tin and antimony data. It does show, however, that China can sell all she produces anyhow, so that the only advantage that you might make to them by making any deal at all is by paying them something higher than the market price, which would be very difficult to do.

H.M.Jr: I don't think - I think when we get all these departments in and get up against all these parties, just get bogged down.

White: I think so.

The figures for the outflow - net outflow of capital for the week ending the 18th - they're in. They're interesting for two reasons. They show a substantial outflow of about 20 million, all short-term.

H.M.Jr: Yes.

White: The securities transactions have been the other way, slightly, about two million. But they also are less than they were the previous week. So they may be

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allocated to the particularly acute situation with respect to France, and so on.

H.M.Jr: And the net?

White: The net movement is about 20 million, approximately.

H.M.Jr: Out.

White: Out, roughly.

H.M.Jr: That's the week ending what?

White: That's the week ending the 18th.

That makes a total net outflow for the year of approximately 320 million to date - approximately.

H.M.Jr: Anything else?

White: That's all. I have a memo. Give it to you before you leave.

H.M.Jr: Now Wayne, I want to pin this Spanish doubloons on you - coming in - the responsibility of seeing it's going to be handled, if you accept that.

Taylor: Yes, sir.

H.M.Jr: Will you? And work with Bernstein.

Taylor: I'll get my cell lined up, too, on it.

H.M.Jr: All right. Well, I mean this thing - I was talking to Mac about it - has to be watched. But some one person has to be responsible.

Taylor: Well, I've been talking to Frank and Bernie about it.

H.M.Jr: Right. Well, handle it very, very carefully. I mean the way to handle it is in the regular way, but I don't know - Spanish

Taylor: I don't like the sound of it. So

H.M.Jr: Well, the Spanish Ambassador hasn't come in yet, has he?

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Taylor: (Nods no)

H.M.Jr: I'd like to be kept posted.

Taylor: (Nods yes)

H.M.Jr: Because you were here when we told him we'd buy it if he delivered it in New York.

Upham: Nothing.

H.M.Jr: Mac?

McR: No.

H.M.Jr: Meaning "yes."

McR: No, I haven't anything.

H.M.Jr: Well, Mac and I are going in the trucking business. We're buying nine - ah - 14-ton trucks?

McR: That's right.

Oliphant: Has the Comptroller approved?

McR: Yes, he approved. He said the appropriations are available.

Gibbons: That's to move the silver?

H.M.Jr: Yes, with Coast Guard, nobody helping.

What?

Oliphant: Good. That's the way to do it.

McR: Certainly, we can do it cheaper that way.

Oliphant: Can't use barges, can you, Mac?

White: Better have them specially designed, because you'll probably need them for a long time.

McR: Harry's always telling stories.

H.M.Jr: Well, I made one - first one is named "Nellie Tayloe."

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Gibbons: You know what Bill Bray, Jim Farley's secretary, calls her - "Nervous Nellie."

Gaston: You want one, Mrs. Klotz?

Klotz: Not on that basis.

McR: I don't think that was a nice crack.

Taylor: "Kay" and "Pat" and so on.

H.M.Jr: As a matter of fact, ~~I do~~ think we ought to call one after Herman.

Oliphant: How about "Key" and "King"?

H.M.Jr: Let's name the trucks. Come on, Mac. They name all these guns. When I was down at Honolulu, every one of these big 16-inch Coast Guard - coast guns - every one of them was named.

McR: Well, after all, Ned would be glad to have names painted on there in very nice shapes so everyone could see it.

H.M.Jr: Let's call one "Nellie Tayloe."

Upham: I thought you had to christen them.

Oliphant: Remember what happened on that funeral train, going up to Woodin's funeral?

H.M.Jr: Where?

Oliphant: Going up to Woodin's funeral. One ought to be called "Pressy."

H.M.Jr: After the President?

Oliphant: Yes.

H.M.Jr: The letter came.

Gaston: Call one "Chiang Kai Shek."

H.M.Jr: Call one "Kung."

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- Taylor: "Kung," "Suarez."
- H.M.Jr: Well, you get up a list.
- McR: After all, there will only be nine of them.
- Gibbons: The Russian Ambassador.
- Taylor: No, can't use him.
- White: Put Archie's name on the tall bulb.
- H.M.Jr: This is very funny. If I'm not a mind reader ...
(Hands letter to Mrs. Klotz)
- From my father.
- Klotz: That's what you said.
- H.M.Jr: Now I'll let you read the rest of it. Say, "I told you so."
- Oliphant: Been thinking about ways of moving wheat and cotton abroad. What about thinking again of ways of moving cotton here?
- H.M.Jr: Oh, golly, I tell you, what we're trying to do is - it's terrible. I never - I'm just a fool for punishment. But I think if we can just take this wheat thing and get them to recognize this basic principle: that if we've got too much wheat and cotton, let's put our thinking machine towards using it up through eating it and wearing it. Now, see? Now, if I can just get that
- Oliphant: Yes.
- H.M.Jr: ... on wheat, then it comes down - and break this policy of scarcity. Every time - I mean here's this thing on wheat. We put a floor under it by lending them the money, then we come along because we don't think it's enough and on top of that we give them a bonus.
- I was very much interested yesterday - after we'd been talking about this, the President said, "What Henry is trying to say is this, that he'd rather see the 212 taken and instead of paying the farmers parity, take that money and use it for buying wheat

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and cotton for use." He said, "Am I stating it correctly?"

I said, "You're stating it absolutely correctly."

See? Now, I got the President that far in one week, which I think is moving very, very fast. Don't you think so?

I said, "Yes, take that 212 million dollars and have it to use, buy cotton and wheat, and then afterwards other things for use."

And he said, "Henry thinks that that will - you'll end up by really raising the price of these commodities."

You see, the President started very interestingly. He went after Wallace very - he said, "Now, Henry, what are you going to do to stop the price of wheat, cotton, and corn falling? What are you going to do?"

So I said, "Well, if I may offer an observation, Mr. President" - I said, "You announced 212 million and they expected you to go through with it. It has no effect on the market. The price continues to go down, down, and down."

Oliphant: Dollar off yesterday.

White: Been one of the very important sustaining influences.

Hoos: It will put a bottom to it.

Oliphant: What did Wallace say?

H.W.Jr: He used a lot of terminology which meant nothing, and talked about the farmer's income, 87 percent of the city worker's, and - I mean a lot of - a lot of high-falutin words, and that plus getting very dirty. He didn't with me, but Woodring, coming from Kansas, with a big wheat crop, bore down very heavily on Wallace.

Oliphant: So he proceeded to "Ezekielize."

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H.M.Jr: Well, he talked a lot of stuff. I said, "Well, Henry, I just don't know what you're talking about."

But the President said that what I wanted was to rather see them take the 212 million and use the money to put these things to use. And then when Henry got very dirty - "Well, all those things sound very nice, but," I says, "you can't overlook the fact that the people in Cleveland today are eating garbage." I said, "That's a fact. Now, you can't get away from it."

Oliphant: Have you got a minute to talk about it?

H.M.Jr: Yes.

Oliphant: I'd like to think of that as Part One of the program: use this 212 million to get this stuff into use; then, as Part Two of the program, moving more of the surplus wheat and cotton through regular channels of consumption. And I think you could pull together in a very interesting way two ideas: first, that idea you had about the selling campaign last January; and then what's going on in New York, how Wanamaker's - do you notice what they've done? Put on this campaign to move more goods at lower prices.

H.M.Jr: You mean Hearn's, don't you?

Oliphant: No, I mean Wanamaker's. Hearn's have too. And some of the large chain drug stores have gone up there and bought lots of fine meat. And I was told yesterday that that stuff is moving - at a price. Stuff will move at a price. And I should think a person like Patterson or somebody could sort of pull those things together and get some more of this stuff moving through regular channels.

White: I'm very skeptical of methods - enormous amount of work on that angle - very skeptical indeed, because in the first place Wanamaker's may be selling more goods, but you don't know whether McCreary's is selling less as a consequence. In the second place, the consumption of wheat - there are a lot of factors in it. I don't think the results are going to be worthy of the Secretary's effort.

H.M.Jr: I think you got to do something dramatic.

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Oliphant: Well, I do too, but I think to move - manufactured goods will move at a price.

H.M.Jr: But I can't do that.

Oliphant: Well, men like Patterson are doing it.

H.M.Jr: Well, Patterson's a third-rater.

Oliphant: Well, I know he is.

H.M.Jr: I mean Patterson - I mean a very - I've known him for years - a very charming fellow and got a lovely wife, but just - he isn't - he's never delivered anything.

Gaston: Who, Joe Medill?

H.M.Jr: No, Patterson - Assistant Secretary of Commerce.

Gaston: Oh, oh.

H.M.Jr: Do you (Taylor) know him?

Taylor: I just met him one day.

H.M.Jr: Well, I do.

Gibbons: Is he the same fellow who was head of the charity under Walker in New York?

H.M.Jr: Yes, on the Department of Correction.

Gibbons: Yes.

H.M.Jr: Well, I just

Gibbons: Ask Charley Hand about him some time.

H.M.Jr: Well, department sales are off 15 percent.
Well, let's just see where we get anyway.

White: You just made one remark that bothered me over yesterday - I just want to register my doubts or simple disapproval - with respect to wages. I gathered the impression that you were flirting with the idea that a decrease in wages might be

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- H.H.Jr: No, it's entirely erroneous.
- McR: Just the reverse.
- White: I see.
- Oliphant: You're not conceding that the suggestion of cutting price
- White: All right.
- H.H.Jr: You're a hundred percent
- White: I drop that.
- H.H.Jr: No, I'm glad you asked.
- Oliphant: You weren't conceding the proposition that a cut in price in cement or steel would necessarily mean a cut in wages.
- H.H.Jr: Now, wait a second. All I'm saying is that as Secretary of the Treasury I am over Procurement and I've got certain responsibilities to buy goods, and I'm going to buy them. And I don't want to - just what I don't want to get into. I don't want to get into the wage and hour business, I don't want to get into the price business, other than buying as reasonably as I can without bearing down so hard on anybody that I'm not going to permit them to make a profit. I want these fellows to make a profit, but I don't want - I'll state my philosophy again - I don't want to use Procurement to break the prices or break the wages, or do anything other than buy the supplies rapidly and economically, and that's all. And when it comes to a question of monopoly, or whether there are monopolies in the industries where we're buying, I say that it is for the Department of Justice and the Federal Trade Commission. And I don't want to get into it and I don't want to have Procurement used for that purpose, because it means my doing that and nothing else, and I've got too many important responsibilities here. Now, that's - that's the decision that I've reached.
- Taylor: You do wish to continue sending information over to them on identical bids, and so on.

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H.M.Jr: Well, I just - I can't answer that on snap, because I don't know what our responsibility is on that. I mean I don't want to give a snap answer to that.

I do want to very, very much time our buying to buy at the time of year when these factories have the least orders. That I very definitely want to do, sort of even out the production. But I very definitely - that's just exactly what I don't want to get into. I don't want to close up the Treasury shop and devote myself to wages and hours and prices, and if I do that I'm going to find myself in an impossible position. It isn't my responsibility and I can't do it, because as I said yesterday, there may be five cards I should have in my hand, and I've got four blank ones.

Taylor: The reason I asked that question

H.M.Jr: Do you (Oliphant) understand my position?

Oliphant: Well, we'll have an opportunity to discuss that.

H.M.Jr: Yes, you can have a chance, but it will be difficult to make me change.

Taylor: The reason I asked that question is that we have been sending to the Attorney General and the Federal Trade Commission information as it comes to us on identical bids.

H.M.Jr: Well, as I say, that's too important to go like that. But I'd like to study just what our responsibility is on that. I don't know. I don't know.

Mac: Well, I think we are responsible to furnish to both Federal Trade and Justice any indication of collusion. We do have that responsibility. The responsibility is theirs to follow it and determine whether it was unlawful.

Taylor: Also just offhand, it would seem that way to me, that it is our responsibility to do that.

H.M.Jr: Wait, I haven't issued any orders to change anything other than what we have. Have I, Mac?

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- McR: No.
- H.M.Jr: Did any orders go out from this desk to change anything? Huh?
- McR: No.
- H.M.Jr: So up to date we're just where we were. But it's just what H.M.Jr. should do with his own time - I mean that's what it amounts to. But I'll be glad to discuss it Tuesday, and I'll listen, as I said yesterday. I asked anybody whether they wanted to talk about it Tuesday and everybody said no.
- Oliphant: Well, I would like Tuesday or some time - I mean we had a later discussion out there at the close of the meeting that put it in other terms.
- H.M.Jr: Well, you asked something when you were half up in your chair, you see.
- Oliphant: I'd like to have something on Tuesday. Have Blaisdell in?
- H.M.Jr: No, that's just what I - well, I'll talk to you alone about it - but I don't want Blaisdell in.
- Upham: Are you ready to say now that you won't want Eccles on Tuesday for lunch?
- Klotz: You may go to the White House.
- Upham: I gathered that you may not.
- H.M.Jr: Why not Eccles?
- Upham: I thought perhaps if you're going to the White House Tuesday, since you won't be here Monday, then it's Open Market Committee in the afternoon, and I thought maybe
- H.M.Jr: I accept your suggestion. I will not have lunch with Eccles on Tuesday.
- Anything else? All right. I hope you all have a nice week-end.

RECORD OF ADDITIONAL AMOUNTS OF OUTSTANDING ISSUES OFFERED FOR CASH + TENDER OR EXCHANGE

TREASURY NOTES

Amount	Date of Offering	Date Issued	Amount Outstanding	Additional Amount Issued	Issue Offered	Offering Price	Maturing Issues Exchanged	Market Price (Shortly before announcement)	Yield	Market Price (On delivery date)	Yield
\$528,591,700	12/3/34	12/15/34	\$528,591,700	\$765,408,000	2 1/8% Treas. Notes Series A-1939 Additional Issue Dated 6/15/34 with interest from 12/15/34 Due 6/15/39	At Par	2 1/4% 0/1 due 12/15/34	100 19/32	1.96%	101	1.89%
513,364,200	4/22/35	6/15/35	513,364,200	364,480,000	1 5/8% Treas. Notes Series A-1940 Additional Issue Dated 3/15/35 with interest adjustment as of 6/15/35 Due 3/15/40	At Par and Interest with right to increase issue price	First L. L. Bonds	101 12/32	1.32%	101 18/32*	1.24%

TREASURY BONDS

756,933,900	3/5/35	3/16/35	756,933,900	290,154,700	4% Treasury Bonds of 12/15/44-54 Additional Issue Dated 12/15/24 Due 12/15/44-54	100 1/2 and accrued interest from 12/15/24 to 2/16/35	4% 0/1 due 3/15/35 4 3/4% T/N due 3/15/35	100 24/32	3.95%	100 15/32	3.97%
1,061,960,500	7/10/34	9/15/34	1,061,960,500	456,297,300	3 1/4% Treasury Bonds of 1944-46 Additional Issue Dated 4/15/34 with interest adjustment as of 3/15/34 Due 4/15/44-46. Interest paid on 2nd Called 4th LL Bds to 10/15/34	Par and Interest to 9/15/34	Second called 4th LL Bds interest paid to 10/15/34	101 5/32	3.10%	100	3.24%
824,816,550	5/29/35	6/3/35	824,816,550	98,708,000	3% Treasury Bonds of 1946-48 Additional Issue Dated 6/15/34 with interest from 12/15/34 Due 6/15/48	Average price 103 4/32 and interest 2.67% yield	-	103 29/32	2.59%	103 9/32	2.65%
1,558,022,550	4/22/35	6/15/35	1,558,022,550	746,406,550	2 7/8% Treasury Bonds of 1935-60 Additional Issue Dated 3/15/35 with interest adjustment as of 6/15/35 Due 3/15/60	Par & Interest adjustment as of 6/15/35 with right to increase issue price	First L. L. Bonds	101 13/32	2.78%	101 19/32**	2.76%
923,524,590	6/24/35	7/1/35	923,524,590	112,669,000	3% Treasury Bonds of 1946-48 Additional Issue Dated 6/15/34 with interest from 6/15/35 Due 6/15/48	Average price 102 18/32 and interest 2.62% yield	-	102 21/32	2.67%	102 23/32	2.60%
2,304,429,200	7/15/35	7/22/35	2,304,429,200	101,971,000	2 7/8% Treasury Bonds of 1935-60 Additional Issue Dated 3/15/35 Due 3/15/60	Average price 101 19/32 and interest 2.77% yield	-	101 28/32	2.74%	101 25/32	2.75%
2,406,400,200	7/29/35	8/3/35	2,406,400,200	106,541,000	2 7/8% Treasury Bonds of 1935-60 Additional Issue Dated 3/15/35 Due 3/15/60	Average price 101 18/32 and interest 2.77% yield	-	101 22/32	2.76%	101 17/32	2.77%
2,512,941,300	8/12/35	8/19/35	2,512,941,300	98,215,000	2 7/8% Treasury Bonds of 1935-60 Additional Issue Dated 3/15/35 Due 3/15/60	Average price 100 25/32 and interest 2.82% yield	-	101 14/32	2.77%	100 24/32	2.82%
568,717,800	12/2/35	12/16/35	568,717,800	645,736,100	2 3/4% Treasury Bonds of 1945-47 Additional Issue Dated 9/15/35 Due 9/15/47	Par and accrued interest to 12/16/35	2 1/4% T/N due 12/15/35	100 22/32	2.64%	100 21/32	2.67%
1,302,649,450	3/8/37	3/15/37	1,302,649,450	483,910,000	2 1/2% Treasury Bonds of 1940-53 Additional Issue Dated 12/15/36 with interest adjustment as of 3/15/37 Due 12/15/53	Par and Interest to 3/15/37	3% T/N due 4/15/37	101 8/32	2.37%	100 14/32	2.45%

*Date exchange books closed (5/2/35)
** (5/23/35)

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 27, 1938.

TO Secretary Morgenthau

FROM Mr. White *HPW*

Subject: Some "minority" thoughts on the June financing program.

Summary

It is our conclusion that the June financing should not take the form of bonds but should take the form of cash redemption in part and refunding with bills and notes in part.

Our conclusion as to financing is based upon:

1. There are important disadvantages of issuing bonds at this time.

- (a) The added cost to the Government during the coming year and during future years of issuing bonds now may amount to \$15 to \$25 million a year.
- (b) Failure to pay off part of the notes means further delay in the desterilization program.
- (c) Issuance of bonds will be relatively more deflationary in its effects on business conditions than the alternative methods of financing.

2. There is no serious risk involved in refinancing by bills or notes at this time because:

- (a) It is more likely than not that Government bond yields will go lower during the next twelve months.
- (b) If we do not have recovery within the next year, there will be continued ease in financing through bills and notes.
- (c) If recovery is expected during the next year there will be a reduction of the amount of public debt obligations in the hands of the public because of Social Security reserves, recovery of loans by the R.F.C. and other Government lending agencies, and because there will be an excess of revenue over expenditures. Furthermore, provision should be made for further borrowing through Baby Bonds. These are all factors which will become more important in future years, requiring shorter maturities to facilitate reduction in the outstanding debt.
- (d) The proportion of bills that now exist to the total outstanding debt is extremely small considering the wealth of this country and the controls that we have over excess reserves.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 27, 1938

TO Secretary Morgenthau
 FROM Mr. White *HDW*

Subject: Some "minority" thoughts on the June financing program.

I gather that Treasury opinion is crystallizing in the direction of an issue of long-term bonds to take up the notes maturing in June and September.

There are certain dangers and disadvantages which such a program would have compared with the alternative methods of handling the maturities which should, we believe, receive consideration.

1. We are of the opinion that the June financing should take the following form, though we appreciate the overwhelming nature of the opposition view:

- (a) Half the June and September notes to be taken up and half refunded with 5-year notes.
- (b) After July, the maturing bills to be "rolled over" and additional financing to be done through the issue of Treasury bills.
- (c) The program to be reconvened, of course, before the December financing.

2. Our conclusion is based upon the following:

The immediate disadvantages of issuing bonds now:

- (a) The Treasury may be subject to the criticism that it is spending taxpayers' money for the benefit of the "bankers and large investors" by electing to pay 2½ percent to borrow money when: (1) it has adequate cash to get along without financing for another six months; (2) it could borrow on bills for almost nothing; or (3) borrow on 5-year notes for approximately 1 percent.

The added interest cost varies from \$15 million to \$25 million (depending upon which alternative is used) for the next year, and for every year thereafter so long as interest rates remain around present levels.

Prepared by H. D. White and H. Glasser

Secretary Morgenthau - 2

(b) The Secretary of the Treasury may be subject to the criticism that he is not cooperating with the President's recovery program by not immediately carrying out the desterilization program. A fairly strong defense can be made for taking up only half the maturing bills but it would be much more difficult to effectively defend failure to utilize the opportunity presented by the maturing notes to desterilize more gold.

(c) Borrowing with bonds taps more of the very source of savings that we are most eager to push into private investments. Very low interest rates for industry is one of the few monetary or fiscal devices we can use to promote borrowing for private investment. By issuing bonds, the Treasury will be missing an opportunity to further lower interest rates during the coming year.

(d) The task of maintaining stable prices for Treasury bonds outstanding becomes more difficult the more bonds the Government issues.

[The fact that the banking investment community favors re-funding operations at this time is to be expected, irrespective of the broader considerations involved. Their own direct and immediate financial interests would be favored by refunding operations.)

3. The above disadvantages would, of course, be quite insufficient to justify the program we recommend were the program to involve a serious risk of any kind.

But we believe that there is no serious risk involved in refinancing the June and September maturities with bills or notes for the following reasons:

(a) If permitted (by Federal Reserve Board and Treasury) Government bond yields will probably go lower before recovery takes place. They should, moreover, be encouraged to go lower in order to be as effective as possible in stimulating recovery.

(b) If we do not have recovery within the next year,

(1) The funds available for investment will increase and therefore greater ease the financing later.

(11) The price of bills and to a lesser extent of notes can be kept low, even with continued large deficits for the next year through control over the volume of excess reserves. We will have a much more difficult time controlling the price of bonds.

Secretary Morgenthau - 3

(c) If recovery is expected, there is no justification for issuing bonds rather than bills or notes, because:

(i) The Treasury will be reducing its outstanding debt through the building up of Social Security revenues, from excess of revenue over expenditures, and recovery of loans by the R.F.C. and other Government lending agencies. Also some volume of borrowing should be left to satisfy the demand for Baby Bonds which should be nursed along for other than fiscal reasons.

(ii) So long as recovery is in process bills can be refunded at rates lower than notes and certainly lower than bonds for several years to come. Even though there is a high degree of recovery for several years, maturing bills and notes can be "rolled over" at lower cost than the issuance of bonds now.

(d) The proportion of bills that now exist to the total outstanding debt is extremely small considering the wealth of this country and the controls that we have over excess reserves.

(e) Continued deficit financing over the next year at least should not result in a fall in bond prices and there should, therefore, be no questioning of confidence in the Government credit. The lower the carrying cost of the Government debt, the better the record of the Treasury and the greater the prestige of Government credit. If there is a politically inspired attack on Government credit in the future, however, the larger the proportion of Government debt in bonds the more vulnerable the Government credit would be to such attacks.

(f) If the Treasury expects that some time within the next ten years interest rates will be substantially higher than they are now, it is an open question whether the Treasury would be justified in taking advantage of the situation at the expense of investors. The more bonds institutions have, the greater the losses sustained when bond prices fall. At least the same is true of corporate bonds, but in that case the holder has covered his risk by higher interest rates.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: May 30, noon

NO.: 843

FROM COCHRAN

At eleven o'clock this morning I visited the Bank of France. The control had gained 110,000 pounds at around 178.25 to .30 by that hour. The market was fairly narrow and it was intended to let the rate move to about 177.95 if possible. While I was there such an instruction was telephoned to London where no dealings had so far been transacted in behalf of the French control. The franc losses for Saturday approached 250,000 pounds, the franc being under considerable pressure. During the whole of last week the losses of gold and foreign exchange approximated a billion francs, leaving around fifteen billion in the fund. The control was able to veil its business considerably by operating through various private banks and the market was unaware of such heavy losses. By contact does not feel at all encouraged by the second series of decrees which call for new expenditures several billion francs in excess of the sums to be raised by the new taxes set up by the first series of decrees.

The National Bank of Belgium lowered its discount rate from four to three percent this morning. This step had been awaiting an improvement in the international political situation

-2-

tion, which was provided by yesterday's calm elections in Czechoslovakia (as reported in my telegram No. 834, May 27, 11 a.m.). The belga had furthermore improved on Friday following voting by Parliament of the Government's two tax measures and on Saturday as a result of the Bank of France being obliged to buy three million belgas for account of the French railways.

BULLITT

EA:DJW

RECEIVED
MAY 28 1938
U.S. DEPARTMENT OF STATE
WASHINGTON, D. C.

JH

GRAY

London

Dated May 31, 1938

Rec'd 2:35 p.m.

Secretary of State,
Washington.

467, May 31, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

On returning to London I gather that during the past week the feeling has grown in the city that the weakness of sterling in terms of dollars which initial resulted from the Czechoslovakian situation is likely to persist irrespective of the European political developments because of long range economic factors. There is an increasing consciousness in the importance of the growing adverse balance of payments. It is noteworthy that this factor should suddenly begin to figure in the mind of the city at a time when the greatest exodus of hot money from London on record has just been carried out with so little disturbance of the money market. The fact is that while there is ample confidence in the technique which has developed for handling refugee funds and maintaining cheap money, there is a growing recognition of the seriousness of the
trade

-2- #467, May 31, 6 p.m., from London.

trade depression and particularly its effect on British exports and hence on the future trend of the balance of payments.

Last year the adverse merchandise balance expanded rapidly because of increased prices and quantities of imports, but this was partially offset by healthy though smaller rise in exports while the larger and more higher priced purchases of imports implied a growth in invisible export items. But this year a fall in import prices will not be sufficient to offset the still large requirements for rearmament combined with declining exports and with invisible export items certain to be curtailed. These facts are being more squarely faced and were brought particularly to the fore by the speech of the President of Board of Trade in the debate in the House of Commons on Tuesday last.

However, it must be recognized that this long range trend can be reversed temporarily by speculative movements based on rumors of dollar devaluation. Incidentally six months gold is now in demand on Paris account.

KENNEDY

KLP

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris

DATE: May 31, 3 p.m.

NO.: 853

FROM COCHRAN

I had a talk today with Professor Rist who feels that the political situation in France is entirely favorable to the Daladier Government and that the latter should take more constructive financial measures ~~than~~ in its two series of decree laws than it has to the present. Professor Rist constantly has favored a move toward including everything except armament costs in the ordinary budget and working towards a balancing thereof within, say, a two-year period. For purely armament expenditures funds would be raised through public loans. Rist's plan envisaged paying for already completed public works but suppressing future public works. Consequently he was disappointed in the public work phase of the recent decree laws and has little faith in the various measures designed to facilitate credit.

He insists that an assurance of monetary stability is France's primary need. Thinking Frenchmen are not convinced by the mere declaration of the Government that the franc will not depreciate beyond 179 to the pound, that this rate can be held in the (?) constructive remedying of state finances. Considering the world price level, the depreciation to 179 is more than ample economically for France.

The

The repatriation of capital which followed the franc depreciation of May 4 indicates the manner in which funds should become available on the French market if the conditions could be made continuously favorable to such capital.

Professor Rist told me that when the monetary change took place, one of the banks in which he is interested even received a few million pounds of British capital for short-term investment here. That is to day, France offers plenty of investment opportunities and, if given fair encouragement, capital from foreign centers will be quick to take advantage of such opportunities as those afforded by the low prices for French rentes. While the deposits in the Banque de Paris et des Pays Bas (one of the banks of which Rist is a director) were about fifty percent in foreign exchange and fifty percent in francs, the ratio has since May 4 moved to twenty percent in foreign exchange and eighty percent in francs. Thus, merely as a result of one step in the direction of monetary stability, the percentage of francs available in this bank for investment in French Government securities bought for private enterprise has increased thirty percent.

Repatriation has now practically ~~not~~ ceased and, until further improvements are made, Rist looks for little important movement of funds to France. Rist insists that

amortization

-2-

amortization of the Government debt should be suspended and that the rate of interest on rentes should be cut. He is confident that stability of the currency could be assured were these measures taken. He does not believe that the forty-hour week has been made sufficiently supple as yet. Rist feels, on the other hand, that many of France's problems are still financial and monetary rather than economic problems. For example, if the franc were stable and international traders did not demand a big margin in prices to cover exchange risks on the franc, the trade balance would be much less unfavorable. Business in France is suffering importantly from the world economic crisis and in particular from the drying up of purchasing power in the United States and raw material countries. If French prices could be lowered as a result of higher production in its industries, this would be felt less.

He told me that a few days after Daladier came into office, he had recommended to Marchandreau his scheme for stopping amortization of the public debt and for converting rentes. Since such a plan might be interpreted as taking a plank out of Blum's general scheme, the Minister of Finance was unwilling to accept it. Marchandreau was reminded by Rist that Blum had put every conceivable monetary and financial measure into his program purposely so that he could claim

credit

-4-

credit for anything that might be done in the future. Within the past few days Marchandean has asked Rist's office on research for more details of this plan.

Paris exchange market very quiet today. Control may have gained small amount of sterling through operations of Societe Generale between 178.18 and .35. Belga continues to improve and speculators therein are beginning to buy back belgas and sell Indo-Chinese Piastres with losses in both operations. Market expects few developments from reconvening of French Parliament today but is slightly uneasy over next Sunday's convention of Socialist Party.

(END OF MESSAGE)

BULLITT

EA:DJW

May 31, 1938

Present:

Mr. Aubrey Williams
 Mr. Berlew
 Mr. Lowell Mellett
 Mr. Gaston
 Mr. McReynolds
 Mrs. Klotz

HM, Jr.: At lunch with the President I pointed out to him again that the way the bill was going through that it would not do the trick as the situation was now and that his out was that conditions had changed in, I said six weeks, since his message had gone up and couldn't he still do something while the bill was in the process of going through. So he sat down and dictated this to me and what he wants to do is send this letter, this afternoon, up to Senator Adams and I want you people to go over it and you (Gaston) are to give it to Steve Early after press conference. This is what he wrote:

"On my return this morning I have held a conference with P.W.A., W.P.A. and the Treasury.

"During the past six weeks since I sent my message to the Congress, the unemployed situation has shown no sign of improvement and, therefore, if the Government undertakes to relieve unemployment by relief and public works methods, the time element is an essential to success."

This is his language, and when you read it 'unemployment by relief and public works measures', that might be interpreted as direct relief. And you have an hour and a half, which is usually an hour more than we have.

"Everybody in the Administration is agreed that undertaking relief or public works projects next winter or spring would not contribute to the serious necessities of this summer or autumn. Furthermore, it is hoped that private industry and finance, because of deferred needs and lessening inventories, will be in a position a little later on to increase private employment. Government employment, therefore, should come right away

-2-

*instead of being deferred to a time when it may synchronize with an increase in private employment.

"It is this existing gap we want to fill. Therefore, I greatly hope that the relief bill in its final form will put no restrictions on the immediate starting of relief and public works projects, and that such projects should be confined to those which will be completed within a short time.

"To this end, flexibility of actual administration is essential. I cannot too strongly point out that there is unanimous agreement in the Executive branch of the Government that the appropriation, flexible in administration, should have as its principal objective putting the greatest number of unemployed to work in the shortest time."

He says he has a list from you (Mr. Berlew) of eight weeks.

Mr. Berlew: That is, eight weeks to start.

HM, Jr: What do you think of the letter?

Mr. Williams: Pretty good.

HM, Jr: What I am going to ask you people to do is go over each word and sweat it out and when you are through I will come downstairs and I have from now to three o'clock with the Federal Reserve. What's your general reaction?

Mr. Berlew: I think it's very good. It ought to do something.

Mr. Williams: Adams will say, What specifically does he want us to do?

HM, Jr: He does not want

Mr. Williams: He says he wants it to be ^{as} flexible as possible. What I am trying to get at is what will be any overt moves when Jimmie Byrnes and the others hear of this.

HM, Jr: I said Adams because I thought he was the person. The President said it should go to Barkley, Adams and Jimmie Byrnes and I said Adams.

-3-

Mr. Berlew: They want to get rid of all the amendments. Earmarking, that's the trouble.

HM, Jr: That's what started it. The rate they were going, the thing would be so earmarked it left no flexibility and I also urged that it give him the right to transfer funds from one to another. For instance, he could say, 'You fellows can't use 50 millions of, say, \$100,000,000. Let's give that to somebody else.' That's what he means by flexibility.

Mr. Berlew: He could make it up to 15%. That's what they did with our last program. We could transfer within categories up to 15%.

HM, Jr: But am I right that the way it is going they have pretty nearly every dollar earmarked?

Mr. Berlew: That's right.

HM, Jr: That seemed to surprise him. The way they are going, they have pretty well earmarked it all.

Mr. Williams: He was thinking of more than transferring within categories, inside of agencies?

Mr. Berlew: Oh, I am sure of that.

HM, Jr: Yes. Absolutely.

Mr. Berlew: But you can do it on percentage basis without getting too much complaint from the people at the Capitol.

HM, Jr: Lowell (Mr. Mellett) what do you think the public reaction will be?

Mr. Mellett: I think it will be good. Favorable.

HM, Jr: And if it is well received, then he could kind of 'inch in' on this. Was I also correct in saying it would come to vote Thursday?

Mr. Berlew: That's right.

HM, Jr: He thought today and I said not until Thursday and he didn't know all about that earmarking.

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Mr. Berlew: There is quite a sentiment up there to earmark. We have several people watching it. Quite a bloc want to earmark and some other people are afraid if it comes to a showdown they will have their way anyhow.

Mr. Williams: I think this is an awfully good letter. Awfully good.

HM, Jr.: Every single word there is his own.

Mr. Berlew: He should get in it right now in a heavy way.

HM, Jr.: He's willing to do it and have it go up this afternoon.

Mr. Williams: The finest thing that could happen would be to get some of them down there tomorrow morning and tell them what he has in mind.

HM, Jr.: I think you are right, Aubrey. I think that if he could hand them this letter tonight

Mr. Leggett: I don't know, Mr. Secretary, if he has not known about earmarking. Wouldn't this be better than have them come in and debate with him?

HM, Jr.: Maybe that's what he had in mind. Very definite thing -- his wishes -- that this should be there not later than 4:30.

Mr. Williams: I would think if he could send this to him and then tomorrow morning have Barkley, Raybrun the two Speakers and Adams and Woodrum, I don't think you ought to leave the House out even though this is just now before the Senate, because they think in the House that they have done everything he asked them to do and they are going to be hurt if they are put in another light.

HM, Jr.: That's why I suggested it while it was in the House and Jimmie Byrnes, an old House member, said you can't do this thing, and so forth and so on.

Well, why don't you take the letter and see if there are any words that you want to change -- I wouldn't change too much -- and then, Aubrey, how can we get the suggestion to him that you think he ought to have some of them down?

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Mr. Williams: Either you could make it or I.

HM, Jr: I think it would be fine if you would make it. I have been over there a lot today.

Mr. Williams: Well, I am trying to get to see him anyway and if I can't see him I will try to get through on the telephone.

HM, Jr: There is a room downstairs under here and the group of you take the letter and work away on it.

oOo-oOo

May 31, 1938

My dear Senator Adams:

On my return this morning I have held a conference with P. T. A., W. P. A., and the Treasury.

During the past six weeks since I sent my message to the Congress, the unemployment situation has shown no sign of improvement and, therefore, if the Government undertakes to relieve unemployment by relief and public works methods, the time element is an essential to success.

Everybody in the Administration is agreed that undertaking relief or public works projects next winter or spring would not contribute to the serious necessities of this summer or autumn. Furthermore, it is hoped that private industry and finance, because of deferred needs and lessening inventories, will be in a position a little later on to increase private employment. Government employment, therefore, should come right away instead of being deferred to a time when it may synchronize with an increase in private employment.

It is this existing gap we want to fill. Therefore, I greatly hope that the relief bill in its final form will put no restrictions on the immediate starting

-2-

of relief and public works projects, and that such projects should be confined to those which will be completed within a short time.

To this end, flexibility of actual administration is essential. I cannot too strongly point out that there is unanimous agreement in the Executive branch of the Government that the appropriation, flexible in administration, should have as its principal objective putting the greatest number of unemployed to work in the shortest time.

Sincerely yours,

May 31, 1938

My dear Senator Adams:

On my return this morning I have held a conference with P.W.A., W. P. A., and the Treasury.

During the past six weeks since I sent my message to the Congress, the unemployment situation has shown no sign of improvement and, therefore, if the Government undertakes to relieve unemployment by relief and public works methods, the time element is an essential to success.

Everybody in the Administration is agreed that undertaking relief or public works projects next winter or spring would not contribute to the serious necessities of this summer or autumn. Furthermore, it is hoped that private industry and finance, because of deferred needs and lessening inventories, will be in a position a little later on to increase private employment. Government employment, therefore, should come right away instead of being deferred to a time when it may synchronize with an increase in private employment.

It is this existing gap we want to fill. Therefore, I greatly hope that the relief bill in its final form will put no restrictions on the immediate starting

-2-

of relief and public works projects, and that such projects should be confined to those which will be completed within a short time.

To this end, flexibility of actual administration is essential. I cannot too strongly point out that there is unanimous agreement in the Executive branch of the Government that the appropriation, flexible in administration, should have as its principal objective putting the greatest number of unemployed to work in the shortest time.

Sincerely yours,

May 31, 1938

My dear Senator Adams:

On my return this morning I have held a conference with P. W. A., ^{the} F. A., and the Treasury.

~~During the next six weeks~~ Since I sent my message ^{relief} to the Congress ^{two weeks ago} the unemployment situation has ~~shown no~~ ^{worse} ~~sign of improvement~~ and, therefore, if the Government undertakes to relieve unemployment by ~~public and private~~ ^{the measure now} ~~work methods~~ ^{before Congress}, the time element is an essential to success.

It is obvious that ~~everybody in the Administration is agreed that~~ undertaking ~~relief or public work~~ projects next winter or spring ^{will} ~~will~~ not contribute to the serious necessities of this summer or autumn. Furthermore, it is hoped that private industry and finance, because of deferred needs and lessening inventories, will be in a position a little later on to increase private employment. ~~Government~~ ^{emergency} employment, therefore, should come right away instead of being deferred to a time when it may synchronize with an increase in private employment.

It is ~~the~~ ^{the gap} existing ~~and~~ ^{now} we want to fill. Therefore, I greatly hope that the ~~relief~~ ^{emergency appropriation} bill in its final form will put no restrictions on the immediate starting

Walter P. Reuther

possible the selection of those ^{it will make}
~~of relief and public works projects, and that such~~
~~projects should be confined to those which can be~~
~~completed within a short time.~~ ^{which can be got under way most}

To this end, flexibility of actual admini- ^{speedily}
 stration is essential. I cannot too strongly point
 out that there is unanimous agreement in the Executive
 branch of the Government that the appropriation,
 flexible in administration, should have as its principal
 objective putting the greatest number of unemployed to
 work in the shortest time.

Sincerely yours,

~~Very truly yours,~~
~~W. H. C. [unclear]~~
~~Director of Public Works~~

May 31, 1938

MEMORANDUM:

The attached letter, dictated in draft form by the President, has been revised and approved by the following:

Secretary Morgenthau

Under-secretary of the Interior Berlew

Mr. Aubrey Williams

Mr. Lowell Mellett

May 31, 1938

My dear Senator Adams:

On my return this morning I have held a conference with representatives of the Public Works Administration, the Works Progress Administration and the Treasury.

Since I sent my relief message to the Congress, six weeks ago, the unemployment situation has grown worse and, therefore, if the Government undertakes to relieve unemployment by the measure now before Congress, the time element is an essential to success.

It is obvious that undertaking projects next winter or spring will not contribute to the serious necessities of this summer or autumn. Furthermore, it is hoped that private industry and finance, because of deferred needs and lessening inventories, will be in a position a little later on to increase private employment. Emergency employment, therefore, should come right away instead of being deferred to a time when it may synchronize with an increase in private employment.

It is the gap existing now that we want to fill. Therefore, I greatly hope that the emergency appropriation bill in its final form will put no restrictions on the immediate starting of works projects, and that it will make possible the selection of those projects which can be got under way most speedily.

To this end, flexibility of actual administration is essential. I cannot too strongly point out that there is unanimous agreement in the Executive branch of the Government that the appropriation, flexible in administration, should have as its

-2-

principal objective putting the greatest number of unemployed to work in the shortest time.

Sincerely yours,

Hon. Alva B. Adams,
United States Senate.



May 31, 1938

To: The Secretary
From: Miss Lonigan *s. h.*

Attached is a copy of the report on Surplus Commodities shipped into Cleveland and other cities from April 1 through May 19. A second report is now attached showing shipments through May 27th.

led
BERT

FEDERAL SURPLUS COMMODITIES CORPORATION

313

1901 D STREET NW.

WASHINGTON

J. G. BLAND, SECRETARY

May 27, 1938.

COMMODITY SHIPMENTS

April 1, 1938 to May 27, 1938.

<u>COMMODITY</u>	<u>Chicago</u>	<u>Cleveland</u>	<u>Toledo</u>	<u>Detroit</u>	<u>Flint</u>
Potatoes, lbs.	-	720,000	252,000	-	-
Potato Flour, lbs.	200,000	-	-	-	-
Rice, lbs.	1,200,000	300,000	240,000	800,000	240,000
Beans, (Dried) lbs.	600,000	350,000	200,000	100,000	50,000
Peas, cans	4,320,000	48,000	-	48,000	-
Prunes, lbs.	1,260,000	300,000	180,000	420,000	120,000
Butter, lbs.	800,000	260,000	126,000	504,000	60,000
Cabbage, lbs.	2,376,000	480,000	432,000	792,000	200,000
Oranges, lbs.	2,635,200	782,560	739,200	1,552,320	626,400
Celery, crates	6,290	1,850	1,110	-	-
Milk, Dry Skim, lbs.	320,000	160,000	-	-	-
Apples, fresh, lbs.	-	624,000	264,000	1,728,000	216,000
Grapefruit, lbs.	468,000	-	-	288,000	180,000
Grapefruit Juice, cans	311,040	-	-	-	-
Beans, fresh green, lbs.	-	60,000	40,000	-	-
Flour, wheat, lbs.	1,117,200	588,800	235,200	-	-

FEDERAL SURPLUS COMMODITIES CORPORATION

1801 D STREET NW.
WASHINGTON

J. B. BLAND, SECRETARY

C O P Y

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.		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,
Vice President.



May 31, 1938

To: Miss Chauncey
From: Miss Lonigan *et al.*

Attached are copies of the report on shipments of Surplus Commodities into Cleveland, Toledo, Detroit, Chicago and Flint. The original was sent to the Secretary at the White House. The new originals have been sent to the Secretary through Mr. Haas's office.

FEDERAL SURPLUS COMMODITIES CORPORATION

COMMODITY SHIPMENTS

April 1, 1938 to May 27, 1938

<u>Commodity</u>	<u>Chicago</u>	<u>Cleveland</u>	<u>Toledo</u>	<u>Detroit</u>	<u>Flint</u>
Potatoes, lbs.	-	720,000	252,000	-	-
Potato Flour, lbs.	200,000	-	-	-	-
Rice, lbs.	1,200,000	300,000	240,000	800,000	240,000
Beans, (Dried) lbs.	600,000	350,000	200,000	100,000	50,000
Peas, cans	4,320,000	48,000	-	48,000	-
Prunes, lbs.	1,260,000	300,000	180,000	420,000	120,000
Butter, lbs.	800,000	260,000	126,000	504,000	60,000
Cabbage, lbs.	2,376,000	480,000	432,000	792,000	200,000
Oranges, lbs.	2,635,200	782,560	739,200	1,552,320	626,400
Celery, crates	6,290	1,850	1,110	-	-
Milk, Dry Skim, lbs.	320,000	160,000	-	-	-
Apples, fresh, lbs.	-	624,000	264,000	1,728,000	216,000
Grapefruit, lbs.	468,000	-	-	288,000	180,000
Grapefruit Juice, cans	311,040	-	-	-	-
Beans, fresh, green, lbs.	-	60,000	40,000	-	-
Flour, wheat, lbs.	1,117,200	588,800	235,200	-	-

FEDERAL SURPLUS COMMODITIES CORPORATION
 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.		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
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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.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 31, 1938

TO Secretary Morgenthau

FROM Mr. Haas 

Conference held at the White House on May 31, 1938,
11:00 A. M.

Present: The President; Secretary Morgenthau;
Secretary Wallace; Aubrey Williams, Deputy Adminis-
trator of Works Progress Administration; J. W. Tapp,
President, Federal Surplus Commodities Corporation;
George C. Haas.

Secretary Morgenthau opened the meeting by outlining a proposal to give China a credit of \$100 millions at the Export Import Bank with which to purchase surplus agricultural commodities after the initial stage of processing, for example, wheat in the form of flour and cotton in the form of gray goods. The Secretary pointed out that this initial processing of the commodities had the advantage of adding some employment in this country.

The President asked if it were possible for the Chinese to use cotton gray goods to make simple garments. Mr. Tapp ventured a guess that it probably could be done.

The President expressed himself as in favor of the proposal. Secretary Morgenthau, however, called to the President's attention the fact that the State Department had not been consulted on this matter, and they might have some views regarding it, particularly Dr. Hornbeck who might feel that it would involve some difficulties, etc. The President said he thought the State Department should know about the matter. In reply to a specific question by Secretary Morgenthau, the President said the State Department could be told that he was in favor of the proposal.

Secretary Morgenthau then outlined the second proposal, that of exchanging agricultural surpluses for strategic materials needed in this country. The Secretary read a list of these materials from a memorandum which was prepared by the War Department.

Secretary Morgenthau, however, pointed out that Herman Oliphant had expressed the opinion that this exchange of commodities could not be accomplished under existing legislation. Secretary Wallace said that some of his lawyers thought it could be. It was agreed that Secretary Wallace's legal advisers were to get in touch with Mr. Oliphant, to explore further the possibility of executing the proposal under existing law.

The President said that his offhand opinion was that it could not be done, pointing out that he and Mr. Bell had at various times considered items for the purchase of various strategic materials in the regular War Department appropriations.

Secretary Morgenthau stated that Mr. Oliphant's views were that the legislation was sufficient to purchase the agricultural commodities but deficient with regard to the purchasing of the strategic materials.

The President said that the matter might be handled by relating an appropriation item in the War Department to the Commodity Credit Corporation, but added that was something needing more thought.

The President then said, well how about the other proposition I mentioned in the Cabinet Meeting, that of having a corporation like the United States Steel pay for manganese, for example, with American cotton. He stated he was planning to discuss this matter with Mr. Stettinius, of the United States Steel Corporation, some time in the near future.

Secretary Morgenthau said that at the Cabinet Meeting the President turned this proposal over to Secretary Hull and Secretary Roper. The Secretary, continuing, said he felt, however, that the proposal would not fit in very well with Secretary Hull's basic philosophy of international trade but would be more in line with Mr. Peak's ideas of foreign trade.

The President indicated that the proposition might be considered as one instance exclusive of the general philosophy, that it could be taken care of under a "twenty-four hour basis" philosophy, and said he felt the proposal had some real possibilities.

When the President mentioned the matter of a corporation like the United States Steel becoming a party to an exchange transaction, he raised the question of how the Corporation might react to such a proposal. Secretary Wallace said he

thought they would be somewhat skeptical, on the basis that the Government would be getting into business more deeply than they would like to have it.

The second proposal was then left with the understanding that Herman Oliphant and the Department of Agriculture lawyers would get together and make further investigation as to what might be accomplished under existing legislation.

Secretary Morgenthau asked Secretary Wallace if he would present the third proposal, that of increasing the distribution of surplus agricultural products to the needy unemployed. Secretary Wallace proceeded to explain the proposal to the President by utilizing Table 1 of the attached memorandum prepared by Mr. Tapp.

Secretary Wallace explained that the estimates of food required for an adequate diet, as shown on the table, were those made by Dr. Stanley of the Bureau of Home Economics. He pointed out further that most of the other estimates were rough figures made over the week-end, and they probably would be modified somewhat. For example, he doubted if \$8 millions would be spent on potatoes, and he said also that dried milk, inadvertently, was not included in the computation. He said he was in favor of the table as it stood, except that he doubted the wisdom of, and would object from an agricultural point of view to, the distribution of fresh milk and eggs at this time.

Mr. Tapp pointed out that there were about \$78 millions available under Section 32, which might be used to finance the purchase of surplus commodities for distribution to the needy. Secretary Wallace said that that would be sufficient and in actual practice the total distribution would not be \$92 millions, as shown on the table, but nearer \$70 millions.

Secretary Wallace then stated his reasons for being opposed to the purchase and distribution of fluid milk and eggs; he said that this particular section of agriculture did not require assistance at this time, and if purchases were made, they would increase the price of milk and eggs and increase production unduly, which, in turn, would result in an unfavorable situation in these agricultural fields later on.

Secretary Morgenthau said that he didn't think that Mr. Williams was in favor of the distribution of these commodities to the unemployed, and that he thought the President should hear Mr. Williams' reason for his apprehension with regard to the proposal.

Mr. Williams said that he thought the way to handle this situation would be to increase wages in the low wage groups. He felt strongly that any move toward Federal direct relief would bring about very undesirable repercussions similar to those which he said occurred a few years back before the works program was initiated. He recalled to the President the situation when the F.E.R.A. was operating, that there were adverse public reactions to direct relief and the President had then stated "that every man should have a job". He said the State and local communities and not the Federal Government should take care of the relief of unemployables, and any attempt to help this situation would simply mean that the State and local governments would throw the whole problem of relief of unemployables back into the lap of the Federal Government. He pointed out that the relief of unemployables was a local problem and would have to be handled by local officials even if the Federal Government were to supply the money.

The President's response was that an increase in wages in the low income groups is at present out of the question, because the amount of money which W.P.A. has at its disposal is limited. The President said you can make your dollars go farther if you supplement the wages in the low wage groups by giving them the "surplus commodities". The President used an illustration of a man receiving \$19 who might be given a \$5 increase in wages in the form of "surplus commodities".

Secretary Morgenthau raised this problem - he said, assume that on one side of the street is a man in the low wage group and he has been given, in addition to his wages, the "surplus commodities", but across the street is another man on local relief, and perhaps more in need, yet because of his being on relief rather than on W.P.A. he is refused "surplus commodities".

Mr. Tapp said both groups were now getting "surplus commodities" as a supplement. Mr. Williams admitted that that was the case, and that the disposition of surplus commodities to relief cases was being handled through the local county commissioners of the poor. This, he said, was the only type of machinery which could be used to administer the distribution effectively.

Mr. Williams then said what he was interested in, in regard to the whole problem, was that the public should not get the impression that a switch was being made from a works program to a direct relief program by the Federal Government. He said he thought it was very important that the explanation of this direct relief distribution of surplus

commodities be made to the public in terms of relief to agriculture, and that it be made clear that it is a program for the disposition of agricultural surpluses. He said that the present proposition of distributing \$70 millions was so small that it didn't mean anything in terms of this principle, and that he would not try to argue against it. Even if the sum were raised to \$200 millions he agreed that it still would be a small item.

Secretary Wallace said, we three - Secretary Morgenthau, Mr. Williams, and myself - are in agreement on this particular proposition of distributing about \$70 millions of surplus products to relief cases, the only difference of opinion being between Secretary Morgenthau and Mr. Williams as to the theory or principle involved. Secretary Wallace stated that from the President's point of view the decision for the moment was on this particular proposition and on that there was no disagreement.

Secretary Morgenthau said his only motive in urging this proposition was to aid the unemployed who are in very distressed circumstances and who are not now being taken care of under the present arrangement. On the other hand, he went on to point out, in agriculture there are large surpluses of commodities adversely affecting the agricultural situation while people in urban communities are unemployed, starving, and ill-clothed. Secretary Morgenthau said that this problem should be met by the Administration.

Secretary Wallace said it was a problem of poverty amidst abundance, but he again repeated that this raised a question of principle which it was not necessary to involve in this particular decision to distribute \$70 millions of surplus commodities.

The President said that he not only had to consider this particular case but the principles involved.

The President then went on to point out that the surplus food distribution to the needy does not replace either the works program or the relief program of local authorities but merely supplements both of them.

Secretary Morgenthau said he thought it might be well for the President to go on the air and explain the situation to the people. The President's first reaction to the suggestion was that he thought it might be a difficult situation to get across to the public, but did not say definitely whether he would endeavor to make the attempt.

The President closed the meeting by saying - all right, we will go ahead on the \$92 millions distribution which is shown on this sheet, but which Secretary Wallace says, in practice, will turn out to be \$70 millions.

Attachment

If the purchase of food products for distribution to approximately 3,000,000 relief families during the next 12 months is considered solely from the standpoint of providing these families with an adequate and reasonably balanced food supply, including fluid milk, the cost would be approximately \$225,000,000. Of this amount approximately 50% would be represented by fluid milk.

Taking into account the agricultural aspects of surplus removal programs, as well as the needs of people on relief except with respect to fluid milk, it appears that approximately 60 to 70 million dollars may be spent advantageously during this period for those commodities desirable from a relief standpoint and with respect to which surplus removal programs can be expected to result in the largest net expansion in consumption. Funds for purchases of substantially this amount will be available from Section 32, provided there is no further ear-marking of these funds for payments similar to the cotton price adjustment payments. The expenditure of 60 to 70 million dollars for farm surplus removal programs of this character would represent the largest program of this type which has been attempted except for the fiscal year 1934-35 when the drought cattle purchase program was in effect.

PURCHASE AND DISTRIBUTION OF FOOD PRODUCTS FOR RELIEF.

The attached tables and statement are based upon three basic assumptions (1) continuation of the business level below a Federal Reserve Board Index of 80 during the next six months with a continuation or possible expansion of the present relief load, (2) no major upward trend in the general commodity price level during the next six months, and (3) a probable further decline in the general level of farm prices during the next six months, particularly in the prices of meat animals.

Table I contains the following information:

Column 1. The annual food supply required by 3,000,000 families composed of four persons to provide an adequate diet at minimum cost. At present retail prices this food supply will cost \$24.88 per family per month.

Column 2. The probable quantity of each food group now being purchased by relief families based on low income consumption surveys of the Bureau of Home Economics, U. S. Department of Agriculture. At present retail prices this food supply requires a monthly expenditure of \$13.43 per family.

Column 3. The quantity of food which can be distributed by the Federal Surplus Commodities Corporation. These quantities are based on rates of distribution which have been maintained in the past and are computed for the number of months the commodities would be available at reasonable prices. For example, in the case of green

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vegetables, the monthly distribution rate is 15 pounds per family per month for a period of 6 months.

Column 4. The estimated total consumption of each food group including the quantities to be distributed by the Federal Surplus Commodities Corporation, as shown in Column 3, if the present average level of relief payments is maintained.

Column 5. The percentage of increased consumption resulting from the distribution of commodities by the Federal Surplus Commodities Corporation.

Column 6. The net increase in quantities of each food group resulting from the distribution of commodities by the Federal Surplus Commodities Corporation.

Column 7. The estimated cost to the Federal Surplus Commodities Corporation for the purchase of the quantities shown in Column 3. The wholesale price unit used for each food group is based upon present price levels plus an estimate of the cost of transportation and processing required.

Table II shows a comparison of the quantities of each food group, on a monthly basis:

- Column 1. The quantities required for an adequate diet.
- Column 2. Estimated purchases by relief families.
- Column 3. Proposed F.S.C.C. distribution rates.
- Column 4. Estimated total consumption of foodstuffs by relief families from purchases and supplies received from the Federal Surplus Commodities Corporation.

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Table III shows on an Annual Basis a comparison of the information shown monthly in Table II.

Table IV shows the monthly retail expenditures necessary to provide an adequate diet for a family of four persons.

Table V shows the annual retail expenditures necessary to provide an adequate diet for 3,000,000 families.

Table VI shows probable annual expenditures for foodstuffs by 3,000,000 relief families. This table also shows the probable monthly expenditure for foodstuffs by the average relief family.

Table I.

TOTAL FOOD SUPPLIES FOR 3,000,000 RELIEF FAMILIES

	Food Re- quired for an Adequate Diet	Esti- mated Purchases by Re- lief Families (000,000 omitted)	Proposed F.S.C.C. Distri- bution	Estimated Total Con- sumption with FSCC Distri- bution	Esti- mated % In- crease	Net In- crease in Con- sumption Lbs.	Cost of Proposed FSCC Dis- tribution
<u>Flour & Cereals</u> lbs.	2,016	1,365	900	1,800	48	435	18
<u>Dried Beans & Peas</u> lbs.	216	66	72	120	75	54	2
<u>Lean Meat & Fish</u> lbs.	504	396	216	480	39	84	22
<u>Green Vegetables</u> lbs.	864	500	270	700	74	200	5
<u>Dried Fruits</u> lbs.	216	18	108	120	95	102	5
<u>Other Vegetables & Fresh Fruits</u> lbs.	864	450	360	750	83	300	7
<u>Potatoes</u> lbs.	1,584	950	540	1,200	46	250	8
<u>Butter</u> lbs.	144	91	54	120	54	29	14
<u>Fats, Lard, etc.</u> lbs.	216	93	108	180	81	87	11
<u>Sugar</u> lbs.	288	357		357			
<u>Syrup</u> lbs.	72	126		126			
Sub-total.....							92 92
<u>Milk</u> qts.	3,024	1,200	1,440	2,000	56	800	115
<u>Eggs</u> dozen	216	119	108	200	75	81	<u>20</u> 135 135
Grand Total.....							\$227

Table II.

TOTAL FOOD SUPPLIES PER FAMILY PER MONTH

	<u>Food Re-</u> <u>quired</u> <u>for an</u> <u>Adequate</u> <u>Diet</u>	<u>Estimated</u> <u>Purchases</u> <u>by Relief</u> <u>Families</u>	<u>Proposed</u> <u>F.S.C.C.</u> <u>Distri-</u> <u>bution</u>	<u>Estimated</u> <u>Total Con-</u> <u>sumption with</u> <u>F.S.C.C. Dis-</u> <u>tribution</u>
<u>Flour & Cereals</u>	56 lbs.	38 lbs.	25 lbs.	50 lbs.
<u>Dried Beans & Peas</u>	6 lbs.	1.8 lbs.	2 lbs.	3.3 lbs.
<u>Lean Meat & Fish</u>	14 lbs.	11 lbs.	6 lbs.	12.5 lbs.
<u>Green Vegetables</u>	24 lbs.	14 lbs.	7.5 lbs.	19.5 lbs.
<u>Other Vegetables &</u> <u>Fresh Fruits</u>	24 lbs.	12.5 lbs.	10 lbs.	20.8 lbs.
<u>Dried Fruits</u>	6 lbs.	.5 lbs.	3 lbs.	3.3 lbs.
<u>Potatoes</u>	44 lbs.	26 lbs.	15 lbs.	33 lbs.
<u>Butter</u>	4 lbs.	2.5 lbs.	1.5 lbs.	3.3 lbs.
<u>Fats, Lard, etc.</u>	6 lbs.	2.6 lbs.	3 lbs.	5 lbs.
<u>Sugar</u>	8 lbs.	9.9 lbs.	----	9.9 lbs.
<u>Syrup</u>	2 lbs.	3.5 lbs.	----	3.5 lbs.
<u>Milk</u>	84 qts.	33 qts.	40 qts.	55 qts.
<u>Eggs</u>	6 doz.	3.3 doz.	3 doz.	5.5 doz.

Table III.TOTAL FOOD SUPPLIES PER FAMILY PER YEAR

	<u>Adequate Food Supply</u>	<u>Estimated Purchases by Relief Families</u>	<u>Proposed F.S.C.C. Distribution</u>	<u>Estimated Total Con- sumption with FSCC Distribution</u>
<u>Flour & Cereals</u>	672 lbs.	455 lbs.	300 lbs.	600 lbs.
<u>Dried Beans & Peas</u>	72 lbs.	21 lbs.	24 lbs.	39 lbs.
<u>Lean Meat & Fish</u>	168 lbs.	132 lbs.	72 lbs.	150 lbs.
<u>Green Vegetables</u>	288 lbs.	168 lbs.	90 lbs.	233 lbs.
<u>Other Vegetables & Fresh Fruits</u>	288 lbs.	150 lbs.	120 lbs.	250 lbs.
<u>Dried Fruits</u>	72 lbs.	6 lbs.	36 lbs.	40 lbs.
<u>Potatoes</u>	528 lbs.	312 lbs.	180 lbs.	400 lbs.
<u>Butter</u>	48 lbs.	30 lbs.	18 lbs.	40 lbs.
<u>Fats, Lard, etc.</u>	72 lbs.	31 lbs.	36 lbs.	40 lbs.
<u>Sugar</u>	96 lbs.	119 lbs.	-----	119 lbs.
<u>Syrup</u>	24 lbs.	42 lbs.	-----	60 lbs.
<u>Milk</u>	1,008 qts.	396 qts.	480 qts.	660 qts.
<u>Eggs</u>	72 doz.	39.6 doz.	36 doz.	66 doz.

Table IV.

FOOD REQUIRED MONTHLY BY A FAMILY OF 4
FOR AN ADEQUATE DIET

<u>FOODSTUFFS</u>	<u>QUANTITY REQUIRED</u>	<u>UNIT PRICE</u>	<u>RETAIL COST</u>
<u>Flour & Cereals</u>	56 lbs.	at \$.06	\$ 3.36
<u>Dried Beans & Peas</u>	6 "	.06	.36
<u>Lean Meat & Fish</u>	14 "	.20	2.80
<u>Green Vegetables</u>	24 "	.04	.96
<u>Other Vegetables & Fresh Fruits</u>	24 "	.05	1.20
<u>Dried Fruits</u>	6 "	.09	.54
<u>Potatoes</u>	44 "	.03	1.32
<u>Butter</u>	4 "	.30	1.20
<u>Fats, Lard, etc.</u>	6 "	.12	.72
<u>Sugar</u>	8 "	.06	.48
<u>Syrup</u>	2 "	.06	.12
		Sub-total....	\$13.06
<u>Milk</u>	84 qts.	at \$.12	\$10.08
<u>Eggs</u>	6 doz.	.29	1.74
		Sub-total....	\$11.82
		Grand Total.....	\$24.88

ANNUAL RETAIL COST OF FOODSTUFFS
REQUIRED TO PROVIDE AN ADEQUATE DIET
FOR 3,000,000 FAMILIES.

<u>Products</u>	<u>Quantity</u> (000,000 omitted)	<u>Unit Cost</u>	<u>Total Cost</u> (000 omitted)
<u>Flour & Cereals</u>	2,016 lbs.	at \$.06	\$120,960
<u>Dried Beans & Peas</u>	216 "	.06	12,960
<u>Lean Meat & Fish</u>	504 "	.20	100,800
<u>Green Vegetables</u>	864 "	.04	34,560
<u>Other Vegetables & Fresh Fruits</u>	864 "	.05	43,200
<u>Dried Fruits</u>	216 "	.09	19,440
<u>Potatoes</u>	1,584 "	.03	47,520
<u>Butter</u>	144 "	.30	43,200
<u>Fats, Lard, etc.</u>	316 "	.12	25,920
<u>Sugar</u>	288 "	.06	17,280
<u>Syrup</u>	72 "	.06	4,320
<u>Milk</u>	3,024 qts.	.12	362,880
<u>Eggs</u>	216 doz.	.29	62,640
			<hr/>
			\$895,680

Annual Food Expenditure Required.....\$298.56

Monthly Food Expenditure Required.....\$ 24.88

PROBABLE ANNUAL EXPENDITURES
OF RELIEF FAMILIES FOR FOODSTUFFS*
FOR 3,000,000 FAMILIES

<u>Products</u>	<u>Quantity</u> (000,000 omitted)	<u>Unit Cost</u>	<u>Total Cost</u>
<u>Flour & Cereals</u>	1,365 lbs.	@ \$.06	\$ 81,900
<u>Dried Beans & Peas</u>	66 "	.06	3,960
<u>Lean Meat & Fish</u>	396 "	.20	79,200
<u>Green Vegetables</u>	500 "	.04	20,000
<u>Dried Fruits</u>	18 "	.09	1,620
<u>Other Vegetables & Fresh Fruits</u>	450 "	.05	22,500
<u>Potatoes</u>	950 "	.03	28,500
<u>Butter</u>	91 "	.30	27,300
<u>Fats</u>	93 "	.12	41,160
<u>Sugar</u>	357 "	.06	21,420
<u>Syrup</u>	126 "	.06	7,560
<u>Milk</u>	1,200 qts	.12	144,000
<u>Eggs</u>	119 doz.	.29	34,510
			<u>\$483,630</u>

Probable Annual Food Expenditure by Average Relief Family.....\$161.21

Probable Monthly Food Expenditure by Average Relief Family.....\$ 13.43

*Based on an analysis of the content, nutritional adequacy and economy of diets of families of wage earners and low paid clerical workers, made by the Bureau of Home Economics in four regions of the United States.

It is estimated that the average weekly expenditure unit for food by families receiving relief other than W.F.A. earnings is from 25% to 40% below the lowest income level covered in the study noted. The lowest per capita weekly food expenditure level studies were \$1.33 to \$1.99 for North Atlantic Industrial Communities, East No. Central Cities and Pacific Cities; \$0.67 to \$1.32 were the lowest per capita weekly food expenditure levels studied for East So. Central Cities and Southern Cities (Negro).

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 31, 1938

TO Secretary Morgenthau

FROM M. A. Harris

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

Trading, as during the previous week, remained at a low level -- partly due to the withdrawal of a number of investors from the market pending the announcement of the terms of the June financing. Buying and selling was largely in small lots, with prices of Treasury bonds moving irregularly lower. In the average, Treasury bonds lost about $4/32$ nds with individual losses ranging from $2/32$ nds to $7/32$ nds. Guaranteed issues, on the other hand, finished the week somewhat higher in the average, reflecting the increased buying interest that has been shown during the past few weeks. Treasury notes, though less active than bonds, were firm throughout the week and prices advanced 1 to $4/32$ nds, with the exception of the "rights". The June maturity declined $1/32$ nd and the September maturity $3/32$ nds.

Corporate Bond Market

In continuation of the downward movement, which began last week for better grade issues, and May 11 for medium and lower priced issues, prices of all groups declined. Weakness was more pronounced in the rail groups although turnover was not heavy. Some buying inquiries continued to come in for the better grade utility and industrial issues but these were usually at levels substantially under existing levels. Losses by high

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grade issues ranged to about 1 point, while those by second grade issues ranged from about 1 point to 4 or 5 points.

Below are given the changes in various Moody bond price averages at current levels from the recent high and from the low of 1938:

Present position of Moody's AAA averages relative to:

	<u>Industrials</u>	<u>Rails</u>	<u>Utilities</u>	<u>All</u>
April 13, 1938	‡ 3 5/8 pts.	‡ 1 pt.	‡ 1 3/4 pts.	‡ 2 pts.
May 1938 recovery peak	- 1/2 pt.	- 7/8 pt.	- 5/8 pt.	- 5/8 pt.

Present position of Moody's BAA averages relative to:

	<u>Industrials</u>	<u>Rails</u>	<u>Utilities</u>	<u>All</u>
April 13, 1938	‡ 1 1/2 pts.	- 1 1/4 pts.	‡ 5 3/8 pts.	‡ 3/4 pt.
May 1938 recovery peak	- 2 1/4 pts.	- 6 5/8 pts.	- 2 1/4 pts.	- 5 1/8 pts.

New Security Issues

New security financing last week was composed of \$23,000,000 of corporate issues, \$46,200,000 of municipal bonds (largely made up of the \$40,000,000 New York City issue) and \$7,500,000 of temporary municipal loans. The corporate issues consisted of \$16,500,000 of San Antonio Public Service Co. 4% 1st Mtge. bonds of 1963 priced at 99, \$2,500,000 serial notes of the same company and \$3,500,000 of National Gypsum Company 4 1/2% debentures due 1950 priced at 100. These offerings were well received and soon were quoted at a premium in counter dealings.

Offerings listed for the near future

1. \$100,000,000 of United States Steel 10-year debentures.
2. \$33,000,000 of Commonwealth Edison of Chicago 3 1/2% 1st Mtge. bonds due 1968 to be accompanied by offering to stockholders of \$39,600,000 convertible debentures.
3. \$27,750,000 of Mountain States Telephone & Telegraph Co. 3 1/4% debentures due 1968.

4. \$18,000,000 of Consolidated Gas, Electric Light and Power Company of Baltimore 3 1/4% first refunding mtge. bonds due 1968.

Dealers' Portfolios

For the first time in five weeks dealers increased their holding of U. S. Government securities and guaranteed obligations. The total increase was \$28.9 millions. Changes by groups are given below:

(in millions of dollars)

	<u>Holding May 21</u>	<u>Holding May 28</u>	<u>Change</u>
Treasury bonds	31.6	42.3	+ 10.7
" notes (1 year)	28.2	46.8	+ 18.6
" " (1 - 5 years)	36.6	35.5	- 1.1
" bills	4.3	2.8	- 1.5
H. O. L. C. bonds	1.9	-0.5	- 2.4
F. F. M. C. bonds	<u>1.6</u>	<u>6.2</u>	<u>+ 4.6</u>
	104.2	133.1	+ 28.9

Investment Accounts

There were no purchases or sales in the New York market for investment accounts during the past week.

System Account

The only transaction in the U. S. Government security market by the Federal Reserve System was the replacement of last Wednesday's bill maturity of \$55,667,000 by the purchases of \$42,850,000 of the new Treasury bill issue maturing August 24, 1938, \$9,650,000 of the bill issue maturing June 1, 1938, and \$3,167,000 of the bill issue maturing June 29, 1938.

May 31, 1938

To: The Secretary

From: Mr. Magill

Re: The President's Arthurdale speech on the tax bill

1. The passage in the President's address which Senator Harrison criticized as erroneous is the following:

"In other words, if you or I sell stocks, which we have held for a few years, at a profit of, let us say, \$5,000, we have to pay a tax of 15 per cent on that profit; whereas, the man who has made a profit of \$500,000 on stock he has owned is required, under this new bill, to pay a tax of only 15 per cent, just as you and I would. Nobody, by any stretch of the imagination, can say that this new provision maintains the principle of payment in proportion to ability to pay."

The statement is erroneous insofar as it is applicable, by implication, to individuals with small incomes. The 1938 Act provides that in the case of gains on property held for more than twenty-four months, 50 percent of the profit is to be taken into account. This amount is to be included in the taxpayer's ordinary income subject to the regular normal tax and surtax rates; but with the proviso that a maximum tax rate of 30 percent is to be applied thereto, if this would be to the taxpayer's advantage. Consequently, if an individual with \$10,000 surtax net income from other sources realizes a capital gain of \$5,000 on property held more than two years, he will be taxed on

- 2 -

\$2,500 of the profit as ordinary income. The ordinary rates of tax applicable in his case would be much less than 30 percent, and he cannot, therefore, make use of the maximum rate for capital gains. On the other hand, an individual with an ordinary income of \$75,000, will be taxable at a maximum tax rate of 15 percent on any capital gains he realizes, whether \$5,000 or \$500,000.

To put it in another way, progressive rates of income taxation apply to capital gains only up to the point where the progressive rates reach an effective rate of 15 percent of the gain. Whereas the progressive rates on other kinds of income reach a maximum of 79 percent, the rate of tax on capital gains from the sale of property held over two years never exceeds 15 percent.

2. The treatment of capital gains and losses in the new revenue act is quite complicated, since capital gains and losses are divided into three different categories with different tax rates and different methods of handling losses. You and I handed the President a memorandum under date of April 25th which described in some detail, with examples, the agreement of the Conference Committee on the subject. I recall that I explained the provisions orally to the President at that time. Four days later you sent the President a six page memorandum on the tax bill which described the method of treating capital gains in more general terms, with examples. In that memorandum after mentioning the maximum rate of tax of 15 percent applicable to capital gains from the sale of property held more than two years, the memorandum stated: "A somewhat more liberal treatment is granted to capital gains realized by

- 3 -

taxpayers with small incomes." Finally, on May 19th you sent the President a three page memorandum on the bill, embodying views which he expressed to us orally the preceding afternoon. This memorandum contains, among other things, the following sentences, which are correct as stated: "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."

You may recall that in our conference on the afternoon of the 18th the President first asked me to describe the provisions of the bill; and then without giving me an opportunity to do so, dictated to me a memorandum with respect to the provisions. The substance of what the President dictated was embodied in the memorandum of May 19th. You will also recall that you informed the President several times during the course of the next week that we were standing by prepared to advise and assist him in any way we could, and that I was leaving the city on the evening of May 25th to be gone until today.

MEMORANDUM OF THE DAY'S ACTIVITIES

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M

May 31, 1938

To: The Secretary

From: Mr. Magill

1. Mellon case

Messrs. Oliphant, Helvering, Wenchel, and Shearer called to discuss the desirability of an appeal to the Circuit Court of Appeals from the decision of the Board of Tax Appeals. You may recall that the Board divided 8 to 7 on some of the important legal questions. Since these questions are involved in other cases, and since a considerable amount of money is involved, the Treasury would normally appeal ~~the decision~~ in order to get a final determination. Mr. Mellon's attorney, Mr. Hogan, has offered to settle the case by paying the amount which the majority of the Board determined to be due in the Mellon case; and in addition by paying the amounts which would be due in the cases of other stockholders, if the reasoning of the majority of the Board were applied to their cases. I understand that the total amount offered in settlement of the various cases is over \$2 millions. Mr. Oliphant and I share the view that since in the ordinary case we would take an appeal, we ought to prosecute the appeal in this case, even though there may be some adverse criticism of the Treasury due to our refusal to accept the settlement.

2. Port Authority case

Messrs. Oliphant and Helvering and I reviewed the various Treasury rulings and court decisions relating to the exemption of the various kinds of state and municipal officials; and the possibilities of dealing with the retroactive application of the Port Authority case by means of legislation at this session. I have a conference with counsel for the Port Authority tomorrow. After the conference, I should like to discuss with you for a few minutes the desirability of issuing a statement of the Treasury's position on the subject.

3. Mr. Cox

Mr. Oliphant asked me to see Mr. Cox this afternoon, Mr. Cox being under consideration for a major position in his office. Mr. Cox is now in charge of the tax division in the Corporation Counsel's office in New York City. He made an excellent impression on me, since he has an agreeable personality and apparently thoughtful and well informed in the tax field.

Rm

TREASURY DEPARTMENT

AA 341

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Herman Oliphant

May 31, 1938

A fuller report of Corcoran calling me Thursday afternoon about the President's Tax Bill Speech, which happened in your absence and when I could not reach Magill by phone, is as follows:

1. He asked if the penalty for withholding corporate earnings was $2\frac{1}{2}\%$. I said it was less than that if part of the earning was distributed--that it was $2\frac{1}{2}\%$ at the most.
2. He asked what the 1936 House Bill provided about corporate indebtedness. I stated the substance of Section 16 of that Bill, which section did not appear in the 1936 Act as finally passed.
3. He read me language to the effect that, under the new tax law, the principle of taxing capital gains according to ability to pay had been abandoned, with an illustration. I said that was not true. It depended on the period of holding and the income bracket involved--that it was not eliminated as to the lower brackets and not as to higher brackets unless held over 18 months.
4. He read a statement to the effect that 85% of capital gains came from the sale of stocks and bonds, saying the President said Magill had told him so. I phoned Tarleau to look this up and phone Corcoran.

Herman Oliphant

FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

May 31, 1938

SMALL HOME MORTGAGE INSURANCE

Mortgages selected for appraisal have shown a steady up-trend for the four weeks in May and for the week ending May 28 numbered 5,186 for \$24,054,163 — the highest week since the new amendments were signed in February. For the corresponding week of 1937, mortgages selected numbered 3,437 for \$15,118,575.

The percentage of the mortgage applications covering new homes to be constructed was also the highest to date — approximating 57 per cent or 2,940 mortgage applications. During the week construction was started on 1,711 new small homes.

LARGE SCALE HOUSING PROJECTS

During the week, financing arrangements were completed on four additional projects, and on one project in operation an insured loan was closed, making a total at May 28 of 20 projects in operation valued at \$19,500,000; 21 valued at \$18,000,000 under construction, and 35 projects valued at \$28,400,000 with financing arrangements completed.

PROPERTY IMPROVEMENT LOANS

More than 100 new institutions have been added each week during the past month to the institutions advancing funds under the property improvement program under Title I, and at May 28 more than 2,500 institutions had reported such loans. For the week 8,419 notes for \$4,013,739 were accepted for insurance — the highest week since the new Title I went into effect. The total of these notes insured through May 28 numbered 70,110 for \$33,238,177.

FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

WEEKLY VOLUME OF INSURING OPERATIONS

For 1938 and corresponding Period of 1937

HOME MORTGAGES SELECTED FOR APPRAISAL

<u>Week Ending:</u>	<u>1938</u>		<u>1937</u>	
	<u>No.</u>	<u>Amt.</u>	<u>No.</u>	<u>Amt.</u>
Jan. 8	1,256	\$ 5,483,184	1,967	\$ 8,565,680
" 15	1,504	6,531,200	2,286	9,566,860
" 22	1,711	7,299,975	2,167	9,447,127
" 29	1,888	8,150,840	2,272	10,091,713
Feb. 5	1,982	8,571,895	2,306	9,721,165
" 12	1,988	8,787,105	2,701	11,069,008
" 19	2,219	10,025,800	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. 3	4,713	21,414,849	3,617	15,366,438
" 9	5,037	23,242,102	3,516	15,414,023
" 16	4,483	20,388,480	3,481	15,234,428
" 23	5,076	22,994,547	3,796	16,017,136
" 30	4,912	22,464,595	3,613	15,224,773
May 7	4,571	22,285,560	3,173	13,467,481
" 14	4,940	22,963,458	3,682	15,482,268
" 21	4,906	22,991,478	3,004	12,718,385
" 28	5,186	34,054,163	3,437	15,118,976

FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

WEEKLY VOLUME OF INSURING OPERATIONS

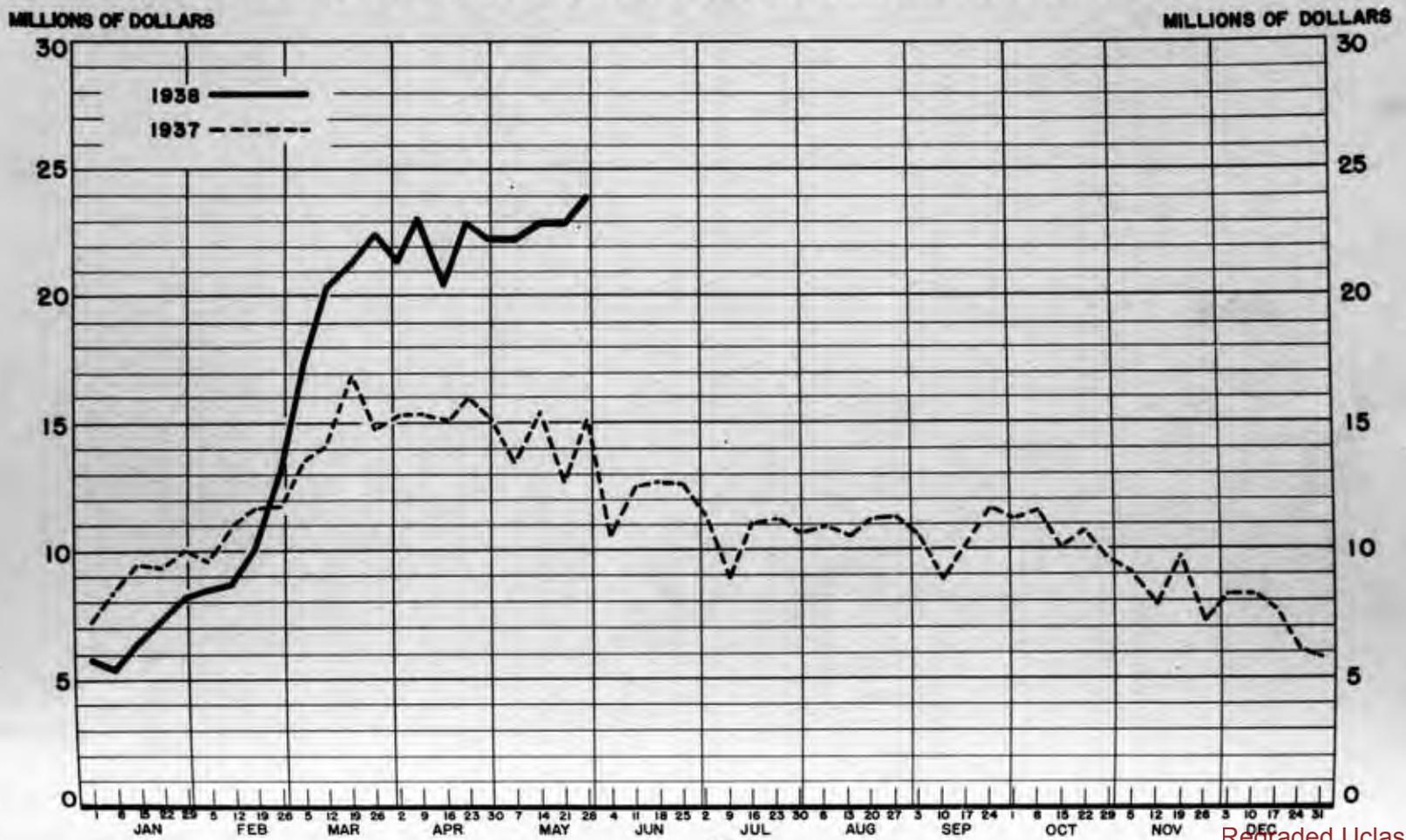
For 1938 and corresponding Period of 1937

MORTGAGES ACCEPTED FOR INSURANCE

<u>Week Ending</u>	<u>1938</u>		<u>1937</u>	
	<u>No.</u>	<u>Amt.</u>	<u>No.</u>	<u>Amt.</u>
Jan. 8	943	\$ 4,035,500	1,442	\$ 5,821,275
" 15	1,101	4,542,900	1,756	7,241,615
" 22	1,058	4,445,500	1,767	7,438,500
" 29	1,329	5,501,500	1,880	7,860,250
Feb. 5	1,099	4,431,000	1,811	7,434,100
" 12	1,172	4,649,900	1,778	7,410,850
" 19	1,194	4,837,100	1,869	7,702,650
" 26	1,033	4,350,200	1,867	7,524,500
Mar. 5	1,589	6,905,400	2,291	9,092,500
" 12	1,705	7,601,400	2,135	8,947,600
" 19	1,883	8,288,400	2,388	9,781,500
" 26	2,290	9,390,900	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	3,489	15,350,400	2,625	10,618,660
" 28	3,482	15,218,200	2,704	11,126,010

WEEKLY VOLUME OF HOME MORTGAGES SELECTED FOR APPRAISAL

AMOUNT REPORTED BY INSURING OFFICES AT END OF EACH WEEK



Dictated June 1, 1938

Last night (May 31), at 9:15 p.m., Aubrey Williams called me up to say he had just talked to the President and asked him about Senator Adams' letter and the President said, 'Where is the letter? I wanted to sign it and send it up this afternoon.' And then Williams called me to tell me about it.

Inasmuch as Gaston had delivered the letter to Steve Early right after 4:30, I could not understand it. Early wasn't home, so I got Miss Le Hand who was with the President and she said, 'Sure he has the letter, but it was in his basket and he had not reached it yet.'

Williams called me this morning at a quarter of eight to remind me that the President had told him last night that Berlew, Wallace, Williams and myself should go on the Hill and see Adams and other senators about the letter as the President had refused to take Aubrey Williams' suggestion of last night that he, the President, send for these leaders. I told Aubrey Williams I would do nothing until the letter went up on the Hill. He said, 'Why couldn't we precede the letter?' I said, 'Because I want to make sure that the President signs it.' And then I said, in addition, 'I am not going up on the Hill until I see the President and he gives me explicit instructions on exactly what he wants me to do.'

GROUP MEETING

May 31, 1938.
10:30 a.m.

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

H.M.Jr: Have you (Magill) had time to take what we sent over to the President and compare it with what he said, plus the criticism?

Magill: We gave him a detailed memorandum showing precisely how the capital gains provisions worked with taxpayers of different incomes - two pages that I took over there myself one time when you were over there; and we gave him later a more general memorandum.

H.M.Jr: Excuse me a minute. I've got to have George Haas. If he's sick, I must know.

(Mrs Klotz phones for Haas)

Magill: And then we gave him a third memorandum. Each of those memoranda - and of course, particularly the first, which went into the whole subject with considerable detail, showing exactly how the computations were to be made, and so forth - each of those called attention to the difference in treatment between capital gains realized by persons with large incomes and capital gains realized by persons with small incomes.

H.M.Jr: Well, were any of the statements he made wrong?

Magill: Yes.

H.M.Jr: They were?

Magill: His statement on capital gains is wrong. It's a - well, I would say it's 50 percent wrong - is about the way I'd say it.

Oliphant: Tommy Corcoran called me and he read the statement and

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I said, "That's wrong."

H.M.Jr: Well, I don't remember your saying that.

Oliphant: Yes, I told you.

H.M.Jr: You didn't tell me that. You told me you talked to him, but you didn't tell me you told him it was wrong.

Oliphant: I told you he had called me and asked some questions, and I tried to get hold of him (Magill).

H.M.Jr: Yes, but I thought you passed on them. You didn't tell me that any statement the President was making was wrong.

Oliphant: I told Tommy.

H.M.Jr: Yes, but you didn't tell me that, because if you had I'd have got in on it. You told me he called you, but you didn't tell me any statement he had made was wrong. Did you draw his attention to the fact it was wrong?

Oliphant: (Nods yes) Tried to get Magill and Magill was making a speech. (Haas comes in)

H.M.Jr: This particular thing that happened here

(On White House phone) Hello. - Good morning. - Well, I'll tell you exactly what it is. Then you can use your own judgment. At Cabinet we had a heated debate about two things, the question of taking care of people who were starving in Cleveland and Chicago and Detroit, and how we were going to take care of them, and how we were going to - what Wallace was going to do - and the President put it up to him - about the price of wheat and cotton falling. So the President appointed the three of us to get together and come back and report to him Tuesday. Now, there are the two things, the question of the drop in price of commodities, what we could do in Surplus Commodities by buying surplus commodities, and hooking it up with the people who are hungry. Now, how much you can say, I don't know, but ... - Yes. - Yes. - All right. - Yes. - Right, but that's what it is. - Thank you - very much.

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George, if you're going over with me to the White House at 11, if there's anybody else - I mean if Wallace and the others bring anybody else in, I'll take you in; if they go in alone, I won't. Now, have you got that stuff ready on the surplus, with the stuff from Jesse Tapp and everything else?

- Haas: I haven't got the thing you asked me about yesterday. I haven't got that yet.
- H.M.Jr: Well, that's the least important. Have you got what they're going to say, how much money Surplus Relief can use, and all that?
- Haas: No. I've been trying to get hold of Tapp and he's tied up.
- H.M.Jr: Well, have you got that memorandum which you drew up for me?
- Haas: Oh yes, I've got your whole
- H.M.Jr: I mean the one that I had on my desk, about the different things we could do.
- Haas: Yes, sir.
- H.M.Jr: What?
- Haas: Yes, sir.
- H.M.Jr: Have you got the stuff from Army on what they need?
- Haas: I haven't got that. I thought Harry was going to bring that in this morning. But he's got it. He's got it. I can get that.
- H.M.Jr: Well, I've got it. Just a second. (Looks through his papers.) Here is the - what the Army needs. It's all there in one page. Now, there's that. You know, you had two; you had a Memorandum I and II for me.
- Haas: Yes, sir. One is Ed Babcock's and the other is ...
- H.M.Jr: No, the memorandum - the topic of what we could do

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with sending stuff to China. Stuff that you wrote.

Haas: Yes, I've got that.

H.M.Jr: Have you got that there? Huh?

Haas: I haven't got it here, but I've got it.

H.M.Jr: Well, you better go get it. Have you got a copy of Babcock's memorandum? Well, you better get your stuff together. Be here five of.

Oliphant: Five of 11?

H.M.Jr: Yes.

Oliphant: You better excuse me, because I want to check that legal document. I haven't had a chance to do it.

H.M.Jr: What legal document?

Oliphant: This silver thing. Haven't had a chance to do it this morning.

Haas: Whether it was possible for the Government to do it.

(Haas leaves)

Oliphant: Will you excuse me?

H.M.Jr: Yes.

As to this thing, I wish you (Magill) would give me a memorandum as to what statements the President made - where he's wrong, see, and then ask Oliphant to give you a memorandum of his conversation with Corcoran, what Corcoran said to him and what he said to Corcoran.

Oliphant: I've got that.

H.M.Jr: Well, you give him that. And I'd like to have a memorandum from you (Magill) some time - some time.

Magill: On the whole thing.

H.M.Jr: By tomorrow morning, see?

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Magill: Sure.

H.M.Jr: But this thing - we're going on this surplus thing.

Oliphant: Will you excuse me?

H.M.Jr: Be back five minutes approaching I mean on the legal - what Surplus Commodities can or cannot do.

(Oliphant leaves)

(Secretary reads The Amherst Student, a newspaper, hands it to Mrs. Klotz)

Bob made the paper there - Number One out of sixty.

Magill: Fine, fine.

H.M.Jr: Pleased me very much.

I said, "Bob, why didn't you let me know?"

"Well, you take the paper. I thought you'd read it there as soon as I would."

Gibbons: What did he do?

H.M.Jr: He's out for this Amherst paper, and sixty boys went out to compete for the paper, and he made it - they take four, but he was Number One.

Magill: That thing, of course, made me more or less sick, because there was no reason for the error. He could have made the point perfectly well and made it right.

H.M.Jr: Well, I'd like to have a memorandum, and I think you better work on it, because if it - you see, the President has a four o'clock press conference. Suppose we ought to send it over to him by then, because he'll be attacked on that, you see. You see any hole he can crawl out through? Well, think about it, see? I'm having lunch with him at one.

Magill: Well, he can - the best out he's got is that the spirit of what he said was correct. What he actually said wasn't.

H.M.Jr: Well, see if you can give me something that I can take

over by lunch time, will you?

Magill: All right, sure.

H.M.Jr: (Handing a telegram to McR) And I want an equally friendly letter to LaGuardia, please. Coast Guard.

Gibbons: Telegram?

H.M.Jr: Yes.

Gibbons: They did a great job up there.

H.M.Jr: Will you (Magill)?

Magill: I will.

I've got these Port Authority people coming in, the Attorneys General of a number of states, and so on. Much alarmed by the retroactive feature.

H.M.Jr: Give Jack Bennett a kiss on the forehead for me, will you?

Magill: I will. I'll do that. I hope he brings good old Tremaine. I love him also.

H.M.Jr: I've got on pretty good shoes - take care of him.

Magill: We've got to make up our minds on our policy on that at some point.

H.M.Jr: Anything else?

Magill: Had a nice trip to Canada.

H.M.Jr: What did they do, open Parliament? Did you open Parliament?

Magill: We opened Parliament, yes.

H.M.Jr: That's what it was, wasn't it?

Magill: No, this was the meeting of the Canadian Royal Commission on Domestic Provincial Fiscal Relationships.

H.M.Jr: Oh my God, do they have those troubles up there?

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Magill: They sure do.

H.M.Jr: Was Dan good?

Magill: Dan was splendid.

Bell: They're trying to keep out of the mistakes we've made.

H.M.Jr: Were they successful?

Bell: Well, they haven't yet gotten into them as much as we have.

Magill: I don't know, I think they've done pretty well.

Bell: Said they could see the similarity in the problems.

H.M.Jr: Anything else?

Magill: (Nods no)

H.M.Jr: Herbert?

Gaston: Ned Bruce called me up. He'd like to make a little ceremony out of your visit - your and Mrs. Morgenthau's visit over to see those murals.

H.M.Jr: Well, there's only one chance in three I'll come.

Gaston: Only one in three. He wanted permission to have a photographer take your picture with that of the artist. Said it would mean a great deal to Mr. and Mrs. Weston.

H.M.Jr: Well, I won't know, the way things are going - popping today, I won't know until 4, 4:30, whether I can come.

Klotz: I thought it was between 4 and 4:30.

H.M.Jr: No, I told him between 4 and 5 - originally, I told him.

Klotz: Between 4 and 4:30 - that's what I told him.

H.M.Jr: Well, I mean I'll go as I go home, you see?

Gaston: Do you want to let the Morning Post photographer take a picture of you and the artist over there?

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Klotz: Quite a thing if you ...

Gaston: Mrs. Weston has come down.

H.M.Jr: It will be nearer five o'clock.

Gaston: All right. And he can have a photographer waiting over there.

H.M.Jr: All right.

Klotz: I think you better do it.

H.M.Jr: All right.

Gaston: Sandy Kline tells me this morning that he got it on very good authority that the President has asked the Treasury for a memorandum as to the issuance of further silver certificates.

H.M.Jr: Well, let him ask the President about it at four o'clock. I don't know anything about it.

Gaston: All right.

There was a great deal of interest in the newspaper stories that quite a delegation of Attorneys General were coming down here. I wasn't able to find out anything here except that some Port Authority people were coming down.

H.M.Jr: I don't know. Ask Dr. Magill. If he's recovered from his Canadian trip, he'll tell you all about it.

Gaston: All right.

H.M.Jr: What else?

Gaston: Nothing else.

H.M.Jr: Would you ask Lowell Mellett whether he's free Wednesday night?

Gaston: Yes.

H.M.Jr: Coule he keep it for me?

Gaston: Wednesday evening.

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H.M.Jr: Yes. For supper, work afterwards with me. You too.

Gaston: Yes.

H.M.Jr: Whether I could have an option on him.

Gaston: Yes, for Wednesday.

H.M.Jr: Yes.

Gaston: 7:30 on.

H.M.Jr: My talk, see?

Gaston: Yes.

H.M.Jr: Anything else, Herbert?

Gaston: No, I think not.

H.M.Jr: Wayne?

Taylor: We were in pretty good shape on the Spanish thing Friday, but we're not so good right now.

H.M.Jr: I see.

Taylor: Not quite sure how bad we are.

H.M.Jr: All right. I'll let you worry. You and Herman are worried?

Taylor: We are.

H.M.Jr: Well, you tell me about it when I come back. Question of title?

Taylor: Well, this apparently goes back to the original exchange of cables, you see.

H.M.Jr: Oh.

Taylor: From Thursday on, why, we looked pretty good, but going back to March 1, and so on, why, apparently we don't. I mean March 30.

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H.M.Jr: What's the trouble?

Taylor: I don't know yet.

H.M.Jr: All right. Well, I can't fuss with it. We haven't paid them yet, have we?

Taylor: No.

H.M.Jr: Well, don't worry too much.
Anything else?

Taylor: No, that's the only one thing that I'm

H.M.Jr: If you will be here at 2:30, Burgess is coming back at 2:30.

Taylor: (Nods yes)

H.M.Jr: All right on everything else?

Taylor: As far as I know.

H.M.Jr: All right.

Upham: Nothing.

Gibbons: Did you hear Lowell Thomas the other night broadcasting about Anslinger and this Peruvian diplomat that they arrested over in Geneva?

H.M.Jr: No.

McR: Made a good story.

Gibbons: Yes.
Coast Guard, as I said, did a good job on Saturday.
But they're having their graduation exercises the same day - this Academy - ... I asked them if they ever checked. I said, "Well, now you're under an eclipse. The President is going over to Annapolis."

H.M.Jr: How many boys are they graduating?

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Gibbons: 23 - out of 50, I think - of an original 50.

H.M.Jr: You're going up?

Gibbons: Yes, I'm going up there for the day, and I've got to be up Monday for my own daughter's graduation.

H.M.Jr: Fine.

Gibbons: That's all.

H.M.Jr: Dan?

Bell: I believe we're going to have about \$600,000 worth of these Jefferson nickels shortly available for distribution. May I go ahead and distribute those as we have in the past?

H.M.Jr: How do you do it? Go to the Congressmen first?

Bell: Beg pardon?

H.M.Jr: Go to the Congressmen first?

Bell: No, we allow the Federal Reserve Banks to send in applications and state the amount, and we give them what they want up to the six hundred thousand; and if their requirements are over the six hundred thousand we just apportion the six hundred thousand to them.

H.M.Jr: Can't write out - give a little card "Compliments of Henry Morgenthau, Jr."?

Bell: You want that on the nickel?

Gaston: On the elephant's back.

Taylor: Elephant? Elephant?

H.M.Jr: Incidentally, doesn't somebody owe me on the fact that the bill became a law without signature?

(Magill gives H.M.Jr a nickel)

Klotz: (Laughs)

H.M.Jr: He gave it to you?

Klotz: He gave me a nickel.

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Magill: Come here. (H.M.Jr returns nickel)

H.M.Jr: Well, would you (Klotz) mind coming across, as long as you're getting in on this thing?

Klotz: I will. I have it.

H.M.Jr: All right.
Come, nickel.

Klotz: As a matter of fact, I was in on half of that, wasn't I?

Magill: Sure.

H.M.Jr: On my side. On my side. All right. You win either way. What? One time on my ... Oh golly! Oh well

Bell: You know, he spent at least a dollar, I'm sure, up in Ottawa trying to find a paper that had something about the tax bill. Evidently the Canadians weren't much interested in it. He couldn't find a paper. I found out on Sunday coming down that the reason for his anxiety was that he had bet with you.

H.M.Jr: I see.
Handle that in the regular way.

Bell: All right. That's all I have.

H.M.Jr: You (McR) bought your trucks?

McR: No.

H.M.Jr: Going to buy some trucks?

McR: I don't know.

H.M.Jr: All right, what else?

McR: I have nothing more. They're insisting they need twice as many trucks. If they need twice as many, damned if I'll get them.

Magill: You're about to win another nickel from me.

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H.M.Jr: How?

Magill: On the Board of Tax Appeals.

H.M.Jr: Which way did I bet on that? Is Mrs. Klotz in on this one?

Magill: I don't think she's got this nickel. I think I'll have to pay you this time.

H.M.Jr: What did I bet?

Klotz: I have it written down somewhere.

Magill: I think you didn't bet.

Klotz: I think he said he was going to appoint all four.

Magill: You either bet the appointments wouldn't be made before June 2 or you bet Arundell wouldn't be appointed.

H.M.Jr: Oh, no.

Klotz: Mr. Morgenthau said all four of them.

H.M.Jr: All four, I think.

Magill: All four? You look it up, because I'm not sure. But I know I already set up reserves for that nickel.

H.M.Jr: Well, on this other, I'd like a little ceremony when I get it.

Gibbons: You know, after what happened

H.M.Jr: I'm getting ... Go ahead.

Gibbons: over the week-end, all bets are off on Tyson.

H.M.Jr: I don't know. I think the President handed it out and Pat handed it back. If I were the President, I'd call all bets off and appoint Tyson.

You know, I'm getting a little bit worried, I'm so good. First the Board, then this thing; and I'm the only person that forecasted Ickes was going to get

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married. I'm really getting worried.

Magill: You had a nickel on that too?

H.M.Jr: No.

Bell: How about Hopkins? Did you predict anything there?

Gibbons: How about the Governor of New York?

H.M.Jr: All I know about Hopkins was that he talked over Magill's phone for an hour and had to go to bed for a week.

Magill: It takes a strong man to use that phone.

OPEN MARKET MEETING

May 31, 1938.
3:00 p.m.

Present: Mr. Taylor
Mr. Bell
Mr. Haas
Mr. Seltzer
Mr. Harris
Mr. Upham
Mr. Eccles
Mr. Harrison
Mr. Burgess
Mr. Williams
Mr. Goldenweiser
Mr. Piser
Mr. Davis
Mr. Szymczak
Mr. Sinclair

H.M.Jr: I'm not nearly as well prepared for this meeting as I like to think I usually am, and therefore I haven't come to any decision, because I just haven't had time to do my home work.

But Bell will present to you people three different plans, and you can listen. But as I say, I'm not as well prepared as I usually like to be for these meetings. So many things happened today that had to be taken care of on the second, I couldn't do my home work.

Bell: Well, the first plan contemplates continuing the retirement of 50 million dollars a week of Treasury bills, up to and including June 15. And then for this statement I haven't put in any new financing; put in whatever you want in September and December. That would leave balances going into June of a billion 950, going out of June a billion 600, at the end of July a billion 430, at the end of August a billion 280, and end of September a billion 320 - and with no new money in that figure - October 990, November 765, and December about the same. Now of course, you couldn't go out of December with a balance like that, facing heavy expenditures beginning January, but I've worked it out that way just to show you how the balances would taper off to that point without any new money in the picture at all.

Eccles: That's paying off the bills the 15th.

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Bell: Yes, the weekly bills plus the specials.

Golden.: What would your low point be, Dan?

Bell: 760 million, at the end of December.

Plan Two would retire bills at the rate of 50 million dollars a week right straight through until September 14, and would also contemplate the raising of new money in the amount of a billion dollars in September and 500 million dollars in December. And in this case the balance would be just about a billion and a half going out of June, a billion 150 in July, get to the low point at the end of August: 730 million; and then in September it would increase again to a billion 670, October a billion 340, November a billion 100, and December a billion 614 million.

Now, I'd say both of these plans would contemplate the refunding of the maturing issues either on the dates of the maturity or in June.

Now, the third plan would contemplate the retirement of Treasury bills up to June 1 at the rate of 50 million a week, as we have been doing, and then we would stop retiring the weekly maturities until we got up to the 22d of June, when we have 150 million dollars maturing; and then we would retire, beginning at that point, 50 million dollars a week for five weeks, which would level those maturities off to a hundred million. And then, beginning on the 27th of July, when we have a 50 million dollar maturity, we'd issue a hundred million - in other words, 50 million dollars of new money - to replace the 50 million that we retired beginning the 22d of June to the 20th of July. But we'd have six issues up to August 31, making 300 million dollars of new money, of which 250 million would be just replacements of the previous retirements; so that at that time we would have a hundred million dollars of Treasury bills maturing each week on a 90-day basis.

Eccles: That would increase the bills by 50 million...

Bell: Yes.

Eccles: ... only.

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Bell: Yes, by 50 million.

Eccles: A billion 350.

Bell: No, a billion 3.

Eccles: Billion 3.

Burgess: If you take account of the tax bills, you decrease it by 250.

Bell: Yes.

H.M.Jr: But beginning next week, each week we'd be selling a hundred million dollars worth of bills - level off - making a program of a hundred million dollars worth of bills a week for the next twelve weeks. See?

Bell: Now, this also contemplates raising new money in September and in December in amounts of 500 million dollars each. And our balances would be, going out of June, the same as before, a billion 600 million; end of July a billion 350, end of August a billion 430; and then it would increase back to a billion 970 at the end of September because of the new money.

H.M.Jr: Excuse me. Will you people just discuss these three plans? I'll be back in a minute. I'm sorry. Got something at the White House.

(Secretary goes out)

Bell: At the end of October, the balance would be a billion 640, end of November a billion 4; and then at the end of December, with 500 million of new money, go back to a billion 9.

Now, that plan would put 300 million dollars of money in the market between May 31 and June 30. It would put another 300 million approximately in the market in July, and then would remain about the same in August and then it would go up 500 million dollars in September, and drop back 500 million dollars by the end of November; and then in December you would pick it up by new borrowings.

Eccles: And then the end of the year about the same as September.

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- Bell: Yes, same as September, that's right.
- Eccles: You say it would increase 300 million in August?
- Bell: No, I said that we would put 300 million dollars of money in the market in July.
- Harrison: Would you pay off that much?
- Bell: That's the debt and expenditures. Our balance would go down, in other words, 300 million dollars during that month. Then in October and November the balance would again go down about 500 million dollars in two months.
- Eccles: By borrowing, in other words, you build it back to keep it around two billion dollars; that's it.
- Bell: That's right.
- Eccles: In other words, at the present you're approximately two billion and at the end of the year two billion, and in the meantime you'd borrow a billion of new money and you'd pay off 250 million of bills.
- Bell: Well, a net amount of 200 million in bills.
- Eccles: Yes, you borrow another 50 million. So what you do is borrow 800 million dollars of new money and maintain your balances.
- Bell: Approximately.
- Harrison: What does that involve your doing in June, that plan?
- Bell: Well, this plan would involve no new cash in June, a refunding of the 618 million, with a possibility of making the same offer to the holders of the 596 million $2\frac{1}{2}$ notes maturing in September.
- Harrison: And on the bills, between now and June 15, what would you be doing?
- Bell: On this plan we wouldn't do anything more than roll over the weekly maturities, 100 million dollars a week for the 8th and 15th. And then on the 22d, when there is 150 million maturing, and for the four succeeding

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weeks also, we would retire 50 million dollars.

Szymczak: Be a hundred million all the way down.

Bell: And that would leave a hundred million maturing each of those weeks. And then when we get to the end of that fifth week we'd begin raising new money through the sale of bills by increasing our maturities by 50 million dollars for six weeks.

Eccles: You'd pay off 250 million and then borrow back 300 million.

Harrison: 250 million would be your tax bills.

Eccles: No, no, in addition to the tax; pay off the tax, then pay off 250 million of the 150 a week for five weeks; that is, you pay off 50 a week for five weeks. Then you borrow - instead of 50 million, you borrow a hundred, which would be 50 new for six weeks. That would leave you total outstanding bills of ...

Bell: Billion three at the end of August.

Eccles: Yes. Billion and a quarter now, excluding the tax bills.

Bell: That's right.

Harrison: Nothing definite about the September maturity in June.

Bell: Oh no, that's just a question to be discussed here, as to whether we should bring it back.

Eccles: There's this question, Randolph, that occurs to me with reference to the payment of these bills. You pay off the 250 of tax bills, of which we own 90 some-odd, and then you pay off 250 million at the rate of 50 million a week for the next five weeks. That's going to create - in view of the large amount of tax bills and the large amount of bills maturing - the 250 - is it going to be possible for you to replace those?

Burgess: It means they'll continue to sell at a very low yield basis, because during that period when you're retiring 50 million, we have maturities of 60 million a week

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and thereabouts.

Eccles: The following period you won't be paying anything off and there will be 50 million of new.

Bell: That's right.

Eccles: It would be easier if it was announced beforehand you were going to pay off 50 and then you were going to increase it 50. I think it would be much - the market would anticipate that and it would be easier to replace that portion of the 150 that fell due, that we have, out of the hundred that are offered.

Burgess: I think if it were announced that the bill program was now a hundred million a week regularly for the next 13 weeks, it would aid in making the thing orderly and make it easier for us to replace the other. At the present rates we can get most of the new bills; that is, nobody else wants them much at these rates and we get them all right. And as long as there are a little more issued than we need, why, we can come along reasonably well. Now, there's some banks come in, put in a little bid, take some away. But as long as there's some margin there we can get through the next couple months. And then we hope to run into a little more normal bill market. Of course, the problem is the Treasury balance, so that they can show a reduction in their balance without our being completely stuck on our bills.

Taylor: Do you see any objection to making an announcement, Dan?

Szymczak: Of the hundred million.

Taylor: Yes.

Bell: You mean announcing that now.

Taylor: Yes. We ordinarily don't do it that far ahead.

Eccles: Well, along with your June financing - I mean the whole thing would be a part of your financing program.

Bell: I don't see any objection.

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- Taylor: I don't see any.
- Bell: As a matter of fact, I should think the Secretary might want that knowledge to be out.
- Burgess: Say that, beginning June 8 and each week thereafter, until further notice, it is proposed to have a hundred million dollars a week as a regular program.
- Eccles: That would mean you have reduced the total outstanding bills by ...
- Burgess: 200 million.
- Eccles: No, I mean from the beginning.
- Burgess: Oh.
- Eccles: You had a billion - you see, when you had the 9-months bills, you had a roll-over of a billion 950, wasn't it?
- Seltzer: Yes.
- Eccles: Now you'll be down to a billion 3, so you will have retired 650 million of those bills. Then you will have no tax bills out, so you will have retired - then ordinarily you used to have five or six hundred million dollars of tax bills out, so really what you will have done to your bill market is reduced it from a high point of two and a half billion to two six, down to one three. So you really have reduced your short-term paper by about a billion and a quarter dollars, leaving that open for some spot next year or the following year, if needed.
- Seltzer: Still have some five billion coming - we still have in five years some 13 billions coming due; that is, we didn't leave any great gap in the short-term market.
- Eccles: That's notes, though.
- Seltzer: From the standpoint of our liabilities. We may have from the standpoint of bank investments.
- Eccles: Yes, because the notes sell at a big premium from the standpoint of a

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- Burgess: Well, if you're thinking in terms of potential borrowing, it means there is a leeway of a billion or a billion and a quarter that you could walk into any time you needed to, rather more easily than most other avenues of borrowing.
- Harris: The total amount of bills outstanding after July 20 week will be even one billion dollars, won't it?
- Bell: Yes.
- Golden.: Have you considered at all whether it wouldn't be just as well to roll those 150 over as they come down, rather than reducing it by 50 and then borrowing 50 extra afterwards? I mean just beginning with the 22d of June to roll over your 150 for five weeks and then roll over your 50 after that.
- Bell: Well, you could do that, surely.
- Golden.: I don't know, but it seems that, rather than first retiring and increasing reserves and all that for five weeks, and then starting and borrowing and decreasing ...
- Eccles: That's what it does, increases and decreases.
- Burgess: Well, it doesn't as a matter of fact decrease reserves, as Bell's balance would show. The 300 that you pick up in August is just about the amount of the excess of expenditures, so that the balance at the end of July and the balance at the end of August are about the same.
- Bell: That's right.
- Burgess: That's the advantage of the Secretary putting money in the market, spending this gold at the rate of two or three hundred million in June and a similar amount in July, which would mean that he would have put into the market altogether perhaps a billion dollars of the gold by the first of August. And then he levels it off.
- Golden.: That would be in either case, wouldn't it? I mean whichever way you'd do, you'd spend it.
- Burgess: If he rolled his 150 million starting the end of June, he wouldn't have put so much money into the market.

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- Golden.: Not so much gold in the reserves, you mean.
- Burgess: Yes.
- Eccles: Reserves wouldn't build up as fast. They wouldn't build up as fast, and they wouldn't decrease. Then they'd build up faster the next period. In other words, instead of - during one period they don't build up, the next period they build it up faster; whereas if you just roll them over as they come, the build-up would be gradual.
- Bell: August you probably won't get any increase in the reserves through Treasury operations.
- Golden.: It did seem to me that there was some disadvantage in first retiring, not only from the point of view of the Federal Reserve holders but from the point of view of other holders; you'll be cutting down 50 million available bills for five weeks, just later to issue them again. Seemed to me you could avoid that.
- Burgess: You could, of course, change the maturity and do that.
- Bell: Yes.
- Burgess: That is, you could put out 150.
- Bell: Put out 100 90's and 50 120's.
- Burgess: 130, or something - so you brought it out, it came to the result of a hundred million a week maturity. There's something to be said for that. Then you do avoid that difficulty of starving the market for one month and stuffing it the next month.
- Eccles: How's that again, Randolph?
- Burgess: On June 22, when you first have a 150 million maturity, instead of reducing the new issue to a hundred and thus cutting down the amount of bills outstanding by 50 million each week there, put out your 150; make the hundred 90-day bills, make the others 120, say.
- Eccles: So it catches up.
- Burgess: So it catches up, you see.

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- Bell: Put that extra 50 on a date when there is another 50 maturing.
- Eccles: You get to the point where you have a hundred million a week within a period.
- Golden.: Seems like a more orderly way.
- Bell: Flexible enough to do that.
- Burgess: Doesn't make much difference in our maturities. For those weeks when there's 150 million maturing, we have 67, 67, 43, 59, 64; following weeks, with 50 maturing, we have 42, 39, 47, 45, 43, 46. Be about as easy one way as the other for us.
- Eccles: Well, it doesn't seem - it doesn't seem reasonable to pay off the 250 just to turn right around and go back and borrow it again the next five weeks, just to make a hundred million a week come due, because, as you say, you could do that through lengthening the maturities of those bills that come due so that after a certain period you will have the hundred million a week.
- Burgess: The only argument is one of simplification. You'd simplify your program by saying, "Now we're just going to do a hundred million a week." It's a readily understandable way of explaining the thing - little simpler.
- Taylor: It took quite a while to establish these 90-day bills, and it would seem to me that it would be rather undesirable to put in a 120-day bill - just for instance. I mean you've got your question of your 90-day bill and then your tax date bills, which I think it would be kind of a mistake to move away from after having gone through all that business before to get away from 9-months bills.
- Eccles: Of course, your tax date bills are out now. You haven't got any and won't likely have some for a while. Likely be next year, won't it?
- Bell: I should think after January 1.
- Eccles: With this program here.

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Bell: Yes, that's right.

Burgess: Of course, Goldenweiser is right, that by the third week in July you would have reduced the total outstanding bills to about a billion dollars, of which we would have 700 million, which is a considerable proportion.

Haas: Would they be in strong hands?

Burgess: I don't know. That's just the problem, George.

Sinclair: I think we overlooked you back there, Mr. Haas.

Haas: What?

Sinclair: Almost forgot you were there. I thought that was John Williams at first.

Taylor: Until you get the volume of bills up, in any case, why, it's really - it's dealing with your requirements rather than anybody else.

(Secretary returns)

Burgess: As long as the weekly issue of bills is more than we need, we can make our replacements. The difficulty for the last two weeks has been that our requirements were more than the amount currently issued.

Eccles: You'll run up against that with this tax bill. You see, when you pay off this 250 million tax bills in June, we have 83 million of those and you're not offering anything, so that the problem will be to replace that 83 million.

Burgess: And if you put out a hundred million each week, why, we can perhaps garner in a substantial amount of that.

Bell: The question has been raised as to whether or not we couldn't avoid retiring 50 million dollars a week in bills beginning June 22 and then starting to issue new bills for cash on July 27, see?

H.M.Jr: I don't get that.

Bell: Well, when you get to the 150 million maturing we contemplate retiring 50 million and then picking it

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up again at the end of that period. The question is whether we can't avoid that, because, you see, the total volume of bills gets down to a billion dollars, of which 700 million dollars will be in the hands of the Federal Reserve Bank.

H.M.Jr: What would they like to see?

Bell: Well, we could avoid that by issuing 150 million dollars of bills on that date: a hundred million of 90-day bills, 50 million of 120 or 130, some place in there where it will fall on a date where there's 50 million maturing on the present program. Mr. Taylor points out that we did have a little difficulty in establishing this 90-day - this bill program, and by issuing now a 120 it will disturb that program. Well, that's about as far as

Taylor: Also had another reason for wanting to handle your bills in that way, so that you get the full monetary effect, so that it would have gone out and had its effect; and then you would be altering it by

H.M.Jr: Well, the only way you could explain it if we did that, would be because the Federal Reserve had 700 million and we're doing that to help them out. As a matter of fact, if we go on a basis of a hundred million a week and do a billion three, the only reason we're doing it is to make the Federal Reserve's task that much easier.

Burgess: Well, I think also there's a point, Henry, in keeping something of a bill market there and having a market that rolls over. You reduce it below a hundred a week and it almost passes out of the picture. It's an instrument you want to use later, and you want to keep it breathing at least faintly.

H.M.Jr: Well, a hundred million a week is a couple of good deep breaths.

Eccles: You see, you had bills last year up to about two billion six, with the tax bills. When you pay the tax bills June 15, you'll have the total bills down to about a billion three. You will nearly have cut in two the total amount of short-term paper in the market; and inasmuch as the Reserve System, of course, has never let any of theirs run off, just kept turning

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over, this total reduction has come out of the market and has left the Reserve System down to a point where they own darn near all the short-term paper. And if you continue to pay off, it naturally gets down to the point where the Reserve System would have to replace the short paper by going into the bond market or into the note market, which would bid up these present prices to even higher levels, which may not be a good thing; or we'd have to permit the portfolio to run off. That's the problem that it creates both for the Treasury and for us - I mean it's a mutual

- H.M.Jr: Sell you a hundred million a week of silver certificates.
- Eccles: Well, isn't that what - you may have to do that some time. But this
- H.M.Jr: I haven't, as I say, had time, frankly, to think the thing through, and I'd like you people to think the thing through. I've asked Burgess to come down again Thursday. But maybe after - isn't - is this last one - is that a new thought to you gentlemen, or had you had that before: this idea of getting on a hundred million dollar a week basis, with a billion three outstanding, starting June ...
- Bell: 22d.
- H.M.Jr: ...June 22d.
- Davis: That's been the basis of our discussion over there.
- Eccles: We've been discussing that as being desirable.
- Davis: But we had followed one step further. It seemed important to miss that pinch there of those five weeks where 50 million a week is being taken out, because we're awfully close to the point where you just simply can't replace bills with bills.
- H.M.Jr: Well, I've asked Bell to give me the figures, and I haven't got them, of where we'll be on the first of July and the first of September as to having used up the gold we deposited with you. We haven't got those figures of where we'd be on the - following the

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so-called Plan Three. Where would that put us the first of July and the first of September in regard to the one billion four we had on deposit? I think we've got to take a look at that. I don't know where that would leave us. And of course, cutting the 150 down to 100 does - ought to use up that much more of that gold.

Davis: That's right, gets it out a month sooner than otherwise.

H.M.Jr: What I'd like to suggest is, if you people would sort of think that over - I mean it's a little difficult to explain why we're going to ask the market to give us a couple hundred million dollars new money when we haven't used up all the gold. But if we explain we want to do the thing on a hundred million dollar a week basis of bills and keep it there until further notice, that might be an explanation.

Eccles: What new money do you refer to?

H.M.Jr: Well, we'd be picking up now for the next - what was it, three or four weeks - we'd pick up some new money.

Burgess: No, just be replacing your maturities, that's all.

Bell: That's a replacement of the 250 we lost back here.

H.M.Jr: Oh.

Sinclair: We'd refrain from paying off 50 million.

Bell: The only new money we pick up between now and the first of July would be 50 million dollars.

H.M.Jr: 50 million.

Bell: There is one date when there's 50 million dollars due, when you have to increase that 50 million dollar issue to make it a hundred.

H.M.Jr: But if you people knew that you were going to have a hundred million dollars a week, you could adjust it to get your portfolio in shape.

Burgess: I think we could.

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- H.M.Jr: What?
- Burgess: I think we could.
- H.M.Jr: It would be awfully hard for us to explain it. I'm not sure I could explain this.
- Eccles: You've done ...
- H.M.Jr: Now, if we could - excuse me.
- Eccles: I was just going to say, you've done pretty well reducing your - in the last year, your short-term debt. Reduced it nearly in two. Just be about half. No tax bills out. You'll be down to a billion three and it was up to two six here a year ago. So you've done pretty well and you've left yourself there a spot for next year or the following year for a billion and a quarter or a billion and a half of short money, if you need it.
- H.M.Jr: Sure. Well, if we go on a hundred million basis, it would be simply in a spirit of cooperation with the Federal Reserve System, and make it possible for them to operate. And you've got - I mean that would make your public relations that much easier.
- Eccles: Well, we've either got - we've got one of three problems, it seems to me, and that is either to let some of these bills run off, which we could - which we don't want to do, I don't believe, at this time unless it is impossible to replace them, which it would do, of course, if you continue to pay off; you get down to a point where you'd really pay off more than - there would be less outstanding than we now have.
- Davis: Paying what - got down to a hundred to one percent.
- Burgess: A hundred to one percent.
- Davis: It's just about at the point where we have to pay a premium for them.
- Eccles: So that - or if we replaced the bills that run off with either notes or bonds, it would only make that market much more stronger than it is at the present

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time, which is all right until it breaks at some time, and if it breaks, the farther you run it up - if it breaks, then of course there is always a problem there. Better to keep it from going up instead of having it up and have a bad market again.

H.M.Jr: Could we leave that for you people to digest? And I haven't had a chance to talk to the people in the Treasury about this. I'd like them to digest it. I mean I haven't had a chance.

And then let's talk about what we're going to do with our maturities. I got two plans on this, with A and B under Plan One and Two.

Now, Plan One, as I call it - again, we haven't jelled on this thing - would be to offer a long bond, a $2\frac{3}{4}$ bond, just as long as we can go, and possibly a five-year note, and offer that to the June, September, and December holders; might as well clean them all up while we're at it.

Now, as I say, under Plan One you'll have Plan One-A and offer that to June and September.

Now, the reason why I want to get away from a $2\frac{1}{2}$ percent is - what is it, '49-'53, is that what we've got - $2\frac{1}{2}$?

Bell: Yes.

H.M.Jr: Well, every time you get a little sinking spell in the market, that's the weak baby. Now, if we came along with another $2\frac{1}{2}$, we phenagle around and have all these sharks come down, and they might tell me $2\frac{1}{2}$ '50-'53 or '49-'54, but it would be somewhere right in that same territory. And I suppose in the present market it might go to 101, somewhere in there; and if things are very good, it might go to 101 $\frac{1}{2}$; but if we got a bad spell, it would be the first one to go below par. I mean everybody would be worrying and I'd be in Alaska and Marriner Eccles would be up in Norway somewhere.

Sinclair: Be on the telephone.

H.M.Jr: Be on the telephone.

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Burgess: And you'd both be telephoning me.

Szymczak: Wherever he'd be, he'd be on the telephone.

H.M.Jr: I'd like to get something where we'd be good for the summer.

Eccles: Suits me. For the summer? Take it into the fall a little bit.

H.M.Jr: Well, over Labor Day anyway.

Eccles: I'd like to lap over until the first of October.

H.M.Jr: Well, that's a little long, Marriner. Somebody might make another speech.

Eccles: Well, you don't expect that you're going to go all summer without some speeches, do you?

H.M.Jr: Well, I make one in June. I may kick one all to pieces.

Well, anyway - so I'm inclined to take 2 $\frac{3}{4}$. Now, they tell us we could go 25 years and they - also the idea that we should make it 20-25 years, otherwise it goes to too big a premium. But after all, if we should give them a 15-25, the fact it might go to 103 or 104 - it doesn't cost us anything, and it does give my successors a chance to turn it around if they wanted to. I mean the difference between making it a 20-25 and a 15-25 is simply that it might for a year or two go to 103 or 104, because we have a ten-year spread instead of a five-year, but the Government doesn't pay anything. But it might be very advantageous, and I'd like very much to get these long-term bonds with a long spread as to the call. I mean supposing - I mean the difference between making it 20-25 would be what? 20-25 would be 101?

Harris: Probably 102 premium.

H.M.Jr: And a 15-25?

Harris: Probably up two or three points.

H.M.Jr: But we don't pay anything. But I'm open to argument.

Eccles: Aren't they likely to take that - that's an awful

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premium, though, three points, and they've got these rights that - what are they now, how far?

Bell: 101½.

Eccles: 101½. How much selling would there be of that bond, with that premium?

Harris: That's the only thing about it. Might cause a lot of speculation in the market. Probably make more money out of speculating than out of the earnings.

Seltzer: I don't think it would be safe to count on any such premium.

Harris: As what?

Seltzer: As three points.

Harris: Well, if you have that call date, that's where it has to go.

Seltzer: Well, your '56-'59 2½s are selling at a yield of 2.55. I imagine you'd be safe to count on a 2.65 yield basis on this thing. That would make your premium a little better than one point. If the market decided to do better, it still wouldn't get up to three points premium.

H.M.Jr: Could you make it a 20-30 year bond?

Bell: Be better.

H.M.Jr: How about a 20-30?

Seltzer: Very hard to figure the yield basis way off there. Here at least you have a maturity pretty close ...

Burgess: I think that would frighten them. You get a 20-25, it's just a step out beyond what you've got. That is, you've got a maturity in '60, and a maturity in '63 is just going out three years. I think the insurance companies would duck a 30-year. Some of them say 25 is too long, they say 20 is the limit. So you're getting right out to the limit of what they say they'll take.

H.M.Jr: Well, I mean - you shy away from a 15-25?

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- Burgess: Yes. I think the trouble is that it's subject - there are too many price fluctuations. I think if we were doing over again that '49-'53 we would have made a smaller number of years' spread. Now, as you go out further, you can make the spread somewhat greater. The trouble with that '49-'53 has been that when interest rates were under $2\frac{1}{2}$, it went to a premium, pricing it on the basis of '49; when interest rates went above $2\frac{1}{2}$, why, they priced it on a '53 basis; so it shuttled back and forth between those points, and the market doesn't know which it ought to price it on - the maturity date - actually it prices it from time to time on the call date. So it means a bond that fluctuates pretty violently in its pricing.
- H.M.Jr: But look what fun we have.
- Burgess: But the holder just doesn't enjoy that quite so much.
- H.M.Jr: Somebody will make a little money.
- Well, let's just talk in terms - make it a little simpler for me to get your advice - let's talk in terms of a long $2\frac{3}{4}$ - how's that? - as a bond.
- Burgess: That's right.
- H.M.Jr: What? Now, if we were going to get out a long $2\frac{3}{4}$ - and we can tailor it afterwards - how do you people feel about my picking up all maturities for the rest of this year?
- Eccles: What would be the option that you had? You'd give a note?
- H.M.Jr: Yes.
- Eccles: Five-year note.
- H.M.Jr: Uh-huh.
- Eccles: We've been discussing the desirability of, if you only offered the September and June, not with December, if you didn't take into account December - of a 10-year bond and then the 20-25 or 15-25, not giving a note at this time because the amount of notes outstanding is

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very large, and the banks, most of them, are inclined to take up to a 10-year bond now. The insurance companies' trustees will take a longer bond, and the banks will possibly take up to the 10-year maturity. And that would tend to keep the bond market from advancing too much too.

- H.M.Jr: We've got - March 15, '48, we've got 451 coming due.
- Burgess: One possibility would be to put out some more of that same bond for your short one, at a premium.
- H.M.Jr: How much is that selling now?
- Burgess: ~~103.~~
- Harris: 103.18.
- Burgess: 103.18. You can put them out at $2\frac{1}{2}$ - put out some more.
- Bell: Have to shave those a little finer than the others.
- H.M.Jr: Well, what I was thinking about - I'll be criticized for paying $2\frac{1}{2}$ interest, so I want to be able to say, "Yes, but I'm only paying $1\frac{1}{8}$ on the 5-year." I mean it gives me a little something. When we tried to get that bill through, I mean, they asked a lot of questions on why we wanted more bonds and the higher interest rate and all that stuff.
- Burgess: There's a technical problem there, Henry, that's a little difficult. If you put out a note and a long bond, the long bond will have more gravy on it; it has to have. It's worth 101 or $101\frac{1}{2}$ or something like that; whereas, with the note, you're right - much closer to the market. A $1\frac{1}{8}$ note would be worth perhaps par and three quarters or 101. That is, it's worth half a point to a point less. So that anybody who's holding the rights who wants to make a little money out of it would go into the long bond and then turn around and sell it, rather than just go into it because he wanted to keep it. So you might get quite a lot of fellows electing to take the bond and then selling it on the market, and possibly have a weak after-market there. If your alternative offering instead of a note was a short bond, where the

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difference in the profit was somewhat less, you'd be more apt to get choice exercised on the basis of what they wanted to keep. Now, that isn't a killing matter, of course. It's a technical thing, but

H.M.Jr: The way the market is now, you don't really have to give them a choice.

Burgess: You could sell the whole thing in a long bond, I think. I'd be a little bit afraid of it, because once you get out beyond 12, 15 years, there are a great many banks who aren't interested. A great many banks ...

H.M.Jr: They shouldn't be.

Burgess: So you appeal to a much more limited market, quite properly.

Eccles: Well, the banks hold a lot of these notes that fall due in June and December. To the extent that you offer only a long bond, the banks shouldn't take the long bond; and then, therefore, if they don't, why, it's deflationary, because the bond which they - the notes which they hold are paid off, therefore their total of both investments and deposits diminish.

Burgess: Or they would take the bond and sell it again.

Eccles: Yes, they'd take the bond and sell it, which would be deflationary so far as their loans and investments are concerned in the aggregate. They'd reduce their total loans and investments, which is something that I don't think we want to see now. Therefore, if they were given the option either for the note or the 10-year bond, I think you'd find that they would replace their present note maturities. If you only gave a long bond, I think they'd take the long bond, but then later on, why, they'd say if they took a loss in it that we'd been to blame for not giving an option, that they had no choice but to take a 20-year security.

Burgess: We want a bond that will last all summer.

Eccles: That's what I'm afraid of.

H.M.Jr: We want an all-summer sucker.

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Burgess: At least an all-day sucker.

Eccles: What would the advantage be of refunding the December maturity at this time, particularly?

H.M.Jr: Oh, just get them out of the way. And then we could go after a tidy sum of cash in December, and then that big 900 million dollar note issue in March could be handled that much easier. Be getting our money - we'll need a lot of money in January, February, and March - lot of money - and for the moment things in the Government bond market are possible, and 30 days from now they may not be. I mean I'm doing it because I'm worried; it looks as though I could get away with it now, and I'd like to get away with everything I could while the going is good. Couldn't be anything more plain. That's all - I think I can get away with it now. Why not do it now?

Eccles: What would you do in September in that case? Maybe do nothing?

H.M.Jr: No, I'd go after about five - at least five hundred million dollars of cash, depending upon how the boys felt after their summer vacation. If they felt the way they did last summer, I wouldn't want anything; and then you'd be faced with doing a big chunk in December.

Can I be any more frank in answering?

Sinclair: If you cleaned up the September maturity in June and then for some reason decided not to do anything in September in respect to new money, might it not be advisable to have the September maturity to refund in September rather than to do nothing at all?

H.M.Jr: Oh, we'll need new money in September.

Sinclair: But there might be a possibility where you wouldn't want to ask for as much as you might otherwise do.

H.M.Jr: If the market conditions were such

Sinclair: But might it not be better to have the September maturity there for refunding?

H.M.Jr: Why?

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- Sinclair: So you wouldn't have to stay out of the market altogether for that period, even though you didn't choose to raise some cash along with the refunding.
- H.M.Jr: If you don't mind my saying - I mean if conditions are bad and you've got your September maturity refunded, and you don't have to do anything at all - if they're that bad, you just don't do anything.
- Taylor: You don't preclude starting bills.
- H.M.Jr: No, I don't. I just - I mean I can't be any more frank or confidential. It looks as though we could go at this time and go right straight through and clean up all these maturities for June, September, and December. And we're going to have - we're going to have to raise a billion and a half of new money between now and the first of July, aren't we?
- Bell: At least. You - you mean a year from now. Oh, more than that, I think.
- H.M.Jr: Well, at least - maybe; we don't know. And this thing - you've (Sinclair) been at it longer than I have - you know this thing can turn overnight just suddenly. And you take conditions in London - often we trail them, sometimes we're ahead of them. They can't sell an issue in London. The Government hasn't sold an issue - as I say facetiously, the last one they sold made the Chancellor of the Exchequer the Prime Minister, and the last one was a flop. The Government took 66 2/3 to 70 percent of it. London County Council sold one that was a flop.
- The only argument I got - the going seems to be good. Why not take advantage of it? Make it a little bit difficult - cleans up some more short-term stuff for your thing; but it would be a damn sight more difficult if we couldn't sell it.
- Eccles: The London money market - the banks there, though, have a ratio of a little more than 10 percent of cash. However, they have kept that ratio at about that point.
- H.M.Jr: The fact remains it's a year now since the British

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Government has had a successful flotation.

Eccles: Of borrowing bonds.

H.M.Jr: Of anything except bills.

Eccles: Well, yes, they have.

H.M.Jr: Anything except bills.

Eccles: They've had to go to the - they've had to go to the market rather than the banks - I mean outside. The excess reserves - of course, if they had huge excess reserves in the banking system, why, it would possibly change the picture with the banks.

Burgess: They haven't needed the money, have they?

Eccles: Huh?

Burgess: They haven't needed the money, have they?

Eccles: They've got a very large short debt out. I suppose they might want to refund it if they could. They'll need it now.

H.M.Jr: Yes, bet your life they need it. And they have four billion dollars of bills out.

Eccles: And they've got a deficit coming up now.

H.M.Jr: I don't want - I don't want to be unreasonable in trying to get something done, or to make it impossible for you fellows. But as I say, it just cleans up that much more. But if you had a note, you could take - if you had a five-year note, you people could take that, and at the present five years is considered short-term.

Eccles: What particular difference does it make, Randolph, whether the December note is called now? It's small - 400 million. Of course, it's anticipating quite a way in advance, but from the market standpoint what difference would that make?

Burgess: Well, I think it could be done, as far as that goes.

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I don't think it would make a good impression. I think it would look as though you felt very much concerned about your future job. I think that psychological impression of the thing is a very important aspect of the thing. And of course, a lot of people in the market like to have their maturities coming along. They like to have something maturing each tax date. They like to plan their maturities, to budget them so they know they'll have cash coming in at intervals. So they don't like to have these maturities anticipated ahead of time. So it interferes with some of their plans.

Now, I'm also a little doubtful about including that in this financing because if you offer a long bond, as we're talking of doing, you're appealing to rather a new group of buyers, just a little uncertain; you haven't tapped that market before, and I think it's a little safer to undertake that with a financing of a billion 200 million than it is with a financing of 400 million more. That is, the danger is that a lot of people will buy into that bond because it looks like a lot of gravy in it, and then will dump it, be selling out over a period, and you'll have a vulnerable issue. Now, there is much less danger of that if you're handling a billion 200 million dollar job, where you'd have 800 million of it go into the bond perhaps, than if you had a billion dollars in the bond and then had people running away from it very soon. So I think you'd be a little safer, just as far as this June issue is concerned, to only undertake the billion 200 million.

H.M.Jr: I talked to - excuse me - can you (Taylor) hold your thought a minute?

Taylor: (Nods yes)

H.M.Jr: I talked to one person and he thought in the Street they'd like it fine, because that would clear the decks and the Government would be out of the picture and leave it to the private financing, they go ahead. There's one person liked it and he thought it would be received extremely well by the investment bankers.

Burgess: Well, that's interesting. Of course, since you've talked to me I haven't had a chance to talk to the

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market. I've talked to them quite a lot about anticipating the September maturity, and curiously enough I've run into a good many people who objected to that. That's partly what I'm basing the judgment about the December on.

H.M.Jr: Is that Government bond dealers or is that the investment

Burgess: No, that's banks and investment people.

Eccles: Of course, you wouldn't leave the decks entirely clear, because you'd be getting new money both in December and September. So it isn't as though the field would be cleared for the private

H.M.Jr: That's right.

Eccles: If you're going to get 500 million of new money in September and the market is very favorable, why couldn't you anticipate then the December issue? Or you could let it be included in the December. You're going to have to do financing in September and December - new money.

H.M.Jr: Don't have to do it in September. Under Plan Three you don't have to do it in September.

Eccles: You contemplate it, though - 500 million.

H.M.Jr: Do we have to borrow in September under Plan Three?

Bell: Yes, 500 million.

Eccles: In both September and December. Inasmuch as you're going to the market anyway, it would seem that the refunding of this December issue wouldn't make much difference.

Bell: You can alter that picture if you want to by letting that balance run down, you see.

H.M.Jr: The last four years, three years September has been a bad month for us.

Eccles: Well, of course - every one of them.

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- H.M.Jr: Three out of four have been bad, have been difficult. That's one reason why I'm very strongly inclined to pick up the September maturity. On the December
- Burgess: I think that's all right.
- Eccles: I think that's all right.
- H.M.Jr: On the December, I could be sold either way. I'm open to a good proposition.
- Burgess: It's hard to get over - a problem of psychology of the market, hard to interpret it. I think the feeling is a good deal this, that you've got a big job to do and that for them to keep going along with you it ought to be as simple and direct and predictable as possible. Now, the orderly process is to take up your maturities as they come along. The market expects that kind of thing. Now, if you start doing things that are different and unusual, it gives them a stirred up feeling, as though they don't know what to expect, and they begin to lose a little confidence in the market. Now, that's an intangible, indefinite thing, perhaps, but it's very real.
- Davis: You don't think it would be serious in the case of September.
- Burgess: No, I think you're going just three months ahead, that's a reasonable thing, and particularly if it is intimated that that leaves a clear space for some cash financing if it is desirable.
- H.M.Jr: You (Taylor) want to say something?
- Taylor: Well, partly in terms of the summer problem which Randolph and I will enjoy, but also in terms of where these particular securities are held, why, it seems to me that we could deliberately under-price a note and slightly over-price the bond and you would get away from some of this milling around that you're talking about.
- Burgess: Yes, yes. It's hard to do it with a note without being just terribly generous.
- H.M.Jr: Well, it's - I mean you want them to go to the banks, we'll assume. The banks ought to buy notes. They

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oughtn't to be in this long-term bond market.

Burgess: That's right.

Taylor: Well, that's the one possibility that I've been able to think of out of this sort of a peculiar choice that we're faced with.

Burgess: I've been working on the same thing. It seemed to me very much easier to equalize the prices if you took the 10-year bond than if you took the 5-year note.

Taylor: I was saying that if we have a note, not a 10-year bond, you can have a little more stability in that situation if you do deliberately over-price the note - or, rather, under-price the note and slightly over-price the bond. And as far as the cost to the Treasury, it would be possibly a little less if it were done right.

Burgess: It's a problem of relation of yield and price. You put an extra eighth on a note and it's only $5/8$ of a point on the price.

Taylor: But even going beyond an eighth on it

Burgess: An extra quarter.

Taylor: Yes.

Burgess: Yes. Well, you could do it that way.

Eccles: Of course, if you put a note out, you'd be assured that the banks would convert. If you put the bond out, they may - that is, they'd convert and hold; whereas if you put even the ten-year bond ... I think the banks, however, are much more willing to take the ten-year now than they were.

Burgess: They'd take that.

Eccles: They used to look upon the five-year maturity as long. They've changed their point of view a good deal.

Sinclair: The first time in a year and a half or possibly two years, around our neighborhood, the minimum maturity

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the banks are talking about is ten years at the present time - bond - minimum maturity. Almost a unanimity of opinion in that connection.

- H.M.Jr: I don't think a ten-year bond in connection with a long - I mean I'd rather even - if you're going to do just June and September, then let's do one bond, or, if you don't like that, a bond and a note. But ten-year - we've got a March 15, '48; this would come along three months later.
- Sinclair: Be a little under ten years, then, wouldn't it?
- Eccles: Be part of the same issue, wouldn't it?
- I think a great deal depends on whether you put out a 15-25 or a 20-25. If you're going to put out a 15-25, then a ten-year bond is pretty close.
- H.M.Jr: How do you feel about a 15-25?
- Eccles: Well, I had favored somewhat the 20-25 for the 2 $\frac{3}{4}$.
- H.M.Jr: I didn't hear you.
- Eccles: I favored the 20-25. It's an insurance company or trustee investment, and there is no reason why they shouldn't take 20 as well as 15. And the 2 $\frac{3}{4}$ yield is pretty sweet on a 15-year basis, whereas a 20 is, it seems to me, a little better price. So I would favor the 20-25 for that class, and I've just been debating as to the ten-year bond or the five-year note. The ten-year bond seems to be favored by a good many of the banks because of their need for some earnings, and they don't want to go longer than ten years. But they're willing to go to ten years and I think they would take a ten-year bond in lieu of the note.
- Taylor: Of course, they're thinking in terms of the - I mean on the market, it looks like a 1 1/8, where if you deliberately under-price that five-year note, why, that's going to look a lot better to them, isn't it?
- H.M.Jr: If you give them a one and a quarter five-year note, I imagine

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- Taylor: Or even do more than that.
- Eccles: Well, that's going to get you criticized on how sweet can you afford
- Taylor: I don't know, in terms of actual premium, why, you're not going to be criticized for it.
- Eccles: What would a one and a quarter - what would be the premium on a one and a quarter five-year?
- Harris: Probably 1 7/8 points.
- Eccles: Pretty good for five years. That's pretty sweet. That's an awful
- Taylor: Of course it doesn't make any sense, but in terms of the cost to the Treasury it's going to be less with that combination than
- H.M.Jr: That's right.
- Eccles: But I merely point out here you're giving 1 7/8 points. That's the other side of it. You couldn't go better than that, that's certain - one and a quarter.
- H.M.Jr: Well now, Marriner, how can we do this to give you people a chance to think it over and let us think it over? When can we meet again?
- Eccles: We met this morning at 11
- H.M.Jr: Well, I didn't, that's my trouble.
- Eccles: ... to discuss this whole thing, and we've pretty well canvassed
- H.M.Jr: Well, do you want to make a recommendation?
- Eccles: The situation
- H.M.Jr: Did you fellows yell over there?
- Eccles: Well, pretty well.
- H.M.Jr: What did you yell on?

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- Eccles: Well, on this turnover, we agreed that we'd like to see this third plan. So far as the turning over of the bills is concerned, it doesn't reduce the total amount outstanding. As to whether you pay off 50
- Harrison: Except the tax bills.
- Eccles: Yes, except the tax bills; of course they'd be paid off. As to whether you'd pay off the 50 million a week for five weeks and then borrow it back again, that - I don't know as we settled that in our - Dr. Burgess had left and we discussed it a little after he left. We seemed to favor - you can correct me; there are others here - I'm not correct - just continue to turn over the 150 and then the 50 rather than pay off 50 and then - for five weeks, and then borrow 50 back again. It would be a little more orderly. But I don't think that that is very material. The important thing is to keep this total volume of bills out.
- H.W.Jr: Well, on this Plan Three it's a billion 300 million.
- Eccles: That's all right. We were all very much in favor of that.
- H.M.Jr: And then on this, are you fellows in favor of doing June and September?
- Eccles: Yes, we're in favor of that.
- H.M.Jr: And how about a long bond?
- Eccles: In favor of a long bond and a short bond. If you went the 20-25, then the ten-year bond; if you went the 15-25, I think it's got to be a note. But this bond market is one that shows - well, first, the bond market shows an awful lot of strength, and if the two bond issues were put out in lieu of the notes, it would tend to keep the bond market from - keep it more orderly; that's one thing. It would reduce the amount of your short-term paper, your short-term notes, which is very large, by a billion 200 million. Next year you've got a lot of notes coming due, and if you can get notes out of the way now, some of them, why, it would seem to be desirable to do it.

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

Eccles: Now, that's the general conclusion that

H.M.Jr: Well, I think - is everybody pretty well agreed in that? Harrison?

Harrison: Well, I'm - I'm very much in favor of maintaining a fairly steady volume of bills. I think I would prefer to do it through a hundred million a week, even though it meant going under on the 150 and up on the 50. I think it's a little more orderly to do it that way, though I wouldn't object to the other way; and I favor that largely because, from the Treasury and market standpoint, rather than as any accommodation to the Reserve Banks, as distinguished from some of the others here, I believe it is a mistake for the Treasury to let its debt run off too much during a period of glut, and realizing that next year you'll have to run your debt up again pretty sharply. I'd rather have you keep it steady. I think it's better for the market and the Treasury. As far as the Reserve System is concerned, I admit that it makes it easier for the System to replace bills, but I'm one of the ones that wouldn't very much mind, in a period like this, if we had to let our account run off somewhat, frankly.

As to June and September, I would distinctly favor refunding both June and September. I have a question in my mind about December. I think that there is something in what Burgess says about allowing some of those maturities through the rest of the year to stay out. I think it's an accommodation to your market, to your holders of bonds.

I think I would favor a long 2 $\frac{1}{2}$ on the best terms you could get, probably 20-25 years. I would supplement that with a ten-year bond rather than the note, believing that you'd get too much of a possibility of a swing from the notes to the bonds, with the subsequent sale of the bonds. I don't think you'd offset that difficulty by the suggestion of Mr. Taylor, because I think that makes you put out a wholly artificial rate on your short note.

I think that would be my program.

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- Davis: That's in accord with my views - the way we talked this morning.
- Szymczak: I'm the same.
- H.M.Jr: You're the same.
- Sinclair: I agree to that. Particularly - I'm talking mostly from our own district - it's been the tendency now for our city and country banks to reduce their note holdings and go to the bond classification - some cases, go too far. Rather see a ten-year bond than to go farther than that. That's the reason I favor the bond as against the note. On the bill program, in favor of Plan Three.
- H.M.Jr: How about you (Piser)?
- Piser: I think a 20-25 year bond would sell at an exceptionally high premium, and if that rate of 2 $\frac{3}{4}$ is put on I think it could probably be extended five years further, 25-30, because of the market.
- H.M.Jr: 25-30.
- Piser: (Nods yes)
- Harrison: Might have to give up a vacation.
- H.M.Jr: Have to give what?
- Harrison: It would threaten your vacation, though.
- Piser: In other words, I think you'll have a very high premium on it.
- H.M.Jr: Williams?
- Williams: I favor the program which was outlined.
- H.M.Jr: Goldenweiser?
- Golden.: I haven't anything to add.
- H.M.Jr: Well, I think what I'll do is, I'll get together with my own people tomorrow. And Burgess is going to New

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York to see the boys there, and then spend Thursday with me?

Burgess: Be a great pleasure, sir.

H.M.Jr: Then you call me up tomorrow and give me a tentative suggestion of whom you'd like to bring down. And then maybe Friday, Marriner, I'd get in touch with the Board here.

Eccles: We - yes, we'll be here again. If you want the Committee again, I suppose George and John - will you expect to be here?

Sinclair: I'll be available any time.

Eccles: So that - Chester, you're going out of town, aren't you, tomorrow?

Davis: Yes, Thursday night.

H.M.Jr: Well, we could get together maybe Friday morning.

Eccles: He'd be away. Get Ransom or one of the others.

H.M.Jr: Why not say those you can get, get together, say, maybe Friday morning at 11. This thing is a little bit - I don't - I'm not quite sure of my ground. What?

Harrison: Would 10 o'clock Friday be an imposition?

H.M.Jr: Yes, that's

Harrison: That be all right? Then I could catch a 12 o'clock train.

Eccles: Would you like to leave it as subject to call?

H.M.Jr: I'd know by Thursday afternoon - it may look perfectly clear Thursday afternoon. I'll call you up and say, "This looks perfectly clear."

Eccles: Let's leave it that way, and if you don't need to

H.M.Jr: Tentatively. Where's the boat race?

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Harrison: I'm going to make it.

H.M.Jr: Will you (Upham) see that ten o'clock Friday on my calendar is held.

Eccles: We'll be subject to call, then.

H.M.Jr: I'll call you Thursday morning and tell you what's left after the New York boys get through with me.

Eccles: O.K.

H.M.Jr: And then I'll give you a ring. And if you'll hold Friday morning tentative - how's that?

Harrison: Fine.

Eccles: And I'll let you (Harrison) and John know in time to get down here.

FEDERAL RESERVE BANK
OF NEW YORK

May 23, 1938.

Dear Henry:

As a preliminary attempt to answer the questions you asked the other day I am enclosing a brief memorandum on Treasury financing. Ordinarily, the program of Treasury financing is a relatively simple operation of selecting securities which are adapted to market conditions. At present the problem is much less simple, and the decisions reached now may well have far-reaching effects for future Treasury financing and for the future banking position. It seems to me one has to consider these broader implications before it is possible to reach an intelligent decision on the details.

The memorandum will explain why it would seem to me better to raise a moderate amount of cash every tax date, beginning in June, rather than to follow the suggestion of refunding June and September maturities in June and then raising a large amount of cash in September. There is a large job to be done, and it will be carried through most smoothly if it is spread out in an orderly way over the entire period. The money could probably be raised the other way, by a few large offerings, but I think at the expense of an orderly market and the position of the banks.

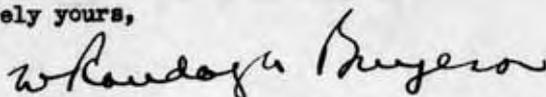
As to the question of making the September offering on September 12, I find in our files a letter I wrote last year to Dan Bell about a similar proposal, and I am enclosing a copy herewith. After exploring the matter fully it seems to us quite frankly impossible to handle an issue either effectively or safely in that short amount of time. Nobody knows

Hon. Henry Morgenthau, Jr. 5/23/38.

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better than I do the strain you have been working under and the need for an adequate holiday. I should like to advise you that we could carry through the time schedule suggested, but I could not honestly do so.

Sincerely yours,



W. Randolph Burgess
Vice President

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

WRB.H
encl.

May 23, 1938.

NOTES ON TREASURY FINANCING

The basic problem for Treasury financing centers around the fact that the Administration program of increasing excess reserves and increasing spending is not synchronized. For the next few months excess reserves will increase rapidly, and the Treasury will require no new money but may in fact, be retiring debt. Next year, however, the requirements for new money will be heavy at a time when excess reserves are no longer increasing except for possible gold imports. The danger in this situation is that the pressure of very large reserves operating on a reduced volume of securities may force government security prices to even higher levels, which will be vulnerable when heavy borrowing ensues next year. These forces may create conditions difficult for the successful financing of next year's heavy deficits. The position of the banks which are buying government securities at very high prices may also prove vulnerable.

The Treasury financing program can lessen some of these dangers by the following steps:

(1) By maintaining a large balance in the reserve banks and thus holding back a certain amount of reserve funds so as to have them available to release later as actual spending exceeds income.

(2) By spreading the raising of new cash fairly evenly over the quarterly tax periods for the next year and a half. This procedure is much more likely to result in a fairly steady and good bond market than a program of starving the market at one time and stuffing it at another. If, for example, \$2,000,000,000 of new money is required during the next fiscal year it would seem wiser to raise \$500,000,000 of new money on each tax date, starting in June, rather than to postpone and be compelled to make

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larger offerings which are more uncertain and require more generous terms. In other words it would seem wise for the Treasury to budget its cash requirements and spread them out in orderly fashion over a period.

(3) One of the best methods for avoiding a too-exuberant market which often accompanies a Treasury financing, would be to offer additional amounts of some outstanding issue. This proposal was discussed in March but it should be reconsidered.

(4) For a new bond, and it seems clear that the June financing should take the form of bonds, the market would take a 2 1/2 per cent bond of several years longer maturity than the '48 issued in March, or a shorter issue with a 2 or 2 1/4 per cent coupon. Banks continue to have a preference for securities of 10 years or less maturity. This preference is illustrated by the ten year bond of the Consolidated Edison and the proposed ten year bond of the U. S. Steel Corporation. Ordinarily those companies would consider only longer term issues. Many, if not most, banks would, however, take a maturity up to 15 years.

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PLAN I

This plan contemplates a continuation of the retirement of weekly bills in the amount of \$50,000,000 up to and including June 15, 1938, and also the retirement of the special bills aggregating \$250,000,000 maturing between June 15 and June 30. No provision is made for new cash but in view of the fact that the balances run down to \$764,000,000 by the end of December, it is quite obvious that new cash would be needed before that time to the amount of at least \$1,000,000,000. This could be raised in September or December or divided between the two dates.

PLAN II

This plan contemplates the continuation of the retirement of weekly bills in the amount of \$50,000,000 up to and including September 15, 1938, and also the retirement of the special bills amounting to \$250,000,000 maturing between June 15 and June 30, with new financing of \$1,000,000,000 on September 15 and \$500,000,000 on December 15.

PLAN III

This plan contemplates discontinuing at once the retirement of weekly bills in the amount of \$50,000,000, retiring the \$250,000,000 of special bills maturing between June 15 and June 30 and for five weeks ^{beginning June 22} to retire \$50,000,000 of Treasury bills; and then on July 27 and continuing for six weeks, to issue ^{a week} \$50,000,000 of additional Treasury bills each week. This would re-

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tire a total of \$250,000,000 of Treasury bills during the five weeks ending July 20 and would provide for the issuance of new bills in the total amount of \$300,000,000 for the six weeks ending August 31, a gain of \$50,000,000 in new cash. This would enable the program of Treasury bills to be levelled out so that we would have a roll over of \$100,000,000 each week and a total outstanding of approximately \$1,300,000,000.

All of these plans contemplate the refunding of the Treasury notes aggregating \$618,000,000 maturing on June 15 and the possibility of offering to the holders of the September 15 maturing notes the same securities that are offered to the holders of the June 15 notes.

ESTIMATE OF CASH POSITIONMay - December, 1938

(In millions of dollars)

	1938 May	June	July	August	September	October	November	December	Total
Balances at beginning of periods:	2,086	1,965	1,645	1,459	1,283	1,320	990	765	2,086
Receipts:									
General revenue	370	750	350	410	740	290	350	720	3,980
Unemployment trust fund	85	40	24	49	22	20	45	24	309
U. S. Savings bonds	35	30	30	25	25	25	25	40	235
Sale of notes Federal National Mortgage Association	25	-	-	-	-	-	-	-	25
Sale of notes Commodity Credit Corp. .	148	-	-	-	-	-	-	-	148
Total available	2,749	2,785	2,049	1,943	2,070	1,655	1,410	1,549	6,783
Expenditures:									
General	325	330	340	340	340	340	340	340	2,695
Emergency	225	220	225	235	240	250	260	270	1,925
Interest on public debt	9	170	15	20	155	70	10	160	609
Special transactions	15	- 10	- 5	50	- 10	- 10	20	- 10	40
Debt redemptions	210	430	15	15	25	15	15	25	750
Total expenditures	784	1,140	590	660	750	665	645	785	6,019
Balances at end of periods:	1,965	1,645	1,459	1,283	1,320	990	765	764	764
Refunding operations:									
Treasury bills:									
Regular	400	600	500	250	400	500	250	400	3,300
Special	-	250	-	-	-	-	-	-	250
Treasury notes	-	618	-	-	596	-	-	433	1,647
	400	1,468	500	250	996	500	250	833	5,197

Accounts and Deposits

May 24, 1938

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PLAN I

PROPOSED TREASURY BILL PROGRAM

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(In millions of dollars)

Began retiring fifty million weekly April 27, 1938, for eight weeks to June 15, 1938, inclusive

	Present maturities		Proposed Retirements	Proposed new issues		Total Outstanding
	Regular	Special		Ninety-Day Bills		
				Amount	Maturity	
<u>1938</u>						1,550
June 1	100		50	50	Aug. 31	
8	100		50	50	Sept. 7	
15	100		50	50	14	
16		100				Special maturity 250 Retirement 150
17		100				
18		50				
		250	150			1,150
July 22	150			150	Sept. 21	
29	150			150	28	
July 6	150			150	Oct. 5	
13	150			150	12	
20	150			150	19	
27	50			50	26	
August 3	50			50	Nov. 2	
10	50			50	9	
17	50			50	16	
24	50			50	23	
				50	30	
				50	Dec. 7	
				50	14	
				150	21	
				150	28	
	1,300	250	150	1,150		1,150

ACCOUNTS AND DEPOSITS

May 25, 1938

rwB

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ESTIMATE OF CASH POSITION

May - December, 1938

(In millions of dollars)

	1938 May	June	July	August	September	October	November	December	Total
Balances at beginning of periods:	2,086	1,965	1,545	1,159	733	1,670	1,340	1,115	2,086
Receipts:									
General revenue	370	750	350	410	740	290	350	720	3,980
Unemployment trust fund	85	40	24	49	22	30	45	24	309
U. S. Savings bonds	35	30	30	25	25	25	25	40	235
Sale of notes Federal National Mortgage Association	25	-	-	-	-	-	-	-	25
Sale of notes Commodity Credit Corp..	148	-	-	-	-	-	-	-	148
Treasury bonds and notes	-	-	-	-	1,000	-	-	500	1,500
Total available	2,749	2,785	1,949	1,643	2,520	2,005	1,760	2,399	8,283
Expenditures:									
General	325	330	340	340	340	340	340	340	2,695
Emergency	225	220	225	235	240	250	260	270	1,925
Interest on public debt	9	170	15	20	155	70	10	160	609
Special transactions	15	- 10	- 5	50	- 10	- 10	20	- 10	40
Debt redemptions	210	530	215	265	125	15	15	25	1,400
Total expenditures	784	1,240	790	910	850	665	645	785	6,669
Balances at end of periods:	1,965	1,545	1,159	733	1,670	1,340	1,115	1,614	1,614
Refunding operations:									
Treasury bills:				250	300	300	-	200	2,550
Regular	400	600	500	-	-	-	-	-	250
Special	-	250	-	-	596	-	-	433	1,647
Treasury notes	-	618	-	-	-	-	-	-	-
Total	400	1,468	500	250	896	300	-	633	4,447

Accounts and Deposits
May 24, 1938

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PROPOSED TREASURY BILL PROGRAM

PLAN II

405

(In millions of dollars)

Began retiring fifty million weekly April 27, 1938, for twenty-one weeks to September 15, 1938, inclusive

	Present maturities		Proposed Retirements		Proposed new issues		Total Outstanding	
	Regular	Special			Ninety-Day Bills			
					Amount	Maturity		
<u>1938</u>			<u>1938</u>				1,550	
June 1	100		June 1	50	50	Aug. 31	Special maturity Retirement } 250 250	
8	100		June 8	50	50	Sept. 7		
15	100		June 15	50	50	14		
16		100	June 16					
17		100	June 17					
18		50	June 18					
22	150		June 22	50	100	21		
29	150		June 29	50	100	28		
		250		250				1,050
July 6	150		July 6	50	100	Oct. 5		Additional Retirements } 550
13	150		July 13	50	100	12		
20	150		July 20	50	100	19		
27	50		July 27	50		26		
August 3	50		August 3	50		Nov. 2		
10	50		August 10	50		9		
17	50		August 17	50		16		
24	50		August 24	50		23		
			Sept. 31	50		30		
			Sept. 7	50		Dec. 7		
			Sept. 14	50		14		
					100	21		
					100	28		
	1,300	250		800	500		500	

ACCOUNTS AND DEPOSITS
 May 25, 1938

AWB

PLAN III

ESTIMATE OF CASH POSITION

May - December, 1938

(In millions of dollars)

	1938 May	June	July	August	September	October	November	December	Total
Balances at beginning of periods:	2,086	1,965	1,645	1,359	1,433	1,970	1,640	1,415	2,086
Receipts:									
General revenue	370	750	350	410	740	290	350	720	3,980
Unemployment trust fund	85	40	24	49	22	20	45	24	309
U. S. Savings bonds	35	30	30	25	25	25	25	40	235
Sale of notes Federal National Mortgage Association	25	-	-	-	-	-	-	-	25
Sale of notes Commodity Credit Corp. ..	148	-	-	-	-	-	-	-	148
Treasury bonds and notes	-	-	-	-	500	-	-	500	1,000
Treasury bills	-	-	-	250	-	-	-	-	250
Total available	2,749	2,785	2,049	2,093	2,720	2,305	2,060	2,699	8,033
Expenditures:									
General	325	330	340	340	340	340	340	340	2,595
Emergency	225	220	225	235	240	250	260	270	1,925
Interest on public debt	9	170	15	20	155	70	10	160	609
Special transactions	15	- 10	- 5	50	- 10	- 10	20	- 10	40
Debt redemptions	210	430	115	15	25	15	15	25	850
Total expenditures	784	1,140	690	660	750	665	645	785	6,119
Balances at end of periods	1,965	1,645	1,359	1,433	1,970	1,640	1,415	1,914	1,914
Refunding operations:									
Treasury bills:									
Regular	400	600	500	250	400	400	500	400	3,450
Special	-	250	-	-	-	-	-	-	250
Treasury notes	-	618	-	-	596	-	-	433	1,647
Total	400	1,468	500	250	996	400	500	833	5,347

ACCOUNTS AND DEPOSITS

May 31, 1938

SWB

PROPOSED TREASURY BILL PROGRAM

PLAN III

407

(In millions of dollars)

Began retiring fifty million weekly April 27, 1938, for six weeks
to June 1, 1938, inclusive
and for five weeks from June 22 to July 20, 1938, inclusive

...	Present maturities		Proposed Retirements	New Cash	Proposed new issues		Total Outstanding
	Regular	Special			Ninety-Day Bills		
					Amount	Maturity	
<u>1938</u>							
June 8	100				100	Sept. 7	1,500
15	100				100	14	
16		100					Special maturity 250
17		100					
18		50					
		250					1,250
July 22	150		50		100	Sept. 21	
29	150		50		100	28	
6	150		50		100	Oct. 5	
13	150		50		100	12	Retirement 250
20	150		50		100	19	
			250				1,000
August 27	50			50	100	26	} Replacements 250 New cash 50
3	50			50	100	Nov. 3	
10	50			50	100	9	
17	50			50	100	16	
24	50			50	100	23	
31	50			50	100	30	
					100	Dec. 7	
					100	14	
					100	21	
					100	28	
	1,250	250	250	300	1,300		1,300

ACCOUNTS AND DEPOSITS
May 31, 1938

AMB

May 31, 1938

H. O. told H. M. Jr., to-day that there was a judgeship in Washington he was interested in getting. H.M.Jr. has been telling Oliphant that he will not use the Treasury for reform measures and since he cannot do this sort of thing Oliphant wants to get out.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 31, 1938

TO Secretary Morgenthau
 FROM Mr. Haas 
 Subject: The Business Situation, week ending May 28, 1938

Conclusions

(1) A further decline in world commodity prices, due partly to increasing supplies but in considerable degree to deflationary influences arising from the Czechoslovakian uncertainty, has provided the center of interest in the business situation this week. Similar to the price decline which resulted from the German invasion of Austria, it has been accompanied by a marked weakening in sterling exchange. (Chart 1). In the cotton market a weakening of the Indian rupee in relation to sterling has been an additional depressing influence.

The decline in commodity prices is likely to have some retarding effect on business recovery through unsettling business sentiment and causing a reduction in farm incomes.

(2) A reduction in steel prices to correct present price disparities and encourage demand in the heavy industries seems necessary to make the recovery program more fully effective. The failure of steel and automobile prices to be brought into line with lower levels of commodity prices has apparently been a factor prolonging the recession. Production in industries where prices have been adjusted to demand has shown improvement, while the industries which have failed to reduce prices continue to suffer from low demand. Under price disparities made worse by recent declines in commodity prices, the Government spending program will be handicapped, and its effectiveness minimized. An arrangement by which steel prices could, at least temporarily, be reduced would be in line with the President's price statements.

Secretary Morgenthau - 2

Commodity prices.

A further decline in commodity prices has been an outstanding factor in this week's business developments. While the decline has continued to affect chiefly those commodities for which current or prospective supplies have recently been increasing, a general depressing effect on the commodity price level has been exerted by the critical developments in Czechoslovakia, with their attendant influence in weakening exchange rates and causing business hesitation abroad. The war scare caused a drop in sterling to a new low for the year.

Further contributing to the deflationary influence of weakening foreign currencies has been a decline in the Indian rupee in relation to the pound and dollar during recent weeks. It had previously been maintained at a stable ratio to the pound for nearly three years. The decline in the rupee has weakened cotton prices by increasing the competitive advantage of Indian over American cotton, and has been a bearish factor in the markets for such products as wheat and jute.

Evidence of the depressing influence of these developments is seen in a comparison between the trend of sterling exchange and the trend of commodity futures prices. (Chart 1). The decline in the two series has been almost parallel over the past several weeks, during the time when the European political situation has been growing more tense. This action is closely comparable to that which accompanied the German invasion of Austria during March (shown on the same chart). It will be noted that the movements in sterling have tended to anticipate the movements in commodity prices by one to two weeks.

The trends of commodity prices daily during May, by commodity groups, is shown in Chart 2. While all groups have tended downward this week, it will be noted that the chief decline has been in the grains. Last week a sharp cut in copper prices was the feature of the commodity markets.

Although the recent price declines, precipitated by causes which led to a weakening of foreign currencies in terms of the dollar, have been largely in those commodities for which the supply situations had become more unfavorable, it is significant that the production of a number of important commodities is finally coming into adjustment with demand.

Secretary Morgenthau - 3

In copper, for example, the recent increase in refined stocks was the smallest increase since last June. Taking fabricators' stocks into account, it would appear that the production and final consumption of copper were practically balanced in April, for the first time in over a year. Nevertheless, it is doubted in many quarters that prices have yet become fully adjusted to the large available stocks. Rubber stocks have expanded without interruption for several months, but the rate of increase has recently been narrowing. The general decline in commodity prices has in itself been a strong factor tending toward reducing production of commodities in line with demand.

A more favorable attitude toward commodity prices is taken this month by the National Association of Purchasing Agents, an organization having considerable influence on industrial buying policies. While continuing to advocate conservative buying, the chairman of the Business Survey Committee of this organization says that "it must be remembered that values have been worked to a low point in many instances, and that the early fall months may show improvement within the business structure generally, in which event commodity prices would rather quickly reflect the turn of affairs."

The president of this association, in opening the annual convention at St. Louis this week, mentioned that purchasing executives are now "preparing for the time when demand will overtake supply and purchases will have to be made. Some plants are beginning to buy today because their inventories are exhausted. Most of the others will have to come into the market in mid-August or early September at the latest."

Tending to confirm this observation, the new orders reported by the American Radiator Company showed a very sharp temporary upturn during the first half of May (See Chart 3) which the company explains as "due to a group of wholesalers who placed sizable orders for stock on the theory that building materials in this line, being 20 percent below 1926 price levels, would advance in the early autumn. Their theory is that the Housing Act will by that time be in full effect, and that prices will strengthen in response to the law of supply and demand."

In the months just ahead, however, the decline in commodity prices is likely to have some effect in retarding recovery through unsettling business sentiment and reducing agricultural incomes.

Secretary Morgenthau - 4

The situation in steel.

No immediate improvement in steel buying has followed last week's announcement of unchanged prices, according to reports in trade journals. For the week preceding the announcement, U. S. Steel orders were but slightly up from the previous week, and equivalent to about 28 percent of capacity. Steel production has decreased 2 points this week to 29 percent of capacity, responding to the recent decline in new orders.

It appears that steel production is now becoming closely geared to new orders, whereas previously it had been running somewhat below the orders level. This is significant in two important respects: (1) It suggests that inventories of steel companies have been reduced to very near the point where new orders must be filled entirely from new production; (2) it would indicate that any improvement in new orders would be reflected almost immediately in the production rate.

Under these conditions, data on new orders for steel have less forecasting value than at a time when unfilled orders are large. At present they indicate the rate of steel production no more than a few weeks ahead, whereas last summer a falling off in new orders forecast a decline in production several months later, owing to the large backlog of unfilled orders which had first to be worked off.

On the surface, the outlook for a nearby improvement in steel orders appears unpromising, with declining activity in the automobile and farm implement industries, little prospect for an upturn in railroad buying, and no immediate increase expected in the buying of construction steel. Experience has indicated, however, that the volume of steel orders can improve sharply almost overnight on any improvement in business sentiment.

Lower prices needed in key industries.

An examination of the underlying factors in the present low level of industrial activity points to the failure of key industries to reduce prices as one of the major influences which has tended to prolong what might otherwise have been a minor recession. An increased volume of buying in these industries, notably in steel products and automobiles, seems clearly to be a major requirement for business improvement at this juncture, yet buying continues to be postponed because prices have not been reduced to conform with lower levels of general commodity prices and reduced demand.

Secretary Morgenthau - 5

Certain facts stand out in the present steel price situation:

1. Steel is the key industry, representing the most important industrial group and indirectly affecting demand in a number of other industries.
2. The size and importance of the steel industry give the steel companies a public responsibility.
3. The further decline in commodity prices recently makes the steel price disparity even worse than it was a month ago.
4. Government spending under present conditions would be less effective, and a larger amount would be needed.
5. If price disparities continue, there may be no follow-through in the heavy industries of the recovery expected next fall.
6. A reduction in steel prices would be in line with the President's price statement.

That high prices in the steel and automobile industries have tended to depress business activity and prolong the recession is suggested by the fact that in a number of other industries, where prices have been adjusted to the reduced demand, production has tended to improve. Noticeable improvement has occurred in the production of cotton, wool, and silk goods, and of boots and shoes, though production recently has fallen off somewhat under the handicap of continued low pay-rolls and employment in the rigid-price industries. A comparison of production in the industries mentioned with that in the automobile and steel industries is shown in Chart 4.

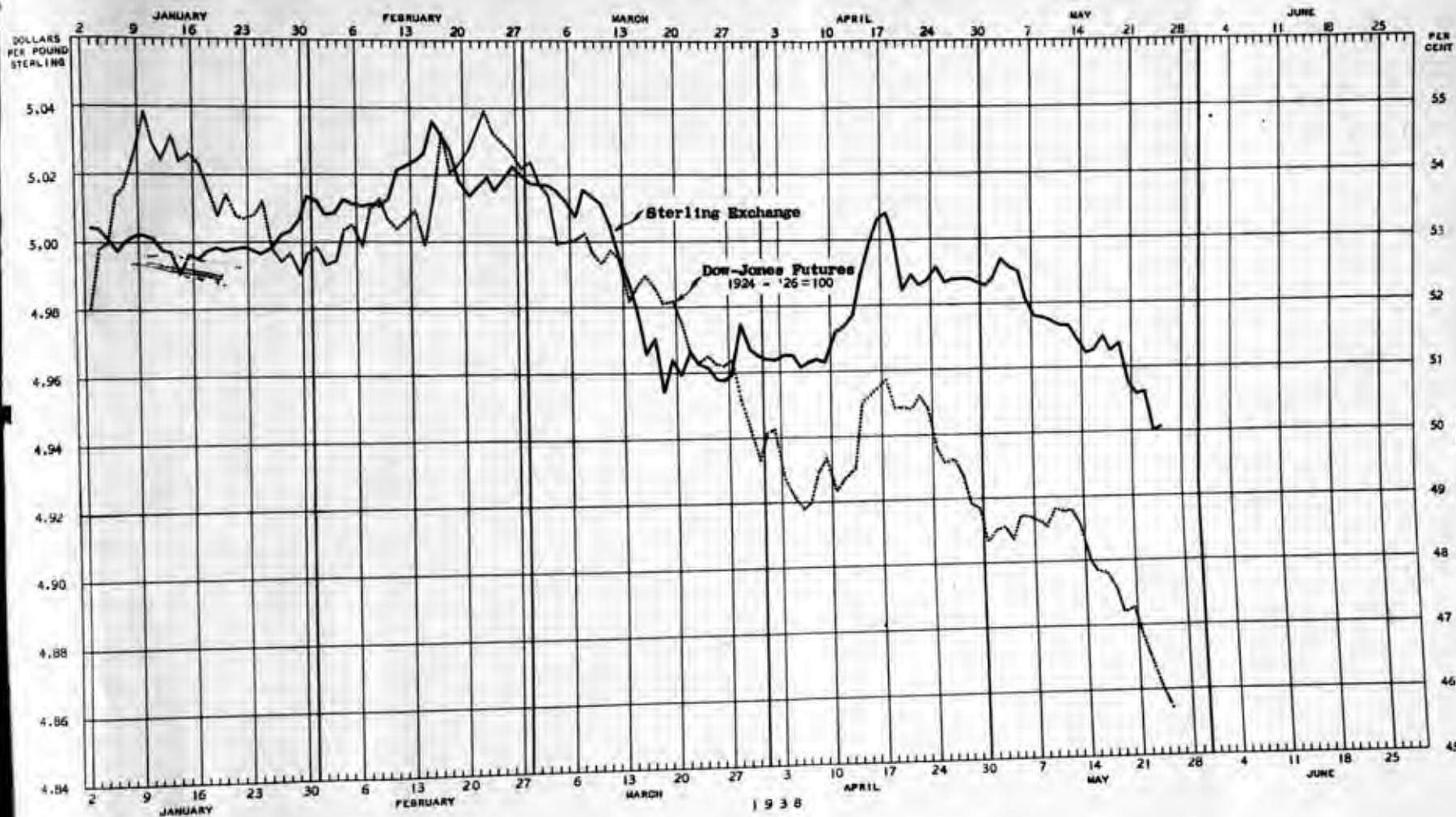
It appears doubtful that any large-scale industrial buying can be expected until the steel price problem is settled, since steel consumers will continue to hold their purchases to a minimum on the belief that prices eventually will be reduced. No heavy volume of automobile purchases can be looked for so long as new car prices remain high in comparison with prices of other consumer goods. If the present disparity continues, a recovery in business this fall may be no more than a suppressed recovery, largely in the non-durable goods industries.

Secretary Morgenthau - 6

The effect of price disparities in retarding business is especially pronounced in the case of steel. The size of this industry and the number of other industries directly or indirectly dependent upon it for their activity charge it with a grave national responsibility. Since the steel companies, labor, and the Government have common interests in stimulating increased activity and employment in this industry, it would seem possible that through mutual concessions some arrangement could be arrived at by means of which steel prices could at least temporarily be reduced. Newspaper comment has suggested that labor leaders might be receptive to such an arrangement, though they probably could not initiate it. Such action would be very definitely in line with the President's price statements. A substantial cut in steel prices, recognized by buyers as of a temporary nature, should have more effect on steel buying than any small reduction which the steel companies might make independently.

Attachments

STERLING EXCHANGE AND PRICES OF COMMODITY FUTURES



DAILY PRICE INDICES, JOURNAL OF COMMERCE

By Commodity Groups, December 30, 1933 = 100

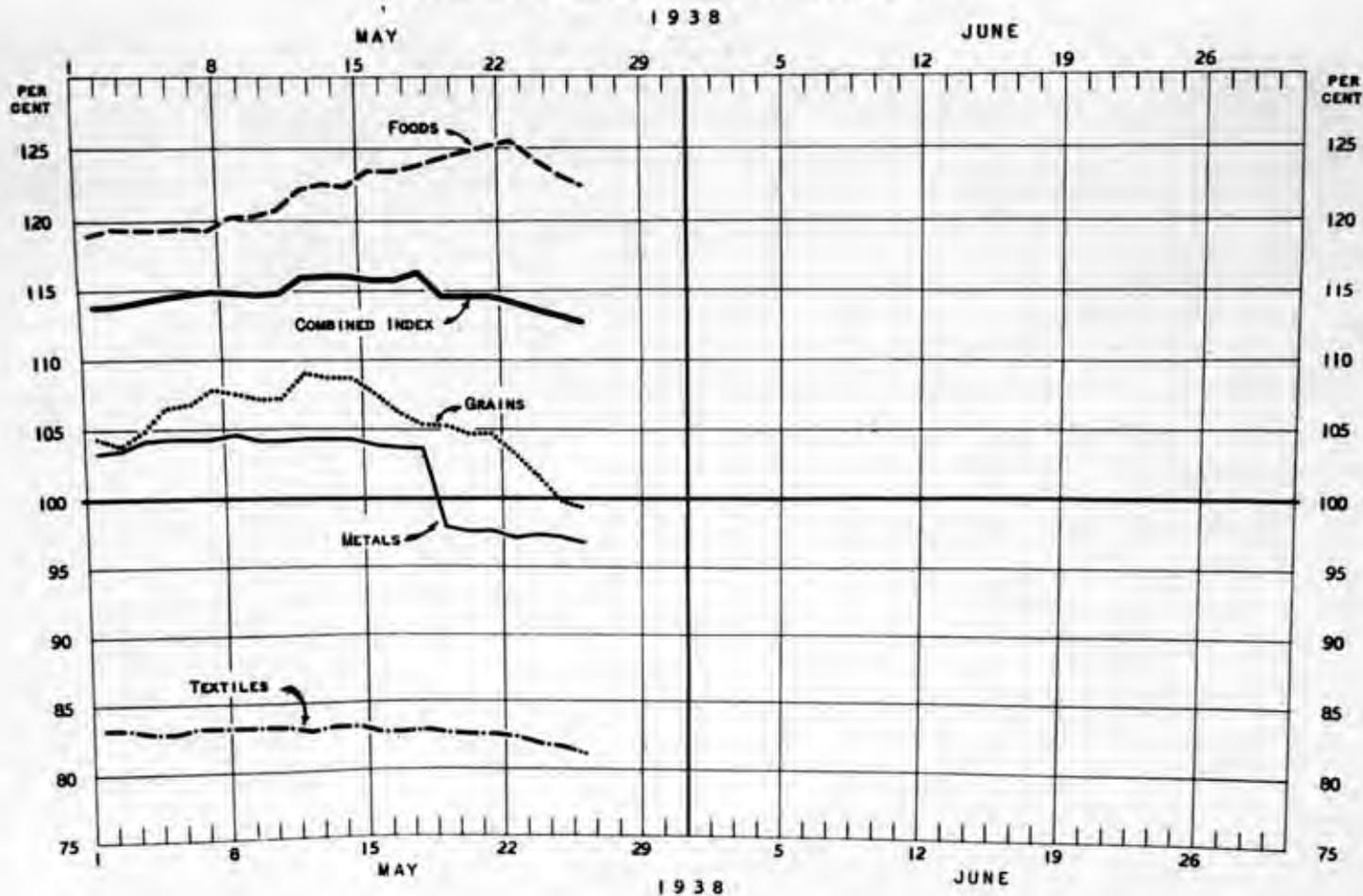


Chart 2

Office of the Secretary of the Treasury
Division of Research and Statistics

P-167

418

Regraded Unclassified

AMERICAN REFRIGERATOR COMPANY
Weekly New Orders

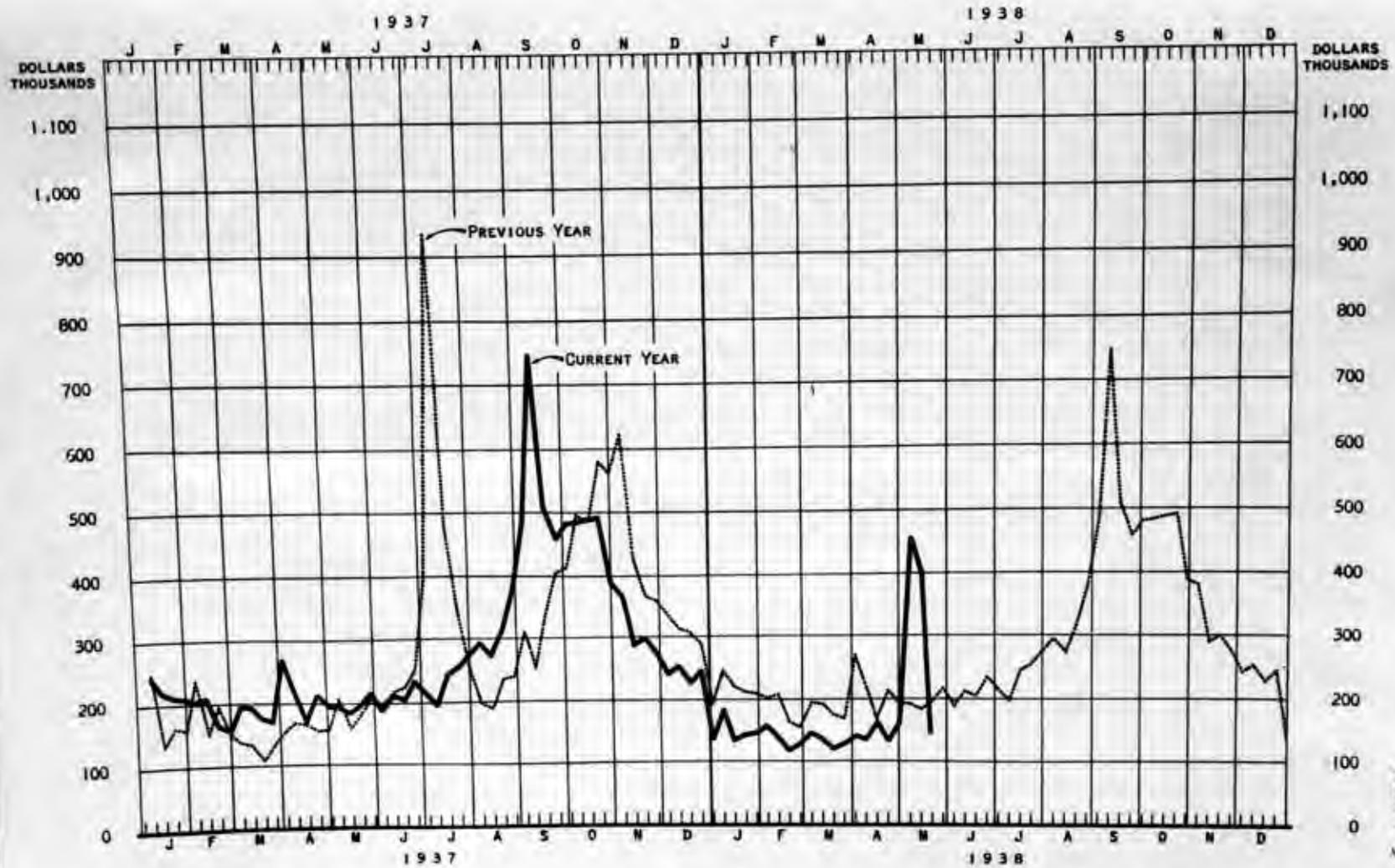
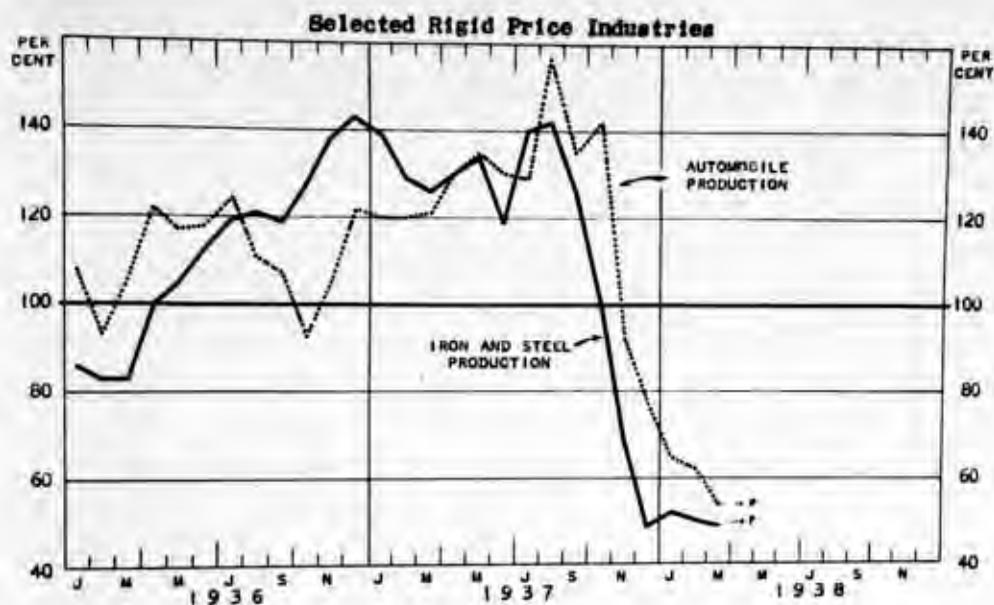


Chart 3

PRODUCTION IN SELECTED INDUSTRIES
1923 to 1925 = 100

420



* F. R. B. INDICES, ADJUSTED FOR SEASONAL VARIATION.

EG

GRAY

Bangkok

Dated May 28, 1938

Rec'd 8:25 a.m.

Secretary of State,
Washington.

12, May 28, 1 p.m.

CONFIDENTIAL

I have received a note from the Minister for Foreign Affairs stating that the Siamese Government desires to sell to the United States its silver coins no longer in circulation. The silver content of the coins amounts to 22,764,170 fine ounces which may be increased slightly but probably not more than one half of one per cent. The Siamese Government understands that the United States Government buys silver in the open market at 43 cents per fine ounce and wishes to know what price the United States will offer for this sale.

The Siamese Government wishes to buy gold with the proceeds of the sale, and would prefer to make the transaction a gold silver exchange, the gold to be kept in safe custody or earmarked at the New York Federal Reserve Bank as was in 1931.

Delivery

-2- #12, May 28, 1 p.m. from Bangkok

Delivery of silver at Seattle or New York could be made in four or five months. Details of assay and other matters could be arranged.

NEVILLE

RR:CSB