

DIARY

Book 127

June 1 - June 6, 1938

Agriculture

Farm Parity: See Unemployment Relief (Recovery-Relief Bill)
See also War Conditions

Board of Tax Appeals

See Tax Appeals, Board of

Business Conditions

Montgomery Ward: Oliphant memorandum on uniform write-down to 10% gross profit - 6/1/38.....	CXXVII	60
White memorandum on published statements made by well-known persons in fall of 1937 as to business prospects for 1938 - 6/2/38.....		149
Report of interdepartmental meeting - 6/3/38.....		201
Raindrop story:		
a) Chart on which story was based.....		278
Haas memorandum: "Business and research program on commodity prices" - 6/6/38.....		292
Haas memorandum on business situation during May - 6/6/38.....		350

Cement

See Procurement Division

China

See War Conditions

Comptroller of Currency

Diggs, Marshall:

Recommendations from South again discussed at 9:30 meeting - 6/6/38.....		261
--	--	-----

Diggs, Marshall

See Comptroller of Currency

Federal Farm Board

Memorandum on loss incurred by operation of \$500 million revolving fund - 6/4/38.....		225
--	--	-----

- F - (Continued)

	Book	Page
Financing, Government		
6/15/38 - HMJr arranges for preliminary discussion with Burgess, Devine, and "the Discount boys" - 6/1/38.....	GXXVII	2
Walter Cummings consulted by HMJr - 6/1/38.....		51
Harris memorandum on suggested issues - 6/1/38.....		59
Conference; present: HMJr, Taylor, Harris, Haas, Seltzer, Lochhead, Upham, and Bell - 6/1/38.....		66
a) Burgess asked for "summary of what he's learned today"		
Conferences on 6/2/38 with:		
Devine.....		142
Woods (C.F. Childs Company).....		144
Wells and Repp (Discount Corporation).....		146
Eccles.....		154
Bullitt.....		160
Conference; present: HMJr, Taylor, Lochhead, Haas, Seltzer, Harris, Upham, and Bell - 6/3/38.....		178
Announcement - 6/6/38.....		246
a) HMJr asks Burgess about success of offer.....		242,276,357
Paris resumé - Government security market - 6/6/38....		347
France		
See also Stabilization		
Reynaud expresses to Cochran dissatisfaction with economic and financial policies of present government - 6/1/38.....		114
- G -		
General Counsel, Office of		
HMJr instructs McReynolds not to permit Klaus detail to Department of Justice - 6/3/38.....		208
- H -		
Haiti		
White memorandum on situation - 6/6/38.....		298
Loan discussed with State Department - 6/6/38.....		300,304
Hopkins, Harry		
HMJr, Gaston, and Mellett discuss support of Wearin - 6/1/38.....		1,109
Hull, Cordell (Secretary of State)		
Comments to HMJr on attitude of White House toward him - 6/1/38.....		110

	Book	Page
Internal Revenue, Bureau of		
Reorganization: Extension of Pacific Coast set-up discussed by HMJr, Magill, and Helvering - 6/1/38...	OXXVII	5
a) Memorandum on set-up in New York division.....		14
Helvering versus Gerhardt Supreme Court decision - See Revenue Revision: Port of New York Authority		

Mellon (Andrew W.) Case		
Appeal to Circuit Court of Appeals discussed further by HMJr, Magill, Oliphant, Helvering, Wenchel, and Shearer - 6/1/38.....		20
Montgomery Ward		
See Business Conditions		

Port of New York Authority		
See Revenue Revision		
Procurement Division		
Cement:		
HMJr instructs Director of Procurement to authorize all departments to proceed to make purchases directly for month of July; similar action to be taken on first of each subsequent month until FDR reaches decision - 6/1/38.....		39
a) HMJr-McReynolds telephone conversation.....		49
Public Works Administration		
See Unemployment Relief		

Raindrop Story		
See Business Conditions		
Revenue Revision		
Port of New York Authority:		
Internal Revenue, Bureau of: Conference on tax problems arising from Supreme Court decision in case of Helvering versus Gerhardt; present: Magill, Oliphant, Gaston, Wenchel, various Congressmen, state and municipal officials, and newspaper reporters - 6/1/38.....		26
FDR and HMJr discuss Federal taxation on state salaries - 6/3/38.....		203
a) FDR's memorandum suggesting studies by Internal Revenue and Department of Justice.....		205
1) Magill suggests that study be made by General Counsel of Treasury.....		207
Revolving Fund		
See Federal Farm Board		

	Book	Page
Silver		
See Spain		
Spain		
Ambassador confers with HMJr concerning purchase of silver - 6/2/38.....	CXXVII	166,177
Resumé of negotiations for purchase of five million ounces of silver (Oliphant-Bernstein memorandum) - 6/6/38.....		312,314
Stabilization		
Belgium:		
British Treasury sends British Financial Attache' at Paris to Brussels for examination of situation - 6/2/38.....		119
France:		
Exchange market movements resumed - 6/2/38.....		117

Tax Appeals, Board of		
Reappointment of four members: James Roosevelt 'phones FDR has not yet made up his mind - 6/1/38.....		19
Taxation		
See Revenue Revision		
Treasury Department		
Resumé of HMJr's program to date - 6/3/38.....		189

Unemployment Relief		
Copies of Lonigan report on trips to Cleveland and Chicago - 6/3/38.....		190
a) Parran reports to HMJr that Wallace admits inaccuracy of his estimates - 6/3/38.....		213
Treasury personnel on relief rolls: justification therefor..		89
Recovery-Relief Bill:		
James Roosevelt tells HMJr FDR has signed letter to Senator Adams; HMJr again states he will not go to the Hill without personal instructions from FDR - 6/1/38..		19
Williams suggests to HMJr that Byrnes be asked to introduce amendment giving FDR right to transfer funds from one agency to another - it to appear that idea originated on the Hill - 6/1/38.....		40
a) HMJr and Bell confer as to what HMJr said to Barkley a week ago about changing amount from \$50 million.....		44
Williams and HMJr discuss Barkley amendment permitting President to transfer funds for the purpose of direct relief from WPA moneys to any other agency - 6/1/38....		55
Ticker comment on HMJr's support for FDR's request for freedom from restrictions in spending of relief funds - 6/2/38.....		140
Barkley amendment discussed at 9:30 meeting - 6/2/38.....		122

- U - (Continued)

	Book	Page
Unemployment Relief (Continued)		
Recovery-Relief Bill (Continued):		
Wallace and HMJr confer on "earmarking of \$50 million put over by dairy, fruit, and vegetable people" - 6/4/38.....	CXXVII	233
FDR consulted by HMJr about backing Woodrum in fight to knock out \$212 million appropriation for farm parity - 6/6/38.....		343
a) FDR agrees		
b) HMJr talks to Woodrum		

- W -

War Conditions		
HMJr and Wallace call on Hull concerning loan to China so that flour and cotton grey goods may be purchased from United States - 6/1/38.....		109
a) Hull suggests offering cotton and wheat to Japan first		
Oliphant memorandum on legality of interchange of agricultural commodities for strategic ones through Federal Surplus Commodities Corporation - 6/2/38.....		176
Chinese loan discussed with State Department - 6/6/38..		300,304
Works Progress Administration		
See Unemployment Relief		

June 1, 1938

Dictated June 2, 1938

Lowell Mellett and Mr. Gaston were at my house last night (June 1) and Mr. Mellett said to Mr. Gaston, "Did I understand you to say that the President disapproved of what Hopkins did in coming out for Wearin?" Gaston replied, "No, what I said was that the President had not approved Hopkins' coming out for Wearin." Then Mr. Mellett said, "I just cannot understand it, because for 24 hours there was all the maneuvering to get Hopkins to come out for Wearin. "

Wednesday
June 1, 1938
9:16 a.m.

2

HMJr: Well. Hello.

Operator: Doctor Burgess.

HMJr: Hello.

W. Randolph Burgess: Oh, Hello, Henry.

HMJr: Randolph...

B: Yes, sir.

HMJr: Good morning. As an afterthought...

B: Yeah.

HMJr: ...I doubt whether I want to see anybody besides yourself, Devine, and the Discount boys.

B: I see.

HMJr: And I wanted to get to you - I tell you - I - for instance I'm called on the Hill every minute or by the White House for this bill. I don't want these people to come down here and not be able to see them, do you see?

B: Yes. Yes.

HMJr: And I thought if I saw you fellows - ah - saw you at one o'clock, you see?

B: Yeah.

HMJr: And then - ah - say Devine at three?

B: Yeah.

HMJr: And - ah - you wouldn't have to come down until tomorrow morning, if you wanted to.

B: Yeah. I could take a morning train.

HMJr: Yeah. And Devine at three if he can get away. And then we can use the phone a little bit.

B: Yeah. I think that's all right.

HMJr: But....

B: You're pretty well tied up and

HMJr: Well, I - ah - it's just I don't want them to come here and now this - I'm waiting for a call now; Byrnes asked me to go on the Hill on this Recovery Bill.

B: Yeah.

HMJr: Well, I can't invite these people down and have them sitting around for a couple of hours and not see them.

B: That's right. Yes.

HMJr: See?

B: Well, I've talked to all of them and I'll talk with them again - I can give you their reactions.

HMJr: Good. Well, later on I'll call you because the thing is beginning to clear a little bit in my mind.

B: Well, I'll get these - the Discount boys for one o'clock.

HMJr: Yes.

B: And Devine for three....

HMJr: That's right.

B: And I'll come down and be there available when the Discount boys are ready or a little beforehand.

HMJr: That a boy. Tell them to bring their extra suit of - pair of pants.

B: (Laughs) All right.

HMJr: O. K.

B: I'll bring one too. (Laughingly)

HMJr: All right.

B: Thank you, Henry.

HMJr: Goodbye.

B: Good. Goodbye.

RE EXTENSION OF PACIFIC COAST INTERNAL
REVENUE SET-UP

June 1, 1938.
10:30 a.m.

Present: Mr. Magill
Mr. Helvering

H.M.Jr: Now, what's this today?

Magill: This is the New York office.

H.M.Jr: Oh. Haven't you settled that?

Helvering: Said we were going to settle it this morning.

H.M.Jr: Want to settle it for me, make life easy?

Helvering: I've prepared a memorandum here; thought it would save time if you'd read it. The meat of it is all contained in the last paragraph. It's the write-up of the regular set-up, same as we have in the Pacific division.

Magill: As I get it, this is precisely the same as the Los Angeles

Helvering: No, the Pacific division.

Magill: ... as the Pacific division, with the geographical changes; but you want the settlements as to Board cases to go into effect on the first of August.

Helvering: 90-day letter.

Magill: 90-day letter and Board cases. And then as to the settlement of other cases, go into effect on the first of January - pre-90-day cases - is that it?

Helvering: Yes.

Magill: Mr. Helvering spoke about it yesterday afternoon - perhaps I might bring you up to date in that way - ...

H.M.Jr: Fine.

Magill: .. - and said, as to these pre-90-day settlements which he was speaking about the other day, that he felt that there was a good deal of danger of this

-2-

New York unit bogging down if they were given complete authority, which the Pacific Coast unit has, as of August 1 - a tremendous amount of Board stuff up there, and they will have, he thinks, all they can do to get that in hand between the first of August and the first of the year. That's the essence of it, isn't it?

Helvering: Yes.

Magill: I said to him yesterday I thought he was the best judge of that type of situation.

H.M.Jr: That's right.

Magill: And that if that seemed to be the economical way to do, why, I was - efficient way to do, I'm inclined to go ahead, because we certainly - this New York business is certainly one of the toughest nuts, and we want to do it right.

H.M.Jr: That's right, got to do it right. Now let me just take a look at this thing. (Reads portions of memorandum)

Well, what do you think?

Magill: I'm inclined to think this is the best way to do it.

H.M.Jr: Well, let me ask you this. By January first, what will be the difference between this and Los Angeles?

Helvering: After January first, there won't

Magill: Be just the same after January first.

Helvering: Well, Los Angeles, of course, is a part of the Pacific division. This will be just exactly as the Pacific division for the three offices in New York and the office in Buffalo.

H.M.Jr: Will it include Buffalo?

Helvering: Yes, the whole state of New York.

H.M.Jr: Let's put it this way. What will be the difference between the New York division and the Pacific division

after January first?

Helvering: Not a particle.

H.M.Jr: You're going to handle both the estates and gift?

Helvering: Yes. Everything will go the same.

H.M.Jr: But you've just spread it over nine months.

Magill: Over a period from August 1 to January 1.

H.M.Jr: You haven't initialed this?

Magill: No, I haven't even seen it.

H.M.Jr: I'll tell you, just to show you - even the Commissioner hasn't signed it - I'll sign first and we'll do it backwards, how's that?

Magill: That's fair enough.

H.M.Jr: I don't know - he comes over here ...

Magill: I'm quite willing to take it on Guy's say-so that it's the same as Pacific division.

Helvering: Well, there's just one change, and that's that little \$500 item that we - in the Pacific division, on account of the long distance between the Utah and Seattle offices, we allowed the boys out there to take the little \$500 cases and settle them, and on this we're holding them all in the central headquarters. That's the only change in the whole thing, which is an immaterial change.

Magill: Yes.

H.M.Jr: Is that all?

Magill: I think that's all.

I've got two or three questions I'd like to ask you if you've got time.

H.M.Jr: I got time.

-4-

Magill: How about Chicago, Guy? We talked - spoke about that once.

Helvering: Well, I think we can go ahead on this. I don't see why we can't go ahead as far as these - the Board and these 90-day letters, just as fast as we can. I don't think there is any question about that part of it.

Magill: You don't?

Helvering: Oh no.

Magill: That's the big batch of their work.

H.M.Jr: Is it 90-day letters?

Magill: The stuff after it gets into the 90-day stage.

H.M.Jr: What do you suggest for Chicago?

Helvering: Well, I think we can go ahead and get that set up just as soon as we get this set up.

H.M.Jr: Will you fix me up a letter, do Chicago on the same basis? Instead of starting September 1

Helvering: Well, I'd like to talk it over with Marrs and Graves and see if it can be ready or not.

Magill: We want to be very sure we've got the right personnel.

H.M.Jr: Will you do that next? And I appreciate the spirit in which you have approached this, if I may say so.

Helvering: Well, I think this will work out.

H.M.Jr: (Handing Helvering a letter) An anonymous letter.

Magill: I think this is fine.

H.M.Jr: I think it's fine. Guy ought to know this business, I mean - but I think if we could carry Chicago along at the same time ...

Just stick it in your pocket. I mean - I mean if they're dunning people who are on relief, it's kind

-5-

of adding insult to injury.

Helvering: Yes.

H.M.Jr: I mean it's a letter from somebody who is on relief - being dunned for his income taxes.

Well, have you anything on your mind other than ...

Helvering: Well, I want to mention this. This can't be a success unless we make some arrangement with the Board.

Magill: Oh, I'm glad you mentioned that. I was going to mention that too.

Helvering: Because we've got to have in New York an understanding with the Board of Tax Appeals that they're going to set up at least two members there with a steady attendance of their dockets, anyhow as early as September first, for the end of the year - perhaps August 15.

Magill: Guy tells me that they've got \$250,000,000 in Board of Tax Appeals cases right there in New York.

Helvering: And we ought to have Board members sitting the year round.

H.M.Jr: How about writing them a letter? What? How about having a meeting with them, or how about you two fellows seeing them?

Magill: I think that's what we ought to do, don't you? Of course, we're in a little difficulty there on account of the fact that we normally see the Chairman, and that's Arundell, and you know that situation.

H.M.Jr: When does his term expire?

Magill: Tomorrow.

Helvering: He goes off pay the end of the day.

Magill: And he loses his chairmanship.

H.M.Jr: (On White House phone) Is Mr. James Roosevelt back? - Please.

-6-

Tonight is the deadline?

Magill: Well, the nominations/^{would} have to be sent up today, wouldn't they?

Helvering: Have to be confirmed today, or else they go, under the law, off the payroll.

H.M.Jr: They have to be confirmed

Helvering: Have to take their oath.

H.M.Jr: (On White House phone) Hello, Jimmy, how are you? - Jimmy, for the past month or six weeks, your father and I have been corresponding about these four members of the Board of Tax Appeals who go off the payroll tonight. And unless there is some awfully good reason, for his own sake, see, those boys ought to be - he ought to take action today. And they've got to be confirmed today or else they go off the payroll. Now, I mean ...

(Aside to Helvering) They do go off the payroll?

Helvering: Yes, if they're not confirmed.

H.M.Jr: (On W.H. phone) Guy Helvering is sitting in here in my office.

Helvering: They don't hold over.

H.M.Jr: (On W.H. phone) They don't - they can hear because this telephone is so loud; they both shake their heads and say if they are not confirmed today, they go off the payroll.

Helvering: That's right.

H.M.Jr: (On W.H. phone) If they are not confirmed. Both Magill and Helvering are here, and they say if they are not confirmed by today, they go off the payroll. And there isn't - I mean if I may say so, there is no reason that I know of - Well, there are three which he is, see? So if he's going to reappoint three, let's do it today, and it doesn't leave a bad taste in everybody's mouth.

Roosevelt: All right, sir, I'll call him up right away.

-7-

H.M.Jr: (On W.H. phone) Well, he may not - well, I doubt if he knows that if he doesn't move this morning, that they go off the payroll tonight.

Roosevelt: All right, Mr. Morgenthau, I'll check with him in just a second and I'll call you back.

H.M.Jr: (On W.H. phone) Thank you. I'd appreciate it.

(Conversation ended)

Helvering: That law specifically states that the term ends. It isn't like most offices.

H.M.Jr: Oh, I'm - well, I don't want to talk, but

Christ, I've had this letter to Senator Adams which the President wanted to go on the Hill last night, and at 9:15 Aubrey Williams calls up - "The President can't find the letter. Why didn't you send it to him?"

I talked to Miss LeHand, said we left it there 4:30.

So she said, "Well, it's in his basket" - she says to me at 9:30.

Mac calls up this morning and asks Forster, "Has the President signed it?"

"Oh yes, he sent it up last night to Senator Adams."

Calls up Senator Adams, did he get it? "What letter you talking about? I didn't get any letter."

So to save argument Mac had it written all over again and he's over there now. And this is on the relief bill, to give the President sufficient authority to transfer funds so that he won't have to call Congress back, and we have only - it's a matter of minutes, because these fellows are going to leave. I'm supposed to go up on the Hill with Wallace and Aubrey Williams and Berlew and make a fight. I told Aubrey Williams - he called me at 7:30 - "I'm not going up there until the President signs the letter."

He said, "Oh, that's all right, it's been signed."

So I said, "When I know Adams got it, then I'll

-8-

talk to you."

This is all in the family. But I mean I just want to - I don't want you to think always it's so easy.

And for your own information, that speech which the President gave down at Arthurdale on taxes - Magill and I never saw it or had anything to do with it. I just want you to know that.

I'm tickled to death with this. If you can do Chicago - and this fellow's leaving town Friday for a month?

Magill: Well, I imagine leaving on Monday.

H.M.Jr: Well, if it isn't rushing you too much, if you could clean it up before you left - will you be here Monday?

Magill: I can come down Monday.

H.M.Jr: It's not necessary. I should think - is it rushing you too much - will it?

Helvering: Well, it's a pretty big unit.

H.M.Jr: Well, I'm here. No, I'm here. Let's put it on the calendar that you (Helvering) and I will clean it up next week, between now and the 11th of June. Huh? That's Saturday a week.

Helvering: Oh well, we can do that.

H.M.Jr: That doesn't rush you too much.

Helvering: No.

H.M.Jr: Because I appreciate that.

Did you (reporter) hear Jimmy Roosevelt say his father's not going to appoint one of the four? He said his father's not going to appoint one of the four. So I said I didn't know about that.

Magill: That would evidently be Tyson. Arundell, Tyson, McKern, and Opper are the four.

-9-

Helvering: McKern, Opper, and Arundell - there wouldn't be any question about McKern and Opper; just put them over.

H.M.Jr: No, it's Tyson.

Well, anyway, that's that.

May 31, 1938.

MEMORANDUM FOR THE SECRETARY:

Subject to your approval, the arrangements and procedure below described will govern the disposition of tax cases arising in the offices of all Internal Revenue Agents in Charge within the State of New York.

TECHNICAL STAFF, NEW YORK DIVISION

1. Effective August 1, 1938, a division of the Technical Staff of the Commissioner's Office will be established comprising the state of New York. It will be known as the New York Division of the Technical Staff (hereinafter referred to as the Staff Division). It will consist of a Head, to be designated by the Commissioner, and such technical assistants, auditors, and clerks as may be necessary. It will perform its duties under the Commissioner's supervision through the Head of the Technical Staff, Bureau of Internal Revenue. The Staff Division will maintain division headquarters at New York, New York, with branch offices at such other places within the division as in the judgment of the Commissioner may appear advisable.

2. (a) The Head of the Staff Division will exclusively represent the Commissioner in the determination of Federal income, profits, estate and gift tax liability (whether before or after the issuance of a statutory notice of deficiency) in all cases originating in the office of any Internal Revenue Agent in Charge hereinabove mentioned, in which the taxpayers have finally protested the preliminary determination of liability made by that officer, excepting cases in the pre-90-day status in which the Special Agent in Charge or the Internal Revenue Agent in Charge has recommended criminal prosecution: Provided, That the Staff Division shall not eliminate the ad valorem fraud or negligence penalty in any case in the so-called 90-day status, or the pre-90-day status, except with the concurrence of the Special Agent in Charge.

(b) The Head of the Staff Division will also have exclusive authority to settle by stipulation all cases docketed by the United States Board of Tax Appeals and set for trial at any place within the territory comprising the jurisdiction of the New York Division of the Technical Staff: Provided, That he shall not make or approve a stipulation for settlement in any docketed case except with the concurrence of the Counsel for the Staff Division referred to below.

3. A representative of the Chief Counsel of the Bureau of Internal Revenue will be assigned as Counsel for the Staff Division, with such legal and clerical assistants as he may require. His duties will be performed under the general supervision of the Chief Counsel. He will advise the Head of the Staff Division, upon request, upon legal questions arising in the determination of income, profits, estate and gift tax liability. He will advise the Head of the Staff Division also with respect to any proposed settlement of a docketed case. He will prepare answers to petitions filed with the Board of Tax Appeals, copies of which will be furnished him by the Chief Counsel, in cases originating in the offices of the Internal Revenue Agents in Charge hereinabove mentioned; and he will have exclusive authority to represent the Commissioner in the defenses before the Board of cases set for hearing within the territorial jurisdiction of the Staff Division, but he shall not stipulate before the Board for the settlement of any case except with the approval of the Head of the Staff Division. The Counsel for the Staff Division will consider all memoranda prepared in the Staff Division directing the issuance of statutory notices of deficiency prior to their approval by the Head of the Division, and will advise him in any such case whether in Counsel's judgment the proposed deficiency or any larger or smaller deficiency could successfully be defended upon appeal to the Board. He will also make such suggestions as he may deem advisable as to the form and content of the proposed statutory notice in any such case, to insure that such notice will provide a sound basis for defense should the case be appealed.

PRELIMINARY PROCEDURE BY THE INTERNAL REVENUE AGENTS IN CHARGE

4. Deficiency cases will be handled in the office of the Internal Revenue Agent in Charge in accordance with the provisions of the Internal Revenue Manual, and other general instructions, except in the following particulars:

(a) Except in fraud cases in which prosecution is contemplated, the Internal Revenue Agent in Charge will make and send to the taxpayers by registered mail the preliminary notice of deficiency in all income, profits

-3-

and estate tax cases arising within his territorial jurisdiction, and in all gift tax cases in which his office is directed by the Bureau to make the major field examination. In any case where the taxpayer does not respond to the preliminary notice of deficiency within the time allowed by said preliminary notice, the Internal Revenue Agent in Charge, without follow-up of the preliminary notice, will issue the statutory notice of deficiency in the prescribed form.

(b) In any case where the taxpayer files a protest after the preliminary notice of deficiency but declines a conference, the Internal Revenue Agent in Charge will reconsider the case in the light of the protest and notify the taxpayer of his conclusions. If an agreement is not reached, he will thereafter, depending upon the circumstances of the case, either (1) issue the statutory notice of deficiency, or (2) advise the taxpayer that on request the case will be referred to the appropriate office of the Staff Division for hearing, but that in the absence of such a request the statutory notice of deficiency will be mailed at the expiration of a specified time. In this latter event, the Internal Revenue Agent in Charge will issue the statutory notice upon the taxpayer's failure to request a hearing before the Staff Division within the time specified.

(c) In any case where the taxpayer files a protest and a conference is held, but without agreement, the Internal Revenue Agent in Charge will notify the taxpayer of his conclusions, advising him that upon request the case will be referred to the appropriate office of the Staff Division for hearing, but that in the absence of such a request the statutory notice of deficiency will be mailed at the expiration of a specified time. The Internal Revenue Agent in Charge will issue the statutory notice upon the taxpayer's failure to request a hearing before the Staff Division within the time specified.

5. The procedure for handling overassessment cases will be the same as that prescribed in the preceding paragraph with relation to deficiency taxes, except that the preliminary notice will inform the taxpayer that if he fails to acquiesce or protest within a specified time the Internal Revenue Agent in Charge will recommend to the Commissioner the issuance of a certificate of overassessment in the amount stated in said preliminary notice. If the taxpayer fails to respond to the preliminary notice, the Internal Revenue

-4-

Agent in Charge will send the case to the Bureau for issuance of the certificate of overassessment or other appropriate action.

PROCEDURE AFTER REFERENCE TO STAFF DIVISION

6. The Staff Division will accord hearings upon protested cases referred to it by the Internal Revenue Agent in Charge in accordance with the procedure outlined in the preceding paragraphs. It will not consider before the issuance of the statutory notice of deficiency any case in which no protest has been filed with the Internal Revenue Agent in Charge. In any case in which protest has been filed with the Internal Revenue Agent in Charge, it will not consider prior to the issuance of the statutory notice new contentions or new evidence that may be decisive with respect to any major issue, but upon the presentation of such contentions or evidence, will refer the issues involved to the Internal Revenue Agent in Charge for further consideration and for conference with the taxpayer if advisable.

7. When the Head of the Staff Division has reached a final conclusion with respect to any case, he will prepare a memorandum thereof setting forth the exact grounds upon which his conclusion rests. This memorandum will be transmitted with all the papers in the case to the Internal Revenue Agent in Charge, who will, according to the nature of the decision of the Staff Division,

- (a) Certify a deficiency to the Collector in accordance with Memorandum 3052,
- (b) Issue a statutory notice of deficiency, or
- (c) Transmit the case to the Bureau for preparation of a certificate of overassessment, or other appropriate action.

8. Except as provided in paragraph 3 above, the Staff Division will have complete jurisdiction of all cases after the issuance of the statutory notice. Upon the taxpayer's request, the Staff Division may take up for settlement any case in which a statutory notice has been issued, and may grant the taxpayer a hearing thereon. Except in unusual circumstances, however, it will not grant a hearing in such a case prior to the filing of the petition if a hearing has been had in the office of the Internal Revenue Agent in Charge, or if the taxpayer has refused an opportunity to be heard there.

-5-

9. After the filing of the petition in any case, the Staff Division will continue to have sole authority, subject to the provisions of paragraph 8 above, for the settlement of the case, and will have the custody of all files, papers, and documents relating to the case, which will, however, at all times be available to the Counsel for the Staff Division for the preparation of the answer to the petition and for the defense before the Board of the Commissioner's determination.

10. At any hearing granted by the Staff Division, whether at an established office or on circuit, the Internal Revenue Agent in Charge will be represented if he so desires, or if the Head of the Staff Division deems it advisable; and at any such hearing on a case involving the ad valorem fraud or negligence penalty, the Special Agent in Charge will be represented if he so desires. Except as may be otherwise directed by the Commissioner through the Head of the Technical Staff, the conduct of hearings and other proceedings by the Staff Division will be in accordance with the procedure customarily followed by the Technical Staff.

11. The intent of the arrangements and procedure above prescribed is to provide one, single, unified agency, with office facilities at or near the taxpayers' residences or places of business, to exercise on the ground, for the Commissioner, all the authority which the Department, or any of its branches, may have under the law, in the review of protested tax determinations made by the Internal Revenue Agents in Charge, in the settlement of contested cases, and in the defense of such cases, when necessary, before the Board of Tax Appeals.

12. The procedure prescribed in this memorandum, in so far as it relates to cases in which the statutory notice of deficiency has been, or may hereafter be, issued, will become effective August 1, 1938. The procedure which relates to the determination of tax liability, and the settlement of cases, before the issuance of a statutory notice of deficiency, will become effective January 1, 1939.

Commissioner.

Approved:

[Signature]
Secretary of the Treasury.

M E M O R A N D U M

June 1, 1938.
10:59 a.m.

Mr. James Roosevelt called me at ten minutes of eleven and said he had talked to the President about sending up the reappointment of the members of the Board of Tax Appeals, and the President said he wasn't going to do anything today; that these were his appointees and it would be just too damn bad if they had to go without their salary for five or six days, and that he hadn't made up his mind about any of them.

And then I asked Mr. James Roosevelt if the President had signed the letter to Senator Adams. He said he had signed it at 9 o'clock this morning. I said that my understanding through Aubrey Williams was that the President wanted Aubrey Williams, Berlew, Wallace, and myself to go up on the Hill in connection with this letter, but that I didn't propose to go up until the President saw us and told us specifically what he wanted us to do on the Hill. Mr. James Roosevelt said he'd see his father when he got an opportunity and would telephone back what the answer was.

H.M.JR.

RE MELLON TAX CASE

June 1, 1938.
11:00 a.m.

Present: Mr. Magill
Mr. Oliphant
Mr. Helvering
Mr. Wenchel
Mr. Shearer

H.M.Jr: Well, who's teacher?

Oliphant: Magill.

Magill: Why aren't you?

Oliphant: Oh, I have other papers.

Magill: This is the legal department.

Well, the situation on this, as it was put up to me, is this. The Board, as you will recall, found certain points in favor of the Government, some points in favor of Mr. Mellon. The opinion of the Board is quite confusing. On some of the major points the Board split 3 to 7; on other points I believe they were unanimous. And the opinions, both the majority and minority, are not very clear. It's a difficult case for a lawyer to understand really what the Court was trying to do.

But anyway, the deficiency, as found by the Board, is a little over \$400,000. If we should win everything that we thought we might, we would get about a million dollars - little over a million.

Oliphant: This is Andrew Mellon's case alone.

Magill: This is Andrew's case alone.

H.M.Jr: You'd collect how much?

Magill: If we won everything, we'd collect a million. The Board has found in our favor for four hundred thousand. Now, we have ...

H.M.Jr: When there's a difference - we think we're entitled to six hundred thousand more.

Magill: It's better than six hundred thousand.

-2-

Now, as I understand it, some of the points that were asserted and that I believe were involved in the million, are points that we think are not very good - isn't that true - and that we have not got very much hope of winning them at any time; but there is a reasonable possibility of winning considerably more than what we did before the Board.

So that, looking at it from a lawyer's point of view, there would be two reasons for an appeal in the case. First, that we've got a series of complicated legal questions which are involved in other cases of other stockholders that were involved in these same transactions and stockholders in other cases completely distinct; and these legal questions we would like to have settled. And then, secondly, there is so much money involved here that normally either the Government or a private client would appeal, because we don't want to have it rest merely with the Board.

Now, I inquired from Mr. Shearer along these lines as to what the chances are of losing some of this four hundred thousand if we take it up on an appeal, and Shearer says that this four hundred thousand might be chiseled down to about three hundred fifty thousand.

Shearer: Not on our appeal, Mr. Magill. The taxpayer has said that if we appeal he's going to appeal too.

Magill: But I wasn't thinking of that technical point, but that, as I understood you, weighing the probabilities as the trial lawyer, your view is that this four hundred thousand might be knocked down to three hundred fifty thousand but there is very little chance of its being knocked below that.

Shearer: That's right.

Magill: In other words, the risk that we run on appeal is comparatively slight, in view of the size of the case. On the other hand, we have a good chance of getting considerably more than the four hundred thousand.

Now, the case then is one which in the ordinary

-3-

course we would appeal if it were John Henry Smith and otherwise the same facts and questions of law were involved.

Now, Mr. Frank Hogan, who represents Mr. Mellon, comes around and says that he will pay the \$400,000 which the Board has found and he will pay what is due in the other cases involving R. B. Mellon and McClintock and some of the other stockholders of the company that were in the same transactions. He will pay those amounts too if the thing can be settled at this point. The total payment would be something in excess of two million dollars, as I understand it.

Hence, the question at the moment is whether we will proceed with the appeal or whether we will take the two million dollars and quit.

Oliphant: quit on all four cases.

Magill: Yes.

H.M.Jr: But if we won, how much could we win on all four cases?

Wenchel: Six million.

Shearer: Not that much. Be about three and a half million on the four cases.

Wenchel: That's right. McClintock and Marshall don't

Shearer: About three and a half million on the four cases, if we won all points.

H.M.Jr: What do you think the chances of winning are?

Shearer: The principal point, Mr. Secretary, is a law point that we urged before the Board and the Board itself split 8 to 7 on it, so that, while I think it is perfectly sound, we perhaps have only about a 50-50 chance of getting the Court to reverse on it.

H.M.Jr: But on that one point, if we got a favorable one, could we get three and a half million?

-4-

- Shearer: There is a subsidiary point to that which has to do with the question of the rate of tax, whether the surtax rate of 20 percent of 12½ percent. That point was not discussed in the Board's opinion. Our office rulings are to the effect that it should be the 20 percent. The 20 percent would build it up to the three and a half million, but the 12½ percent would leave it very much lower than that.
- H.M.Jr: Unless my memory is weakening, which it may be, I thought you fellows had this question up once before, whether we should appeal; I thought it was settled.
- Oliphant: We have never finally checked it with you.
- Magill: We have spoken about it from time to time.
- H.M.Jr: Better look up the record.
- Oliphant: At one time you said you wanted to discuss it with me before any action was taken.
- H.M.Jr: Is that it?
- Oliphant: Yes, you told me that.
- Helvering: Definite offer - paying up that two million two.
- Magill: Yes. That's new as far as I'm concerned.
- Wenchel: That came in March 28.
- Oliphant: March 28.
- Magill: Well, I didn't know about it.
- Oliphant: It came by way of Jackson within the week. Hogan called up Jackson and within a week
- H.M.Jr: Have you (Helvering) studied this?
- Helvering: Yes.
- H.M.Jr: Have you got an opinion?
- Helvering: I think my opinion would be just like that expressed

here. If this was just an isolated case standing by itself, I think we'd go ahead and appeal it. That was my first reaction - thought - to accept it, close this thing up and - well, I'm afraid of what the newspapers are going to say. See, three of these defendants are dead. One of them is alive.

H.M.Jr: Which one is alive?

Shearer: McClintock. Marshall is dead. R. B. Mellon is. A. W. is dead.

H.M.Jr: I still - have you had time enough to give me a yes or no, you would or would not appeal?

Helvering: Well, I'm inclined to think that the unsettled condition of these law points and the other cases that may come up - it ought to be appealed.

H.M.Jr: How about you?

Shearer: I'd recommend an appeal.

H.M.Jr: Wenchel?

Wenchel: I recommend an appeal.

H.M.Jr: Oliphant?

Oliphant: Just feel like John Jones of Keokuk, Iowa - appeal it.

H.M.Jr: You?

Magill: Yes, I think that's the answer; that is, assuming that this is as stated here by these gentlemen, that if in the ordinary case it didn't involve a man of this prominence we would appeal, which I think we would. Then it seems to me we ought to appeal it in this case. It may lead to some adverse criticism.

H.M.Jr: Well, we get fat on it.

Magill: But that isn't the first time.

Oliphant: Fat or calloused?

H.M.Jr: Both. O.K., we appeal.

Oliphant: Assuming the Attorney General agrees. That is, we now take it up with the Attorney General.

H.M.Jr: Well, I don't have to ...

Oliphant: ... worry about it.

Magill: That's your (Oliphant) problem.

OPEN CONFERENCE ON TAXATION PROBLEMS
ARISING FROM SUPREME COURT DECISION
IN HELVERING VS. GERHARDT

June 1, 1938.
11:30 a.m.

Present: Mr. Magill
Mr. Oliphant
Mr. Gaston
Mr. Wenchel

Various Congressmen, state officials and
municipal officials, shown on attached list.

Several newspaper reporters.

* * * * *

Magill:

*his meeting was requested by representatives of some of the states for the purpose of discussing some of the implications of the recent decision of the Supreme Court in Helvering against Gerhardt, involving the taxation of salaries received by certain employees of the Port of New York Authority. It is my understanding that you have designated Solicitor General Epstein to act as chairman of the gathering on your behalf, and that he and some other of the gentlemen here present wish to give us information and some assistance with respect to working out these problems which we will have as a result of this case.

I suppose I need hardly say that, speaking on behalf of my associates in the Treasury, we shall be very glad to get all the information we can on this subject, because it is obviously a problem which must be solved. I hope that after the session which we are to have this morning it will be possible for some of us to get together privately and for you to cooperate with us in working out the best method of handling the situation with which we are confronted.

I may say that representatives of the Treasury have been working on this problem ever since we received the decision a little more than a week ago.

Mr. Epstein, if you will proceed from here, I'd appreciate it.

-2-

Epstein: Mr. Secretary, we are fully appreciative of the headaches that naturally come with the drafting of fiscal legislation and with the work that you yourself and your staff have had. We also have our headaches, and in this case we seem to have a joint one, and our aim is to accept the generous offer of cooperation in order to attempt to find some palliative for the time being, at least, for this mutual headache.

I want to leave with you a list of the representatives of the several states and of their public instrumentalities that came here and are represented here, without the necessity of calling them individually by name or of introducing them to you personally.

Magill: I hope I will have the opportunity of meeting them personally, as well.

Epstein: They'll all be here.

But the situation, as you are well aware of, is one, as the result of the decision in the Gerhardt case, which has created nothing less than consternation among the hundreds of thousands of municipal and state employees and the employees of public agencies throughout the country. The representatives of the states have come here in conference and they have quite thoroughly canvassed the situation and discussed the possible methods of approach to reaching a solution. We understand and appreciate the cooperation and the sympathetic attitude of the Treasury Department.

After canvassing the situation thoroughly, the group of the representatives of the states have agreed upon a steering committee, some of whom will be able to remain here in constant attendance and to work with whomever you shall designate as your representatives in an endeavor to reach some solution to this problem. We trust that in cooperation with your representatives they will be able to reach a definite and reassuring conclusion to the hundreds of thousands of employees and officials of the states and their municipal governments.

The chairman of that steering committee is Attorney General McLaughlin of Connecticut, and I would

-3-

appreciate it if in addition to the few remarks that I have made you would hear from Attorney General McLaughlin.

McLaughlin: Mr. Secretary.

Magill: Mr. Attorney General.

McLaughlin: Personally I have not had the opportunity to give the study, thought and serious deliberation to the import of the decision in the Gerhardt case that some of the gentlemen present have; but by happenstance I have been selected by the Attorneys General and their personal representatives of some twenty states in the Union.

We are seriously disturbed at the import or the potentiality of retroactive implication that is contained in Justice Stone's memorandum - opinion. You personally appreciate that problem without my extending my remarks in that respect. The employees of the various state and municipal departments throughout the eastern part of the United States are fearful of the fact that, as innocent victims, they may now be called upon to pay a tax that would date back to 1926, which would be an unconscionable hardship and would result in financial ruin.

It is our desire to cooperate to the fullest degree with the Treasury Department, to place ourselves at the Treasury - at your service as well as of your associates, to attempt if possible to draft, if it meets with your approval, some type of legislation that will set a clear mark of demarcation with relation to the possibilities or the possible potentialities of collecting back taxes with this retroactive effect.

Other than that, at this particular time I am not prepared to say that we have any suggestions that we could offer to you. It is a serious problem. I take it from what I have read informally in the press that it is the attitude of the Treasury that it is not to be harsh in its application of any regulations promulgated or any suggestion of legislation predicated on the exigencies of the situation, so as to clear up this misunderstanding. But I can assure you that it has a damaging effect

-4-

on the morale and personnel of the employees in state and municipal government, because with this hanging over their head it affects their efficiency; they won't be satisfied, naturally, until it is determined one way or the other what they're supposed to do and how they're supposed to meet the issue when it presents itself to them individually.

So, as I say, the problem itself I am quite certain that you are acquainted with probably much more than I am. We want to join with you - we'd like, if possible, to have the Administration indicate this attitude of elimination from the thought of any individual in state or municipal employment the possibilities of the retroactive application of taxation among those who are engaged in more or less of an essential governmental function. Now, our various courts have determined at different times what constitutes essential governmental function. There is, no doubt, a variance of opinion expressed by the courts in various jurisdictions, but I believe a broad basis upon which the equity would be available to all would be something that, in my humble judgment, the Treasury would be pleased with, and I am certain that the representatives of the state governments here and back home - the various employees would be delighted to have some pronouncement come from the Treasury Department with relation to that, either in the nature of a recommended bill to the Congress or an indication that within reasonable time such a bill would be presented to Congress. Of course, time is of the essence. There's probably only about 11 more days to this session, as I understand it, and I can appreciate that toward the end of the term it is pretty difficult to draw a bill that would meet with the approval of all. But I am certain that you, Mr. Secretary, and your associates will give this matter your serious consideration and extend within reason the relief that the employees of state and municipal governments under the circumstances are reasonably entitled to.

Magill: Thank you, sir.

Senator Green, did you wish to ...

-5-

Green:

Well, I didn't come here to address the gathering, but I might add a word. Yesterday I introduced a bill to the Senate, the purpose of which was to meet this situation. There is no pride of authorship in it, but it simply will serve to get things started in the Congress. When I read the opinion originally, I concluded that some law was necessary in order to avoid the injustice done by the implications of the decision. Now, I don't know whether the officials of the Treasury Department or the Department of Justice are of that same opinion or not. I should think they would be. It would relieve them of the responsibility of making decisions which they will be very loath to make. Even should they make decisions, they are not binding either on themselves or on their successors in office. And there would still remain uncertainty as to the application of the principles in the Court's decision. So I can see no way out except to have some legislation passed, and I hope that it may be passed, and I introduced the bill yesterday.

Senator Barkley said to me, "You don't expect you're going to get any new piece of legislation through at this session, do you?"

I said, "Oh yes, I am a born optimist, and I do."

Now if as a result of your deliberations here a better bill can be devised, it can be substituted for the one I introduced. It is quite possible to do that in committee. But I think it ought to be done promptly; otherwise, nothing can be done this session, as he (McLaughlin) said before.

And no matter what decisions you might reach with a generous heart, or even using the intelligence besides, I don't see that it's going to satisfy those who are anxious about the uncertainty of the legal points involved. And it has been said in another connection that "the only thing we have to fear is fear." Well, uncertainty is certainly akin to fear, and so I hope that you may come to a prompt decision, and I shall be glad to cooperate in any way I can.

Magill:

Well, I appreciate your offer and I know we are all glad to have your bill to use as a basis. I think

-6-

I have not yet personally seen it, but I of course shall want to get at it at once.

Senator Milton is here too, is he not?

Milton: That's correct. Senator Green and Attorney General McLaughlin have fully covered it, Mr. Secretary.

Magill: Congressman Brewster, did you have any

Brewster: Well, I want it to be clear that the State of Maine - the Attorney General wanted - asked me to come here - Maine is absolutely in accord with all of its sister states in this matter. And I'm not sure whether the House is going to find its prerogatives encroached upon by the Senate in the matter of revenue legislation. I'm sure Senator Green and Senator Milton and the others will be able to accommodate that viewpoint.

I think all of the Attorney Generals, if they share the emotions of our Attorney General, feel as though "fools rush in where angels fear to tread" when we trespass upon this tax legislation. It is my understanding that this is chiefly designed to affect the question of retroactive application, and whether there are other considerations that enter into the picture from your standpoint of taxation, I don't know. But I think it would be helpful if in this general gathering those broad issues could be discussed. The detailed application of them in legislation, and the working out of a measure, would necessarily have to be a matter of a small sub-committee in conference with your group.

But I think that the large group would be glad to know whether or not the Treasury feel anything along this line may be feasible at this time.

Magill: Well, I suspect that you three members of Congress are better fitted to judge that than we are. Of course, we've got this date of adjournment immediately ahead of us - projected adjournment. I think our - the point of view of the Treasury is similar to that of the states in this respect, that we have to administer this law, have to administer this exemption, and consequently we like it as clear as possible, because insofar as we can avoid future litigation upon

-7-

the subject, it is all to our advantage, and we further would like it clarified for the ordinary day-by-day administration of the law. I presume that, ideally at least, we would like to see it clarified not only with respect to these retro-active features to which you refer, but clarified as to future as well. That is, we've got the future years ahead of us as well as the past situation.

I don't know how much advantage there is in discussing the various detailed aspects of possible legislation at this time. Any of you that have thought about it are aware, of course, of the fact that there are a large number of quite difficult problems to settle, either as to the past or as to the future.

What was your thought on that, to handle it through your

Epstein: We felt, Mr. Secretary, that if the steering committee or the steering and drafting committee that we had agreed upon would be able to go into an immediate conference and work with your designees, that they could at least make headway as quickly as possible in arriving at some conclusion. We have tentatively agreed upon a suggested basis for discussion of the draft, but that would be purely for your designees and this committee to take up.

Magill: Do you have some draft legislation in addition to Senator Green's bill?

Epstein: Yes, we agreed working last night, and met this morning and agreed upon a proposed draft as a basis for discussion with your designees. We realize, of course, that there are obvious difficulties in attempting to delineate any categories or any groups, and we also realize that there are special cases and exceptions, and that makes it the more difficult task. We have attempted, however, to draft what we thought was a fairly comprehensive draft of a suggested measure, purely as a basis for discussion, because in that way we feel that you can facilitate and expedite the arriving at a conclusion.

We would suggest that if your designees would be

-8-

willing and available, that the members of this committee who are able to remain and who will be able to work continuously would be given the opportunity of working with your men in cooperation as quickly as possible.

- Magill: That will be entirely satisfactory to me, if that is your pleasure. Have you discussed it at all with the members of the Committee on Ways and Means or the Committee on Finance?
- Epstein: We have not, because we thought it would be much more important to have the Administration's viewpoint through the Treasury before we did that.
- Brewster: I would suggest that - why I think it's important is that most of the men here, I presume, will go back to the states, and I think before they went, which will probably be today, they should contact their representatives on the Hill, particularly the Ways and Means and Finance members from those states. And I think when you see them, if you can give them a definite idea of possibly what is contemplated if it is to stay in effect retroactively, if you are able to say that subject to formulation, it will help them a good deal more.
- Epstein: Well, the sole purpose and the sole point covered by the draft that we have considered is purely the retroactive effect of the statutes on the personal income of the officers and employees of the states, their sub-divisions, or their public instrumentalities, and none other. We do not go into the periphery of the opinion, because that leads to too many possible speculations.
- Green: May I say, Mr. Under Secretary, I think it would be a great mistake to go beyond that. Be very difficult to get any legislation passed. Find a much greater divergence of view as to the other matters than with the retroactive.
- Cohen: Mr. Under Secretary, as the defeated counsel in the case, we have been thoroughly subdued.
- Magill: As lawyers you are still intact, however.

Cohen:

We congratulate the Treasury Department upon the victory that it has looked forward to for so many years, been so assiduous in striving for.

I see immediately not alone the Port Authority problem, which is a problem by itself, but the information that has come to us because we happen to be in the case leads us to appreciate the magnitude and the extent of the demoralization that has taken place throughout the country in the working forces of the various departments. We are aware of that situation in our own organization, and we have an administrative problem such that all the headaches you have had to carry, Mr. Under Secretary, are not comparable to ours. We've got a real headache there.

Now you have, it seems to me, if you will permit me to suggest it to you, two problems. You have the problem of working out with us, as has been suggested, the form of legislation which, with the assistance of those in Congress who already appreciate the difficulty, may still be gotten through before Congress adjourns. But you have a still larger problem, and that is the problem of sending word through the gentlemen of the press who are now here to the employees of the country. There have been various stories about the Treasury Department, the construction of the decision. It is perfectly obvious to me as a lawyer that you are going to construe that decision as broadly as you possibly can and litigate on the broad interpretation. That would be your duty. But nevertheless, upon this point of retroactivity, there ought to be easily arrived at a concurrence of view, and if the Treasury and this conference of Attorneys General and representatives of the Senate can agree upon the principle of retroactivity, the sooner you announce that, sir, and the sooner you make it clear, the easier you will make the problem of all of the public officials of the country who have to meet their staffs and explain to them what is going on, because there is a lot of worry at the present time, tremendous amount of anxiety. And I think you must appreciate that those who have the responsibility of administering the law have got to meet those problems, and they are real headaches for every one of us.

-10-

So that, as soon as you can, if the Department can issue some statement which indicates that it is in sympathy with Mr. Green's legislation, even though we may improve upon it as to form and even though it may have to be introduced in the House and the Senator may have to retire to meet the parliamentary problem, we can overcome all those difficulties. But the growing fear that has been going like wildfire through this country is something that must be met and met promptly, or else you'll have a demoralized public service throughout the country. People won't rest easy. When these Attorneys General go back they're going to have to meet inquiries from all the officers in their communities.

Mr. McLaughlin referred to the East. Los Angeles is here; not Los Angeles - Washington is here. The Attorney General flew from Washington to be here. New Orleans is here. North Carolina is here. It isn't merely the New England states and the immediate vicinity of New York. You've got the whole country aroused about this thing. I've got a morale to meet. You've got a situation that is very precarious not only for us but for you, sir, for the Treasury Department. I mean by that that you make for difficulties for yourself if you don't take hold of the situation now and meet it in a practical, constructive way.

So that I should urge upon you not that we discuss the details of legislation here, or even discuss the matters of policy here, but that you announce - that the Treasury announce in some way that it isn't cold and unreceptive to the problems of these administrative instrumentalities throughout the country.

Magill: Well, if I have appeared cold and unreceptive to you, it's certainly been due to the austerity of my New England ancestry and not to my actual feelings in the matter.

Cohen: Well, I didn't say that.

Magill: As I understand it, you gentlemen have here more than one legislative proposal for handling these problems, and consequently I would be inclined, so far as the

-11-

Treasury is concerned, to accept your suggestion that we resolve ourselves into a small group and see what can be done about it.

Of course, I needn't say, but I shall, that the ultimate solution of the matter, as I gather, may very well be in the hands of the Congress, and of course what the Congress will desire to do about it is entirely for them to decide. But for our part we are entirely - we are certainly sympathetic with your problems. We have no more desire than you have to see the state employees demoralized by this decision, and we shall be very glad to give the most careful consideration, immediate consideration, to whatever suggestions you have as to the best solution. I can readily see there are several possible solutions, and I should think it might be best to consider those in probably a small group around the table.

- Brewster: "I think you will all recognize that unless there is some substantial agreement, no action will be possible. Unless the Treasury not only approves but enthusiastically approves what you work out, it will be impossible to do anything on the Hill. If you do have complete agreement and cooperation, it might be possible. It would be almost miraculous, but it might be possible to then get action up there, and pretty promptly.
- Cohen: Mr. Brewster, I am of the same temperament as the Senator from Rhode Island. I am an optimist. I believe that where there is the will to do a thing, it will be achieved; and if the will exists in the Treasury Department, I know it exists with us and we can find a way to achieve a result.
- Green: It is true, too, that no action on the part of the Treasury Department, or non-action, would act as a damper on the proposed legislation.
- Cohen: I understand that.
- Epstein: Mr. Secretary, we are appreciative of the courtesies that have been extended here, and we believe that out of the conference between your designees and our committee there will come an agreement so that

-12-

possibly what may be regarded externally as insuperable obstacles may be overcome. And I would suggest that the members of the committee that have been agreed upon to work with the designees of the Treasury remain and that we thank you for your courtesy and ask you to convey to the Secretary of the Treasury our appreciation of his designation of the people who are going to meet us here today.

Magill: I appreciate very much your courtesy and the interest in coming here, all of you.

I take it that this group which will now meet with our men is a group to whom you have delegated the job of going forward with this technical problem, and no doubt they will be glad to receive from you, as the Treasury would be glad to receive from you directly, any information and suggestions, and so forth, which you may wish to make.

I presume you will give to the gentlemen of the press

Epstein: They have the names, a list of these various state representatives that are here.

Magill: Well, thank you very much indeed.

Brewster: Do I understand that those who are not to confer will get in touch with their representatives on the Hill? For instance, Mr. Doughton, I think, should be immediately contacted, and Senator Harrison.

Magill: Well, Mr. Doughton, I believe, is in the hospital, so I expect

Brewster: Well, whoever is taking his place.

List of representatives present at the Shoreham Hotel,
May 21, 1938

Senator Theodore Francis Green, Rhode Island
Senator John Milton, New Jersey
Representative Ralph Brewster, Kansas
Greek L. Blou, Attorney General, Mississippi
Clarence V. Book, Attorney General, Kansas
Percy Warren Green, Attorney General, Delaware
John P. Hartigan, Attorney General, Rhode Island
C. J. McLaughlin, Attorney General, Connecticut
James O'Connor, Assistant Attorney General, Louisiana
Ira J. Parlow, Assistant Attorney General, West Virginia
Henry Fyfelein, Solicitor General, State of New York
Harry L. Parr, Assistant Attorney General, State of Washington
Frank C. Ferguson, Chairman, Port of New York Authority
John E. Ramsey, General Manager, Port of New York Authority
Julius Henry Cohen, General Counsel, Port of New York Authority
Austin J. Tobin, Assistant General Counsel, Port of New York Authority
S. Granville Curry, Albany Port District Commission
Frederick W. Dolan, Albany Port District Commission
Bess Clares, New Orleans Port Commission
Phillip B. Fugh, Jr., Counsel, Board of Commissioners, Port of New Orleans
Adrian Bonnelly, Counsel, Delaware River Joint Commission (D.R.J.)
T. Barry Boland, Counsel, Delaware River Joint Commission (D.R.J.)
Joseph Costello, General Manager, Delaware River Joint Commission
Lewis L. DeLarfield, Jr., Triborough Bridge Authority, Henry Hudson
Parkway Authority, New York City Parkway Authority, Bethpage Parkway
Authority and James Beach Parkway Authority
Paul V. Batters, Executive Director, U. S. Conference of Mayors,
representing Mayor F. H. LaGuardia, New York City
John H. McIntire, Consulting Counsel and Executive Director of
the Institute of Municipal Law Officers
Charles S. Elyne, Attorney, Institute of Municipal Law Officers
W. J. Barry, Jr., Assistant Attorney General, Tennessee
Frank H. Patton, Attorney General, New Mexico
Harbert S. Duffy, Attorney General, Ohio
Harry Wehler, Attorney General, North Carolina
Frank R. Kenison, Assistant Attorney General, New Hampshire

MEMORANDUM

June 1st, 1938.

Today, at 12 o'clock, the Secretary directed me over the telephone to instruct the Director of Procurement to authorize the Departments requiring cement for use during the month of July to proceed to make their purchases directly. The Secretary also directed that similar action was to be taken on the 1st of each subsequent month until instructions have been received by him from the President as to what policy he decides to follow for the entire Government establishment with respect to the purchase of cement.

I have today transmitted appropriate instructions to Admiral Peoples conforming with the Secretary's orders.

M McREYNOLDS

Relief Bill

June 1, 1938

Today, June 1, Jimmie Roosevelt called the Secretary at 2:45 o'clock and said that the President was too busy to call him and asked Jimmie to do so.

Jimmie said the President would like the Secretary to get in touch with Aubrey Williams in regard to the above bill and decide on a 'common cause'. HM, Jr told Jimmie that he was more than glad to talk to Aubrey Williams, but if it meant going up on the Hill he would not go unless he had a chance to talk to the President directly.

Mr. Morgenthau immediately called Aubrey Williams and said "Jimmie just called me and said that the President wanted the two of us to get together and try to arrive at a common cause. I gather he talked to you." Mr. Williams replied, in substance, 'Would it be all right if he called up Jimmie Byrnes and told him that we wanted Jimmie Byrnes to introduce the amendment which would give the President the right to transfer funds from one agency to another under this bill, but to make Jimmie Byrnes understand that the idea should originate on the Hill and not from the President?' The Secretary replied, "Fine."

Then Mr. Williams said, "Jimmie Byrnes is calling me now, so I had better hang up."

A few minutes later, Aubrey Williams called back and the following is a record of their conversation:

(See page following this)

Wednesday
June 1, 1938
11:35 a.m.

HMJr: Hello.

Operator: Mr. Williams.

HMJr: Hello.

Aubrey
Williams: Yes, Mr. Secretary.

HMJr: How are you?

W: Fine, sir.

HMJr: Well I just heard five minutes ago that the letter
did go.

W: Grand.

HMJr: And Senator Adams has it in his pocket.

W: Grand.

HMJr: Well, I called up James Roosevelt, oh - fully an
hour ago, and said then that if he would talk to
his father and if his father would send for the
four of us and tell us - and instruct us what he
wanted why we were ready to march on the Hill.

W: Yes, sir.

HMJr: But, talking for myself I was not willing to march
until the President gave me face-to-face verbal
instructions.

W: Yeah.

HMJr: So Jimmy said he would - he'd see his father as
soon as he could.

W: I see.

HMJr: So - I just wanted to let you know that....

W: All right. Well, I'll stand by you right here.

HMJr: Well, it's - right now Jimmy is carrying the ball.

W: Good.

HMJr: That's where it is.

W: All right. Thanks.

HMJr: Thank you.

W: Goodbye.

11

Mr. Morgenthau then called Bell, and the following is a record of their conversation:

Wednesday
June 1, 1938
3:09 p.m.

44

HMJr: Hello.

Daniel
Bell: Yes.

HMJr: Dan...

B: Yes, sir.

HMJr: Great excitement has burst loose because Barkley introduced a bill - let me have it - it says right here - but, anyway, before I get to what he said because he's quoting me - do you remember what I said about the relief thing when I was up there with you a week or so ago - about changing it from the fifty million? Did you hear what I said to Barkley?

B: Yes.

HMJr: Did you?

B: Well, I - I think have a....

HMJr: Well, I don't want to put any idea in your head - I'd like to know what you think.

B: Well, I think - as I recall you said that the fifty million dollars might not be enough....

HMJr: Yeah.

B: ...and that heretofore the President had had no restriction placed on that and that you thought that it might be advisable to again give him that authority.

HMJr: Yeah.

B: Because of the situations in these three cities you mentioned.

HMJr: Yeah.

B: Somebody said, "Well, how about making it a hundred million?" And you said well that certainly would be better than what it is although it might not be enough.

HMJr: Yeah.

B: Does that accord?

HMJr: Yes. But I - I thought what I said was - this is what I think the President's position has been right along - that they should make relief - direct relief available out of the whole amount.

B: Yes. I think that's probably true. I don't know whether you said it at that conference but you have said that there ought to be a transfer provision from one to the other - one title to the other.

HMJr: Yes.

B: But I don't recall you said it that day, but you may have.

HMJr: Well, isn't - isn't that what we - the very first time we went up to see Jimmy Byrnes - isn't that what we said?

B: Well, that's - yes, that's what you said to Jimmy but I don't know that you said that the other day's conference.

HMJr: Well, that's the thought I've had in mind that...

B: Yeah.

HMJr: ... should make direct relief available the way it's been out of these funds.

B: Yeah. That's right.

HMJr: Well now, out of these funds - do they only come out of work relief?

B: Well, it only comes out of the work relief money.

HMJr: Uh huh.

B: In order to get it - of course it can't come out of the other by transferring it into this. In other words you can't make a direct allotment out of Ickes' money for relief of any kind. It has to be transferred to the Emergency Appropriation Act of 1937 and then made available.

- 3 -

- HMJr: Well, let me see what Barkley's done now, I didn't want to plant any seeds in your mind.
- B: Yes.
- HMJr: "Barkley offered an amendment to the relief section of the bill leaving to the President's discretion what amount of the WPA one billion four twenty-five should be used for direct relief in emergencies. He said he acted after consultation with the Treasury officials." -- Well that's absolutely right. Further - "Under questioning by Borah Barkley explained the emergency conditions existing in some localities; he specified Kentucky and Michigan that cannot be provided for by WPA or the PWA. The bill contained the fund of fifty million earmarked out of the WPA total to care for an emergency with direct relief. Vandenberg tried unsuccessfully yesterday to increase it to a hundred and fifty million when Barkley got the unanimous consent to reconsider their action so as to permit consideration of an amendment to remove the limit entirely. Vandenberg gave his hearty removal - hearty approval."
- B: Uh huh.
- HMJr: "Barkley said that when direct relief was suffering it was necessary for the WPA to have money for the purchase of food, clothing and supplies for the Commodity Credit Corporation. He said that in Kentucky there had been actual suffering amongst the miners thrown out of work in connection with the circuit court ruling affecting coal and that there were thousands out of work in Michigan for whom neither the WPA nor the PWA had projects at present on which they could be employed." What's the matter with that?
- B: Nothing.
- HMJr: What?
- B: Nothing.
- HMJr: I'll stand for that and be proud I had something to do with it.
- B: Ah - the objection will probably come from WPA that they're setting up an earmark of all their funds...

HMJr: Well...

B: But I'd say if the situation gets so serious that they have to use much of the hundred and fifty million dollars that we're going to have Congress back here before January 1.

HMJr: Well no - this doesn't set any amount; this leaves it up the President.

B: Well, I say, if you're going to use a lot of WPA money - ah - and then - that means that the situation is going to be serious and WPA won't run out of money because Congress will be back here before January 1.

HMJr: Yes. Well this is just what the President agreed to and what we wrote that letter on, namely that....

B: No, that doesn't hurt anything except that it doesn't - doesn't use other funds....

HMJr: Oh. Oh.

B: It just uses WPA funds.

HMJr: Well, that's just too bad.

B: See? That's where they'll kick.

HMJr: Sure.

B: They'll say, "You're cutting our program short and we can't carry on until February 1."

HMJr: Well...

B: Your answer ought to be to that - if the situation gets serious...

HMJr: Yeah.

B: ...and then they won't have to worry because Congress will be on the job.

HMJr: That's right.

B: Right after election I should think.

HMJr: That's right.

- 5 -

B: Yeah, I think that's all right.

HMJr: O. K.

B: All right, Mr. Secretary.

Wednesday
June 1, 1938
12:02 p.m.

49

HMJr: Ah - the July orders that the various departments need for cement.... Hello.

W. H.
McReynolds: Yes.

HMJr: Their July requirements.

McR: Uh huh.

HMJr: Let them handle that them- - each department handle their own.

McR: All right. We'll give them credit for it.

HMJr: For July.

McR: Yes, sir.

HMJr: Now, what I want to do until further notice - on the first of each month I want - until the President decides what he wants to do about this matter - I want to give these people thirty days notice to turn it back do you see?

McR: O. K. Be glad to.

HMJr: On one hand we're pushing this forward buying and the next thing we hold them up the last minute; it doesn't make sense.

McR: Yes. It doesn't make sense.

HMJr: So on the first....

McR: Now, I - we'll give them credit the first of every month until it's decided.

HMJr: Until the President decides what policy he wants to pursue for the Government as a whole.

McR: Yes, sir.

HMJr: See?

McR: I get it.

HMJr: Will you make a memorandum on that?

- 2 -

McR: I will.

HMJr: Thank you.

McR: Yes, sir.

Wednesday
June 1, 1938
2:09 p.m.

HMJr: Hello.

Operator: Walter Cummings. Go ahead.

HMJr: How are you?

Walter
Cummings: Hello, Henry.

HMJr: Hello, Walter. How are you?

C: I'm just fine.

HMJr: Good. Walter, we're going to have a little financing next week.

C: Yeah, we've been watching it pretty close, Henry.

HMJr: And I've been kind of wondering how you fellows feel out there.

C: Well, I've been giving it a good deal of thought.

HMJr: Uh huh.

C: And - ah - what I had in mind is about a 1952 or 4 about $2\frac{1}{2}$.

HMJr: Uh huh.

C: I - ah - on the Street they're about - that the Treasury might have in mind a 2 and $\frac{3}{4}$ for a long time but I was just checking up on how much the insurance companies held of it and how much the banks held of it...

HMJr: Yeah.

C: ...the banks are our best customers you know for the Government Bond.

HMJr: Yeah.

C: That's what I - that's about what I had in mind, Henry. By the way, I am going to be in Washington tomorrow. Suppose I drop in and have a little visit with you.

HMJr: Do that.

C: I wonder if you happen to have these figures in front of you - ah - the Commercial banks now have thirty nine and a half per cent.

HMJr: They have?

C: The insurance companies only thirteen per cent.

HMJr: Yeah.

C: Federal Reserve - six; do you happen to have those?

HMJr: No.

C: The Government Trust Funds Agency - ten; the general public - thirty.

HMJr: I see.

C: Yeah. I don't know how you feel about a shorter time. Of course, you've got a vacant space there about 1944 to forty - even up to ten years.

HMJr: Yeah.

C: Close to ten years; a dandy spot if you want to fill it in.

HMJr: Well, I'm frankly thinking in terms of a really long bond.

C: Uh huh. Well, of course, that makes you go out way beyond in the sixties you know like....

HMJr: Yes.

C: ...about 2 3/4.

HMJr: Yeah.

C: I didn't think you'd want to do that - want to get away from that 2 1/2 rate of yours.

HMJr: Well, I'm - ah - I'm - I'm playing with this idea of two and three quarters.

C: Uh huh. Well, it wouldn't - ah - the reason I'm - ah - the reason I'm saying this - it wouldn't fit the banks so well...

HMJr: No.

- 3 -

C: On account of going out so far and they have in round figures, 39½ per cent.

HMJr: Well, the point is I hope the banks wouldn't take this.

C: Yes.

HMJr: I hope they wouldn't take it.

C: Unless - they'd take it but they'd rather have the other at a lower rate.

HMJr: Well, I - ah - I - ah -

C: Or the public ~~well~~, what have you in the mind, the insurance companies?

HMJr: Yes. And the public.

C: Uh huh.

HMJr: And trust funds.

C: Uh huh. Well, of course, we've always used the bank there to - they're holding so many of them now...

HMJr: Yeah.

C: ...and a good many of them trickle through the banks into the public's hands and then we replace them, you know.

HMJr: Yeah.

C: Yeah. Well, Henry, if it's agreeable to you I'll drop in tomorrow....

HMJr: Well, let me give you a definite time, see.

C: Yeah. All right.

HMJr: How about four o'clock?

C: Four o'clock?

HMJr: Yes.

C: Fine. I'll be there.

- 4 -

HMJr: Will you do that?

C: Yeah. All right.

HMJr: That's Thursday.

C: Yeah, tomorrow. All right. I'll be there at four o'clock.

HMJr: Good.

C: Fine. All right, we'll talk about it then.

HMJr: Thank you.

Wednesday
June 1, 1938
3:03 p.m.

55

Operator: Go ahead.

HMJr: Hello.

Aubrey
Williams: Hello, Mr. Secretary.

HMJr: (Laughingly) Yes.

W: Well. Now, I talked with Jimmy and he told me a thing that's got them all upset up there is - that is that Barkley has just introduced an amendment permitting the President to transfer funds for the purpose of direct relief out of WPA monies to any other agency and Vandenberg was just trying to get me to find out what was behind that. And he says that's going to make it very difficult for him to get anything like this through because this is going in the other direction.

HMJr: Well, the on - all I know is when I was up there last week on this bond amendment we were sitting around talking about it afterwards and I said what I've said right along - that I think they ought to be able to transfer as much money as necessary to direct relief out of the whole bill.

W: Well, I think that's where Barkley must have gotten his idea....

HMJr: Well....

W: ...because - see, they defeated the Vandenberg amendment yesterday....

HMJr: Yeah.

W: ...and then when he introduced that today the boys don't - say they don't know where in the devil they are.

HMJr: Well,
Uh huh. /That's where we started originally - was that they....

W: Yeah.

HMJr: ...that there never was to be any definite amount but they were to be able to make available enough out of the whole business.

W: Yeah.

HMJr: And I forget when we were up there but it was some time last week on the - it may have been ten days ago. Anyway, it was a week or ten days ago and....

W: Well - all right....

HMJr: I'll ask - I'll refresh my memory on just what I did say because Bell was with me.

W: This - I told Jimmy that as far as we were concerned this - the other one was the one we really wanted.

HMJr: Yeah.

W: And, so I don't know - I don't know what they're going to do now. But anyway I told Jimmy that he could call the President if and when he did anything and my understanding was the President would say to him that it was all right but he didn't want it understood that he started it.

HMJr: Yeah.

W: Yeah.

HMJr: Well I'm going to refresh my memory as to what I did say when I was up there because...

W: The thing - the only thing I think we've - you've got to worry about in this is that Barkley quoted you.

HMJr: Uh huh.

W: He said, "I am doing this with the full knowledge and approval of the Secretary of the Treasury."

HMJr: Uh huh.

W: And that's what got the boys upset up there.

HMJr: Well, as far as that goes, the very first time we went up there the thought was to make available to the President - an extra amount for direct relief - that was the original thing - and - but we never mentioned any amount; fifty million never was mentioned....

- 3 -

W: Yeah.

HMJr: ...or any amount was never mentioned.

W: Of course I don't - I don't think Barkley should have put you in the picture that way. I think....

HMJr: Well, that's just the whole trouble and that's why I didn't want to go up today unless I got explicit instructions.

W: Yeah, that's right.

HMJr: And we were sitting around there - oh, there was Sam Rayburn, and - ah -

W: Yeah.

HMJr: fellows from this - Pat Harrison - I was on this bond thing.....

W: Yeah.

HMJr: ...and we were talking...

W: Well, I don't think - I don't think the thing's important except that it might present....

HMJr: Well that's where he got it from.

W: Yeah.

HMJr: That I have said and said it from the time we went up there with Hopkins - that we should make an extra amount available....

W: Yeah.

HMJr: ...out of the whole thing and that's where I understand the President stands, don't you?

W: Well, I didn't understand that yesterday. As a matter of fact you know there's been that difference of basic approach to this thing all along; I've never known frankly just exactly where the President did really stand on it. I thought he was clearer yesterday than he had been before.

HMJr: Well, if he'd have done what he did yesterday it would have lasted five minutes - and that is we should only give food to those people who are already on work relief.

W: Yeah. We couldn't do that though.

HMJr: Well, you told him that.

W: That's right.

HMJr: You told him that.

W: That's right.

HMJr: What?

W: You couldn't do that.

HMJr: No.

W: That's right. That you couldn't hold a line like that.

HMJr: No. Well, then I gather we just sit and wait, is that it?

W: Well, all we can do now is to see what comes out of a conference between Byrnes and Barkley.

HMJr: I see.

W: Yes.

HMJr: Thank you.

W: I'll keep in touch with you.

HMJr: Thank you.

W: All right.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 1, 1938

To Secretary Morgenthau

FROM M. A. Harris

Suggested
IssuesMarket
BasisEstimated
PremiumNOTES

1 % due 3/15/43 (4 yr. 9 mos.)	.85 - .87	22/32 - 19/32nds
1 1/8% " " (" ")	.85 - .87	1 pt. 11/32 - 1 1/4 pts.
1 1/8% " 6/15/43 (5 yrs.)	.87 - .90	1 1/4 pts. - 1 pt. 3/32nds

BONDS

2 1/2% 9/15/48 (10 yrs. 3 mos.) (outstanding)	2.09 *	103.22/32nds *
2 1/4% 6/15/47 (11 yrs.)	2.15	31/32nds
2 3/4% 1953/63 (15-25 yrs.)	2.53 - 2.60	2 3/4 pts. - 1 7/8 pts.
2 3/4% 1958/63 (20-25 yrs.)	2.62 - 2.65	2 pts. - 1 1/2 pts.

Note: The first premium is probably about the maximum that may be expected but probably nearer correct than the latter which is the minimum premium that may be expected.

* Current bid price and yield.

RIGHTS

	<u>Bid Price</u>	<u>Premium</u>
2 7/8s 6/15/38	101.16	1 3/8 pts.
2 1/2s 9/15/38	101.24	1 point

TREASURY DEPARTMENT

60

INTER OFFICE COMMUNICATION

DATE JUN 1 1938

TO Secretary Morgenthau

FROM Herman Oliphant

For your information -

The man in charge of the heating and plumbing department of Montgomery Ward & Company, in the Eastern part of the United States, told me Friday their sales in his department this month ^{are} were, greater than they had ever been since they built their Eastern branch in Baltimore. I asked him why this was. He said it was because Mr. Avery was insisting on the cut of all prices to a 10% gross profit. He mentioned one article which he said would readily sell for \$36.50 but which they had cut to \$26.50. He said Mr. Avery had come to Baltimore and had gone through the entire plant Thursday to make certain that a uniform write-down to a 10% gross profit had been made.



Wednesday
June 1, 1938
3:09 p.m.

61

HMJr: Hello.

Daniel
Bell: Yes.

HMJr: Dan...

B: Yes, sir.

HMJr: Great excitement has burst loose because Barkley introduced a bill - let me have it - it says right here - but, anyway, before I get to what he said because he's quoting me - do you remember what I said about the relief thing when I was up there with you a week or so ago - about changing it from the fifty million? Did you hear what I said to Barkley?

B: Yes.

HMJr: Did you?

B: Well, I - I think have a....

HMJr: Well, I don't want to put any idea in your head - I'd like to know what you think.

B: Well, I think - as I recall you said that the fifty million dollars might not be enough....

HMJr: Yeah.

B: ...and that heretofore the President had had no restriction placed on that and that you thought that it might be advisable to again give him that authority.

HMJr: Yeah.

B: Because of the situations in these three cities you mentioned.

HMJr: Yeah.

B: Somebody said, "Well, how about making it a hundred million?" And you said well that certainly would be better than what it is although it might not be enough.

HMJr: Yeah.

B: Does that accord?

HMJr: Yes. But I - I thought what I said was - this is what I think the President's position has been right along - that they should make relief - direct relief available out of the whole amount.

B: Yes. I think that's probably true. I don't know whether you said it at that conference but you have said that there ought to be transfer provision from one to the other - one title to the other.

HMJr: Yes.

B: But I don't recall you said it that day, but you may have.

HMJr: Well, isn't - isn't that what we - the very first time we went up to see Jimmy Byrnes - isn't that what we said?

B: Well, that's - yes, that's what you said to Jimmy but I don't know that you said that the other day's conference.

HMJr: Well, that's the thought I've had in mind that...

B: Yeah.

HMJr: ... should make direct relief available the way it's been out of these funds.

B: Yeah. That's right.

HMJr: Well now, out of these funds - do they only come out of work relief?

B: Well, it only comes out of the work relief money.

HMJr: Uh huh.

B: In order to get it - of course it can't come out of the other by transferring it into this. In other words you can't make a direct allotment out of Ickes' money for relief of any kind. It has to be transferred to the Emergency Appropriation Act of 1937 and then made available.

HMJr: Well, let me see what Barkley's done now. I didn't want to plant any seeds in your mind.

B: Yes.

HMJr: "Barkley offered an amendment to the relief section of the bill leaving to the President's discretion what amount of the WPA one billion four twenty-five should be used for direct relief in emergencies. He said he acted after consultation with the Treasury officials." -- Well that's absolutely right. Further -- "Under questioning by Borah, Barkley explained the emergency conditions existing in some localities; he specified Kentucky and Michigan that cannot be provided for by WPA or the PWA. The bill contained the fund of fifty million earmarked out of the WPA total to care for an emergency with direct relief. Vandenberg tried unsuccessfully yesterday to increase it to a hundred and fifty million when Barkley got the unanimous consent to reconsider their action so as to permit consideration of an amendment to remove the limit entirely. Vandenberg gave his hearty removal - hearty approval."

B: Uh huh.

HMJr: "Barkley said that when direct relief was suffering it was necessary for the WPA to have money for the purchase of food, clothing and supplies for the Commodity Credit Corporation. He said that in Kentucky there had been actual suffering amongst the miners thrown out of work in connection with the circuit court ruling affecting coal and that there were thousands out of work in Michigan for whom neither the WPA nor the PWA had projects at present on which they could be employed." What's the matter with that?

B: Nothing.

HMJr: What?

B: Nothing.

HMJr: I'll stand for that and be proud I had something to do with it.

B: Ah - the objection will probably come from WPA that they're setting up an earmark of all their funds...

HMJr:

Well...

B:

But I'd say if the situation gets so serious that they have to use much of the hundred and fifty million dollars that we're going to have Congress back here before January 1.

HMJr:

Well no - this doesn't set any amount; this leaves it up the President.

B:

Well, I say, if you're going to use a lot of WPA money - ah - and then - that means that the situation is going to be serious and WPA won't run out of money because Congress will be back here before January 1.

HMJr:

Yes. Well this is just what the President agreed to and what we wrote that letter on, namely that....

B:

No, that doesn't hurt anything except that it doesn't - doesn't use other funds....

HMJr:

Oh. Oh.

B:

It just uses WPA funds.

HMJr:

Well, that's just too bad.

B:

See? That's where they'll kick.

HMJr:

Sure.

B:

They'll say, "You're cutting our program short and we can't carry on until February 1."

HMJr:

Well...

B:

Your answer ought to be to that - if the situation gets serious...

HMJr:

Yeah.

B:

...and then they won't have to worry because Congress will be on the job.

HMJr:

That's right.

B:

Right after election I should think.

HMJr:

That's right.

- 5 -

B: Yeah, I think that's all right.

EMJr: O. K.

B: All right, Mr. Secretary.

RE: FINANCING

June 1, 1938.
3:35 P. M.

Present: Mr. Taylor
Mr. Harris
Mr. Haas
Mr. Seltzer
Mr. Lochhead
Mr. Upham
Mr. Bell

H.M.Jr: The thing I am talking about was last week, when we went up and saw Pat Harrison.

Bell: That was on the two twelve.

H.M.Jr: Yes, in regard to the two twelve.

Bell: That's right - on the two twelve, and then we got into the other thing.

H.M.Jr: What I said was I was afraid that the fifty might not be enough.

Upham: You said here that you said a hundred was suggested.

Bell: As I recall this, somebody asked in the conference whether or not a hundred would help out. The Secretary replied, "Well, that would be certainly better than the fifty," but his first statement was that the President ought to have discretion in making the funds available for direct relief. This is all right, I think.

H.M.Jr: Barkley gets up on the floor of the Senate and introduces this resolution at my request.

Taylor: Atta boy!

H.M.Jr: (Over telephone:) Dr. Burgess, at New York, please.

..... and Works fund for a hundred twenty-five million dollars, and right now Aubrey Williams doesn't love me; he doesn't love me. It isn't the worst thing that could happen to the country.

(Telephone conversation with Dr. Randolph Burgess at 3:37 p. m. attached.)

June 1, 1938.
3:37 p.m.

H.M.Jr: Hello.

Operator: Dr. Burgess.

H.M.Jr: Hello.

Burgess: Hello, Henry.

H.M.Jr: I thought you might give me a summary of what you've learned today.

B: Well, I've talked to - I've talked to Gordon Rentschler, I've just now - just sent Chris Devine out of the room, right now, and we picked up a lot of stuff around. On this question of Decembers, we find quite a number of fellows that don't like the idea of calling the Decembers, but they are all right on Septembers - there's a little reluctance but they're all right. There's more opinion accumulating that the long bond is a good and attractive bond and it will go very nicely.

H.M.Jr: The long one.

B: Yes. I - for example, I talked to Ecker the younger man, you know.

H.M.Jr: Yes.

B: Last week, and he didn't have a chance to answer me. Wanted to call back, but he just called back a few minutes ago saying they would be interested in the long two and three quarters.

H.M.Jr: Yes.

B: We've canvassed most of the insurance companies, either I have or the dealer fellows have, and most of them are going to be interested in it, so that you will have a big market there for it.

H.M.Jr: In the insurance companies.

B: Yes. And quite a number of the banks will want it too, in some amounts.

H.M.Jr: Huhhuh.

- B: There are quite a number of the banks who take it and put it away.
- H.M.Jr: Uhhuh.
- B: While most of them still talk in terms of not going over fifteen years. When it comes down to it, you have a great many of them will do it, so that I feel pretty sure that's all right. Now it ought to be twenty - twenty five - don't get any about the fifteen - fifteen twenty five, they don't like that. They think it's - they think it's foul - not the expression of foul, you know, just foul.
- H.M.Jr: Foul. How do you spell it? How do you spell "foul"?
- B: Well, "foul".
- H.M.Jr: All right.
- B: They think the price is too uncertain, that it would look too generous at first and then would go down too easily if the market went sour.
- H.M.Jr: I see.
- B: You wouldn't know just what you had and the twenty twenty five is better. The twenty twenty five is going to be generous, but it needs to be generous because it's walking out into a new field.
- H.M.Jr: Uhhuh.
- B: Now, quite a number of fellows think you ought to take some cash in June.
- H.M.Jr: Uhhuh.
- B: Rentschler feels that quite strongly. He says, "Now is the time to take some cash and the market needs it and it ought to be done."
- H.M.Jr: Uhhuh.
- B: Well, I explained the difficulties. He says there's a second best thing, why deal with the Junes in September. Now as to the other issue besides the two and three quarters, I think the majority of the fellows we talked to would prefer short bonds.
- H.M.Jr: Uhhuh.

- 3 -

- B: And quite a number of them would like to open up those old two and a halves.
- H.M.Jr: Yes.
- B: Now, it's fair to say that Rentschler is against that. He thinks that's that the people wouldn't like it buying at a premium.
- H.M.Jr: Uhuh.
- B: But I think more of them would like it than not.
- H.M.Jr: Uhuh.
- B: But what Rentschler suggested is a seven year ~~too~~.
- H.M.Jr: Yes.
- B: Which would be all right, except that you've already got a mess of stuff in there. So, the note of course would go all right, but there wouldn't be very many people who would subscribe to it. They'd go for the long bond, and they'd have a lot of churning in the market.
- H.M.Jr: Well, that's the trouble. I think you might find that you wouldn't sell out fifty to a hundred million of those notes.
- B: Yes. At a very small issue I'm afraid.
- H.M.Jr: So I raise the question, why not put all your faith in the bonds.
- B: Well, I think that's a possibility, Henry.
- H.M.Jr: I thought just let's shoot the works on the twenty twenty five year bond.
- B: I'm a little afraid some of the banks would say "Well the Treasury just forces us into these long issues."
- H.M.Jr: Well.
- B: I'm a little afraid of that.
- H.M.Jr: Well, they don't have to buy them. Somebody told me that - I don't know where they got the figures -

- 4 -

the banks now own thirty nine per cent of all the outstanding Governments, ^{and if} they do that's too much.

- B: Yes. Well, I'm - I'm inclined to think you could do that. I'm a little bit afraid of it - from the reaction to it.
- H.M.Jr: Well I think, - have you talked to the fellow at the Equitable?
- B: Parkinson?
- H.M.Jr: Yes.
- B: I haven't talked direct with him. The discounts talked with them.
- H.M.Jr: Have you talked to old man Ecker?
- B: No, I talked to his son.
- H.M.Jr: I see.
- B: But he didn't give me an answer right off, he went back and conferred you know.
- H.M.Jr: He talked to Papa.
- B: He talked to Papa, I'm sure, yes.
- H.M.Jr: Well, the way I feel tonight, it doesn't make sense a twenty twenty five year two and three quarters which would most likely go to a two point premium, then come along with a five year one and an eighth. No one is going to convert it to that.
- B: Yes.
- H.M.Jr: And if I only sell fifty million of them.
- B: That's right. I think that's the difficulty. If you have an alternative issue it ought to be something a little more attractive.
- H.M.Jr: Yes. Yes.
- B: And that could be ten years. I like opening up the old one.

H.M.Jr: Yes.

B: I looked over the records, you've done that a good many times in the past you know.

H.M.Jr: What's that?

B: Opening up an old issue.

H.M.Jr: Yes.

B: We've done it seven or eight times in the past, so that -

H.M.Jr: I don't see much reason for it.

B: Much reason for it.

H.M.Jr: Well, I mean from our standpoint. It just comes - the forty eight comes in the most crowded period.

B: Well, that particular day it isn't terribly crowded. You take that -

H.M.Jr: No, but supposing you take ^{four or} five hundred more, that's - I'd say it might be nine hundred million coming due in one day.

B: There's nothing from - there's nothing between - till March '48 and September - December '49, on your chart, so that there's -

H.M.Jr: Well, will you think some more about just one issue.

B: Yes. All right, I think that's worth turning over. I think that could be done

H.M.Jr: I talked to Walter Cummings, out in Chicago, -

B: Yes.

H.M.Jr: And - oh, he don't want a long bond at all.

B: No, the Chicago crowd doesn't.

H.M.Jr: No, they just don't want it.

B: The whole areas of these banks that have got the rights - they don't want the long bonds.

H.M.Jr: Yes.

B: And it - I think there's a good deal of goodwill from the point of view of the Treasury in giving them something that

H.M.Jr: Well, we can't do it and get out a two and three quarters. He'd - he wanted a two and a half to go as long as possible.

B: I see, yes.

H.M.Jr: We could do that.

B: Well, that would be a possibility - do a twelve - a fourteen year two and a half plus the long one -

H.M.Jr: Oh, no.

B: Oh, you mean just do that.

H.M.Jr: Oh, yes.

B: Do that with the whole thing.

H.M.Jr: Yes.

B: Well, of course, that's what the banks would like best.

H.M.Jr: Yes.

B: But I don't think it's so good for you.

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

B: Well.

H.M.Jr: We'll see them tomorrow. I'll see you tomorrow.

B: I'll be there. We were taking the early train so we'll get into Washington tomorrow around - a little after eleven, so we'll be available.

H.M.Jr: All right.

B: Very good, Henry.

H.M.Jr: Thank you. Goodbye.

B: Goodbye.

H.M.Jr: (Over telephone.) See whether Mr. Parkinson is in - the President of the Equitable. Outside official.

Bell: It wouldn't hurt to get a small amount of notes. We already have four hundred fifty million in bonds - June 15, '43, on top of that.

H.M.Jr: We've got a June 15, '43. What is that?

Harris: Three and three-eighths of '43 - '47.

H.M.Jr: What's that selling at? How much is it selling at?

Harris: Oh, it's 110 5/32.

Haas: Am I wrong on this: If you have a note, doesn't it give you some insurance in case something broke out in Europe, or something like that?

H.M.Jr: Oh, you pessimist.

Haas: But times change so quickly.

Lochhead: That's the way I feel about offering a note. The first thing, from the Treasury's standpoint, it's an insurance premium.

Seltzer: Darn cheap.

Lochhead: Secondly, to answer this criticism, you are not forcing the banks in. You will give them a choice; if they hold off from the note, because they get a bigger premium on the bonds, at least you did give them a choice.

Seltzer: I agree.

Lochhead: I'd like to know what the Federals do with their notes. How much do they hold of those two issues.

Harris: About a hundred seventy-four million of the two issues.

H.M.Jr: Not if the others go to a premium.

- Seltzer: Of course, you know your notes are going to go to a very handsome premium.
- H.M.Jr: What do you figure it? A point?
- Seltzer: I figure they are likely to do better than a point right now.
- Harris: That is about as sweet as a ten year bond would be. Just about as sweet.
- Seltzer: Very cheap financing from the Treasury's standpoint.
- Harris: Much cheaper than a ten year bond.
- Seltzer: 1 1/8.
- Lochhead: A ten year bond - I thought that was what we were going to get away from.
- H.M.Jr: I wouldn't fight with anybody between a five year bond, 1 1/8 or a ten year bond, 2 3/4. We could talk to the Fed about it and ask them how they'd do it. How many have they got of these two things?
- Harris: A hundred seventy-four million. Of course, they've got awfully sweet premiums on it right now. They may be selling some of them on the market and replacing them.
- H.M.Jr: (Telephone conversation with Mr. Parkinson of New York, at 3:48 p. m., attached.)

June 1, 1938.
3:48 p.m.

75

H.M.Jr: Hello.

Operator: Mr. Parkinson, New York.

H.M.Jr: Thank you. Hello.

Parkinson: Hello, Mr. Secretary.

H.M.Jr: How are you?

P: Fine thanks, and you?

H.M.Jr: Oh, I've been better and worse.

P: That's good.

H.M.Jr: Mr. Parkinson, we're going to have a financing next week.

P: Yes.

H.M.Jr: And I wondered if you'd been thinking anything about it.

P: Yes.

H.M.Jr: How do you people feel up there? What kind of a suit would you like? Two buttons or three buttons -

P: Well, if I understand what button means, of course we'd say three. We've got some money that we'd like to invest, if that's what you mean?

H.M.Jr: Yes.

P: Would there be any chance? Of course we don't hold any of the notes that are maturing.

H.M.Jr: Yes. Well I tell you what I'm thinking about. I'm thinking something about two and three quarters going out as long as is reasonable.

P: Yes.

H.M.Jr: It should be about a twenty twenty five year bond.

P: I see.

H.M.Jr: The two and three quarters.

P: Yes. Well, I think that would be interesting.

H.M.Jr: You think so.

P: Yes.

H.M.Jr: Uhuh.

P: Now, twenty would take you up to '58, wouldn't it?

H.M.Jr: Yes.

P: I should think that ought to go pretty well.

H.M.Jr: Well, I mean -

P: Now wait a minute - before I say that - did you mean just to refinance or would there be some for some of the outsiders to get in on?

H.M.Jr: No, we're thinking in terms now of just re-financing.

P: Just refinancing.

H.M.Jr: Yes.

P: Yes. Well, two and three quarters to about '58.

H.M.Jr: No, it would be a fifty eight sixty three.

P: I see, yes.

H.M.Jr: Fifty eight sixty three.

P: Well it would go better a straight fifty eight, but -

H.M.Jr: Well, that would be giving you too much for your money.

P: Really.

H.M.Jr: Oh, yes.

P: Well, we wouldn't get any of it anyhow. I'm retired now to the position of an expert.

H.M.Jr: I see.

P: Because we wouldn't have any interest unless the folks didn't take it.

H.M.Jr: Oh. You mean because you don't own any of the maturing notes.

P: Here's what is in my mind Mr. Secretary. We'd be more interested probably in '63 than a lot of the folks would have it. See what I mean?

H.M.Jr: Yes.

P: You're interested in making this succeed, aren't you?

H.M.Jr: Right.

P: Yes.

H.M.Jr: Always.

P: Now, that's all that's in my mind that if we had them, I wouldn't hesitate on '63, but I was thinking of the folks who have them.

H.M.Jr: You mean have the rights?

P: Yes. And I am inclined to think that you'd be pretty sure to get a good result with a straight '58.

H.M.Jr: Well, that is too sweet.

P: It is.

H.M.Jr: Oh, yes.

P: Why, I don't know just how it figures on return, I haven't that in mind.

H.M.Jr: Well, it would be too good.

P: Yes. I see. Well, I wish you were taking advantage of this good market to put out some extras.

H.M.Jr: Well, I wish somebody would borrow some and then we could. But the trouble is that we just can't use the money now, we're like everybody else.

P: I see. Well I should think you wouldn't have any trouble on that basis.

- 4 -

H.M.Jr: But - you wouldn't. No, I mean, we - there's no sense in our taking new money at this time.

P: I've seen enough of your figures to say that you have quite a lot.

H.M.Jr: Got a lot of money.

P: Yes. Yes, I agree.

H.M.Jr: Well, I didn't know, and I wanted to check with you because you have always been very frank and very helpful in the past.

P: Well, I think folks will take that and personally I congratulate you on trying to get some of this money into a longer term.

H.M.Jr: Well, I -

P: Very good thing to do.

H.M.Jr: I think this is the time to do it.

P: So do I.

H.M.Jr: And that time only seems to come every once - every three years, so -

P: Well, I appreciate it takes a little courage on your part to do it and to raise the fiscal rate a little bit, but I do think it's a very wise thing to do, from the point of view of the general public welfare.

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

P: Not a bit.

H.M.Jr: Goodbye.

H.M.Jr: He is, I think, one of the smartest fellows in New York. He's always been.

Bell: He's pretty cagy on these investments.

H.M.Jr: He handles important.....

Seltzer: Have you considered whether you want to give any different treatment to the September and the June noteholders in view of the fact that the September noteholders would have to give up their two and a half per cent interest?

H.M.Jr: Well, yes. If the September, let's say - well, I took it that the boys would work out the technical interest adjustment, whatever that is.

Seltzer: It doesn't have to be a full adjustment, by any means.

H.M.Jr: I was going to wait - I thought that could be settled very easily. There will be some technical adjustments if the September subscribers are two and three-quarters.

Harris: It amounts to about 11/32 in the price of every hundred dollar bond. They lose that much, unless they get it.

H.M.Jr: How about it if they take the two and three quarters?

Harris: Well, they make interest.

Seltzer: I think the premium will cover it; in any case, it's only a question of whether you should treat one noteholder better than the other.

H.M.Jr: What do you mean? September?

Seltzer: You're going to treat the September worse than the June.

Taylor: If you offer notes you've got to take into consideration that September

H.M.Jr: Work on that over night, will you, boys? Work on that over night - whether we should make some adjustment.

Bell: What do you figure your premium on two and three quarter per cent bonds?

Harris: Well, if I had to put my finger on one price, I'd probably say around two point.

Bell: Well, that's a lot of gravy, even for the September holders.

Seltzer: Yeah.

H.M.Jr: Well, just work on that end of it, will you?

Bell: Very difficult to adjust that.

Seltzer: You couldn't make a perfect adjustment. You'd just give them a partial adjustment, as we have in the past.

Bell: Well, in the past we have given them interest up to the maturity date.

Seltzer: You've done all sorts of things.

Bell: Sometimes we've given them a month's interest.

Seltzer: I don't think, with a juicy premium like this that they need anything to refund; it's only the question of unequal treatment.

Bell: What you are doing is offering a refinancing to the maturing noteholders. Then, you're saying to the September boys, "If you want to get in on this it's O. K.; it's up to you; you have the openings." Aren't you offering them a pretty good inducement? You're giving them two and three-quarters per cent bonds for their two and a half per cent maturing notes, and a bond which will sell at a premium a good deal more than what their September note is selling for.

Seltzer: That's right.

Bell: Well, we'll work on it. I'd like to get by without any adjustment.

H.M.Jr: Well, let's just say - what I am taking - the thing we are leaning toward tonight is a

twenty-twenty-five, two and three-quarters; for a five year, one and an eighth. Who's leaning in an opposite direction?

Taylor: I still want to do it at one and a quarter.

H.M.Jr: You just put that up to have it knocked down.

Taylor: No, I don't think so. If you want to get any conversion into your notes, and are willing to pay a premium for something you don't want ...

H.M.Jr: The long one.

Taylor: The bank stuff, and if you want the banks in the short ones at all, why

Seltzer: You've got to have a good premium on the long. It's a very shak market up there.

Taylor: You know that with the one and an eighth you're not going to get very much in that.

Haas: It's better tonight, Wayne.

Bell: If you put one and a quarter on that, you're going to get another half of a premium - a half of 5/8 premium added to that already, and you get more in the notes than you will in the bonds.

H.M.Jr: Have you sold your bank stock? He (Bell) says he's sorry, he sold his bank stock.

Taylor: I mean, it's so damned ridiculous talking about a two point premium on a five year market, and if the market wants to put that on it - I mean, that is something

Lochhead: My point is they ought to be penalized if they want a short note.

Taylor: They are being penalized, Archie. One and a quarter for five years.

Lochhead: Oh, no. You're judging by the market, but the market doesn't figure that way.

Seltzer: It will take a twenty-five year bond to earn their premium; they earn their premium when they buy a twenty-five year bond.

H.M.Jr: (Telephone conversation with Marriner S. Eccles at 3:58 p. m., attached.)

June 1, 1938.
3:58 p.m.

83

H.M.Jr: Hello.

Operator: Chairman Eccles.

H.M.Jr: Hello.

Chairman Eccles: Hello.

H.M.Jr: Marriner?

E: Yes, Henry.

H.M.Jr: Good evening. We are just having a little meeting here, on this financing, see?

E: Yes.

H.M.Jr: And I wondered if you could help me this way. You people owe, due in September, something over a hundred and seventy million of the two, you see?

E: That's right.

H.M.Jr: And supposing we got out, say, a twenty twenty five two and three quarters, and a five year one and an eighth, I wondered on what basis the system would be apt to subscribe, see? I mean that would help me, in making up my mind, if that's a fair question?

E: Yes. Well no, as a matter of fact I couldn't - we didn't discuss it at all because of course there was no indication as to what might be offered and therefore we didn't - the question as to what we would likely take is a matter that hasn't been discussed at all.

H.M.Jr: Well, could you let me know?

E: I think you'd get a difference of opinions, some of them would feel they wanted to keep in the short range stuff and others would prefer to take the long. The way I - the way it would seem to me, I wouldn't object to taking the long.

H.M.Jr: Well, could you kind of test your group and let me know by - before one o'clock tomorrow?

E: Let's see.

- 2 -

H.M.Jr: Just try it out.

E: Yes, I can - I would have to talk - get Harrison on the telephone.

H.M.Jr: Yes. But you could let me know before one o'clock.

E: That - that's a twenty twenty five.

H.M.Jr: Two and three quarters.

E: Two and three quarters.

H.M.Jr: And a five year one and an eighth.

E: And a five year one and an eighth. Have you given up the idea of the ten yet?

H.M.Jr: Well, there's nobody around the Treasury likes it much.

E: Don't like the ten.

H.M.Jr: No, we're not set on this either.

E: Yes.

H.M.Jr: But the point is with you fellows owning so much, see?

E: Yes.

H.M.Jr: It makes quite a lot of difference.

E: Yes.

H.M.Jr: And -

E: It would make a difference as to which one we would take.

H.M.Jr: Yes. Well, in this way. I mean I'm leaning a little bit tonight, to just a twenty twenty five two and three quarters, never bother - don't bother about the five year at all.

E: I see.

H.M.Jr: Just put it all into one, see?

- E: Yes.
- H.M.Jr: But the boys say that they think we'd be criticized by the banks, because the banks own most of these, and if we get out a five year, why we say "Well, hell we're offering you that, that's what you should take if you want it.
- E: Yes, the difficulty with the long one means that the banks that do own almost all of these notes would either have to take the long bond or they would let it run off which would mean deflation in deposits.
- H.M.Jr: Yes.
- E: Which wouldn't - it would look bad on the statements because it would show that the total investment and loans of banks was continuing to decline.
- H.M.Jr: That's right.
- E: It would immediately show that up on the weekly statements, see?
- H.M.Jr: That's right.
- E: Which I think is bad if it can be avoided. If the banks would replace the present holdings, it would suit me - be much more favorable - and I know they wouldn't, at least some of them would take the long bonds but some of them possibly would take them and immediately sell them.
- H.M.Jr: Yes.
- E: Which would mean a deflation in ~~their~~ deposits.
- H.M.Jr: That's right.
- E: That's the only thing I know of -
- H.M.Jr: Well, then there's -
- E: It seems to me you've almost - almost got to give an option on the thing so that to avoid that very point.
- H.M.Jr: Well, I hate like hell to do a ten year.

- 4 -

E: Well -

H.M.Jr: I mean - if they say ten year, then I'd much rather get out a new two and a half.

E: A new one than to -

H.M.Jr: Get out a fifty fifty four or fifty one, fifty, or whatever -

E: Yes, whatever the two and a half would go, you'd sooner do that than put out some of the ten years that

H.M.Jr: ~~That~~ That forty seven, forty eight and forty nine are awful crowded periods.

E: Of course, it's a big premium bond too.

H.M.Jr: Yes.

E: Well the only thing, of course, on the bond that it - that's about as long as the banks would like to go, a lot of them at least, they would stick to that. It would seem from the survey we made that they would take it and -

H.M.Jr: They'd take the ten year and like it.

E: That's what I mean, they'd take that.

H.M.Jr: Well then, they'd take a two and a half fifty fifty four -

E: Well, I think they might take that, I think some of them might go that far too, but they would take it and hold it, and that - to avoid the note and just put bonds that would help to keep the bond market - keep it stable, that was the other factor. Of course -

H.M.Jr: As a kind of a test and to help me make up my mind, I would appreciate it if you will -

E: All right, I'll check it and by one o'clock tomorrow I'll let you know just what the sentiment is.

H.M.Jr: Thank you so much.

- 5 -

E: All right.

H.M.Jr: Goodbye.

E: Yes.

- 8 -

H.M.Jr: I mean, that would help us.

Bell: They take a hundred seventy-five million in notes and reduce the rate to one.

H.M.Jr: He's a business man.

Bell: What's the matter with that?

H.M.Jr: That's all right. All right. I think that's enough for tonight, don't you think so?

I want to talk to Dan, will you stay behind a minute?

OK 83
AA 6-1-38

JUSTIFICATION

FOR PROPOSED EXPENDITURE IN FISCAL YEAR 1939
OF EMERGENCY RELIEF FUNDS BY THE TREASURY
DEPARTMENT FOR THE PERFORMANCE OF CER-
TAIN ADMINISTRATIVE FUNCTIONS NOT
SPECIFICALLY PROVIDED FOR IN
THE PENDING RELIEF BILL.

GENERAL

The Emergency Relief Appropriation Bill, now pending before the Senate, provides in Section 5 for the appropriation of funds to the Treasury Department as follows: Procurement Division, Branch of Supply (\$5,500,000); Division of Disbursement (\$3,500,000); Office of the Treasurer of the United States (\$750,000); Secret Service Division (\$300,000); and Office of the Commissioner of Accounts and Deposits and Division of Bookkeeping and Warrants, for administrative accounting (\$8,000,000).

In its present form the bill makes no specific provision for the appropriation of funds to certain other branches of the Treasury Department which are now performing and will, it is expected, continue to perform administrative work related to the Emergency Relief program.

The offices affected, the number of employees involved, and the approximate total of Emergency Relief funds which will be expended by each office during the fiscal year 1939 are as follows:

	<u>Number of</u> <u>Employees.</u>	<u>Aggregate</u> <u>Salaries.</u>
Office of the Secretary.....	43	\$ 75,620
Division of Research & Statistics	2	6,800
Office of the General Counsel ...	26	51,960
Office of Chief Clerk	44	61,980
Supt. of Treasury Buildings	25	32,540
Division of Appointments	17	23,880
Division of Printing	4	6,240
	<hr/>	<hr/>
	161	\$ 259,020

The justification for each of the above items is set forth in detail in the following statement:

OFFICE OF THE SECRETARY

(43 employees, \$75,620.)

To meet the general expansion in Treasury Department responsibility relating primarily to purchasing, accounting and disbursing activities arising directly from the enactment of emergency relief measures, there are now employed in several branches of the Department an aggregate of approximately 11,000 persons. This enormous increase in personnel has brought to the Secretary's Office many problems of general administrative supervision and overhead, to take care of which there are now 34 employees whose salaries are paid from emergency relief funds. The appointment, promotion, demotion, separation, discipline and transfer of these 11,000 employees must pass through the Office of the Administrative Assistant to the Secretary. Travel authorizations, and printing, equipment and supply requisitions for this personnel likewise must clear through the Administrative Assistant's Office.

Much of the time of the officials of the Secretary's Office is devoted to emergency relief problems. Policies must be determined and decisions rendered in such cases. Major problems may relate to the awarding of contracts for supplies running into millions of dollars. Determination must be made of localities for office headquarters in the field.

The time devoted to these relief activities by Administrative officials of the Office of the Secretary properly therefore may be offset against the additional emergency personnel of the office.

Detailed justification for the 34 emergency employees in question is as follows:

- 1 Public Relations Assistant at \$3,900
- 1 Editorial Assistant at \$3,000
- 1 Research Assistant at \$3,000

These 3 employees are in the Office of the Public Relations Assistant. Hundreds of letters

and other inquiries are received at the Department seeking information with respect to relief problems, as for instance the amounts spent on certain projects in particular localities. Contacts are made with spending agencies and informational memoranda and reports are prepared covering such inquiries.

1 Confidential Investigator at \$3,200

This employee is a chemist by profession engaged on laboratory work under the Consulting Chemist in the Office of the Secretary and cooperates with the Secret Service in connection with its investigations concerning forgeries of relief checks, whereby better methods are available for fingerprinting.

1 Sr. Stenographer at \$1,800
 3 Sr. Stenographers at \$1,620
 1 Stenographer at \$1,560
 7 Jr. Stenographers at \$1,440
 2 File Clerks at \$1,440
 1 File Clerk Typist at \$1,320
 1 Under Clerk at \$1,320
 1 Messenger at \$1,260

The White House refers to the Treasury hundreds of letters addressed to the President touching on the recovery and relief programs. These are received at the Secretary's Correspondence Division and appropriate replies given to them. The force of stenographers and clerks in that Division also is used as a pool from which stenographic and clerical help may be drawn in handling the overhead growing out of relief problems. This makes a flexible staff of stenographers and clerks and is a more economical arrangement than would be the direct appointment of additional stenographers and clerks in each of the various branches of the Secretary's Office.

1 Clerk at \$1,560
 4 File Clerks at \$1,440

These five employees are assigned to work relating to the voluminous general and permanent files growing out of the emergency measures of the past few years.

-4-

1 Messenger at \$1,560
7 Messengers at \$1,200

These messengers constitute a pool for assignment to augment the regular messengers and are necessary to take care of the additional messenger requirements resulting from the increased volume of mail growing out of the Administration's recovery and relief programs. The mail relating to the 11,000 emergency relief employees in particular is very voluminous.

There are also carried on the emergency relief roll of the Secretary's office 9 employees who are detailed outside of the Department.

Details to the White House

1 Clerk at \$ 2,500
6 Clerks at \$2,340
1 Sr. Clerk at \$2,000
1 Telephone Secretary at \$1,620

These 9 employees were appointed for detail to the White House on emergency work.

EMERGENCY RELIEF PERSONNELOffice of the Secretary

Schwarz, Charles	Public Relations Assistant	\$ 3,900
Thornburgh, Robert S.	Editorial Assistant	3,000
Friend, Harry M.	Research Assistant	3,000
Benjamin, Louis	Confidential Investigator	3,200
George, Miss Florence P.	Senior Stenographer	1,800
Barker, Mrs. Helen Jean	Senior Stenographer	1,620
Furr, Miss Dixie	Senior Stenographer	1,620
Zirkin, Mrs. Frances S.	Senior Stenographer	1,620
Hardester, Mrs. Charlotte E.	Stenographer	1,560
Alexander, Miss Flora S.	Junior Stenographer	1,440
Friedman, Miss Erma	Junior Stenographer	1,440
Gold, Miss Leah	Junior Stenographer	1,440
Hearn, Mrs. Josephine C.	Junior Stenographer	1,440
Hynes, Miss Evelyn	Junior Stenographer	1,440
Pope, Miss Helen	Junior Stenographer	1,440
Russell, Miss Anne O'D.	Junior Stenographer	1,440
Ayers, Miss Kathryn	File Clerk	1,440
Macdonald, Miss Isabel	File Clerk	1,440
Marks, Miss Helen	File Clerk-Typist	1,320
Snipes, Mrs. Vivian M.	Under Clerk	1,320
Walker, James B. Jr.	Messenger	1,260
Niswanner, Mrs. Addie K.	Clerk	1,560
Evans, Mrs. Alice G.	File Clerk	1,440
Barker, Mrs. Jennie D.	File Clerk	1,440
Rowe, Miss Selma	File Clerk	1,440
Giberman, Mrs. Marcella	File Clerk	1,440
Hoffman, Alex	Messenger	1,560
Martin, Chester R.	Messenger	1,200
Conrad, Noble G.	Messenger	1,200
Glaude, Elbert A.	Messenger	1,200
Hale, Richard M.	Messenger	1,200
Henry, James C., Jr.	Messenger	1,200
Harvey, John R.	Messenger	1,200
Moore, Alexander	Messenger	1,200
Gilligan, Miss Katherine	Clerk	2,500
Eben, Mrs. Mary A.	Clerk	2,340
Lewis, Mrs. Lucile S.	Clerk	2,340
Lund, Mrs. Muriel	Clerk	2,340
Stiles, Miss Lela Mae	Clerk	2,340
Tully, Miss Paula	Clerk	2,340
Bachelder, Miss Toinette M.	Clerk	2,340
Doyle, Thomas J.	Senior Clerk	2,000
Lamback, Miss Mary E.	Telephone Secretary	1,620

43 employees

\$ 75,620

DIVISION OF RESEARCH AND STATISTICS

(2 employees, \$6,800)

Special relief and unemployment problems handled by Miss Lonigan:

Regular Personnel

Edna Lonigan	Senior Economic Analyst	\$ 5,000
Mildred Latimer	Clerk-Stenographer	1,800
		<hr/>
Total		\$ 6,800

-6-

OFFICE OF THE GENERAL COUNSEL

Estimate of Personnel Required to Handle Legal Work
Incident to the Emergency Relief Program During 1939.

2 Attorneys	@ \$4,000	(S. A. McCaskey & R. R. Reaper)	\$8,000
2 Attorneys	@ \$3,200	(Evelyn E. West & Teresa Campise)	6,400
1 Attorney	@ \$2,600	(G. F. Reeves)	2,600
3 Attorneys	@ \$2,000	(J. O. Hally, Wm. Helvestine & W. H. Snyder)	6,000
1 Secretary	@ \$2,300	(Laura S. Walker)	2,300
1 Secretary	@ \$2,000	(Eleanor H. Haley)	2,000
1 Clerk-Stenographer	@ \$1,860	(Virginia M. O'Neale)	1,860
4 Clerk-Stenographers	@ \$1,800	(Lorraine D. Hughes, Agnes Johnson, Velma L. Shelly & Mildred B. Vettori)	7,200
2 Stenographers	@ \$1,680	(Gertrude C. O'Hare & Marian J. Vouk)	3,360
1 Stenographer	@ \$1,620	(Blythe A. Vrooman)	1,620
1 Clerk	@ \$1,620	(Barbara E. Brown)	1,620
1 Stenographer	@ \$1,560	(Lillian L. Lockhart)	1,560
1 Clerk	@ \$1,440	(Sara H. Grant)	1,440
1 Clerk	@ \$1,200	(Anna A. Somers)	1,200
4 Messengers	@ \$1,200	(E. E. Lee, H. I. Wiggins, J. W. Porter & W. B. Mitchell)	4,800
<u>26 Employees</u>			<u>\$51,960</u>

OFFICE OF THE GENERAL COUNSEL

JUSTIFICATION FOR FUNDS REQUIRED TO HANDLE WORK INCIDENT
TO EMERGENCY RELIEF ACTIVITIES DURING 1939
(26 positions; aggregate salaries, \$51,960)

To provide for the handling of legal work incident to the relief program in a unit devoted solely to that work would require personnel in excess of that covered by these estimates, in addition to which there would result duplication of effort and increased overhead expense with no resulting advantage. The practice has, therefore, been not to attempt to segregate relief work in a single unit but as occasion required to call on legal personnel carried on other rolls to handle relief work, to offset which personnel carried on the relief roll have been required to perform work not pertaining to the relief program. As a practical matter employees throughout the office, from the General Counsel down, regardless of the roll upon which carried, devote varying portions of their time to the handling of work emanating from the relief program. This estimate, it is believed, reflects the minimum amount which will be required if we continue thus to handle work growing out of the administration of the relief program.

WORK INVOLVED

Disbursements:

The office handles problems growing out of the issuance and negotiation of checks (\$1,000,000 last year) in connection with emergency relief activities. Questions involving forgery, improper indorsement, liability of presenting or cashing bank, criminal and reclamation proceedings, claims for duplicates, etc., are considered and the Treasurer of the United States, Commissioner of Accounts and Deposits, the Chief Disbursing Officer, and other administrative officers of the Department advised as to their course of action. Bonds of indemnity in duplicate check cases are examined for form, execution, and legal sufficiency. Many of these questions result in litigation which imposes an additional burden upon the Office of the General Counsel.

Secret Service:

In addition to legal services rendered to the above-referred-to administrative officers, extensive legal assistance is also given the Secret Service in connection with its activities in investigating frauds arising out of the disbursement of

relief funds, including the apprehension and prosecution of persons perpetrating such frauds.

Purchases:

Contracts for the purchase of materials, supplies, and equipment for relief activities as are procured through the Procurement Division are passed upon by the Legal Division. During the last fiscal year the Branch of Supply, Procurement Division, entered into contracts for and purchased materials and supplies in connection with relief projects in the amount of approximately \$247,000,000. The more important of such contracts and purchases, and questions arising in connection with the performance and settlement thereof have to be reviewed in this office, particularly where major questions of policy are concerned.

General Accounting Office:

Numerous legal problems arise involving the availability of relief funds for particular purposes which require the attention of the General Counsel's Office. Such problems require, in addition to research in the office, extensive correspondence and contact with the Office of the Comptroller General. Many questions of suspension and disallowance raised by the General Accounting Office are also referred to and handled by the Office of the General Counsel.

Central Accounts Office:

Legal assistance is rendered the Central Accounts Office with respect to legal problems arising in connection with the pre-audit of emergency relief expenditures. Legal work is also done in drafting memoranda of accounting procedure to be followed. Representatives of this office confer with administrative and legal officers of other Government agencies concerned with relief expenditures relative to procedures to be followed in handling payments in their behalf.

Compromise:

We have numerous legal questions in connection with offers to compromise disputed claims arising out of relief disbursements and purchases and all such offers must by statute be passed upon by the General Counsel.

General:

As an incident to the handling of legal work in connection with the relief program there is of course the usual administrative work, in addition to which formal and informal opinions are rendered for the information and guidance of the administrative officers concerned.

CHIEF CLERK'S OFFICE

(44 employees, \$61,980)

1 Clerk	@	\$ 1,260	\$ 1,260
1 Under Clerk	@	1,260	1,260
1 Asst. Clerk-Typist	@	1,620	1,620
2 Clerk-Stenogs.	@	1,620	3,240
2 Jr. Clerk-Stenogs.	@	1,440	2,880
4 Telegraph Operators	@	1,800	7,200
7 Opr. Off. Dev.	@	1,440	10,080
2 Mimeograph Opr.	@	1,320	2,640
2 Mimeograph Opr.	@	1,260	2,520
6 Telephone Opr.	@	1,320	7,920
5 Telephone Opr.	@	1,260	6,300
1 Chauffeur	@	2,100	2,100
1 Chauffeur	@	1,800	1,800
1 Chauffeur	@	1,680	1,680
2 Chauffeurs	@	1,260	2,520
2 Chauffeurs	@	1,200	2,400
2 Messengers	@	1,200	2,400
2 Asst. Messengers	@	1,080	2,160

44

\$ 61,980

The Chief Clerk's Office is handling considerable work relating to communication service (telegraphing and telephoning); duplicating of every description, such as photostating, mimeographing, multilithing and multigraphing; and special messenger service, all related to the Emergency Relief program.

To a great extent the employees carried on the Emergency Relief Roll spend their entire time on work connected with emergency relief. On the other hand, the emergency relief work naturally has been handled in part by regular or permanent employees and certain of the emergency relief employees have been used in connection with the regular work, this condition being in the nature of a necessary offset.

The general business of the Department unquestionably has been increased as a result of the Emergency program.

There is a definite justification for the employment of the 44 persons carried on the Emergency Relief Roll, who are additional to the permanent force and are distributed as follows:

For Work in the Duplicating Sections:

2 employees at \$1,620 per annum
7 employees at \$1,440 per annum
2 employees at \$1,320 per annum
2 employees at \$1,260 per annum, a total of 13

On Telegraph Accounting:

1 employee at \$1,620 per annum
1 employee at \$1,260 per annum, a total of 2

On Classification and Filing:

2 employees at \$1,440 per annum, a total of 2

Telephone Operators:

6 employees at \$1,320 per annum
6 employees at \$1,260 per annum, a total of 12

Telegraphers:

4 employees at \$1,800 per annum, a total of 4

Special Messengers, Chauffeurs:

1 employee at \$2,100 per annum
1 employee at \$1,800 per annum
1 employee at \$1,680 per annum
2 employees at \$1,260 per annum
2 employees at \$1,200 per annum, a total of 7

Messengers:

2 employees at \$1,200 per annum, a total of 2

Assistant Messengers:

2 employees at \$1,080 per annum, a total of $\frac{2}{44}$

The work being performed by the foregoing classes of employees can be briefly stated as follows:

-11-

1. Duplicating

Concerning the force employed in the Duplicating Sections, the record shows that this force turned out during the last 12 months 32,819 mimeograph copies, nearly 5,000,000 sheets on the multilith and multigraph, and approximately 150,000 feet of photostatic work. A splendid record for the groups. The above work was solely Emergency Relief.

2. Telegraph Accounting

These two employees are definitely required to handle the additional work in the Telegraph Accounts Section in order to cope with the extra work brought about by the Emergency Relief program.

3. Classification and Filing

Considerable work has been performed in connection with classification incident to jobs held by Emergency Relief employees. As a small contribution, one person has been employed to assist in this work, and on account of miscellaneous filing and clerical work as related to the Emergency Relief program, a second person has been employed.

4. Telephone

The Treasury Department operates a central telephone switchboard in the main Treasury Building and an auxiliary board in the Procurement Division. The Treasury Board has 11 positions and the Procurement Board has 3 positions. To operate these Boards, the services of 28 employees are required, 16 on the regular roll and 12 on Emergency Relief.

Due to the increase in telephone service under the Emergency Relief program, it was necessary to definitely increase the force of operators. A 24-hour service is maintained on the main Treasury board, with one operator on duty from 11 p.m. to 7 a.m. One operator goes on duty at 7 a.m. to relieve the midnight operator and works to 2:30 p.m. A second operator reports at 7:30 a.m. and works to 3 p.m.; a third operator reports at 8 a.m. and works to 3:30 p.m.; a fourth operator reports at 8:30 a.m. and works to 4 p.m.; 5 operators report at 9 a.m. and work to 4:30 p.m.; 4 operators report at 9:30 a.m. and work to 5 p.m.; 2 report at 10 a.m. and work to 5:30 p.m.; 2 report at 2:30 p.m. and

work to 11 p.m. In addition to the foregoing, there is a supervisor and two assistant supervisors, one assistant supervisor generally reporting at 8 a.m. and the second assistant supervisor reporting at 9:30 a.m. Supplementing the above, there are one supervisor and three operators engaged on the Procurement Board, and three for relief.

In addition to taking care of the work assignments, the force of operators must be maintained at a sufficient level in order to grant rest periods and annual leave, as well as sick leave.

5. Telegraph Operators (5 regular, 5 details, 4 emergency)

The telegraph business of the Department has been very definitely increased during the past three or four years, and the four operators paid on the Emergency Relief Roll have been found essential to properly handle the business. Somewhat like the telephone switchboard, the telegraph office is open for the transaction of official business from 7:30 o'clock in the morning until at least 8:00 o'clock in the evening, thus requiring a greater number of employees than if the office were open for merely a single trick of duty.

6. Special Messengers and Chauffeurs

The Treasury Department is housed in 38 different locations in the city, and those activities of the Department engaged either directly or indirectly in Emergency Relief work are quartered in 14 separate locations. This has very definitely increased the special messenger and chauffeur work and has made it necessary to employ the personnel of these classes now carried on the Emergency Relief Roll. Again this work cannot be confined to an ordinary work day, but begins early in the morning and frequently runs late into the night. This service is available from 8:00 o'clock in the morning until 10:00 o'clock at night, and later if the emergency demands.

7. Messengers and Assistant Messengers

The two messengers and assistant messengers are a normal increase over the regular force to take care of work ordinarily assigned to this group.

SUPERINTENDENT OF TREASURY BUILDINGS

(25 employees, \$32,540)

Joe S. Haight	Purchasing Clerk	\$ 1,800
Margaret I. Kerr	Clerk	1,800
Agnes E. Henesey	Assistant Clerk	1,620
Jennie C. Peluso	Stenographer	1,680
Lorraine J. Thompson	Clerk-Stenographer	1,440
Rosalie M. Sherrill	Junior Clerk-Typist	1,440
Robert M. Wert	Engineman	1,860
James B. Davis	Engineman	1,680
Harvey N. Fitton	Painter	1,800
Leo Franey	Painter	1,800
Charles Friedman	Painter	1,680
Edmund V. Jones	Painter	1,680
Charles L. Braund	Electrician	1,680
John G. Quinn.	Storekeeper's Assistant	1,400
Thomas J. Branch	Chauffeur	1,440
Anthony Perry	Messenger	1,200
Frank L. Greene	Messenger	1,200
Alcysius T. Mills	Laborer	1,260
James V. Gray	Elevator Conductor	540
(until 12-30-38)		
Thomas B. Page	Elevator Conductor	540
(until 12-30-38)		
Edna E. Thompson	Charwoman (4 hr. day @ 50¢ p.h.)	600
Cordelia Parker	Charwoman " " " " " "	600
Nina Vick	Charwoman " " " " " "	600
Clara Wheeler	Charwoman " " " " " "	600
Betty E. Jones	Charwoman " " " " " "	600
		<hr/>
		\$32,540

The mechanical, operating and maintenance forces available under regular annual appropriations for the Treasury Buildings in the District of Columbia under the supervision of the Superintendent have for the last five years been seriously inadequate for the proper maintenance and management of such buildings. This has been especially true with regard to the main Treasury Building and the Treasury Annex.

Under normal conditions this situation, which has repeatedly been brought to the attention of Congress, would have been remedied by an adequate increase in the amount of the regular annual appropriations. During the last three years, however, the Emergency Relief appropriation has been employed to bear its proportionate share of operating and maintenance expenses. In this connection, attention is directed to the fact that during the last three years the personnel occupying the main Treasury Building and the Treasury Annex have not been engaged entirely in the normal work of the Department.

For example:

In the main Treasury Building, with a total occupancy of over 2,300 persons, there are 327 persons (or over 14 per cent of the total occupancy) engaged in work directly related to the emergency relief program.

In the Treasury Annex, which is occupied by the Division of Disbursement, out of a total personnel of 780, there are 120 employees (or about 15 per cent of the total occupancy) engaged in disbursing work directly related to the emergency relief program.

For the fiscal year 1939, to provide mechanical, operating, and custodial employees for the maintenance not only of the Treasury Building and the Treasury Annex, but also of the Liberty Loan Building and the Auditors' Building, the regular annual appropriation is \$327,800. As shown by the above statement, the Superintendent's office employs, in addition to the force provided by the regular appropriation, a force of 25 employees whose salaries, paid from Emergency Relief funds, aggregate \$32,540.

By a comparison between this figure and the amount of the regular annual appropriation (\$327,800) it will be seen that it represents an augmentation of less than 10 per cent, or less than the ratio as is borne by the number of emergency relief employees in the Treasury Building and the Treasury Annex to the total number of employees in those two buildings.

In the last "Hearings Before the Subcommittee of the Committee on Appropriations" it is shown that the inadequacy of the Superintendent's forces was disclosed to the subcommittee, and that, at the request of the subcommittee, a table was submitted (and printed) showing positions on the Emergency Relief roll which the Superintendent requested be included in the regular appropriation for 1939, in order that they might be diverted from the emergency roll to the regular roll after July 1, 1938.

The positions listed on the above statement are essential to the proper conduct of the work of the Department and none of these positions could be eliminated without impairing the efficiency of the work assigned to the Superintendent of Treasury Buildings.

DIVISION OF APPOINTMENTS

(17 employees, \$23,880)

1 Assistant Clerk	@	\$ 1,620	\$ 1,620
2 Clerks	@	1,440	2,880
1 Jr. Clerk	@	1,440	1,440
1 File Clerk	@	1,440	1,440
2 File Clerks	@	1,260	2,520
1 Under Clerk	@	1,260	1,260
4 Sr. Typists	@	1,440	5,760
2 Jr. Clerk Typists	@	1,440	2,880
1 Stenographer Typist	@	1,440	1,440
1 Jr. Opr. Off. Dev.	@	1,440	1,440
1 Messenger	@	1,200	1,200

17

\$ 23,880

An estimate for 17 employees, with total salaries of \$23,880, is submitted. These employees are now on duty in the Division of Appointments and are paid from Emergency Relief funds at the salaries indicated.

The number of employees of the Treasury, departmental and field, paid from Emergency Relief funds varies. It has been as high as 16,422, and at the present time is in excess of 10,000. This Division is required to prepare all letters making appointments, transfers, promotions, demotions, changes of designation, etc. among this personnel, and to keep records and files of same. The Civil Service Commission requires all the appointments and all changes in this force to be reported to it. In the interest of economy, the work is handled along with the work connected with changes in the regular force of the Treasury. For instance, in the File Section we do not undertake to keep all papers relating to the emergency employees separate from those of the regular roll employees of the Treasury, and the same procedure is followed in other sections of the Division. A few of the emergency employees do some regular roll work in connection with the emergency work. This, however, is offset by regular roll employees doing not only their regular work, but also work connected with the Emergency Relief employees, particularly the administrative staff and heads of the various sections.

The turnover among Emergency Relief employees is at least 50 per cent greater than among the regular roll employees, thus necessitating a larger per cent of changes in appointments, transfers, designations, etc. Furthermore, the appointments of Emergency Relief employees are limited to the fiscal year, necessitating new appointments for those whose appointments are extended from one fiscal year to another.

It is believed that the estimate of 17 employees, with total salaries of \$23,880, for the Division of Appointments, is a very modest one and should be granted.

-17-

DIVISION OF PRINTING

(4 Emergency Employees \$6,240)

1 Editorial Clerk	@	\$	1,800	\$	1,800
1 Bookkeeper	@		1,800		1,800
1 Stenographer	@		1,440		1,440
1 Chauffeur	@		1,200		1,200

4

 \$ 6,240

The Division of Printing transacts all of the Treasury Department's printing and binding business with the Government Printing Office and outside contractors.

An estimate of the cost of the printing and binding ordered is furnished by the Public Printer for entry in the records of the Division as an encumbrance against the appropriation involved. If the job is printed from original copy and proof is required, an accurate record of the time the proof is received and returned to the Public Printer is maintained. The proof is examined to see that the corrections to be made are indicated in such a way as will be understood by the printer. The Government Printing Office is contacted daily regarding the progress of the work, that activities interested may be kept informed as to the delivery date. After delivery a bill is presented by the Government Printing Office which is audited and recorded in the division and forwarded through the proper channels for payment. In other words, a complete history of the work is maintained in the Division of Printing from the time of its inception to its completion.

The Emergency Relief work of the Department has caused a tremendous increase in the use of continuous folded forms. As this style of printing can not be produced in the Government Printing Office, additional time and labor is necessary to fill requisitions therefor. In procuring continuous folded forms the routine procedure outlined above is followed and a waiver is granted by the Government Printing Office authorizing purchase of the forms from outside publishing firms.

Such purchases require the preparation of specifications; the preparation of advertisements; the solicitation of bids for furnishing the forms desired; the examination of all proposals received; the making of an award to the lowest bidder complying with the specifications, the execution of a contract and the placing of orders therefor. Vouchers for continuous folded forms are given a preliminary audit and recorded in the records of the Division.

It is also frequently necessary to conduct correspondence in connection with delivery and the auditing of vouchers.

The urgent nature of much of the printing required by the various agencies of the Department in the performance of Emergency Relief work requires numerous special trips to the Government Printing Office by representatives of the Division to insure prompt delivery.

The following table shows the number of blank forms ordered by the Division for the Department agencies handling Emergency Relief work and the sums expended therefor during the past 3 fiscal years:

Fiscal Year	No. of Blank Forms	Amount Expended
1935	14,083,620	\$28,038.27
1936	354,503,825	630,368.00
1937	256,783,494	688,201.00

Number of Emergency Relief Checks ordered by the Division during the past three fiscal years:

Fiscal Year	No. of Checks
1935	17,695,300
1936	88,678,800
1937	61,017,500

The following table shows the amounts expended by the Division during the past three fiscal years for the agencies handling the major part of the Department's Emergency Relief activities:

	<u>1935</u>	<u>1936</u>	<u>1937</u>
Accounts and Deposits	\$28,038.27	\$ 278,076	\$ 399,516
Disbursement	—————	118,810	100,047
Procurement, Supply	—————	179,120	142,417
Miscellaneous activities	—————	54,362	46,221
Total for Department	\$ 28,038.27	\$ 630,368	\$ 688,201

All employees of the Division of Printing participate in the work connected with the handling of Printing and Binding requisitions, the cost of which is chargeable to Emergency Relief, and to offset the time devoted by the regular employees of the Division to the performance of emergency work, it is necessary to have the service of four employees.

June 1, 1938

I called on Cordell Hull with Wallace to talk about making a loan to China so that they could buy flour and cotton gray goods. I let Hull know in advance what we were going to discuss, at his request.

Wallace presented the case on the basis that it would be helpful domestically and inasmuch as he, Wallace, thought China was going to win the war, in the future they would feel kindly disposed towards us on account of this loan.

Hull said that when we made a similar loan to China, in either 1933 or 1934, the Japanese protested. Hull seemed to have the Japanese very much on his mind and said, What would we think if he asked the Japanese whether they cared to buy any cotton or wheat, and then if they turned us down it would leave us more or less free with China.

Hull twitted Wallace about having so much cotton and wheat. He said, I thought you had all of these things under control. Wallace said that they had not attempted to curtail either wheat or cotton, which of course is wrong in the case of cotton, but I did not want to contradict him at that time.

Wallace then changed the subject and said that yesterday in his discussion with the President that he, the President, had told Wallace that he had not approved of Ickes coming out for Martin or Hopkins coming out for Wearin in Iowa. (I had seen the President a day or two after Governor Martin had been defeated in Oregon and he told me at that time that Ickes had come to see him and asked him how he would feel about his coming out for Martin and the President told me he replied by saying to Ickes, 'Harold, if you do I will not ask for your resignation.')

The President yesterday at his press conference, off the record, said the following in regard to Hopkins coming out for Wearin:

(Note: this dictated by Gaston) The President was asked whether he had authorized Hopkins to make the statement endorsing Representative Otha Wearin

-2-

for the Senate against Senator Gillette. The President said, 'That's just another of those things. When some candidate announces that he has WhiteHouse endorsement, if I say he has not that gives support to his opposition. If I say he has, of course the opposition won't like it, and so I can't say anything, but in this case I will tell you off the record, and I want you to make it absolutely off the record, no; I did not approve this statement.'

Personally, I believe that he approved of both the moves in Oregon and Iowa.

Before Wallace came in, Hull talked very pessimistically about everything and said that the President seems to be more interested in reform than he does in recovery and blamed most of it on Jimmie Roosevelt. I found Hull extremely sarcastic and bitter in his attitude towards the White House.

Hull said he was leaving this Thursday night to make a speech in Tennessee and will give us an answer on the loan to China before leaving.

He told me when I was with him alone, he said, 'To show you how the White House treats me, he said, I have asked for one measly diplomatic post for a man from Tennessee. He said, I got the approval of both senators. He said, This is the only post I have asked for out of all the positions and, he said, Before the President would approve it he sent for Senator Berry, of Tennessee, and asked him how he felt about it.' Hull seemed to think that this was terrible.

FEDERAL HOUSING ADMINISTRATION
 MEMORANDUM

DATE June 1, 1938

TO Mr. Morgenthau

FROM

SUBJECT

FIGURES FOR WEEK ENDING MAY 28, 1938

	<u>Week Ending</u> May 28, 1938		<u>Corresponding Week</u> <u>Last Year</u> 1937	
	<u>Number</u>	<u>Amount</u>	<u>Number</u>	<u>Amount</u>
<u>FOR THE WEEK:</u>				
Mortgages Selected	5,186	\$ 24,054,163	3,437	\$15,118,575
Mortgages Accepted	3,482	15,218,200	2,704	11,125,010
Premium Paying Mortgages	1,706	7,402,500	2,077	8,639,383
Property Improvement Loans (Amended February, 1938)	8,419	4,013,939		
<u>CUMULATIVE:</u>				
Mortgages Selected	416,394	\$1,752,492,703		
Mortgages Accepted	307,039	1,258,500,808		
Premium Paying Mortgages	233,071	957,827,567		
Property Improvement Loans (Amended February, 1938)	70,110	33,238,176		

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

EMPLOYMENT ON WPA PROJECTS, BY STATE

112

13117

UNITED STATES AND TERRITORIES

Weeks Ending May 28 and May 21, 1938

(Partially Estimated - Subject to Revision)

State	Number of Persons Employed		Increase (+) or Decrease (-)
	Week Ending May 28	Week Ending May 21	
GRAND TOTAL	2,679,656	2,652,215	+ 27,441
CONTINENTAL UNITED STATES	2,677,970	2,650,475	+ 27,495
Alabama	43,169	41,288	+ 1,881
Arizona	9,661	9,715	- 54
Arkansas	36,042	36,086	- 44
California - Total	94,999	95,239	- 240
Northern	50,478	50,517	- 39
Southern	44,521	44,722	- 201
Colorado	28,083	28,168	- 85
Connecticut	23,551	22,930	+ 621
Delaware	3,312	3,265	+ 47
District of Columbia	8,215	8,192	+ 23
Florida	35,303	34,517	+ 786
Georgia	45,359	44,818	+ 541
Idaho	9,600	9,768	- 168
Illinois	217,367	213,603	+ 3,764
Indiana	92,669	92,393	+ 276
Iowa	33,522	33,534	- 12
Kansas	35,918	35,945	- 27
Kentucky	60,389	60,445	- 56
Louisiana	31,682	31,816	- 134
Maine	8,008	7,948	+ 60
Maryland	12,629	12,501	+ 128
Massachusetts	105,433	105,838	- 405
Michigan	175,790	169,304	+ 6,486
Minnesota	62,104	62,205	- 101
Mississippi	33,625	33,565	+ 60
Missouri	97,159	95,999	+ 1,160
Montana	19,572	19,375	+ 197
Nebraska	29,055	29,378	- 323
Nevada	2,195	2,239	- 44
New Hampshire	8,366	8,288	+ 78
New Jersey	90,499	90,402	+ 97
New Mexico	10,043	9,955	+ 88
New York City	164,727	162,695	+ 2,032
New York (Excl. N.Y.C.)	56,588	56,054	+ 534
North Carolina	35,330	34,724	+ 606
North Dakota	13,124	13,040	+ 84
Ohio	238,609	235,593	+ 3,016
Oklahoma	65,603	65,338	+ 265
Oregon	16,764	16,978	- 214
Pennsylvania	244,836	239,376	+ 5,460
Rhode Island	14,283	14,217	+ 66
South Carolina	34,044	33,658	+ 386
South Dakota	15,374	15,482	- 108
Tennessee	32,735	32,420	+ 315
Texas	80,355	80,810	- 455
Utah	10,347	10,467	- 120
Vermont	4,983	4,950	+ 33
Virginia	23,399	23,121	+ 278
Washington	44,401	44,126	+ 275
West Virginia	43,134	42,906	+ 228
Wisconsin	71,755	71,672	+ 83
Wyoming	4,270	4,380	- 110
Hawaii	1,686	1,740	- 54

REB

GRAY

London

Dated June 1, 1938

Rec'd 3 p. m.

Secretary of State,
Washington.

470, June 1, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

All markets in the city continue relatively inactive. The report of a Sudan incident caused a strengthening in the dollar and a weakening of the franc in the afternoon but the volume of trading was small.

Rumors persist in not well-informed quarters of a forthcoming dollar devaluation. American banks thus queried denied the likelihood of any such development.

KENNEDY

RTM

HPD

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 1, 1938, 5 p.m.

NO.: 860 FROM COCHRAN.

Paris exchange market was quiet until report came via Stockholm and Amsterdam of a new incident on Sudeten boundary. Franc then weakened from 178.11 to .40 and control evidently lost some sterling through operations by Morgans and Societe Generale. Rentes weaker and market nervous, but recovered from worst.

THE FOLLOWING IS STRICTLY CONFIDENTIAL.

Today I had a talk with the Minister of Justice, Paul Reynaud. In strict confidence he expressed certain opinions to me. Reynaud is not satisfied with the economic and financial policies of the Government he is in now. In his opinion the steps necessary to recovery can be taken only by a Government which is assured of a large majority. During the present parliamentary session - which should end about the twentieth of June - he does not expect any important debates. He does not expect a crisis in the present Government until possibly November, barring international upsets. In November, he said, it may be wrecked through the futility of the policies it has adopted.

END SECTION ONE.

BULLITT.

EA:LWW

SECTION 2, Telegram No. 860, June 1, 5 p.m., from Paris.

A new French tariff policy which will lower duties on raw materials and reduce the cost of living and of industrial production is favored by Reynaud. Reynaud recommends more hard work for six days a week at least. Reynaud expects the present Government to do little more toward remedying the situation. He does not wish a forced conversion of rentes and he believes the recent depreciation of the franc to such a small extent and taken without constituting one part of a comprehensive constructive program will prove to be ^{illusory.} ~~an illusion~~. Reflux of capital to France has practically ceased already.

Reynaud urges ^{for France} a currency sufficiently depreciated to afford an interesting margin of profit to business. He believes Great Britain and France will be obliged to lower their currencies further, in view of the heavy armament charges. Reynaud is amazed that there should develop in the United States where courage and initiative have always been outstanding such a status of stagnation, timidity, and degeneration as exist at present. He believes that the United States will need further depreciation of its currency to pull itself out of the present slough of despondency and to raise raw material prices. He says that we have a solid base for a good deal of monetary expansion.

SECTION THREE.

Reynaud is still blocked to a great extent by the international political situation in what he calls a "sick world" and he stresses the importance of the democracies standing together during these perilous times when the fanatic leaders of Italy and Germany and any day a world war might be precipitated by the militarists of Japan. In case of such a war, Reynaud wondered whether the Johnson law might be abrogated. When the next French crisis comes, Reynaud's concrete idea is that the solution thereof should involve a strong French Government participating in a revision of the present Tripartite Agreement or in the negotiation with Great Britain and the United States of a new Tripartite Agreement which would envisage the concerted depreciation of the three currencies to achieve the aims herein above suggested. He believes that for France there will be no alternative other than exchange control which he opposes ~~and~~ as unworkable and undesirable for France as well as distasteful to the other members of the Tripartite Agreement.

(END OF MESSAGE)

BULLITT

REB

GRAY

Paris

Dated June 2, 1938

Rec'd 2:15 p. m.

Secretary of State,
Washington.

869, June 2, 4 p. m.

FROM COCHRAN.

Paris exchange market inactive and still slightly nervous. Franc weakened from 178.18 to .35 by 4 p. m. and intervention by control was anticipated around latter level. Little activity in Paris stock market. Bank of France statement as of May 26 showed no important changes. Day to day money slightly tighter since subscriptions to national defense loan must be paid June 3. Market is gossiping of early issue of a loan for City of Paris, perhaps for 500,000,000 francs at 6%. French revenue from indirect taxes in April was 146,000,000 francs below estimates. Direct taxes for first four months 145,000,000 francs above same period last year due to higher taxation and advance in prices following franc depreciation.

Belga

REB

2-#869, From Paris, June 2, 4 p.m.

Belga stronger against sterling and National Bank of Belgium may be able to draw gold from London.

Paris bankers report that during recent weeks and particularly since Czechoslovakia developments, American banks have drawn back from London and continental centers important part of funds which they had here on "swap" operations made possible through selling spot and buying forward dollars at a premium lower than the interest such funds brought on the foreign center. On the other hand certain European clients are inclined now to borrow rather than buy dollars for normal needs since they feel current dollar rate too high.

BULLITT

KLP

RECEIVED

JUN 3 1948

RECEIVED

RECEIVED

~~119~~

REB

GRAY

London

Dated June 2, 1938

Rec'd 2:36 p. m.

Secretary of State,
Washington.

474, June 2, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

In a conversation at the British Treasury Sir Frederick Phillips said that he had instructed Roe Dutton, British Financial Attache at Paris, to proceed to Brussels shortly and look into Belgium situation. He says that he had been given to understand that the Belgian authorities would like to find a means of severing the belgas direct connection with gold and adhering to sterling without changing the current rate because under present circumstances whenever the dollar moved out Belgium tended to lose funds. Phillips said that Roe Dutton had been instructed not to give the Belgian authorities any encouragement to take this step. He added somewhat ironically that Great Britain did not wish to urge any country to leave the gold standard.

Phillips

REB

2-#474, From London, June 2, 6 p.m.

Phillips said that what he got mainly from Paris were two rumors, one to the effect that the dollar would be devalued to the equivalent of dollars 4.50 by the autumn; and two, that Montagu Norman had been invited by the President to visit the United States. (Incidentally the latter has been and is still ill with shingles). These rumors, Phillips maintained, were being put about by B. As regards the French position Phillips said that it was at least marking time and that although on some days recently there had been an outflow of funds from France, the amounts were negligible and that the Daladier Government's political position seemed assured for the time being. Phillips added that Fournier was saying in private that things were not going well but that activity was at such a low ebb when Daladier had taken over that no quick improvement was to be expected particularly as the decree measures had not effected any fundamental changes. Phillips said that he hoped to stop off in Paris on his way to the meeting of the League Finance Committee meeting at the end of the month and see for himself how bad things are.

He

REB

3-#474, From London, June 2, 6p.m.

He asked somewhat despondently about conditions in the United States and dolefully described the trend here by saying that whereas the United Kingdom indices had declined less than anywhere else he could derive little comfort from that fact.

KENNEDY

KLP

RECEIVED

JUN 3 1964

FEDERAL BUREAU OF INVESTIGATION

U.S. DEPARTMENT OF JUSTICE

GROUP MEETING

June 2, 1938.
9:30 A. M.

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

H.M.Jr: Have you read this Barkley thing, on direct relief?

Bell: No, I haven't.

H.M.Jr: Let me read it out loud: (Congressional Record
Senate - June 1, 1938.)

"Mr. Barkley. The amendment agreed to yesterday was an amendment providing for the earmarking of \$50,000,000 of the funds for direct relief. The Senator from Michigan tried to increase the amount to \$150,000,000, without success. After conferring with the Treasury Department, the Secretary of the Treasury," and Mr. Bell

Bell: No, I think that must be inserted.

H.M.Jr: "....and others interested in this problem, it has been suggested that the \$50,000,000 may not be sufficient to take care of direct relief from now until next January, when Congress will have an opportunity to increase the appropriation for direct relief.

"It is necessary, and so long as the present situation continues, even perhaps after some improvement in it, it will be necessary for the Relief Administration or the W. P. A. to purchase..."

Relief Administration or the W. P. A. - it's the same, isn't it?

Bell: The Relief Administration is out of existence.

H.M.Jr: "...to purchase considerable quantities of food and clothing and other supplies from the Surplus Commodities Corporation, the surplus supply which is being utilized to feed and clothe and take care of people who are in distress, but for whom employment is not available. Therefore I am constrained to propose that the committee amendment be eliminated, and that in lieu of it there be provided the amendment I am sending to the desk, concerning which I have conferred with the Senator from Colorado, and with a slight modification I think he has indicated he will accept the amendment.

"PROVIDED further, That notwithstanding the foregoing provisions of this section, the Works Progress Administrator is authorized to set aside in a separate fund not to exceed \$50,000,000 of the funds herein appropriated, to be used in emergencies for the purpose of providing relief to needy persons.

And to insert:

"PROVIDED further, That notwithstanding any other provision of this title, the Works Progress Administrator is authorized, from time to time, out of funds herein appropriated, to use such amount or amounts as shall be determined by the President to be necessary for the purpose of providing relief to needy persons. Such amounts shall be used in the discretion and under the direction of the President, and through such agencies as he may designate."

Bell: Hereinafter appropriated. That is different from the previous.

H.M.Jr: "Mr. Barkley. Mr. President, this does not increase at all the total amount carried in the joint resolution, but it does give flexibility to the authority of the President in case of emergency, and unforeseeable need on the part of the people, to use a larger sum than \$50,000,000, if he should find it necessary, through the W. P. A. or any other agency.

- 3 -

"Mr. Borah. Mr. President, will the Senator explain just what kind of relief would be included and be taken care of by this special discretionary power?"

"Mr. Barkley. I might give the Senator an example of the sort of relief contemplated."

I want to get it down.

Bell: I am not so sure that that isn't exactly what you wanted.

H.M.Jr: What?

Bell: I'm not so sure that that isn't exactly what you wanted.

McReynolds: It's a limit of a hundred twenty-five million.

H.M.Jr: Here is Mr. McKellar: "Mr. President, why cannot a limitation be put on this amount? Yesterday the Senate voted down a proposal made by the Senator from Michigan to increase the limitation from \$50,000,000 to \$150,000,000. It seems to me that there ought to be a limitation placed on it of, say, \$125,000,000, otherwise we simply turn the whole matter over and it might cause complications. Of course, I am willing to trust the President and, indeed, would be willing to turn the whole sum over to him as we have done before, but this substitute, as offered, would destroy the theory of the bill as drafted.

"Mr. Borah. Mr. President, do I understand that the Senator from Michigan is satisfied with the proposed substitute?"

"Mr. Vandenberg. I am satisfied with the substitute

"Mr. Borah. In other words, it seems to be necessary to have no limit as to the amount?"

"Mr. Vandenberg. Yesterday I suggested the limitation of \$150,000,000. The amount is limited solely by the necessity which will ultimately arise, and which cannot be assessed in advance."

- 4 -

Mr. Borah, Mr. Vandenberg, Mr. Johnson.

McReynolds: The final analysis was \$125,000,000.

H.M.Jr: "Mr. Barkley: I cannot, of course, assume what may have actuated Senators in voting against the proposal to place a limitation of \$150,000,000. They may have thought that was too much. I hope it will be too much. I hope it will not be necessary to spend \$150,000,000, or \$100,000,000. I do not believe anyone on this floor or anywhere else in this country is sufficiently prophetic to know how much will be required to feed and to care for those people who cannot obtain employment."

Well, then they must have come to - but he did - I don't have to apologize to anybody for this thing. His original resolution was:

"Provided further, That notwithstanding any other provision of this title, the Works Progress Administrator is authorized, from time to time, out of funds herein appropriated, to use such amount or amounts as shall be determined by the President to be necessary for the purpose of providing relief to needy persons."

In other words, of the "herein appropriated amount."

Bell: It means in this title.

H.M.Jr: That means just out of the billion - one fifty.

Bell: Well now, the other one is different. I think the other one might come out of the billion for W. P. A.

H.M.Jr: Just read it. (Hands Mr. Bell Congressional Record.) Take a look at it; I'll go around the room.

(Nods to Mr. Magill.)

Magill: Senator Harrison called this morning to say that various people had been up to see him - representatives of the states - in respect to this proposed

- 5 -

legislation to eliminate the taxes on state employees for past years. He said he - after discussing it a while, he said that he thought what ought to be done was for the Secretary of the Treasury to issue a reassuring statement, but he didn't think there should be any legislation until the next session of Congress. I told him I thought that in line with the President's message, legislation, if it were adopted, we ought to cover the whole thing at once, and he didn't know quite what the legislation was, but he was clear that the situation ought to be handled by means of a reassuring statement rather than by legislation.

- H.M.Jr: We don't give those every day. All right. What else?
- Magill: I think that's all. We - our people sat up with these state representatives all yesterday and last night. They apparently got on all right.
- H.M.Jr: Did they get on all right?
- Magill: I want to commend Mr. Gaston for his unique method of handling the publicity on this thing. I think it was excellent. Instead of having Sandy Klein and the others standing outside the hall, Herbert invited them all in. They saw it was deathly dull and didn't write up much of anything.
- Gaston: Too much material - no story.
- Bell: Well, I misunderstood the word, "hereinafter." I thought you were reading "herein," so it's the same as the other amendment - increasing it to one fifty.
- H.M.Jr: Not the way he had it - not the way he introduced it first.
- Bell: No; that's right. He put a limit on it.
- H.M.Jr: What I am getting at, Barkley said he talked to me. What he did was perfectly right. He

wanted to leave it to the President to decide - no limitation, and they wouldn't take that. Senator McKellar said, "Why not put a limitation on it." Right?

Bell: That's right.

H.M.Jr: It's a question of the President - how much he needs for direct relief. The only kick they got is they will, most likely, say that money for direct relief will come out of the new funds and not out - but Barkley - the way he introduced it was all right. I mean, he just said, "Leave it X dollars for the President."

Bell: It's all right, except the money came out of W. P. A. - limitation comes out of the whole fund.

H.M.Jr: But he didn't come out for a hundred or a hundred twenty-five; he just said, "without limit." (Nods to Mr. Magill.)

Magill: That's all.

H.M.Jr: Two Commissioners wanted to come over yesterday - they had to see me before three o'clock because petitions were coming down for some building, and I didn't have the slightest notion what it was about.

McReynolds: They've been talking to me the last ten days. I told them when they got in to see me that they shouldn't bother the Secretary of the Treasury for space allotment, and they finally apologized and said they knew they shouldn't try to get to you. They didn't get what they wanted. They admitted that they were trying to uphold their dignity.

Oliphant: Hear! Hear! (Laughter)

McReynolds: After all, those fellows in the Federal Trade have been pretty damned well treated by the Treasury.

H.M.Jr: Honestly, I am surprised - I am just amazed at all these cuss words.

- 7 -

McReynolds: I've got a sore throat this morning, and can't talk.

H.M.Jr: You've what! A sort throat?

McReynolds: I've got a sore throat and can't talk.

H.M.Jr: All I can say is, I wish you had one all the time. (Laughter.)

McReynolds: You don't need to worry.

H.M.Jr: A couple more mornings like this and you will shift a couple more of these personnel fellows around.

McReynolds: I've got to get some changes in the log before I can do that.

Klotz: (Inaudible.)

H.M.Jr: Did you get that one?

McReynolds: No, I didn't.

Klotz: I've got a sore throat this morning.

H.M.Jr: All right.

(Telephone.) Hello. Well, I may try it after lunch then - we'll try it later.

You (Magill) all right?

Magill: (Nods "Yes.")

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

Oliphant: Hester made inquiry of the Committee considering the Bailey resolution to stop the purchase of foreign silver, referring to any likelihood of anything happening; he said there wasn't.

H.M.Jr: You haven't got throat trouble, have you?

Oliphant: No, mine is all right.

H.M.Jr: I shouldn't try to make poor Herman laugh; it hurts too much. (Hearty laughter.)

This is the meanest crowd.

Oliphant: And Hester suggests that we do what we frequently do in such cases - let the question of the report on the bill lie until we hear from them again, which we probably won't until the next Congress.

The check has not been delivered. It will - I have here our letter of instructions to the Federal Reserve Bank under which they have acted.....

H.M.Jr: Yes.

Oliphant: which ought to be signed. That check will, presumably, come down this afternoon by air mail.

H.M.Jr: (Signs letter.) How many ounces of silver was it, roughly?

Lochhead: Five million.

Oliphant: And the money is down stairs in case the Ambassador wants to cash it.

H.M.Jr: What?

Oliphant: The money is down stairs in case he wants to cash it.

H.M.Jr: Will we give it to him in silver dollars?

Oliphant: I hope it occurs to him not to cash it in an ordinary bank and let it go around through a series of banks.

Bell: What will he do with the money, carry it around in his pocket?

H.M.Jr: Can he really get cash?

Oliphant: That's what Bernie told me.

- Lochhead: What's the objection to cashing it in a commercial bank?
- Oliphant: The possibility of a lien being slapped on it - trying to avoid litigation.
- H.M.Jr: Supposing he takes two and a half million dollars in cash and opens a deposit. Can't they slap a lien on that?
- Oliphant: Well, we're out of it.
- H.M.Jr: I still think I pulled - I am very proud of my wrinkle - that was to put the silver directly in our assay office and not send it over to American Smelter and let it lie in the New England swamps.
- Lochhead: Have to leave that in the assay office some time. We can possibly have it smelted down there, but I don't know whether - does this action prejudice any subsequent transactions that may be considered for the same purpose?
- Oliphant: (Nods "No.")
- H.M.Jr: Now, you all right?
- Oliphant: Yes, that's all.
- H.M.Jr: Herbert, your friend wrote an editorial - make a note of it - in the Washington Herald, about the stabilization fund. "Nobody knows nothing about the stabilization fund." You might draw his attention to the fact that every year I go before the Appropriations Committee of the House, and I answer any question they want to ask me about the stabilization fund, and everybody is entirely satisfied. What's the name of this fellow over at the Washington Herald?
- Gaston: Whigham.
- H.M.Jr: There's never been any question. Will you get hold of Whigham?
- Klotz: (Inaudible.)

H.M.Jr: Oh, what they are doing, they are taking every single thing which they think is close to the President - any money close - any money close to the President, see? If they can find a weak link they attack this and see if somebody knows something, and they call them up and if it's popular they will go on it. There's a whole group - they try one thing after another. They've got a fellow down here, a very smart newspaper man who plans these things; they try one thing, one thing after another.

Oliphant: Is that Waltman?

H.M.Jr: No, it's not Waltman. They just keep poking. Some day they will get something - for instance, Hopkins. Normally nobody pays any attention to it; they are riding that for all it's worth. They tried this thing on the stabilization fund; it's popular - people get a response and then - "Secretary of the Treasury.....".....

Klotz: I know it.

H.M.Jr: When it catches on they will ride it hard. Well, the Hopkins thing is popular, and they will ride that until they find something else. I understand this fellow just sits there; he's like a Louis Howe - he just plans this stuff, and keeps making these suggestions to the other papers and they shoot it off. My authority is the highest on it.

(Nods to Mr. Gaston.)

Gaston: I can find out who he is.

H.M.Jr: He's a garnet man - no number, no telephone - office unlisted. He's a very brilliant fellow.

(Nods to Mr. Haas.)

Haas: (Hands H.M.Jr. memorandum.)

H.M.Jr: Oh yes - thanks.

Haas: I wonder if Dr. Parran should have a copy of Tapp's

H.M.Jr: Oh yes. And I just called Dr. Parran and told him to get ahold of Wallace and say he was available.

Haas: Fine.

H.M.Jr: And I asked him, after he saw Wallace to let me know.
Anything else, George?

Haas: Your book is there, and has several new figures in it. It's in that envelope.

H.M.Jr: Harry, while I think of it, Mr. Moodey's coming in at eleven, and will you be here to meet me. Eleven - will you?

White: (Nods "Yes.")

H.M.Jr: Let me see this (black book). What! Are you going in for pictures? Huh?

Haas: Thought you could see them better.

H.M.Jr: seconds - days in May. How do you explain that?

Haas: I don't know; it's just the reverse.

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

White: There are statements running around - rumored, that the automobile companies may increase their output inventory for the next month so they can shut down during the two months preceding October.

H.M.Jr: I see. Well, I read that - Kintner and Alsop.

White: I think Kintner made it orally.

McReynolds: Yes sir - day before yesterday.

Haas: Yeah. That's tough.

Olipphant: That's a new wrinkle - their running up the inventory.

- Haas: From the figures we have, Harry, they don't have to run anything up.
- H.M.Jr: It's also interesting - the people like Woolsworth and Coca Cola - those people continue to do very well. You haven't got Coca Cola, but Coca Cola is running forty per cent ahead of last year.
- Haas: The whole field, like department stores, is about forty-four per cent. The retail business is redeclining, and close. Those are the ones where there's been increasing - are the ones where they have reduced prices and moved the goods out; where the prices have been maintained rigidly there hasn't been anything on that.
- H.M.Jr: On the general situation, we've got the President and Wallace to agree on going ahead on a nutrition program of between seventy to a hundred million dollars, to bring up the standard nutrition to about a million three hundred families through the Surplus Commodity Corporation, and Wallace and I saw Hull on the idea that we loan up to a hundred million dollars to China to buy cotton goods and flour, and Hull is to give us an answer today or tonight whether he wants to veto it tonight. I have Jesse Jones for lunch, and he's enthusiastic about it.
- Haas: Hull wasn't?
- H.M.Jr: Pardon me.
- Haas: Hull wasn't interested?
- H.M.Jr: Oh, he doesn't want to do it without offering it to Japan - call up the Japanese Ambassador - "Hello Ambassador, would you like to buy some wheat and cotton today?" "I don't want to buy any." "All right. Goodbye." "So," he said, "offer it to them." - "Well, you had the first chance; you didn't want any."
- Gaston: I am just a little bit afraid that the Jap wouldn't say just that.

Lochhead: I'm afraid the Jap will take him up.

H.M.Jr: No, he will take

Gaston: Wouldn't he say, "What are the terms, Mr. Secretary?"

H.M.Jr: But he thought he'd make that gesture.

White: Do you understand that if he said yes, they are going to extend them credit.

H.M.Jr: If we do it with the Chinese.

White: Good night! That changes it.

H.M.Jr: Mr. Hull, I think, is in our corner; I think he is. We'll know before tonight, for he's leaving tonight.

O. K. (Nods to Mr. Lochhead.)

Lochhead: That new steel issue came out this morning, selling at two and a half point premium. I think they priced it down pretty low, but it shows the market is moving under the new issue.

White: That silver from Bangkok - we are preparing a memorandum on the conditions in Siam, and some recommendations before you consider it.

H.M.Jr: Doesn't that mean a personal inspection?

White: Siam?

Oliphant: That's what I understand.

Haas: That isn't a good location.

White: I know a better place.

H.M.Jr: Did I tell you my story about Bryan and Siam; and this American Minister came to Constantinople when my father was on his way out to Persia. When he got there he was completely broke; he had a family - a large family, etc., and so on, and was a great personal friend of Bryan's, who was Secretary of State. And so - whatever his name is - we'll call him Jones - said, "How'd

- 14 -

you happen to pick Persia?" He said, "Well, you know, Bill and I grew up together and," he said, "he sent for me one morning and said, 'Ed, I want to do something for you, being school boys together, and I've got only two posts left. One is Siam and the other is Persia.' I kind of thought a minute and I said, 'Well, Bill, I don't think I exactly know where Siam is, so I guess I'll take Persia.'" And then the after thing there is, this fellow told my father, "I am broke." "Well, why don't you go in the rug business?" Well, this fellow - rugs were worth ten cents on a dollar; you couldn't get them out. This fellow bought fifty thousand dollars worth of rugs and he came in here and claimed, as an Ambassador, he didn't have to pay any duty and there was the darndest scandal you ever saw. He arrived here with fifty thousand dollars worth of rugs and said they were part of his effects.

White: When you get ready to consider that you might think of talking with Mr. Stevens, Chairman of the Tariff Commission. He returned only last year, so that if - only last year, so if anything comes up you might wish to talk to him.

H.M.Jr: Well, you talk to him.

White: Here is something; it probably has a few smiles in it. You asked for it some time ago.

H.M.Jr: Yeah.

(Nods to Mr. Upham.)

Upham: Nothing.

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

Bell: I have nothing.

H.M.Jr: You'd better stay a couple minutes.

Mac?

McReynolds: Still have a sore throat.

H.M.Jr: All right, let's see if we can't get something that is hard for Mac to do, and see if he can't.

Klotz: It's a good day to try it out.

McReynolds: Go out and walk around in the sunshine.

H.M.Jr: All right, suppose we do that.

Thursday
June 2, 1938
11:51 a.m.

137

HMJr: I thought you might be interested in what the United Press ticker carried this morning - what I said - Have you seen it?

Aubrey Williams: No.

HMJr: Well, I'd like to read it to you.

W: Yeah.

HMJr: "Support for President Roosevelt's request for freedom from restrictions in spending the Relief Fund was voiced by Secretary Morgenthau this morning. Morgenthau urged that the President be given the power to transfer spending from one category to another in the Recovery Bill."

W: Good!

HMJr: "Quote, We don't expect Congress to meet again until January', said Morgenthau, 'And not knowing whether the economic situation is going to get better or worse..."

W: Uh huh.

HMJr: "'...I think it would be wise to give the President the right to transfer funds from one title to another in order to take care of the emergency situation adequately.'"

W: Fine, Henry! That's wonderful!

HMJr: And then it ended up, "Morgenthau said he had discussed the situation with the President and was opposed to the Senate earmarking proposals."

W: Good results! Well, that's grand. I - I talked with Jimmy and Jimmy's canvassing everybody up there and he's going to make a fight to get it in there today.

HMJr: Well...

W: Yeah.

HMJr: That was this morning and I - I couldn't put it any stronger than that.

- 2 -

W: That's - that's wonderful! That's wonderful!
Thank you for calling me.

HMJr: All right.

W: Fine.

June 2, 1938

Today at 11:15 a.m., Hull called in regard to making a loan to China to buy wheat and cotton gray goods. He said that he is more worried about the cotton than he is about the flour and he wants more time to think it over. He is leaving town tonight.

SUPPORT FOR PRESIDENT ROOSEVELT'S REQUEST FOR FREEDOM FROM RESTRICTIONS IN SPENDING THE RELIEF FUND WAS VOICED BY SECRETARY MORGENTHAU THIS MORNING. MORGENTHAU URGED THAT THE PRESIDENT BE GIVEN POWER TO TRANSFER SPENDING FROM ONE CATEGORY TO ANOTHER IN THE RECOVERY BILL.

"WE DON'T EXPECT CONGRESS TO MEET AGAIN UNTIL JANUARY," SAID MORGENTHAU, "AND NOT KNOWING WHETHER THE ECONOMIC SITUATION IS GOING TO GET BETTER OR WORSE, I THINK IT WOULD BE WISE TO GIVE THE PRESIDENT THE RIGHT TO TRANSFER FUNDS FROM ONE TITLE TO ANOTHER IN ORDER TO TAKE CARE OF EMERGENCY SITUATIONS ADEQUATELY."

MORGENTHAU SAID HE HAD DISCUSSED THE SITUATION WITH THE PRESIDENT AND WAS OPPOSED TO SENATE EARMARKING PROPOSALS.

6/2--R1145A

MEMORANDUM OF THE DAY'S ACTIVITIES

June 2, 1938

141
MA

To: The Secretary

From: Mr. Magill

As I informed you this morning at 9:30, Senator Harrison called to suggest that it would probably be impossible to obtain any new legislation at this session of Congress. He thought that the Treasury should issue a statement indicating what procedure it is going to follow with respect to the collection of taxes from state and local employees, and he urged that the Treasury ought not to collect for back years from individuals who had reason to believe that they were exempt.

My own view is that, in the light of the President's message, we ought not to approve a bill which deals only with the collection of back taxes from these employees and does not clarify the situation for the future. For this reason Senator Lonergan's bill, which was reported on the news ticker, appears to be unsatisfactory. Have you had any further indication from the President as to whether he plans to send on to Congress the draft letter on the subject which you sent over to him more than a week ago?

RM

CONFERENCE BETWEEN THE SECRETARY AND
MR. DEVINE OF NEW YORK REGARDING
THE JUNE FINANCING.

June 2, 1938

Others present were Dr. Burgess, Assistant Secretary Taylor, and myself.

The Secretary asked Mr. Devine what his best view is on the June financing. Devine answered that he would certainly issue a long-term bond of 2-3/4% 20-25-years. The Treasury could sell a longer bond but he did not think ~~it~~ was advisable. This is the first time that anyone has seen a Treasury bond maturing beyond 1960 and he thought that 1963 would be far enough to go at this time. He would also have a shorter security, say a 2-1/2% 51-53 or 51-54. He said the Secretary could sell a security to mature somewhere in the 40's such as a 7-year 2 or an 8-year 2 which would sell better than 101-3/4, and these would be very attractive to the banks but he did not feel that this would be a good thing for the Treasury to do. He feels that there is now too much ~~expectation~~ ^{maturing} in the period in between 46 and 50. He thought also that a 10-year 2-1/4% would be very attractive for the banks but then again you run into that crowded period.

The Secretary then asked him how he thought the banks would take a 2-3/4% 20-25 and a 1-1/8% 5-year note. He said that his opinion was that they would take 2 of the bonds for one of the notes. In other words, about \$800,000,000 in bonds and \$400,000,000 in notes. He thought there was a possibility that the banks would first convert into the bonds because of the possible premium. Then they would sell the bonds and buy the short terms in the market. He said we had to keep

- 2 -

in mind the pressure of uninvested funds in the market. He said it is apparent that, barring all unforeseen troubles such as war and the like, there is for some months to come an excellent outlook for the Government bond market.

The Secretary then asked him what he thought would be the result if he should issue the long bond suggested by him and a 10-year 2-1/4% bond. Devine answered that there wasn't any doubt in his mind but that the banks would go into the shorter bond and the subscriptions would be probably 2 to 1 in favor of the shorter bond.

Dr. Burgess then asked him what he would think of an additional issue of an outstanding bond, say of the 2-1/2% 1948 which are now selling at approximately 104 and which would no doubt have to be offered at a premium of 102-1/2. Devine said he thought this might be a very good thing to do and the fact that it would have ~~be~~ a premium to be paid by the banks would dampen their ardor for this security and would have a tendency to throw the subscriptions to the longer bond on which there would be no premium to be paid.

The Secretary asked him if he would offer the bonds what would they sell for. He said the low would be 101-1/4 under almost all conditions and that they would range up to 102 and with a good market they would go even higher than 102.

Upon leaving the Secretary asked him for his preference. "My preference is for all bonds 20-25-years 2-3/4%, but if he were in the Secretary's place he would play safe and also issue along with that bond a 5-year 1-1/8% note.

scwB

TREASURY DEPARTMENT

WASHINGTON

June 2, 1938

TELEPHONE CONVERSATION WITH MR. WOODS,
VICE PRESIDENT OF C. F. CHILDS COMPANY
OF NEW YORK

-oOo-

Mr. Woods said there is some rumour in the Street that a seven-year $2\frac{1}{2}\%$ bond and a 20-25-year $2\text{-}3\frac{1}{4}\%$ bond would be preferable from the standpoint of the bank. After listening to all of them talk, he feels there is a very definite stand for the 12 or $12\frac{1}{2}$ -year $2\frac{1}{2}\%$ bond. The banks, he is sure, will take a $2\text{-}3\frac{1}{4}\%$ 20-25-year bond but the Treasury will run the chance of having the banks sell those bonds on the market within the next few weeks. They might not hold them. He feels insurance companies will take the bonds and hold them.

There has been some talk about a note, but no one seems to want this security because it would yield too small a return. The banks now have a great deal of money and their main object is to get higher earnings. Yet they do not want to go as far into the future as twenty years. He feels that if the Treasury offers the holders of the June notes an option of a bond or a note, most of them will take the bond.

I asked him what he would think of one issue. He thought

- 2 -

that would be an excellent thing for the Treasury to put out.

I then asked him what he would think about offering the holders of the September maturing notes the right to convert into this new offering. He said there had been some discussion of that in the Street but he had not found any one who was much interested in those rights, but he has no doubt but that, if the Treasury offers them that right, they will take advantage of the offer and most of them will convert. He feels, however, that if the Treasury does bring in the September maturity it would be better to have the long-term bond and a 5-year note. Even in this case he feels that the majority will go into the bonds, but on the other hand it has the advantage from the standpoint of the Treasury of avoiding criticism for not giving the holders a choice of a short or long-term security.

Mr. Woods said that since the announcement of the Secretary this morning that no new cash would be required in the forthcoming financing, there might be a change in sentiment among the bankers. He said that he would scout around and if he got anything new he would telephone me, either this evening or tomorrow.

sub

LUNCHEON CONFERENCE WITH THE SECRETARY ON
JUNE 2, 1938, REGARDING TREASURY FI-
NANCING FOR JUNE 15.

Those present besides the Secretary were Dudley Mills, Herbert Repp of the Discount Corporation, Dr. Burgess of the Federal Reserve Bank of New York, Assistant Secretary Taylor, and myself.

Dudley Mills started the discussion by giving an outline of what he would advise the Secretary to do in the June financing. Said he was a little disappointed the Secretary had announced earlier in the day that there would be no cash offering as this market would take a large offering of bonds and it seemed to him that it would be sound fiscal policy to raise additional cash at this time in spite of the large Treasury cash balance. He realized, however, that the Secretary had his problem and that there would no doubt be political criticism of a cash offering at this time.

The Secretary told him that in order to make his discussion simpler the June financing would consist of an offering of securities to the holders of both the June and September notes. Mr. Mills said he was glad to hear that because the morning announcement did not so indicate and when he found out that there would be no cash offering he did not see how the Treasury could avoid bringing in the September notes. He thought that the fact that the market had misinterpreted the Secretary's earlier statement that only the June notes would be refunded was one reason for the sudden upturn in the Government security market.

Mr. Mills said that there wasn't any doubt in his mind that this was the time to lengthen the Treasury maturity. He strongly recom-

ended as one of the securities a 3-3/4% 30-25-year bond. He realized that this was an attractive issue and would sell at a premium of 1-3/4 to 2-1/4 and if this market maintains its present level it might even go to a 2-1/2 premium. As for the second issue, he was thinking in terms of 2-1/4% 10 or 11-year bond or reopening of the 2-1/2% 1948 bond which, of course, would have to be offered at a premium of possibly 102-1/2.

The Secretary then asked him what he thought of a 5-year 1-1/8% note in place of the short term bond suggested by him. Mr. Mills and Mr. Repp both argued at some length against the note claiming that the banks are more interested in earnings at the present time than they have been any time in the past, and they are looking for a 10 to 12-year 2-1/2% bond. There is not much interest in the low yields on the present outstanding notes. He said that the monetary policies adopted within the last 60 days had increased the excess reserves by more than a billion dollars and they probably would continue to increase until they reached an amount between 3 and 3-1/2 million dollars. To adopt a policy at this time and then to starve the banks in the investments they desire would be unfortunate from the standpoint of the Treasury. They both felt very strongly that the note would not go but that the long and the intermediate bonds would be ideal. The Secretary asked how much they thought might go into the notes. Mr. Mills replied that he didn't think we would get more than \$300,000,000, while Mr. Repp thought we might get as much as \$450,000,000 to \$500,000,000. This would leave anywhere from \$750,000,000 to \$900,000,000 to go into the

long bonds, a large part of which would be held by the banks and that they would make them available for a subsequent distribution, having an adverse effect on the money market.

The Secretary told him that with all the discussion going on he was at first inclined to agree with them about the intermediate bond but as the discussion progressed he was now more convinced that the 5-year note would be preferable from the standpoint of the Treasury. He first thought that one issue of long term bonds would be his decision but he realized that there would be that possible criticism from the banks that the Treasury had forced them into long-term bonds at a time when they did not want to and should not for good banking reasons go into a bond longer than 10 or 12 years.

The discussion was continued in Assistant Secretary Taylor's office for another 30 minutes largely going over the same ground. These two gentlemen continued to maintain their strong position first taken that the Treasury could not afford at this time to put out a 5-year note.

sub B

TREASURY DEPARTMENT



149

INTER OFFICE COMMUNICATION

DATE June 2, 1938.

TO Secretary Morgenthau

FROM Mr. White

Subject: Some published statements as to business prospects for 1938 made in fall of 1937 by some well-known persons.

Appended is a list of published statements made by some well known persons in the fall of 1937 regarding business prospects for 1938. The statements are arranged chronologically and were selected from press and periodical reports over the period September 1 to December 31, 1937.

Only two or three definitely bearish statements were found during that period but a more extensive search might reveal more.

SOME PUBLISHED STATEMENTS AS TO BUSINESS PROSPECTS FOR 1938 MADE IN FALL OF 1937 BY WELL-KNOWN PERSONS. THE STATEMENTS ARE ARRANGED CHRONOLOGICALLY.

(Statements not optimistic are checked in red crayon.)

Charles G. Dawes

September 8, 1937

"I see a continuance of good trade this year and next. I see no indications in business of a lack of confidence and expect to see business conditions continue satisfactory."

Roger W. Babson

September 14, 1937

Addressing the Boston Chamber of Commerce:

"General business is bound to be better this fall than last fall. With our tremendous crops nothing can stop it. Farmers, wage-workers and stockholders will all have more money to spend. I am forecasting no boom but I do promise business improvement."

Jesse H. Jones

October 8, 1937

Address before the National Association of Supervisors of State Banks in New York:

"Our country has seldom been more prosperous . . . Yet during the last few weeks we have been witnessing a continually falling securities market. There are, of course, many contributing reasons but are they sufficient to warrant so much pessimism? I do not believe so."

Statements compiled by: J. S. Hooker and H. E. Hess.

Leonard P. Ayres

October 16, 1937

Quotation from Cleveland Trust Company Bulletin:

"It is improbable that the current decline in business will develop into a real depression. The chief reason why the fears business men have of a new depression are probably unfounded is that we have not yet made a full recovery from the previous one."

I. S. Hirschfield

October 17, 1937

Vice President of Saks 5th Avenue stated to press:

"Cycle of business is still headed forward, with current recession merely a detour."

Lionel Edie

October 19, 1937

Addressing the annual fall banquet of New Hampshire Bankers Association:

"This is a temporary interruption, but the recovery will resume without the recession going to the levels of 1932."

R. H. Cabell

October 20, 1937

President, Armour and Company, in address at Rochester, New York:

"Trade conditions are excellent and I think as soon as investors get over their jitters the stock market situation will adjust itself satisfactorily."

David Lawrence

October 20, 1937

Article in New York Sun:

"'Roosevelt panic' may be short-lived or the forerunner of a fundamental business depression, depending on how one man feels about it. For if Mr. Roosevelt is responsible for the panic, he alone can end it and bring about a change for the better."

Secretary Morgenthau - 3

Dr. Benjamin H. Beekhart

November 7, 1937

Associate Professor of Banking at Columbia School of Business
in statement to press:

"The present recession in business will be short, and, like that of 1924, will be followed by a sharp recovery."

Lionel D. Edie

November 10, 1937

Addressing National Federation of Sales Executives:

"Business is in a downward spiral that will probably last another 60 or 90 days, and there is nothing we can do about it." ✓

A. W. Zelomek

November 12, 1937

Economist of International Statistical Bureau addressing
Philadelphia Purchasing Agents:

"There will be extension of the present recession during a large part of the first half of next year (1938) and a substantial upturn in the last half of 1938." ✓

Karl T. Compton

November 16, 1937

President of Massachusetts Institute of Technology statement
to press:

"Business will begin its recovery before middle of January, although present slump may last until next spring."

Virgil Jordan

November 17, 1937

President of National Industrial Conference Board in address
before Chicago Association of Commerce:

"The present decline will run its course, probably reaching an upturn by next March, but the current slump is only a minor phase of a much broader and more serious recession in business that will continue to grow worse, until basic conditions are corrected." ✓

Secretary Morgenthau - 4

Henry Ford

November 25, 1937

Statement to Press:

"Present business recession temporary and artificial. No one need look at next year with any uncertainty."

Marriner S. Eccles

December 16, 1937

Speech before American Farm Bureau Federation:

"Extent of present recession will depend upon how rapidly the more serious maladjustments between prices and buying power are corrected and increased national income is created by the activity of private business." ←

Glenn Griswold

December 16, 1937

Publisher of Business Week addressing conference of American Management Association:

"Bottom of present recession has been reached and business will show upturn this week, such as was shown last week for the first time in three months. By the end of the first quarter of 1938 there will be a more definite rise in business which will continue steadily during the year."

Thursday
June 2, 1938
12:55 p.m.

154

HMJr: Hello.

Operator: Chairman Eccles.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Marriner
Eccles: Hello, Henry.

HMJr: Hello, Marriner.

E: I - ah - discussed the Treasury prospecting situation
with the Committee.

HMJr: Did you strike gold?

E: Huh?

HMJr: Did you strike gold?

E: (Laughs) Oh, I wouldn't say that.

HMJr: Yeah.

E: They - ah - the consensus of opinion is that you
should offer...

HMJr: Yeah.

E: ...the - ah - five year one and an eighth...

HMJr: Yeah.

E: ...note and a twenty twenty-five year three - two
and 3/8ths bond.

HMJr: Yeah. Two and 3/8ths?

E: Two and a -

HMJr: Three quarters.

E: Two and three quarters.

HMJr: Yeah.

E: That - ah - we would take half of each.

HMJr: Half of each?

E: Yeah.

HMJr: I see. Well, that's just what I wanted to know.

E: Yes. Well, ah - we've discussed it from - from every - from every angle and - ah - there will be some differential between the note and the bond in the premium likely.

HMJr: Well, what we're thinking of is the possibility of - ah - if a fellow takes a note....

E: Yes.

HMJr: ...that is, if the September fellow takes in a note... You see?

E: Yes.

HMJr: It'll give him a little advantage on the interest. In other words let him have his $2\frac{1}{2}$ per cent interest on his note until September.

E: Oh yeah.

HMJr: See?

E: Uh huh.

HMJr: If he takes the note.

E: Yeah.

HMJr: Let him - we'll pay him $2\frac{1}{2}$ until September.

E: Uh huh.

HMJr: Now that would be an inducement to the September boys to take the note.

E: Uh huh.

HMJr: And it....

E: It is.

HMJr: And it would be fairer.

- 3 -

- E: Yes. Yes. It would - ah - the bottom and now you're giving them because of the call - because of the premium why they've got to exercise the right now, although they still have the premium in September...
- HMJr: Yeah.
- E: ..if you didn't - if you didn't call it now.
- HMJr: I mean, if we call it now and don't give them a little something....
- E: They'll - they'll holler a little all right.
- HMJr: Yeah. But if we let them - if we let them keep their interest of $2\frac{1}{2}\%$ until September they've got no holler coming.
- E: Of course the premium on that bond is likely to be around 2 per cent, with no new - with no new financing...
- HMJr: You mean 2 points.
- E: I mean around 2 points.
- HMJr: Well, that isn't too much for
- E: No. But I meant is the note is going to be less than that.
- HMJr: Yeah. But my thought is to give them their interest until September on the - the September boys-if they take a note, you see?
- E: It would be my guess that you're going to have three fourths of - at least three-fourths to five eighths taken in bonds.
- HMJr: I think you're right.
- E: Without - with - ah - with the idea of selling them after.
- HMJr: I know.
- E: Now of course our thought was that - looking at it if we were just a bank that's what we'd do.

HMJr: Yes.

E: Because if we were looking at it purely from a profit standpoint it would likely be to our interest to take all bonds....

HMJr: Yeah.

E: ...because of a higher premium with the idea of converting them and buying notes later.

HMJr: Yeah.

E: But - and of course that - all that would do is - would tend to demoralize the market, so we thought we'd better take half of each with the idea...

HMJr: Yeah.

E: ...if the bond market is - ah - is too weak...

HMJr: Yeah.

E: ... that we - we'd possibly - we'd then consider selling some of the notes and buying bonds.

HMJr: Or vice versa.

E: Or vice versa.

HMJr: I think it's all right.

E: But it leaves us out in a little better position to move...

HMJr: Yeah.

E: ...then if we took all of either of them.

HMJr: You've got over a hundred and seventy, haven't you?

E: A hundred and seventy - well, a hundred and seventy-four - a hundred and seventy-something; I think it's a hundred and seventy-four.

HMJr: Yeah. And we have over twenty.

E: Well, you see, there's two hundred - there's practically two hundred million of them...

HMJr: Yeah.

- 5 -

E: ...or - ah - there's close to between 15 and 20 per cent.

HMJr: Yeah.

E: Which is a big factor.

HMJr: Yeah.

E: Of course - have you given up the idea of a ten year bond?

HMJr: Well, I haven't seen anybody since then. We're seeing the Discount boys at lunch.

E: Yeah.

HMJr: And Devine at three.

E: Uh huh.

HMJr: And then after I've seen them if there's any great disagreement then I'm going to ask to meet with you tomorrow. See?

E: Yes. Uh huh.

HMJr: But I haven't really seen anybody this morning.

E: Uh huh.

HMJr: After I see them I'll give you a ring.

E: Yeah.

HMJr: How's that?

E: O. K.

HMJr: All right. Thank you very much.

E: Listen - ah - what time would that be? - This afternoon?

HMJr: Well, it would be along between 4 and 5.

E: What you want to do - you'd want to meet - would you want to meet with the Committee in the morning? Would you want Harrison to come down?

HMJr: Yeah. Whoever you want.

- 6 -

E: Yes.

HMJr: Yeah. But it would be between 4 and 5 - as soon as - if I find I can't make up my mind I'll call you at once.

E: O. K.

HMJr: See?

E: All right.

HMJr: Goodbye.

E: Goodbye.

June 2, 1938.
2:29 p.m.

H.M.Jr: Hello. Hello.

William C.
Bullitt: Hello Henry.

H.M.Jr: How are you?

B: How are you my boy?

H.M.Jr: I'm fine, how's grandpa?

B: I'm getting along very well.

H.M.Jr: Listen.

H.M.Jr: I've got a big financing over the weekend.

B: Yes.

H.M.Jr: And if I had to take an insurance policy out, which I do for the Government, because I have to commit myself on Saturday, you see?

B: Yes.

H.M.Jr: Hello.

B: Yes. ,

H.M.Jr: I say, I have to commit myself, Saturday, over the weekend, and - Hello. And I wondered if you care to -

B: I can't hear you.

H.M.Jr: What are the chances, do you think, of having a quiet weekend, if that's a fair question?

B: Well, I don't think - I think the chances are that you - you can always have some people shot.

H.M.Jr: Yes.

B: And the moment you have some people shot you may have a nice rise in temperature.

H.M.Jr: I see.

- 2 -

B: Nevertheless my guess is that next weekend will be fine.

H.M.Jr: Well, I just want your best guess, that's all.

B: My best guess is this. If you've got to pick - some weekend in the next few weeks -

H.M.Jr: Yes.

B: The best is a good one to pick.

H.M.Jr: Well, I have no choice. I have to do it over this week end.

B: Yes. Well, that's all right Henry, I don't think we're going to have any explosion, because if anything is going to happen, it would come because of during the election of Sunday.

H.M.Jr: On Tuesday.

B: On Sunday.

H.M.Jr: Of when? Hello.

B: Hello.

H.M.Jr: They would come when.

B: I say there are elections, as you know.

H.M.Jr: Yes, on the 12th.

B: Yes, on Sunday.

H.M.Jr: Yes.

B: There might be considerable disturbances in connection with those elections.

H.M.Jr: I see.

B: I do not expect there to be but there might be.

H.M.Jr: Uhuh.

B: If those disturbances were just right and a number of people were shot.

H.M.Jr: Yes.

B: Then you might have a bad circulation in stability Monday and Tuesday or Sunday and Wednesday.

H.M.Jr: Oh, I see.

B: You see?

H.M.Jr: Well, my financing is announced Monday and I have to keep it open until Wednesday night.

B: Yes. Well Henry.

H.M.Jr: Yes.

B: In any case I don't think any phase of financing that you did would be hindered because the only result of such a thing would be that every that is in Europe today would try to get into America.

H.M.Jr: Well then, would you mind starting a little trouble for me about Monday or Tuesday.

B: Not bad.

H.M.Jr: Yes.

B: Henry, what the devil are you doing about the railroads?

H.M.Jr: You mean here, in America?

B: Yes, are you going to

H.M.Jr: I'm afraid they're not going to do anything, Bill.

B: Oh, hell.

H.M.Jr: Jesse Jones had lunch with me yesterday.

B: Yes.

H.M.Jr: And he's very much discouraged, and I think he knows more about it than anybody else in Washington.

B: Yes.

H.M.Jr: And he's - as near as I can make it, he's - there's nothing hopeful on the horizon.

- 4 -

B: I am really very sorry, because I think that's extremely important.

H.M.Jr: Well, that - that was the latest, as of yesterday.

B: Yes. Well now Henry.

H.M.Jr: Yes.

B: If I were you I'd go ahead and let that go.

H.M.Jr: Well I have to do it, but I just wanted to check and get your best guess, that was all.

B: Well now Henry.

H.M.Jr: Yes.

B: I have just been, today, I flew to London, this morning, at noon and I just got back this minute.

H.M.Jr: Oh.

B: So that I had a talk in London, today, with Joe Kennedy.

H.M.Jr: I see.

B: And certainly he expects no conceivable trouble of any kind.

H.M.Jr: Good.

B: And I stopped three or fours in London.

H.M.Jr: You stopped four hours.

B: Yes. Flew over and back.

H.M.Jr: Good for you.

B: Well it's very simple you know, it only takes a little over an hour to fly there and a little over an hour to fly back.

H.M.Jr: Oh for heavens sakes.

B: And it's an easy way to have a conversation.

H.M.Jr: Now one other thing did you get my message about the

possibility of my family coming over in July?

B: Yes, I did.

H.M.Jr: All right.

B: Now, and I'll attend to that in the best possible order.

H.M.Jr: I mean, you got -

B: Are you coming soon?

H.M.Jr: What's that?

B: Are you coming soon yourself?

H.M.Jr: Well, if we came we would leave here on the 16th of July.

B: 16th of July, that's fine. I talked to our friend Ickes/on the telephone.
today

H.M.Jr: Yes.

B: He's coming to Paris tomorrow with his bride.

H.M.Jr: Fine.

B: tremendously with the young lady.

H.M.Jr: Good.

B: Henry?

H.M.Jr: Yes.

B: Did you see what he was quoted as saying in all the English papers?

H.M.Jr: No.

B: I'm tired but happy.

H.M.Jr: He's what?

B: I am tired, but happy.

H.M.Jr: Well, I can't tell you, over the telephone, some of the stories they tell here.

B: Give my love to the President.

H.M.Jr: I'll do that.

B: All right.

H.M.Jr: Thank you.

B: Goodnight.

H.M.Jr: Goodnight.

June 2, 1938

4:35 pm

Present:

Spanish Ambassador
Mr. Oliphant
Mr. Lochhead
Mr. Bernstein

HM, Jr.: How do you do, Mr. Ambassador. Glad to see you back again.

Mr. Ambassador, I wanted to do this myself so I knew that everything was all right. Here is the letter, you see.

(Ambassador read letter dated June 2, addressed to the Ambassador, copy of which is attached marked Exhibit "A".)

Now, this explains how we arrived at \$2,007,500.

Ambassador: It was 2,334 cases, because we had thought it was 1,334 cases, but it was perhaps a mistake.

Mr. Lochhead: It was 2,334.

(The Secretary then handed the check in payment to the Ambassador and the Ambassador examined the check.)

Ambassador: All right. All right.

May I ask you, it would be possible for me to change that here in the Treasury for bonds of the Treasury or is it necessary to go to the American stock exchange?

HM, Jr.: We can give you the cash. We have the cash.

Ambassador: You have the cash?

HM, Jr.: Yes. We can give you cash.

Mr. Oliphant: If that would be most convenient.

HM, Jr.: And you could do whatever you wanted with the cash.

-2-

Ambassador: And I cannot, in the Treasury Department, buy bonds of the Department? It is necessary to go to the market?

HM, Jr: Let's just find out.

Mr. Oliphant: I should think, Mr. Secretary, if he found it convenient to take the cash, he could just go across the street to the bank and proceed to buy bonds or whatever he wanted to.

HM, Jr: We don't have any bonds for sale. You would have to go to the market.

Ambassador: Yes. That was my question, if it was necessary to go to the market.

HM, Jr: You would have to go to the market and buy bonds in the market, but we can give you cash for the check.

Ambassador: All right.

HM, Jr: Would you -- we didn't know how you wanted it -- we don't usually have that much money, but we have that cash and the money is there if you want the cash.

Ambassador: All right, please. Perhaps I was late this afternoon.

Mr. Oliphant: It's there now.

HM, Jr: It's there now, but you can have it tomorrow. And I could give you a Secret Service man back to your Embassy if you wanted to come in tomorrow.

Mr. Oliphant: Give him a Secret Service man back to the Embassy or to his bank.

HM, Jr: I would give you a Secret Service man.

Ambassador: Well, tomorrow morning, ten o'clock, approximately.

Mr. Loonhead: The cash is there; we have kept the vaults open.

HM, Jr: Don't rush yourself, Mr. Ambassador. I want to do it at your pleasure. You would like to come

-3-

tomorrow at ten?

Ambassador: Yes, sir.

I have proposed you to buy approximately 30 million ounces.

HM,Jr: Yes.

Ambassador: You have taken only 5 million.

HM,Jr: That's right.

Ambassador: May we -- it would be possible to make an offer?

HM,Jr: If you want to. Your Government.

Ambassador: On behalf of my Government.

HM,Jr: We are prepared to take another 5 million.

Ambassador: Another 5 million? Not 10 or 15?

HM,Jr: No.

Ambassador: All right.

HM,Jr: We are prepared, the same way, to take another 5 million.

Ambassador: All right. When would it be possible for you to prepare to make the same terms that we have.

HM,Jr: How long would it take to prepare the papers?

Mr. Oliphant: Oh, they could be prepared tomorrow.

HM,Jr: Could we have them ready tomorrow morning?

Mr. Oliphant: Yes, tomorrow morning.

HM,Jr: Now I was just thinking, if you would come to -- what office? where does he go to get the cash?

Mr. Lochhead: Down to the Treasurer's office.

-4-

HM, Jr: Well, if he came here at ten you (Lochhead) could meet the Ambassador and escort him down there and see that he gets the cash.

Mr. Lochhead: Yes, sir; I will go down with him.

HM, Jr: He will come to my office and you go down with him and see that everything is ready and arrange with Chief Wilson to have two Secret Service men to escort him back to where he goes, and then prepare the papers for another 5 million ounces.

Mr. Lochhead: All right.

Mr. Cliphant: Mr. Ambassador, if I may suggest, you will not want to endorse the check tonight so that when you come with the check tomorrow then the exact form of the endorsement, what it will be, exactly as it is on the face of the check without any addition or subtraction, that can be taken care of in the morning.

Mr. Ambassador: Mr. Secretary, if you are clear tomorrow morning

HM, Jr: Mr. Lochhead and Mr. Bernstein, you both be outside my office at sharp ten tomorrow.

Mr. Cliphant: I won't be here.

HM, Jr: And you see Chief Wilson and have two Secret Service men to escort the Ambassador wherever he wants to go.

Mr. Cliphant: We will give you the exact form of endorsement tomorrow morning.

HM, Jr: Mr. Ambassador, come to my office. Mr. Lochhead will be waiting for you. His office is just across the hall from me. He will be waiting for you. But I wanted to make sure that everything went all right.

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

oOo-oOo

After the Ambassador had departed, the following

conversation took place in the Secretary's office:

Mr. Berkshire: In connection with the document, do you think it would be in order, this time, to tie it down to make a straight deal with the Government?

Mr. Olyphant: This time put the documents in proper order.

Mr. Lochhead: Have you discussed that with the Federal?

Mr. Olyphant: You have time to call.

HM, Jr.: I thought we'd keep it on a 5,000,000 basis.

Mr. Lochhead: Yes, because we had trouble with this shipment. They had to take it upstairs. It is better to have it in small lots.

oOo-oOo

Copy

June 2, 1938.

My dear Mr. Ambassador:

There is delivered to you herewith a check for \$2,007,500 drawn by the Federal Reserve Bank of New York as fiscal agent of the United States on the Treasurer of the United States to your order, as an advance payment for the approximately five million ounces of silver .999 fine, purchased for the account of the United States, and which arrived in New York on May 30, 1938, on the SS NORMANDIE.

Very truly yours,

(Sgd.) H. Morgenthau, Jr.

Secretary of the Treasury.

His Excellency,
The Ambassador Extraordinary and Plenipotentiary
of Spain to the United States,
Embassy of Spain,
Washington, D. C.

BB:meu
6/2/38

Initialed: BB FD AL HO WCT

Copy

June 2, 1938.

Advance payment for silver ex S/S "Normandie" received
on May 31, 1938:

2,334 cases said to contain Spanish silver coins
purporting to contain approximately 5,000,000
ounces of silver .999 fine.

5,000,000 ounces of silver .999 fine at 43 cents
U. S. currency per ounce .999 fine - - - \$2,150,000.00

Less:

5% withheld	\$107,500.00	
Estimated cost of refining coins	<u>35,000.00</u>	<u>142,500.00</u>
		<u>\$2,007,500.00</u>

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

173

DATE June 2, 1938

TO **Secretary Morgenthau**

FROM **Mr. Haas**



Attached is a memorandum which Miss Lonigan sent
in from the field.

June 2, 1938

To: The Secretary
From: Miss Lonigan *EL*

There was one point of confusion on the potential use of surplus commodities, in the conference with Mr. Hopkins and Mr. Wallace last week.

There seemed to be an implied assumption that the number of families on relief represents the total number in need. That of course is not a fact.

Administrative mechanisms and financial mechanisms of relief have broken down all over the country. Needy people in those areas cannot register for relief nor apply for surplus commodities. Surplus commodities are not reaching the very neediest at all. For example, they do not reach many needy families in Washington because the relief agency has not enough staff. They do not reach needy families in Chicago because relief stations are closed. They do not reach relief families in rural Texas, because there are not enough local funds for staff.

Also, surplus commodities are always distributed strictly on a surplus basis. They are never permitted to equal the normal relief budget, only a small part of it. Families are given only the flour they need above relief standards, whether the relief orders are issued

or not.

There is room for expansion in the consumption of flour and cotton by relief families in at least two ways:

1. Extension in the number of families receiving commodities by improvements in relief machinery.
2. Possible extension of amounts of food permitted to be given to each family.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

TO Secretary Morgenthau
FROM Herman Oliphant

June 2, 1938

610127
176

As you requested, we have conferred with Secretary Wallace's man, Mr. Blandi, who thought the Federal Surplus Commodities Corporation could handle the interchange of agricultural commodities for strategic commodities. My conclusion is that if this corporation can do this at all, which is not free from doubt, it can not, in my judgment, do it as an agency of the United States, but would be doing it as a Delaware corporation. The latter would raise a whole series of questions, including liability for Delaware taxes. It would be like having any private corporation, such as Anderson Clayton & Company, do it, which, I understand, is not at all the sort of thing this plan envisages.

Finally, there is a doubt as to RFC power to make a loan for this purpose since it is subject to the limitation that any loan to a private corporation must be for a "business enterprise."

Friday, June 3, 1938

At 10 A. M. this morning, as arranged by the Secretary of the Treasury, Senor Dr. Don Fernando de los Rios, Ambassador of Spain, called to cash the check given him on June 3, representing the advance payment on shipment of Spanish silver coins. The money was paid to the Ambassador in the Secretary's private office on the first floor, after he had endorsed the check in the form designated by the Treasury Legal Staff.

From the Secretary's Office there were present Mr. Bernstein, Mr. Lochhead, and the Treasurer of the United States, Mr. Julian, who brought two of his staff to make the actual cash payment.

The Ambassador was provided with a Secret Service man to accompany he and his Secretary in their car, and two of the Secret Service men were detailed to follow his car to its destination in one of the Secret Service armament cars.

During the course of the conversation Lochhead mentioned to the Ambassador (as previously arranged with the Secretary) that in making shipment of silver coins the Treasury would naturally like to see United States shipping companies gain some of the benefit from the shipping expenses, and therefore, when shipments are made, if American vessels are available at times not inconvenient to the Spanish Government, we hoped they would see their way clear to make use of such vessels.

RE JUNE 15 FINANCING

June 3, 1938.
11:30 a.m.

Present: Mr. Taylor
Mr. Lochhead
Mr. Haas
Mr. Seltzer
Mr. Harris
Mr. Upham
Mr. Bell

H.M.Jr: (On phone) Dr. Burgess, please.

Anybody missing?

Taylor: Dan.

Harris: Market's improved a little since I talked to you.

H.M.Jr: Where?

Harris: Except in the two longer bonds. They moved - the June rights are up now to 3/32 - a point and three-fourths premium.

H.M.Jr: Any other ones?

Harris: And the Septembers were off five; they're only off two now. Selling on the same price as the June..

H.M.Jr: (On phone) Hello. (Conversation with Burgess follows:)

(Bell comes in during conversation)

Friday
June 3, 1938
3:35 p.m.

179

HMJr: Hello.

Operator: Dr. Burgess. Go ahead.

HMJr: Hello.

Burgess: Oh hello, Henry.

HMJr: Well, how does she look now?

B: Well, ah - the market behaved pretty well; the rights are up a little further. The long bonds are off about as much as they rose yesterday.

HMJr: Uh huh.

B: The - ah - the shorter bonds are up.

HMJr: Yeah.

B: Which is rather natural.

HMJr: Yeah.

B: It shows the Street's had a rumor of a longer term bond.

HMJr: Yeah.

B: That they've been talking about it. Now, ah - just one or two specific reactions I can give you: - I talked with Garner at some length.

HMJr: Yeah.

B: You mentioned him yesterday. He's opposed to the idea of a note; he thinks a ten year bond would be very much better.

HMJr: Yeah.

B: And likes the idea of opening up the - the forty-eights.

HMJr: Yeah.

B: He says if you don't, the tendency will be for a great many people to speculate in the - in the new issue and...

HMJr: Yeah.

B: ...raise prices of the ah - of the shorter stuff. The Discount boys feel just as they did yesterday.

HMJr: I see.

B: They think the action of the market today indicates the need for an intermediate bond.

HMJr: Uh huh.

B: They say people don't like the note but they're crying for an intermediate bond.

HMJr: Well...

B: Ah - he reported one insurance company fellow who was right sore about a twenty twenty-five year two and three quarter bond - thought it was - thought it was too long - that it shouldn't go over twenty years at 2 and three quarters. But that fellow has indigestion so I wouldn't take that very seriously.

HMJr: I see.

B: Then Levy, on the other hand, thinks if you do a twenty twenty-five bond you could do the whole thing in that one bond.

HMJr: Uh huh.

B: He doesn't like the idea of a note very well.

HMJr: Levy thinks we can do the whole thing in a bond, huh?

B: That's right. Yes. He's the second fellow I've found who's said that; one's Devine and one's Levy.

HMJr: Well.

B: So, there's - they've - ah - they've talked for it and think that a lot of people will buy it if you it out

HMJr: Yeah.

B: And they all say that - that if you have a - the bond alone or a bond and a note....

HMJr: Yes.

B: ...there'll be a lot of fellows who will ride the bond, that is they'll buy it with the hope of selling it out during the summer.

HMJr: Yeah.

B: Or else they'll sell rights so that...

HMJr: Well, of course, if enough people feel that way (laughs) ah - they'll get out pretty fast.

B: Yes, there'll be a good sale of rights at first.

HMJr: Yeah. Well, let me put it this way - well, I mean, are you through on your comments?

B: Yeah.

HMJr: Well - ah - as she's closing tonight - ah - couldn't we pretty well say, unless something tomorrow comes up that we don't know about, we'll go ahead with the twenty twenty-five and a five year note?

B: Ah - I think that would work all right, Henry. I prefer, as I said last night...

HMJr: Yeah. I know.
for you

B: .../to do the other, but - ah

HMJr: Well, I mean have you any doubts at to the success of the...

B: Not the slightest.

HMJr: No doubts?

B: No doubts at all.

HMJr: Neither have I.

B: The success, I think, is guaranteed - as long as you offer a second obligation the success is assured.

HMJr: Yeah. Yeah.

B: So

- 4 -

HMJr: Well, I'll be in touch with you again in the morning; as I say, unless something turns up that I don't know about, I think we'll go ahead on that basis.

B: All right, sir.

HMJr: Thank you so much.

B: Very good.

-2-

H.M.Jr: Do you (Taylor) feel any different today?

Taylor: (Nods no)

Bell: Market went off a little bit.

H.M.Jr: But she's coming back, I think. How much off is the 2 7/8 right now?

Harris: 5/32. The '56-'59s are off 5.

H.M.Jr: How much were the 2 7/8s off yesterday?

Harris: They were off 10/32.

Bell: That's a good adjustment.

H.M.Jr: What I'm thinking of doing - I've pretty well made up my mind - is to give them a choice of a 20-25 and a 5-year note.

Seltzer: (Nods approval) My only question there would be about raising the maturity by two years, say, on the 25-year bond in order not to make it quite as sweet as it is; raise it, say, to a 22-27-year bond. That is, the market is up about - as of last night's close, it was up better than half a point on our two longest bonds over the 28th of May, when we were figuring on this stuff.

H.M.Jr: Well, how much do you - what do you think that the 20-25 will sell at?

Seltzer: I think it will sell at better than two points.

H.M.Jr: Well, I think we need that on as long a bond as that.

Seltzer: On the other hand, I don't think that a 22-27 will sell much below that.

H.M.Jr: Well, the trouble is, I haven't talked it, I don't The 20-25 will go out now - that will be '63.

Seltzer: That will be three years out beyond our last.

H.M.Jr: We have nothing - what - '60, is that the furthest?

Harris: 2 7/8 '60.

-3-

H.M.Jr: Did you (Bell) look up whether a 25-year bond would be the longest bond the Government ever sold?

Bell: No, but they're looking it up.

Harris: The '55-'60s were 25 years; they were put out in March, 1935.

Bell: You meant all time, didn't you?

H.M.Jr: I think you're right.
But I've been all through it, and 20-25 - I tell you, I don't think a 2-point cushion in this market - European conditions, long market - I don't think it's too much.

Taylor: It's a long summer.

H.M.Jr: It's a long summer. It may even go higher.

Bell: It's ten cents a year.

H.M.Jr: I think it may even go higher.

Seltzer: The chances are it will go above two points.

Bell: Oh yes.

Upnam: I just had a pretty good bond man from a country bank in. You might be interested. He has a good many of the maturing notes. He says he wouldn't take longer than a 10-year bond to keep, but that if he's offered a long bond and a short note, he would take the long bond to sell, because he thinks the bond market will go up and the note market will not. He would prefer to have a 10-year bond. And he didn't like opening up the '48s. He has too many of them; that's probably the reason he wouldn't want any more.

Bell: He's a country bank and he doesn't like the premium on the '48.

Taylor: Well, that's a perfect museum piece. I mean every fellow you talk to will give you that same answer.

-4-

- Upham: He has sold all of his notes except the maturities and HOLC '42-'44s.
- Seltzer: There aren't enough like them, because these notes have just been shooting right on up.
- Bell: There's somebody buying them, that's a cinch.
- Seltzer: Absolutely, that's just the point.
- H.M.Jr: Somebody. Well, there's no one talks - don't come in and say, "You mustn't let the note market get too high." Don't say anything about that.
- Taylor: Old man Taylor does, but ...
- H.M.Jr: This will take care of that a little bit.
- Seltzer: That's where your real shortage is, in short-term stuff - the notes.
- Upham: He said he'd take a 30-year bond in preference to a 5-year note.
- Taylor: But not to keep.
- Upham: Not to keep.
- Harris: The thing about a 10-year bond - if the banks would do what everybody tells us they would do, take that, we'd probably end up with a very small issue of 20-25-years, which is not very desirable.
- H.M.Jr: Well, the 10-year - I'm convinced the 10- or 12-year bond would be a very strong deterrent on the long bond. I mean they'd all go into the 10 or 12, because that's what they want.
- Heas: And if something happened, Mr. Secretary, you wouldn't have the protection.
- Bell: The premium would take some of that off, if you added a premium.
- H.M.Jr: And if we do this, the September fellows that take the long - we'll give them two and a half months' interest on their note until September.

-5-

- Bell: That makes it a little richer.
- H.M.Jr: It's only fair. I think that's only fair.
- Seltzer: That's only those who take the notes.
- H.M.Jr: Only those who take the notes. No, only those who take the notes.
- Taylor: Got an interest adjustment in the other fellow's favor if he turns it in for the $2 \frac{3}{4}$.
- H.M.Jr: That's only on the fellows who take the notes.
- Bell: Couple of ways we can do that. One is that we will pay them the interest on the $2 \frac{1}{2}$ up to - the difference between the $1 \frac{1}{8}$ and the $2 \frac{1}{2}$ on the September in cash when the exchange is made.
- H.M.Jr: What's that?
- Bell: From June 15. One way is to pay the holder of the September 15 note when he turns it in the difference between the $1 \frac{1}{8}$ and the $2 \frac{1}{2}$, see, on June 15.
- H.M.Jr: Well, which is the ...
- Bell: And the other way is to say to the holder, "We're going to give you..." - let's see, how is that now? "We're going to give you a note of $1 \frac{1}{8}$ percent, and you clip the coupon at $2 \frac{1}{2}$ off the September note and keep it, but you pay us the interest of $1 \frac{1}{8}$ from June until September." In other words, in one case we get in cash and the other what we
- H.M.Jr: Well, are they quarterly coupons?
- Bell: No, but you see, they keep the coupons. The coupon would be good on September 15.
- H.M.Jr: Well, if he keeps the September coupon, then he has to pay us.
- Bell: If he keeps his September coupon, that's right, he has to pay us.
- H.M.Jr: Which is the easiest?

-6-

Bell: There isn't much difference in it.

H.M.Jr: Which do you recommend?

Lochhead: Wouldn't it be pretty hard on the fellow holding a coupon which calls for a certain amount and then he presents that coupon and you say he has to give it up? I mean how do your coupons read?

Bell: Oh no, when he exchanges the note on June 15, he pays us the 1 1/8 percent from June 15 to September 15 in order to get the new note.

Lochhead: Oh, I see.

Bell: Then he keeps the September 15 coupon.

H.M.Jr: He pays us 1 1/8 in cash for three months.

Bell: For three months. That's more advantageous to the Treasury, for him to pay us the cash on June 15.

H.M.Jr: I'd do it that way unless there's somebody... I'd let him pay us the cash; it's easier.

Taylor: You interest chiseler, Bell.

H.M.Jr: Then we get the interest on the 1 1/8. Yes, I'd do it that way, let him pay us. Then we don't - he can come in with his pennies and all that. We don't have to.

Well, I think what we'll do is this. The President may be going down the river. Suppose you could have that thing for me to take to Cabinet, have him sign it?

Bell: Yes, sir.

H.M.Jr: If - when you don't do it - at least we don't have to be fussing about getting it signed. Have it in here five minutes of two?

Bell: Yes, sir. Have it in here five minutes of one.

H.M.Jr: Then I'll call up - when I get back from Cabinet I'll send for you fellows and we can talk through this thing

-7-

once more. By that time the market will be closed.

All right?

Taylor: (Nods yes)

H.M.Jr: Don't you (Taylor) say one and a quarter.

Bell: Just waiting for it.

June 3, 1938

189

Tripartite Arrangement with England, France, Belgium, Switzerland, and The Netherlands.

Stabilization Fund.

Foreign Monetary Agreements: Mexico and Canada - silver.
China and Brazil (involving gold also).
Mexico and China - Foreign Exchange.

Devaluation of the Dollar and Maintenance of its Stability.

Coordination of Treasury Law Enforcement Activities.

Service Schools for Enforcement Agents, Including Arms Practice.

Efficiency Studies of Various Bureaus by Treasury Administrative Staff.

Coordination of Public Relations Policies.

Division of Laboratories for Entire Treasury.

Special Physical Laboratory for Currency Studies.

Furnishing of Psychiatric Diagnostic Services to Federal Courts.

Entrance of Vessels by Radio if no Disease is Aboard.

Internal Revenue Decentralization Plan.

Procurement Made General Purchasing Center for Government.

Creation of Architectural Advisory Committee, Coordination and Control of Building Design.

Treasury Art Project.

Identical Bids, Monopolies (tires, cement, etc.).

Reorganization of Research and Statistics.

Establishment of General Counsel's Office and Abolition of Solicitor.

New Section in Revenue - Reorganization, Receivership and Bankruptcy.

Richmond Self-Help Plan.

Statement on Prices.

United States Savings (Baby) Bonds.

TREASURY DEPARTMENT

~~AA~~ 190

INTER OFFICE COMMUNICATION

DATE June 3, 1938

TO Secretary Morgenthau

FROM Mr. Haas *JA*

Attached are two copies of Miss Lonigan's report covering her recent field trip to Cleveland and Chicago.

Attachments

June 3, 1938

191

To: The Secretary
From: Miss Lonigan

In Cleveland I saw secretaries of two district offices of the Cleveland Relief Administration, the general secretary of the private Family Welfare Society, and the man in charge of distribution of surplus commodities.

Food Orders

The last grocery orders sent to relief families had run out on Wednesday. A few thousand dollars had been found by laying off some more garbage collectors. The relief administration decided to issue four day food orders for families with emergency needs only, chiefly illness.

Families were not coming in to the relief offices. They read in the papers that there are no funds. A curious solidarity is growing up between relief families and relief staff since salaries were cut off. The families do not pester the staff any more. They are going to the Councilmen. The Councilmen are leaving town. They can't stand it. One visitor told her supervisor she couldn't go into her district; she wasn't afraid, but she couldn't stand the cry for food any more. One man sold his canary for \$5 to buy food but bought a gun instead. He was quieted in time.

The prevailing reaction is still apathy. "Something is going to happen. It's too brooding". One day there were 1100 clients in one room. "You could feel a pin drop". The District Secretary insisted on help from headquarters. The

Mayor himself came out. He gave them larger quarters.

The Mayor has achieved virtually universal respect for his honesty and intelligence. His Commissioner of Health and Welfare, a wealthy retired business man, is also very well liked. At first it seemed possible that Mayor Burton was playing subtle politics to attract personal attention to himself. That interpretation seems entirely unwarranted.

Surplus Commodities

I visited the headquarters of surplus commodities distribution and also the warehouse where commodities are stored.

When commodities are in transit they are under the jurisdiction of the Federal Government. Once they reach the railroad siding, they are the responsibility of the local relief administration. WPA of course has no connection with surplus commodities at any stage.

The Cleveland relief office unloads the cars, repacks the food in smaller containers, and distributes the commodities to local stations where the families come and present their card from the relief office.

In a warehouse belonging to one of the utility companies, boxes of potatoes, bags of flour and barrels of dry skim milk were piled high. Everything was in spotless order. Women were dividing sacks of flour in half for smaller families. Butter is cut into one pound blocks. The dry skim milk is hardest to handle. It comes in 100 pound barrels and must be repacked in one pound packages.

Even the storage and repacking of these commodities in

a serious item in relief expenditures. Butter storage for six carloads or 120,000 pounds (one month's supply) cost about \$1000 a month. Cartons and bags for flour and milk cost about \$250. Labor is supplied by a work relief project under the city itself. Even the sacks and barrels in which the commodities come are saved and used again.

183

As a result of the crisis families are now getting a double ration of rice and dried beans. Flour is also being issued immediately, although it was not scheduled for release for two or three ~~weeks~~. There are the usual prunes, celery, oranges, cabbage, and green beans. Dry skim milk is not being distributed because they have not finished packing it. Canned peas are in storage but have not yet been released for issue by Federal Surplus.

Food Rations

There has been no increase in the ration of commodities per family since relief stopped. Food cards allot to families only the scheduled amount above their normal needs. Even if the normal needs are not supplies, rules of the Department of Agriculture absolutely prohibit increasing the quantities allowed per family.

Mr. Rowley, the very able supervisor of commodity distribution, estimates that commodities in Cleveland constitute about 5 percent of the standard budget. Less than this is distributed, if fewer commodities have been purchased by the Corporation. Cleveland food budgets have been twice reduced so that they are now 28 percent below Department of Agriculture standards. Surplus commodities make up less than one-fifth of this loss.

The supply of commodities could be multiplied five times without giving families too much, when they are getting their regular grocery orders. They could be multiplied twenty times (with more variety needed) where families cannot get relief.

After this week is over, there will be practically no surplus commodities in storage in Cleveland. The thirty-day supply was used up long ago. Warehouses are empty. Food moves from the cars onto the trucks, merely passing through the warehouses. Spring and summer surpluses are exhausted.

This week the car load of flour arrived on Wednesday. Families who got their supplies early in the week got only butter, rice, and green beans. They will have to come in a second time for flour. That meant that 13,000 post cards had to be mailed out to Monday and Tuesday families, before midnight of the day the flour was ready. About 25,000 families in all receive commodities. Furnished room families get them too if they can cook.

Bread lines

Distribution is still made from a few stations, since the local grocery store distribution was discontinued for lack of funds for transportation. "Its back to the bread line".

Complaints are coming from schools that "the kids are out all day. They stand in line with their wagons". Friends or neighbors who have cars help the families get their supplies. That is the origin of the story of relief families driving up in cars. Of 1000 license numbers checked, 90 percent belonged to friends who were helping and 8 percent belonged to men who

were allowed to keep their cars because of their occupations.

Private charities

When relief stopped altogether, the private charities took the most terrible cases, "So terrible you couldn't do anything for them. One woman had pneumonia three days in a furnished room without food or heat. She was too sick to move. The Associated Charities provided milk and fuel. If she had had help a week earlier it might not have happened".

The Community Fund has less money for relief than it had a year ago. The needs of the hospitals are greater, and take all available funds.

Families have fewer resources than they had before 1932. There are fewer relatives with incomes. They have less credit. Grocers have already given too much. Foreclosure is much quicker now. As soon as families in public housing go on relief they are dispossessed by the courts. Relief visitors are putting families into furnished rooms, two rooms for a family of ten. Public housing tore down the better housing and left the worst.

Clothing

Distribution of clothing was never adequate. Now there is none. Children are out of school for lack of clothing. Food money goes into school shoes. Forty families in one neighborhood were found to have children out of school on account of shoes. In 1929 the Cleveland Community would have been shocked if five children in the entire city were out because of shoes. Families sell groceries to get shoes. One woman sold her wedding ring. One man sold his work jacket.

One woman whose husband had been a good workman came to the private charities and begged for days' work so she could buy nipples for the baby's bottle. She hadn't five cents.

An informal clothing exchange is growing up among relief families. Whatever they get as gifts or Christmas presents or from casual employment are exchanged with the other needy.

Families that fall between relief and WPA are the hardest hit. The man works one or two days a week, gets enough to buy food and nothing else. He gets no help with clothing, surplus commodities, dispossess notices, gas cut-offs, or anything else. Their numbers are getting large as relief funds go down.

Outlook

The rural investigating committee of the Ohio Legislature did report back that there was real suffering in the cities, and that chiseling was very slight. They agreed that state funds must be appropriated, and that the legislature must make it easier for cities to raise money.

They made no report (Wednesday) on how the money was to be raised. It is expected that in a week or two the Governor will "come riding up on a white horse", but there seems no chance for new funds for another month.

The legislators' principal objection is to "overhead expenditures". They want the most mechanical forms of relief payment. With the present low overhead, relief workers see dozens of things they could do to restore family independence which must be left undone. "I haven't read a single record in

the last six months in which the family could not have been restored to partial independence if we had had more time".

(The urban social workers' belief, developed in the 20's, of unlimited coddling of relief families, is now giving way to realism. The rural legislator's hatred of overhead is now preventing social workers from using their skill to help get families off relief.)

Cleveland has one family which has been on relief fifty years. It has many families in which the children never know a time in which there was no welfare visitor in the home. Young people think of only two things when they marry, getting relief or getting on WPA.

Chicago

I spent the entire day in Chicago visiting local relief stations where applicants were being certified for WPA. Applicants were being given a preliminary interview. If they were apparently eligible, they were given appointments for a full interview. At the first station interviews were scheduled for July 8th. In other stations the shortage of relief staff was not quite so great. Men applying that day were being given appointments for June 27th. When the visitors tell them, they say, "What shall I do till then?"

All relief stations are closed. The staff is furloughed. Visitors and clerical staff are working one or two days a month. One man whose salary had been \$85 a month was reduced to \$20. Many of the visitors had come from relief.

The appropriation passed by the legislature is just

sufficient to continue to give food orders to families already known to relief. No new families are taken on. There is no one to interview them and find out that there is an emergency. The worst difficulty is money for relief salaries.

Families with illness, sudden emergency, and all the men who have applied for WPA and cannot get interviews for a month, have had no recourse except private charity, since May 14th. They cannot get commodities because there is no one to certify them.

Surplus commodities in Chicago now constitute about 13 percent of the family budget, or about \$4.39 a month for a family of five.

The families are quiet. "Why not? They're mostly unemployables, old, sick, aliens, widows. They don't make trouble. The people that might have made trouble in 1932 are now on WPA."

One man came into a relief office and asked for help. He was told they had nothing. He sat very quietly all day, because he said he had no place to go. When regular relief families came in to get commodities he asked them if they would share with him because he had had nothing to eat. I asked where he went when the day was over. Nobody knew.

No improvement is possible in Chicago until the legislature passes enabling legislation, the city council passes new taxes, and the tax anticipation warrants are sold. That looks like July.

WPA has more people on relief in Chicago than at any period in the last five years. They have about 3,000 people certified but not yet put to work. Projects are hard to get. The backlog of applicants for WPA, who cannot be interviewed by the small relief staff, will ^{be} thousands more.

TREASURY DEPARTMENT

201

INTER OFFICE COMMUNICATION

DATE June 3, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Report of inter-departmental meeting to discuss business conditions.

At the monthly meeting of representatives from various Government agencies interested in the business situation, held on June 1 in the offices of the Board of Governors of the Federal Reserve System, the following points were brought out that have a bearing on the business outlook:

(1) Dr. Goldenweiser of the Federal Reserve Board estimates the F.A.S. index tentatively at 75 for May. He says there is considerable question whether there will be more than a seasonal decline (5 or 6 percent) from May to July. He doubts that a decline in automobile production during the next few months will have any significant effect on the steel industry, because for some time cars have been largely produced from stocks of steel on hand.

The consensus of opinion was that industrial production would be maintained near the present level during the next few months.

(2) Several factors were mentioned as likely to contribute to a rise in the F.R.B. index during the latter half of the year, though counteracting influences would tend to hold the rise within moderate bounds. (a) Since consumption is running at a higher level than industrial production, the depletion of inventories will force production higher even though consumption does not improve. (b) Residential construction may be well maintained in the latter half of the year, and Government construction programs may contribute to business improvement in the last few months. (c) P.W.A. expenditures are likely to become a business factor late in the year.

Probable restraints on business during the second half of the year will be: (a) An expected decline in agricultural incomes (including Government payments) from 8.5 billion dollars in 1937 to 7.3 billions or possibly lower

Secretary Morgenthau - 2

(tentative estimate) in 1938; (b) the possibility that private spending may be reduced during the second half of the year, after current projects are completed; (c) a probable decline in export demand.

(3) Mr. Bean called attention to the fact that the national income during May will be only about 10 percent lower than last year, which tends to explain the relatively high level of retail sales. He estimates that at the first-quarter rates of consumption and production, inventories of finished goods will have been reduced by July to the equivalent of those at the end of 1935.

(4) Conditions seem to be shaping up for a substantial business expansion in 1939, particularly if private enterprise should come forward with construction programs to supplement Government programs. The latter, which are likely to be slow in getting under way, may make material contributions to employment and business activity in 1939. The volume of deficit spending will reach a high level in 1939.

(5) Expenditures through W.P.A. channels offer the best opportunity for rapid Government spending, but under present policies these will not increase substantially until late in the year. An expected spending rate of 150 million dollars per month at the end of the year will compare with the current rate of 135 millions per month.

June 3, 1938

I saw the President of the United States today and he brought up the question of taxing State employees. He said that he had dictated a memorandum to me in answer to our letter to him and he said he wanted me to discuss with Mr. Magill the following suggestion: the possibility of immediately starting a friendly suit against some State employee on this year's salary to try to establish the fact of whether or not we can collect the Federal income tax from State employees. At the time we initiate such a suit we should make it plain that we had no intention of trying to collect taxes retroactively.

The President asked if we had not withheld attempting to collect taxes from State employees based entirely on a previous Supreme Court decision and he said is there no reason why we really could not go ahead and collect taxes from State employees. I said I did not know; it was too technical a situation, but that I would immediately discuss it with Magill.

So the President said, Well, if it is as important as Magill said it was, I would like to clean it up in this way. I said 'I ought to take it up with the leaders.' He said, You have seen that I have had to let my reorganization bill go over because they said they could not handle it. I brought up the question of introducing legislation to straighten out this tax question on State employees and he said, Don't think of trying to get it through this session so, therefore, I would like to try it this way.'

I told the President about my financing plans -- 2-3/4, 20-25 year and 5-year 1-1/8. He seemed perfectly satisfied.

I told him what we had done about Spanish silver and that by taking it into the Assay Office we discouraged Sullivan & Gromwell from attaching it in the name of Franco. He seemed very much pleased.

I asked him if he had noticed the change of heart in Chamberlain towards the Spanish situation and told him it was just a possibility that the fact that the papers in the United States carried the story that the Spanish over here were sending back \$25,000,000 (although it was only a little over \$2,000,000) might have had something

-2-

to do with Chamberlain's seemingly change of attitude towards the Loyalist Government.

I told the President we were going to buy another 5,000,000 ounces.

The President asked me whether St. James Church, at Hyde Park, could subscribe to the new issue and I said not unless they bought the rights; that we were very exclusive.

oOo-oOo

THE WHITE HOUSE
WASHINGTON

June 3, 1938.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

I have carefully considered your recent letter suggesting letters to be sent by me to the Vice President and the Speaker asking for legislation at this session to clarify the tax exemption interpretations under existing law.

I have conferred with a number of Representatives and Senators and it is the unanimous opinion that it is too late in this session to obtain the desired legislation.

It occurs to me that there should be an immediate study by the Internal Revenue Bureau and the Office of the Attorney General to determine whether it would be possible to assess taxes against private income from non-federal government salaries, making it clear that the Treasury Department has no intention of making retroactive claims. Would it be possible to do this in such a way that a decision of the Supreme Court

THE WHITE HOUSE

WASHINGTON

-2-

could be promptly obtained?

If the tax were upheld, legislation would not be necessary, especially because a favorable opinion would almost automatically allow States to levy income taxes against federal salaries. I know of no legal prohibition against collecting taxes on State salaries. Such failure to collect has always been based on the former Supreme Court decision.

This matter is, I think, of sufficient importance to warrant a conference between the General Counsel for the Treasury and the Attorney General and the Solicitor General.

F. D. R.

June 3, 1938

To: The Secretary
From: Mr. Magill

Commissioner Helvering is going to ask the General Counsel for a legal opinion as to the scope and application of the Port Authority case, in the taxation of the salaries of state and municipal employees of various kinds. The Commissioner proposes also to issue ~~a~~ mimeograph to the Collectors advising them to take no further action toward the collection of additional taxes on account of the decision, until they receive a statement of the Treasury policy in the matter. This statement would be sent them in the usual course following the issuance of the General Counsel's opinion. Commissioner Helvering further points out that the Statute of Limitations will run in practically no cases until March 15th of next year; and, therefore, collection of these taxes may be made in January-March 15th next year, if no legislation is adopted at the next session of Congress to clarify the entire situation.

I shall think over the question of a Treasury statement on the subject and speak to you again tomorrow or Monday. My present inclination is not to issue any statement but to dispose of the various questions in the manner which is outlined above.

In the attached memorandum the President suggests an inquiry as to the legal scope of the Port Authority decision by the General Counsel of the Treasury and the Attorney General. As I have indicated the legal inquiry will be and ought to be made but I think it ought to be made by this Department and not by the Department of Justice. The present question is one for the Treasury to decide: namely, how far the Commissioner is to go in the collection of taxes, as the result of the Port Authority decision.

RM

Magill
June 2 4 1938

June 3, 1938.
11:12 a.m.

Operator: Coming on.
H.M.Jr: All right.
O: Go ahead.
H.M.Jr: Mac?
McReynolds: Yes, sir.
H.M.Jr: Tell Oliphant's office not to let Klaus go with the Department of Justice until they get a clearance from me.
M: O.K.
H.M.Jr: And I'm not going to clear it.
M: O.K.
H.M.Jr: I'm writing a note - if they're so short of lawyers, as they tell me they are, how can we afford to lend one of our lawyers to the Department of Justice.
M: Very pertinent.
H.M.Jr: What?
M: Very pertinent note.
H.M.Jr: I mean if they're so short, and I dictated a note to Mrs. Klotz, but I just want to make sure that doesn't go over there.
M: O.K. I'll see that he doesn't go.
H.M.Jr: Here Herman says he needs so many lawyers, he's lending one of our very best attorneys.
M: Yes, sir.
H.M.Jr: What?
M: Yes, sir. I get it.
H.M.Jr: All right.
M: Yes, sir. I'll see that he doesn't go.
H.M.Jr: Keep after that sore throat.
M: All right.

June 3, 1938.
11:30 a. m.

H.M.Jr: Hello.

Operator: Burgess. Go ahead.

H.M.Jr: Hello.

Burgess: Hello, Henry.

H.M.Jr: How are you?

B: I'm fine.

H.M.Jr: Well, what's new today?

B: Well, when the market realized that the Septembers were coming in also it was somewhat weak this morning, but it's been picking up again.

H.M.Jr: Yes.

B: The September rights were weak, but they are almost up to last night's closing now.

H.M.Jr: Yes.

B: And the June rights are ahead of it.

H.M.Jr: Yes.

B: The long bonds are a little off.

H.M.Jr: Yes.

B: The intermediates took the touch off. There's some buying in intermediates.

H.M.Jr: Uhhuh.

B: Come in. So that the picture isn't very greatly changed.

H.M.Jr: No.

B: We expected some reaction on the September announcement - we got a little but basically there's no particular change in the picture.

H.M.Jr: Uhhuh. Well, it's just as well that the bond market - it did level off a little bit.

- B: That's right. Yes.
- H.M.Jr: Is it very difficult - kept on the price of things.
- B: Very hard, yes. Yes, it's made it too rich.
- H.A.Jr: Now, how do you feel about the thing today?
- B: Well, I don't feel greatly different. If I was doing it myself I'd do - I'd open up the forty eights.
- H.M.Jr: Uhhuh.
- B: But I'm not prepared to argue very vigorously against the - against the notes.
- H.A.Jr: Uhhuh.
- B: I just talked to George and he thought the same way.
- H.M.Jr: Uhhuh.
- B: That he would do it in forty eights, but wouldn't argue very vigorously against the other. You can't predict these things in advance. I think there would be less churning if you did forty eights. But on the other hand you'd convert into fewer of your long bonds. You wouldn't sell quite so many long bonds.
- H.M.Jr: The forty eights would be apt to dampen the long bonds.
- B: Yes, well more people would take the forty eights than would take the note.
- H.A.Jr: Yes.
- B: So you'd have more an even weight on both issues.
- H.M.Jr: Yes.
- B: For example some of these banks will take any bond that you put out as underwriters, with the plan of distributing it during the summer.
- H.A.Jr: The banks?

- 3 -

B: Yes.

H.M.Jr: Yes.

B: Now that's all right, if nothing happens and they'd go along all right. If something happens why they might dump it.

H.M.Jr: Uhhuh.

B: But I don't think that's a very serious risk. There's something to be said for having that weight on the market. It will keep it from going too high possibly. On the other hand it will lead to higher prices in your immediate bonds.

H.M.Jr: Uhhuh.

B: That's already begun - some are buying their intermediate bonds.

H.M.Jr: Well, I'm going to Cabinet. We usually get back at four, our time. Will you still be there by five?

B: Yes.

H.M.Jr: Your time?

B: Yes.

H.M.Jr: Well, I'll give you another ring along then.

B: All right, sir.

H.M.Jr: You're talking to people all day, aren't you.

B: Yes, I'm talking to some. I don't want to talk to too many because it shows your hand too much, but I've got an appointment with Gardner. I've talked to three or four dealers this morning.

H.M.Jr: Well I don't feel any different than I did yesterday.

B: Yes. Well, I'm -

H.M.Jr: But I'll talk to you again tonight.

- 4 -

B: Very good Henry.

H.M.Jr: Thank you.

B: Fine.

June 3, 1938.
11:49 a. m.

H.A.Jr: Hello.
Dr. Thomas
Parran: Hello, Mr. Secretary.

H.A.Jr: How are you?
I'm very well, thank you sir. I had a talk with
Wallace yesterday.

H.A.Jr: Yes.
P: I don't know whether McCarthy told you what trans-
pired.

H.A.Jr: No, I've been up to my neck on this financing.
P: I'm sure you have been. In effect Wallace receded
his statement that he did not believe these figures
were accurate.

H.A.Jr: I'm sorry, I didn't get that.
P: Wallace said he did not believe that these estimates
made in his department were accurate.

H.A.Jr: Yes, that's what he -
P: That they had magnified the deficiencies.

H.A.Jr: Right.
P: And, whether they have or not, there is a series of
these things and it seems to be desirable for the plan
to be started.

H.A.Jr: Yes.
P: And in the meanwhile we can make some checks on the
actual status of relief diets.

H.A.Jr: Right
P: Your Miss Lonigan called me this morning.

H.A.Jr: Yes.
P: She is just back from Cleveland and says that there
the relief plans got only butter and rice and green
beans last week. That's all they had to eat.

H.M.Jr: Well, I -

P: No flour, no dry milk because they hadn't gotten it out.

H.M.Jr: I see.

P: There's one suggestion I should like to make and that is that the surplus commodities people have not up to now, considered the health or relief needs or really the distribution mechanisms.

H.M.Jr: Yes.

P: And that if an effective job is going to be done.

H.M.Jr: Yes.

P: I would think of getting - of asking the President to appoint an inter-departmental committee.

H.M.Jr: Yes.

P: WPA - Agriculture and Treasury representatives

H.M.Jr: Yes.

P: To work on the mechanism and see that the distribution is in accordance with the needs and not in accordance with the agricultural markets.

H.M.Jr: Right. Well, now when could you have a memo like that, so that I could show him?

P: I could send it up to you immediately.

H.M.Jr: Well, I won't be able to give it to him until Monday.

P: All right, I -

H.M.Jr: Why don't you come in ten-thirty Monday morning. Are you going to be here Monday?

P: I had planned to be away. In fact I'm scheduled to give a commencement talk. In New York.

H.M.Jr: Oh. Well then, get it over to Mrs. Klotz so that she can give it to me Monday.

- 3 -

P: I shall have it in her ^{hands} by tomorrow morning.

H.M.Jr: And then I'll follow through on it.

P: All right, sir.

H.M.Jr: And any suggestions, I mean that you have, put in the memo for me.

P: I shall be very glad to.

H.M.Jr: Thank you.

P: Goodbye.

REB

GRAY

London

Dated June 3, 1938

Rec'd 3:05 p. m.

Secretary of State,
Washington.

493, June 3, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

This week's Bank of England return still bears traces of the operations incident to the recent repatriation of French funds and the June 1st war loan dividends payment of 35,000,000 pounds discussed in my 431, May 21, 1 p. m.

The return shows an increase in bankers' deposits of pounds 11.6 million bringing the total to pounds 102.8 million which is the highest level since May 4. The war loan dividend payment accounts for this increase but it is worthy of note that public deposits were down on the week by only pounds 1.6 million at pounds 24.9 million, an unusually high level for this time of year. It is customary for public deposits to accumulate before the dividend payment and thereafter to drop sharply.

The

REB

2-#483, From London, June 3, 6 p. m.

The financial press is somewhat mystified by an increase this week of pounds 14,000,000 of Government securities. The market had been surprised at the contraction in the credit base reflected in the two successive declines in Government securities in the two previous weeks and is now much interested in the apparent reversal of what seemed on the surface to be a slightly deflationary policy.

The explanation of the still high figure for public deposits may lie in the fact that the return was made on June 1st this year, the very day of the dividend payment, whereas last year and in previous years the return fell on a day or two after the payment. This year, probably all applications had not been received and the whole operation had not been completed by the time the return was struck.

An explanation for the pound 14,000,000 increase in Government securities is more difficult to find and none of the financial papers has suggested one. It may lie in a new technique of open market operations which has been used since the French repatriations and which was mentioned in the *ECONOMIST* and *STATIST* of
a week

REB

3-#483, From London, June 3, 6 p.m.

a week ago. These journals rightly stated that it became known in the discount market that firms finding difficulty in financing their bill positions could obtain the necessary facilities from the Bank of England's brokers. This assistance was sought and provided to a considerable extent and was carried out by the purchase of maturities up to the full three months bills at one-half per cent. This procedure may be described as a combination of open market operations and allowing the market to be "in the bank". The discount market instead of being driven to borrow from the Bank of England direct at two percent or more was able to find its necessary funds at the market rate, while unlike the usual open market operations the method left the initiative with the market so that the exact amount of accommodation required was available.

This new technique provides the authorities with an additional degree of elasticity in the machinery which can be used for the maintenance of a cheap money policy. If the Bank of England took over the Treasury bills

purchased

REB

4-#483, From London, June 3, 6 p.m.

purchased by its brokers from the market the increase in Government securities may possibly be accounted for in this way.

KENNEDY

GW

WWC

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 3, 1938, 4 p.m.

NO.: 875

FROM COCHRAN.

220
MM

Today was practically holiday market in anticipation of closing until Tuesday. French control yielded some sterling around 178.30 and forward franc more offered. Rentes down on publication of details of city of Paris loan which opens June 7 for one billion francs through 6 per cent bonds issued at 90 with lottery features and amortizable within 30 years through drawings. Banker's commission is 25 francs per thousand franc bond.

Spot belga continues to strengthen but forward discount widens as speculative contracts are renewed.

Secretary Morgenthau's statement on American policy well received. Pennachio of Bank of Italy said his people with whom he had talked by telephone were particularly happy to have this reassurance against dollar devaluation because of lira's connection with our currency.

It is the opinion of a high official of Credit Lyonnais, formerly the Under-Governor of the Bank of France, that Daladier made a big mistake on entering office when he did not at once hold the franc firm. He contends that the exchange of notes could have been done as easily at 158 as at 179. This banker believes that if Daladier had done this, the Government would have inspired a much greater and more lasting confidence in the currency.

In

- 2 -

In the circumstances, repatriation has ceased, business declines, and the man in the street is sickened by stories of profits through speculation on the decline of the franc. They are increasingly skeptical about the determination to make the present level of the franc permanent.

BULLITT.

RECEIVED
JUL 11 1944
EA:LWW

1w

TELEGRAM SENT

PLAIN

June 5, 1938

AMEMBASSY

PARIS (FRANCE)

344, Fifth.

FOR COCHRAN.

FOR RELEASE MONDAY MORNING, JUNE 6, 1938:

Secretary of the Treasury Morgenthau announced today the offering, through the Federal Reserve Banks, of 20-25 year 2-3/4 per cent Treasury bonds of 1958-63, and of 5 year 1-1/8 per cent Treasury notes of Series A-1943, both in exchange for 2-7/8 per cent Treasury notes of Series B-1938, maturing June 15, 1938 or 2-1/2 per cent Treasury notes of Series D-1938, maturing September 15, 1938. Exchanges will be made par for par, and the offering of the new bonds and of the new notes will be limited to the amount of maturing notes of either series tendered and accepted in exchange therefor. Cash subscriptions will not be received.

WELLES
(Acting)
(HF)

SAME TO: AMEMBASSY, LONDON, AS NO. 353 FOR BUTTERWORTH.

EA:HF:LWW

TELEGRAM SENT

JR

GRAY

June 4, 1938

5 p.m.

EMBASSY

PARIS (FRANCE)

342.

Your 867, June 2, 2 p.m.

Cochran directed proceed Basel for purpose indicated and is authorized make trips monthly during 1939 fiscal year. Transportation expenses and \$6.00 per diem while absent from Paris in pursuance these instructions authorized for himself only, subject Travel Regulations, chargeable quote Transportation Foreign Service Officer unquote. Inform D.A.D.O. Cochran should report dates travel.

WELLES, acting.

(GSM)

F.:HMC FP EU A-M/F

TREASURY DEPARTMENT

225

INTER OFFICE COMMUNICATION

DATE June 4, 1938

TO Secretary Morgenthau

FROM Mr. Haag 

The attached memorandum has been prepared in response to your question as to the loss incurred by the operations of the \$500 millions revolving fund of the Federal Farm Board.




Prepared by: Wesley Lindow,
Division of Research and Statistics.

226

TREASURY DEPARTMENT

227

INTER OFFICE COMMUNICATION

DATE June 4, 1938

TO Secretary Morgenthau
 FROM Mr. Haag *MA*
 Subject: Cost of Federal Farm Board Operations

The Agricultural Marketing Act (approved June 15, 1929) authorized the establishment of a revolving fund of \$500 million to be administered by a newly created Federal Farm Board with the broad objective of placing agriculture "on a basis of economic equality with other industries." From this fund the Federal Farm Board made loans to cooperative associations and to two stabilization corporations. When the banks for cooperatives were chartered late in 1933, the subscription to their capital stock was paid for by the Governor of the Farm Credit Administration from this revolving fund. Since that time lending operations from the fund have been curtailed and outstanding loans have been liquidated as rapidly as possible without creating adverse repercussions. The stabilization corporations ceased operations in 1933, and at the present time their only assets consist of claims and receivables.

Attached hereto is a summary balance sheet of the fund as of December 31, 1937. The figures show that the fund had been depleted by \$340.2 millions, as follows:

(Millions of dollars)

Loans canceled in connection with donations to the Red Cross	197.4
Loss on cotton sold to Secretary of Agriculture	46.3
Losses sustained on loans	17.0
Valuation reserves for losses	<u>79.5</u>
Total	340.2

The loans canceled in connection with donations to the Red Cross arose through transfers of wheat and cotton from the stabilization corporations in return for which loans from the revolving fund were canceled. Authorization for these transactions was provided by statute. The cancellation of these

Secretary Morgenthau - 2

loans cannot be viewed in full as a loss from operations, for no account is taken of the realizable market value thereby relinquished, which really constituted a reduction in the appropriations.

The loss on cotton sold to the Secretary of Agriculture arose under the provisions of the Agricultural Adjustment Act directing the Federal Farm Board to acquire cotton on which it had made loans and to sell it to the Secretary.

Summary Balance Sheet
of the Agricultural Marketing Act Revolving Fund
as of December 31, 1937
(Millions of dollars)

Assets

Loans:

Loans for operating capital	24.6
Facility loans	6.4
Loans to stabilization corporations	<u>68.0</u>
Total	99.0
Less: Reserve for losses	<u>73.0</u>

 Net balance

	26.0
--	------

Investments in capital stock of banks for cooperatives	144.5
Cash on deposit with Treasurer of United States	5.2
Assets acquired in liquidation of loans	8.9
Less reserve	<u>4.4</u> 4.5
Notes and accounts reported to Comptroller General for collection	2.3
Other assets - net	<u>.3</u>
Total assets	<u>182.8</u>

Liabilities

Reserve for notes and accounts reported to Comptroller General for collection	2.3
Other liabilities6

Capital:

Appropriations by Congress	500.0
Interest revenue	<u>20.1</u>
Total	520.1

Less:

Loans canceled in connection with donations to the Red Cross	197.4
Loss on cotton sold to Secretary of Agriculture ..	46.3
Losses sustained on loans ...	17.0
Valuation reserves for losses	<u>79.5</u> <u>340.2</u>
Net balance	<u>179.9</u>
Total liabilities	<u>182.8</u>

June 4, 1938

230

For the Secretary:

I am leaving this afternoon for Sioux City, to be back next Wednesday morning.

I think by Friday of next week we shall be able to send out to the banking group which you consulted the proposals for changes in bank examination forms and practices, and a revision of the Comptroller's regulation on securities which banks can purchase. The latter decision is for Mr. Diggs, of course, but I think by then he will have reached one.

The executive committee of the state bank commissioners association met here yesterday with Crowley, and are agreed on the items in the majority report, and will be promptly ready to respond to your letter when it goes to Commissioner White of New York, the president of the association.

We will have an agreement which covers all banks, national and state, which are supervised by the Comptroller of the Currency and by the state bank commissioners and which are insured by the FDIC. Members of the Federal Reserve system will be included, whether or not the Federal Reserve system conforms to the majority position. They will then have to decide whether to be conspicuous by holding out as to their members. When it comes to a show down I think they may go along, hoping for more later.

Tuesday in Chicago I want to talk to Ned Brown about marketability and the Chicago reserve bank about examinations.

Upm

June 4, 1938.
10: 21a.m.

231

H.M.Jr: Hello.

Operator: Mr. Gibbons and Mr. Gaston stepped out of the office for a minute.

H.M.Jr: Where's Burgess?

O: I have him right here.

H.M.Jr: Right.

O: Go ahead.

H.M.Jr: Hello.

Burgess: Hello Henry.

H.M.Jr: Well, what's the gossip?

B: Well, more of the same thing.

H.M.Jr: Uhhuh.

B: For example I've just talked to three of the banks - I talked to the Chase. They would take some of the long bonds.

H.M.Jr: I see.

B: They think the note issue might be very small. They think a ten year would be better.

H.M.Jr: Yes.

B: Opening up the old ten year would be better.

H.M.Jr: My god, are you still telling me that?

B: I'm going to tell you that right to the last minute.

H.M.Jr: All right.

B: You and I have reversed our roles, you see?

H.M.Jr: How?

B: Usually you're more conservative than I am. This time I'm more conservative than you are.

H.M.Jr: I see. All right.

H: Just wanted to point that out you know.

H.J.Jr: O. K.

B: But there's no question but what the long bond will go. Some fellows think it would go without helpmate.

W.J.Jr: I see.

B: But on the other hand there's some feeling that with a long bond the banks are being sold down the river.

H.J.Jr: Yes.

B: Even with a note some of them think that.

W.J.Jr: I see. Well the two and seven eighths are behaving pretty well though aren't they?

B: They're behaving very well. They are just a thirty-second off this morning.

W.J.Jr: Yes.

B: The longer bonds continue to be a little weak, you notice.

W.J.Jr: Yes.

B: But that's natural. Because there are more of them expecting this two and three quarter now.

H.J.Jr: No doubt about the success of it though.

B: No, I haven't the slightest doubt about it, I - whether it's an all summer bond is another question.

W.J.Jr: Uhuh.

B: The first reception will be very good. We may have to sit up with it once in a while, but it's going to go all right, and be well absorbed, I think.

W.J.Jr: Well, I'll call you agsin in just about an hour. By that time the market will be closed, won't it?

B: All right, sir.

H.J.Jr: All right.

B: Very good.

W.J.Jr: Thank you.

June 4, 1938.
10:35 a. m.

H.M.Jr: Hello.

Operator: Secretary Wallace.

H.M.Jr: Hello.

Secy.
Wallace: Hello.

H.M.Jr: Good morning, Henry.

W: Henry Morgenthau?

H.M.Jr: Talking.

W: Henry?

H.M.Jr: Yes.

W: I was very much amazed to read this morning about the earmarking of the fifty million.

H.M.Jr: Yes.

W: And called up Tapp to find out what had happened.

H.M.Jr: Yes.

W: I don't know whether you know the story or not.

H.M.Jr: No, I don't. I just - all I know was Will Rogers says is what I see in the papers. I know less than anybody in Washington.

W: Well, I think we're all in the same boat.

H.M.Jr: I'm just - I don't know a thing about it.

W: This is what Tapp tells me. He said he didn't know a thing about it until last night. Charlie Holman called him up.

H.M.Jr: Charlie Holman.

W: And - you know Charlie Holman?

H.M.Jr: I did when I was in Farm Credit.

W: Yes. Well - then he checked around this morning.

H.M.Jr: Yes.

W: Charlie told him roughly what was up. And Tapp checked this morning and said it just appears that the Grange - the Co-op Council and Charlie Holman's dairy group.

H.M.Jr: Yes.

W: Went to McAdoo to put over this proposal feeling that the dairy and fruit and vegetable people were not getting a sufficiently fair deal out of the farm program and they want to be sure that they got a cut and they thought this was the best way to get a cut for them.

H.M.Jr: I see. Well that's an amazing thing isn't it?

W: So this was put over by - essentially by the - shall we say by the Republican groups?

H.M.Jr: Or the vegetable group.

W: No, that's right.

H.M.Jr: The spineless cactus group.

W: How's that?

H.M.Jr: The spineless cactus group.

W: The spineless cactus group.

H.M.Jr: Yes.

W: Fine circle of people.

H.M.Jr: Yes. Well, what's going to happen?

W: I haven't noticed the absence of Charlie's spine, as yet.

H.M.Jr: No. What will they do - be knocked out in conference?

W: I don't know what they'll do. But I just thought you ought to know the background.

H.M.Jr: Yes. You see - whoever handles it, if you don't

- 3 -

mind my saying it, publicity yesterday, I mean it came out on the ticker that you were taking a hundred million dollars relief funds for surplus commodities. See? That's what I meant on that little note I sent you.

W: I can't imagine how a thing like that could have originated unless some of these dairy folks were -

H.M.Jr: Well, it came over - we have a U.P. ticker service here, and that's where it came over. That's when I saw it first, and I think it was a hundred million.

W: But of course we can't - that is no doubt this thing has been brewing among the lobbyists and we haven't known about it.

H.M.Jr: Yes.

W: First we knew about it was Tapps - when Holman called Tapps last night. First time Tapps knew about it.

H.M.Jr: I suppose that Aubrey Williams went through the ceiling.

W: I haven't heard a word from him.

H.M.Jr: You haven't. All right. Now -

W: No, Myers is - the release we put out yesterday has -

H.M.Jr: Well the one that you handled evidently yourself what the morning papers carried - that made sense.

W: No.

H.M.Jr: But the one that the evening papers carried didn't.

W: Well, I think probably just reporters.

H.M.Jr: I gathered - I mean read as though you had had a press conference yourself and then handled it.

W: No, it was a release which I approved yesterday afternoon.

H.M.Jr: Oh, because this morning's papers were all right, but as I say the other ones -

- 4 -

- W: Well, I approved one about noon, just before Cabinet.
- H.W.Jr: Now Henry, what's his name, Sumner Welles just called me before you did.
- W: Yes.
- H.W.Jr: And he wanted to know whether he could come over at eleven on Monday to meet with you and me.
- W: Well, let's see.
- H.W.Jr: Is that a good -
- W: I can't make it on Monday - I can't make eleven on Monday.
- H.W.Jr: What time can you make it?
- W: Yes, perhaps I could by transferring an appointment.
- H.W.Jr: Well, I can shift this if you want me to. What time would you like to have it?
- W: My hunch would be to make it at nine-thirty, if that would be O.K.
- H.W.Jr: No, I can't do that Monday. I've got - I want to watch my market on account of my refunding, you see?
- W: I wonder how - I wonder how ten o'clock Monday would do?
- H.W.Jr: It's - it's a little bit early, you see. The first two hours I like to watch. After all I'm refunding a billion tow, and I really. - I can make it eleven-thirty if that would help you any.
- W: I rather think - if make it eleven-forty, I think it would be all right. I'd have to leave at twelve-twenty.
- H.W.Jr: Eleven -
- W: Eleven-forty.
- H.W.Jr: I'll split the difference with you, make it eleven-thirty.

W: All right.

H.M.Jr: What?

W: All right. Eleven-thirty.

H.M.Jr: Is that all right?

W: All right. I may be five minutes late.

H.M.Jr: You couldn't - well then you couldn't switch your eleven o'clock appointment - would that be too difficult?

W: Well, ~~I think~~ I think there's a good chance that I can, as a matter of fact.

H.M.Jr: Well I just want to let Wal - Welles know, but if it's going to make it difficult I don't want to do that.

W: Oh, I think - I think there's a chance - I think there's a good chance I can shift that.

H.M.Jr: Well, then -

W: we'll make it eleven.

H.M.Jr: Well, if I don't hear from you it will be eleven.

W: That's right.

H.M.Jr: Now I told Welles not to come over here until he had seen Mr. Hull because we were going to talk about our own domestic economy before we were going to talk about Haiti. Right?

W: You and Wells and I are going to talk about ^{the} domestic economy?

H.M.Jr: Well, I mean if I want to get this cotton and -

W: Oh, yes, yes.

H.M.Jr: And wheat thing for China.

W: Oh, yes, yes, yes.

H.M.Jr: That's what I mean.

W: Yes.

H.M.Jr: See what I mean.

W: O. K.

H.M.Jr: And before we were going - at least I said before I was going to bother about Haiti, I wanted to get this thing straightened out about flour and cotton grade goods for China.

W: Fine.

H.M.Jr: What?

W: Fine.

H.M.Jr: And -

W: I think that's just fine.

H.M.Jr: See what I mean?

W: Fine.

H.M.Jr: So that's what I meant.

W: I love the way you went to bat.

H.M.Jr: Well, Henry, we've got to take a few chances the next couple of months.

W: I think

H.M.Jr: I mean we just can't sit here and philosophy and let this thing just keep sliding out from under our feet.

W: I agree with you.

H.M.Jr: And God, the chances we took in '33, we got away with it.

W: Yes.

H.M.Jr: And I told Wells, I said, "For heaven's sake, let's make one shipment of flour and one shipment of grade goods, and if the hue and cry is too bad, we'll stop it, but let's try and make one shipment."

W: Yes.
H.M.Jr: Right.
W: All right.
H.M.Jr: O. K.
W: Eleven o'clock.
H.M.Jr: Thank you.

June 4, 1938.
11:41 a. m.

Operator: Burgess.

H.M.Jr: Hello.

O: Go ahead.

Burgess: Hello, Henry.

H.M.Jr: Hello.

B: The story is just the same, there's no change.

H.M.Jr: Now listen if you tell me you still want a two and a half or reopen that old one, the wire will burn.

B: I - I thought you'd say that.

H.M.Jr: What?

B: I thought you'd say that, and I decided not to mention it.

H.M.Jr: Well - I'm doing it for you.

B: That's the stuff.

H.M.Jr: Well, I think it's going to be a great success.

B: So do I.

H.M.Jr: And you know how they worked out this interest business?

B: No.

H.M.Jr: Well -

B: Oh I think so, Dan talked to me yesterday.

H.M.Jr: We give them \$3.42 cash on every thousand dollar bond.

B: Yes. Yes. That is if they convert into the note.

H.M.Jr: That's right.

B: Yes.

H.M.Jr: And I'll say again, I'll mention again because this is the only chance that the September fellow has to convert it.

B: Yes, that's right. Yes. Well, God bless you, I think it's all right.

H.M.Jr: Well, I think so, and it was very difficult this time.

B: Yes, it was.

H.M.Jr: I mean I don't know why, but the thing didn't seem to clear up -

B: Well, we jumped out of the ordinary track, you see?

H.M.Jr: Yes. I think it's all right.

B: And I think we're right to do it.

H.M.Jr: Righto. Thank you very much for all the help.

B: All right, Henry.

H.M.Jr: Goodbye.

B: Goodbye.

June 6, 1938.
9:16 a. m.

242

H.M.Jr: Hello.

Operator: It will take a few minutes to get Dr. Burgess to the telephone.

H.M.Jr: All right.

H.M.Jr: Hello.

Operator: Burgess. Go ahead.

H.M.Jr: Hello.

Burgess: Hello, sir.

H.M.Jr: Good morning.

B: Well they quoted a hundred and two six eighths.

H.M.Jr: Which?

B: The rights.

H.M.Jr: I see.

B: That means the bonds rose over a hundred and two at the first shot.

H.M.Jr: Well that's pretty good, isn't it?

B: That's pretty good, yes. It's almost too good.

H.M.Jr: Well, we've got a couple of days to go.

B: Yes. Yes, I don't think it will stay there.

H.M.Jr: How about the notes?

B: Oh well, they wouldn't get any conversion of the notes at that rate.

H.M.Jr: You wouldn't.

B: No, all bonds.

H.M.Jr: Uhhuh.

B: All bonds.

H.M.Jr: Uhhuh.

- 2 -

B: Except I've got a little contribution, you know?

H.M.Jr: Yes.

B: Oh, that isn't quite true, of course there would be some who would convert at those rates, but I think that - I think that'll change somewhat.

H.M.Jr: I was just thinking about those rights that the Federal Deposit Insurance have.

B: Yes.

H.M.Jr: I think that they really ought to go into the five year rather than the long. I mean - don't you think so?

B: Well, I don't know what they've got - they

H.M.Jr: Well, they don't have much short stuff.

B: Yes. They ought to have liquid stuff - a reasonable amount of liquid stuff.

H.M.Jr: Yes.

B: I'll look over their list, I've got it somewhere.

H.M.Jr: Well, you might - just like to get your reaction.

B: I don't think this is a very good bond for them, they ought to - they've got to be in a position to cough up money at any time.

H.M.Jr: That's the point.

B: Yes.

H.M.Jr: My inclination was to put it all into the five year.

B: Yes, I would think that was wise.

H.M.Jr: Yes. I don't know how they -

B: Sell their rights and buy something else, but I don't think they ought to do that.

H.M.Jr: Oh, no.

B: Because -

- 3 -

H.M.Jr: Oh, no.

B: Our problem is going to be that the other stuff that these people would normally convert into is all going up.

H.M.Jr: I see.

B: The intermediate bonds, the notes and so on.

H.M.Jr: Well, of course, I don't feel so badly about that because they've been our trouble.

B: Yes, yes.

H.M.Jr: I mean they've been more - they've been the weak ones when we've had any trouble.

B: Yes. Yes.

H.M.Jr: But we'll see it go now.

B: Yes. Oh, I think this picture will change several times in the course of the next couple of days.

H.M.Jr: Well normally we'd close Wednesday night, wouldn't we?

B: I think that's the time to do it.

H.M.Jr: Yes.

B: Give them three days

H.M.Jr: Right.

B: You want the little banks to have plenty of time.

H.M.Jr: That's Right.

B: Yes.

H.M.Jr: Thank you Randolph.

B: I think that you might announce tomorrow that you were closing on - tomorrow morning - closing Wednesday night.

- 4 -

H.M.Jr: Well, whatever I do, I'll do it at my press conference this afternoon.

B: Yes, well that would be the time to do it.

H.M.Jr: Or tomorrow morning.

B: Yes.

H.M.Jr: All right.

B: Very good.

H.M.Jr: Thank you.

TREASURY DEPARTMENT

246

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, June 6, 1938.
6/4/38.

Press Service
No. 13-51

Secretary of the Treasury Morgenthau announced today the offering, through the Federal Reserve Banks, of 20-25 year 2-3/4 percent Treasury bonds of 1958-63, and of 5 year 1-1/8 percent Treasury notes of Series A-1943, both in exchange for 2-7/8 percent Treasury notes of Series B-1938, maturing June 15, 1938, or 2-1/2 percent Treasury notes of Series D-1938, maturing September 15, 1938. Exchanges will be made par for par, and the offering of the new bonds and of the new notes will be limited to the amount of maturing notes of either series tendered and accepted in exchange therefor. Cash subscriptions will not be received.

The Treasury bonds of 1958-63 now offered only in exchange for Treasury notes maturing June 15 and September 15, 1938, will be dated June 15, 1938, and will bear interest from that date at the rate of 2-3/4 percent per annum payable semiannually. They will mature June 15, 1963, but may be redeemed at the option of the United States on and after June 15, 1958. The bonds will be issued in two forms: bearer bonds with interest coupons attached, and bonds registered as to both principal and interest; both forms will be issued in the denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

The Treasury notes of Series A-1943, also now offered only in exchange for Treasury notes maturing June 15 and September 15, 1938, will be dated June 15, 1938, and will bear interest from that date at the rate of 1-1/8 percent per annum payable semiannually. They will mature June 15, 1943, and will not

be subject to call for redemption before that date. The notes will be issued only in bearer form with coupons attached, in the denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

The Treasury bonds and the Treasury notes will be accorded the same exemptions from taxation as are accorded other issues of Treasury bonds and Treasury notes, respectively, now outstanding. These provisions are specifically set forth in the official circulars issued today.

Subscriptions will be received at the Federal Reserve Banks and branches, and at the Treasury Department, Washington, and should be accompanied by a like face amount of either 2-7/8 percent Treasury notes of Series B-1938, maturing June 15, 1938, with final coupon due on June 15 detached, or 2-1/2 percent Treasury notes of Series D-1938, maturing September 15, 1938, with final coupon due September 15 attached. The notes of both series will be accepted at par. If notes of Series D-1938 are tendered for Treasury bonds, accrued interest on such notes from March 15 to June 15, 1938 will be paid following their acceptance; if such notes are tendered for Treasury notes interest on the surrendered notes will be credited from March 15 to September 15, 1938, and interest will be charged on the new notes from June 15 to September 15, 1938, and the difference, about \$9.67 ~~per~~ \$1,000 will be paid following acceptance of the notes.

The right is reserved to close the books as to any or all subscriptions at any time without notice, and, subject to the reservations set forth in the official circulars, all subscriptions will be allotted in full.

The amount of Treasury notes of Series B-1938 maturing on June 15, 1938, is \$618,056,800, and of Series D-1938 maturing on September 15, 1938, is \$596,416,100. Any of these notes may be exchanged for the Treasury bonds or the Treasury notes, and any maturing notes not so exchanged at this time will be paid in cash when they mature.

- 3 -

Special Treasury bills aggregating \$250,306,000, which mature immediately after June 15, and about \$190,000,000 interest on the public debt, which becomes due on June 15, will be paid from the Treasury's cash balance.

The texts of the official circulars follow:

UNITED STATES OF AMERICA

2-3/4 PERCENT TREASURY BONDS OF 1958-63

Dated and bearing interest from June 15, 1938

Due June 15, 1963

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND
AFTER JUNE 15, 1958

Interest payable June 15 and December 15

1938
Department Circular No. 584

Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, June 6, 1938.

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 2-3/4 percent bonds of the United States, designated Treasury Bonds of 1958-63, in payment of which only Treasury Notes of Series B-1938, maturing June 15, 1938, or Treasury Notes of Series D-1938, maturing September 15, 1938, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series B-1938 and of Series D-1938 tendered and accepted.

II. DESCRIPTION OF BONDS

1. The bonds will be dated June 15, 1938, and will bear interest from that date at the rate of 2-3/4 percent per annum, payable semiannually on December 15, 1938, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1963, but may be redeemed at the option of the United States on and after June 15, 1958, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be

determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par for bonds allotted hereunder must be made or completed on or before June 15, 1938, or on later allotment, and may be made only in Treasury Notes of Series B-1938, maturing June 15, 1938, or in Treasury Notes of Series D-1938, maturing September 15, 1938, which will be accepted at par, and should accompany the subscription. In the case of Treasury Notes of Series D-1938 tendered in payment, coupons dated September 15, 1938, must be attached to the notes when surrendered, and accrued interest from March 15, 1938, to June 15, 1938, (\$6.25 per \$1,000), will be paid following acceptance of the notes.

- 4 -

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.
Secretary of the Treasury.

UNITED STATES OF AMERICA

1-1/8 PERCENT TREASURY NOTES OF SERIES A-1943

Dated and bearing interest from June 15, 1938 Due June 15, 1943

Interest payable June 15 and December 15

1938
Department Circular No. 585

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, June 6, 1938.

Public Debt Service

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 1-1/8 percent notes of the United States, designated Treasury Notes of Series A-1943, in payment of which only Treasury Notes of Series B-1938, maturing June 15, 1938, or Treasury Notes of Series D-1938, maturing September 15, 1938, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series B-1938 and of Series D-1938 tendered and accepted.

II. DESCRIPTION OF NOTES

1. The notes will be dated June 15, 1938, and will bear interest from that date at the rate of 1-1/8 percent per annum, payable semiannually on December 15, 1938, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1943, and will not be subject to call for redemption prior to maturity.

2. The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes, or gift taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

4. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

5. Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

- 3 -

IV. PAYMENT

1. Payment at par for notes allotted hereunder must be made or completed on or before June 15, 1938, or on later allotment, and may be made only in Treasury Notes of Series B-1938, maturing June 15, 1938, or in Treasury Notes of Series D-1938, maturing September 15, 1938, which will be accepted at par, and should accompany the subscription. In the case of Treasury Notes of Series D-1938 tendered in payment, coupons dated September 15, 1938, must be attached to the notes when surrendered. Interest from March 15, 1938, to September 15, 1938, on the maturing notes will be credited to subscribers, and interest from June 15, 1938 to September 15, 1938 on the new notes will be charged to subscribers. The difference (\$9.672131 per \$1,000) will be paid following acceptance of the notes.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

GROUP MEETING

June 6, 1938.
9:30 a.m.

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

- H.M.Jr: Well now, in that memorandum which I sent in to you (Magill), the President definitely said we should get in touch with Justice, so as long as you're here I wish you and Herman Oliphant would put your heads together and carry that ball for me today. Will you please?
- Oliphant: What's that?
- Magill: On this Port Authority.
- H.M.Jr: But the President definitely says we should get in touch. I don't want anybody subsequently to say, "Well, if the Department of Justice had only known, so-and-so" "
- Magill: "It is a matter, I think, of sufficient importance to warrant a conference between the General Counsel of the Treasury and the Attorney General and the Solicitor General." Doesn't say anything about me.
- H.M.Jr: Well, will you - will the two of you handle it?
- Magill: As I said to you in the memorandum, the immediate problem is purely our own, as to what the Commissioner of Internal Revenue wants to do. But I presume we can talk to the Attorney General about it.
- H.M.Jr: Anything else?
- Magill: No, I - the only other thing is what I have already said here. I think after talking to Herman about it a good deal, probably it is undesirable to issue any statement on the situation at all. I think the situation is quieting down and that newspaper comment is of such a character as to reassure these state employees, if they need any reassurance. Hence, I'd

-2-

be in favor of saying nothing, following our usual custom.

H.M.Jr: Well - and inasmuch as you're here, will you let Hanes know you're here and have another meeting with him before you go?

Magill: Very glad to.

H.M.Jr: Herman?

Oliphant: Nothing. I want a little time this morning to go over that suggestion of yours - Bernie told me about it - on silver.

H.M.Jr: Yes, I'm very enthusiastic about that suggestion.

Oliphant: Are you?

H.M.Jr: Oh yes. I had the Spanish Ambassador at the house last night, and Mr. Stimson is most friendly and has been head of the thing, and I think that it would be a grand thing, and it would be good for so many reasons. The thought - we can suggest attorneys to the Federal Reserve who they should have to defend us in this matter, and Oliphant and I were both thinking - I making the suggestion we take Mr. Stimson, former Secretary of State.

And did you know that Judge Pecora was the head of the delegation of the Lawyers Guild that came down here to see the President to get him to lift the embargo on Spain?

Oliphant: No. I knew he was head of the Guild.

H.M.Jr: That he headed the delegation to come down. And this case is coming before him.

But I'm very much for it, and if you (Oliphant) would - and the possibility of getting Mr. Stimson to handle it himself.

Oliphant: Well, if it checks out after I talk it over with Bernie, I have your consent to just call Logan and tell him.

H.M.Jr: Yes.

-3-

Oliphant: Yes, because they're kind of pressing us.

H.M.Jr: I think you should. If I don't hear from you between now and one o'clock, I'll take it for granted that you're going to.

Oliphant: And I think I'll let Logan contact him.

H.M.Jr: Excuse me?

Oliphant: I think I'll let Logan contact him.

H.M.Jr: Yes. They pay him, don't they?

Oliphant: Yes, but we reversed it.

H.M.Jr: Don't you like it yourself?

Oliphant: Yes, I do.

H.M.Jr: I think it's a natural.
Anything else?

Oliphant: No.

H.M.Jr: I'd like you to sit in on this meeting at 11.

Oliphant: what's that?

H.M.Jr: Welles is going to talk about these Export-Import loans to China, how we're going to save Haiti, so forth and so on. Herman?

Oliphant: All right, be glad to.

H.M.Jr: Herbert?

Gaston: I haven't anything. I suppose we'll have the usual press conference.

H.M.Jr: Can't hear you.

Gaston: Have the press conference at three?

H.M.Jr: Please.

Gaston: I don't know of anything else.

-4-

H.M.Jr: George?

(Haas brings up black book)

George, do you read the New York Times - the telegraph reports from the Federal Reserve districts on Sunday?

Haas: Uh-huh.

H.M.Jr: Did you read them Sunday?

Haas: Yes, sir.

H.M.Jr: Well, the headlines and what's in the body of the thing are quite different, particularly the Minnesota district.

Haas: Uh-huh. I didn't ...

H.M.Jr: And there are several districts there which for the first time, you see, would be slightly encouraging.

Haas: Uh-huh.

H.M.Jr: Take a look, for instance, at the Minnesota district, and then - I think it's the Kansas City. In other words, it's the rural districts.

Haas: Showing a little improvement.

I've got a few other minor things.

H.M.Jr: And Herman - what time is that, Mrs. Klotz, Wednesday, they're coming in - Commodity Credit?

Klotz: 10:30.

H.M.Jr: Commodity Credit is coming in at 10:30, and would you take that and let me know before then what my legal responsibilities are. That's Wallace. They're all fussing about who's to be directors and all that sort of thing. And will you be here (to Bell)?

Bell: When is that?

H.M.Jr: 10:30 Wednesday. Wallace and Jesse Jones and Farm Credit. I don't quite get what the political

-5-

maneuvering is about. But my legal responsibility, Herman.

(To Mrs. Klotz) Take that to lunch with the President.

And Bell, you've written something to the President turning something down. You say, "I strongly recommend that the Secretary's proposal with respect to this commodity not be approved." Turned me down?

Bell: Turned you down.

H.M.Jr: I gathered so.

Bell: George told me about it Saturday.

Haas: Tapp called me about that.

Bell: Didn't know anything about what had gone on before. Question of using Section 32 money to buy cotton. I took the stand that cotton's had enough subsidy.

H.M.Jr: Well ...

Bell: It's a matter that I understand from George you've been working on with Tapp and George's crowd. I knew nothing about it, and George told me Saturday.

Haas: This is for mattresses, you know.

H.M.Jr: Yes, making mattresses. Well, you've - have you (Haas) told Bell what we're doing or trying to do?

Haas: Uh-huh, very briefly I told him in the hall.

Bell: I wonder if this shouldn't go to George. It says on here, "For recommendation. For you and the Secretary of Agriculture."

H.M.Jr: Well, after you know what we're trying to do - well, why don't you and George work it out together?

Haas: Puts a little different aspect on it. I think that

H.M.Jr: Please.

-6-

Mac, see if you can handle this in a very diplomatic way for me.

And here's a Deputy Collector in Delaware who seems to have all sorts of - been fussing. I don't know anything about it.

Here is this Szymczak report. Have you (Taylor) ever read that?

Taylor: Certainly.

H.M.Jr: What?

Taylor: Certainly.

H.M.Jr: What shall I do about it?

Taylor: I think you ought to read it.

H.M.Jr: I mean after I read it, what shall I do with it?

Taylor: Decide what action you want to take.

H.M.Jr: Do you still think it holds true, the recommendation?

Taylor: Sure.

H.M.Jr: Philippine gold - is this still pertinent, this thing? I worked on it Saturday and Sunday.

Olipant: I suppose there is nothing more to be done about it than just - let me see how this paragraph He asked you to speak to him about it.

H.M.Jr: Yes.

Olipant: This merely tells where the matter stands. You don't know what's on the President's mind about it.

H.M.Jr: No. Could you fix it up in a letter for me? I don't get a chance to talk about these things. Say, "This is - you wrote me a memorandum and this is the status." Could I have 24-hour service on it?

Olipant: You can have it this afternoon.

-7-

H.M.Jr: That's too soon.

Signant: I'll put it in such form that if he has any further instructions you'll hear from him, and if he doesn't you will not hear from him.

H.M.Jr: Where was I? George?

Haus: Yes, sir. In the book, on the Federal Reserve retail figures, the first sheet, you know, is the total; then there is a breakdown of these districts which show that.

The only other thing I have - I have three memoranda that you have a notation on you'd like to talk to me about some time.

H.M.Jr: Yes. Well, I'm as bad as the rest of the people. You'll have to keep after me.

Haus: O.K.

I'll have a business statement before lunch.

H.M.Jr: Wayne?

Taylor: I've got about - you once told me to wait until I had a hundred letters on the Comptroller's office, and so on. I've got about five or six hundred, and I don't know what to do with them. They're cluttering up the room.

H.M.Jr: I'd send for Marshall Diggs and ask him, what does the campaign mean, what does he suggest you do with them? That's what I'd do. I'd send

McR: They've all been acknowledged.

H.M.Jr: I'd call up and say, "What's this all about?"

Taylor: "Well, it's spontaneous effort which has arisen." I mean that's - what's he going to say? "Well, apparently a lot of friends"

H.M.Jr: Well, look now, Wayne, don't make me handle every single thing. I mean I'd send for him.

-3-

Taylor: I don't see any occasion for sending for him.

H.M.Jr: Then what you bringing it up for?

Taylor: You told me to wait until I had a hundred

H.M.Jr: Give it to me, and I'll handle it. Bring it over, and I'll send for Marshall.

Taylor: I don't think there is any necessity for Marshall

H.M.Jr: Will you (Klotz) see that I see Marshall Diggs, please. I mean anything that has a little difficulty, why - so I might as well handle it.

Taylor: I don't think there is any difficulty about it.

H.M.Jr: Why don't you see him?

Taylor: I'm simply reporting to you, as you suggested.

H.M.Jr: I knew there was 150, but the thing is, here's this fellow; he works on this thing, and he's supposed to be part of O'Connor's outfit. I'll see him and I'll ask him what he means by it. I'm willing to see him.

Taylor: I'm perfectly willing to see him.

H.M.Jr: No, I'll see him. I'll see him. Anything else?

Taylor: No.

Lochhead: Just before I came in, the second secretary of the Spanish Embassy called up and said he has a letter from the Spanish Ambassador to deliver this morning, presumably an acceptance of the second sale. He's coming down at half-past ten. And I've asked Bernstein to be there.

H.M.Jr: Let Mr. Taylor see it, too.

Lochhead: All right, we'll meet in your (Taylor) office.

Taylor: What is it?

Lochhead: A letter from the Spanish. Meet in your office at 10:30.

Oliphant: I might report to you on this second sale. As it would be set up, be in very good shape. Supreme Court case squarely in point. In this other case we had a little difficulty, but in the second case it will be a very clear sale.

H.M.Jr: You might ask him when he comes down when he thinks that that would leave, and when we'd get it.

White: Did you notice this morning's editorial in the Times about the financing?

H.M.Jr: Yes.

White: An error?

H.M.Jr: An error?

White: Well, I thought it was. Take up the September financing with cash? Well, if you saw it ...

H.M.Jr: No - well, I didn't read it - I didn't read it carefully.

Bell: It didn't say - take up in cash those that are not turned in.

White: No, maybe I misunderstood it.

Oliphant: That's the way I read it.

White: Did you notice the statement about thirty-one - forty-one dollars in gold yesterday or the day before, I've forgotten which, in the Times?

Lochhead: You mean Bell's article on

H.M.Jr: Bell.

White: Yes.

H.M.Jr: Well, Herbert, you check it, will you?

Gaston: Yes, I'll check it.

-10-

White: That's all. Here's a brief memo on Haiti. You probably have more information than I have. That's all we have.

H.M.Jr: Well, you and Taylor and Hays will be here at 11.

Bell: I haven't anything.

McM: No, nothing.

This memorandum from the President on this Deputy Collector - of course, that's just a - they changed the Collector there recently.

H.M.Jr: Give me a little memo on it, explain it.

McM: That would be the occasion for changing it.

You want a memorandum?

H.M.Jr: Yes.

You people might be interested to know that the issue opened up extremely well. It's selling at - rights at 102 $\frac{1}{4}$ - bonds - new bonds - 102 $\frac{1}{4}$.

I'd just like to say this, that there's been an awful lot of gossip in the papers about the Treasury last week, and - well, if that sort of thing continues, we'd all be sort of looking at each other queerly and looking under the desk and all that sort of thing, and we've never had it here, and I can't work in that kind of an atmosphere. I don't want to, and I won't work in that kind of an atmosphere - and all that silly business about left-wingers and right-wingers and conservatives and all that sort of stuff. And I've had a talk with Herbert; I've done all I could to - I think, to see that it doesn't happen again. But I think we've all got to be terribly careful when we do see newspapermen to confine our conversation to facts and not gossip. And those men couldn't get that stuff unless some of us were a little careless. And I think it hurts and, as I say, it makes everybody suspicious of everybody else. I think if everybody would be a little bit more careful in the future, why, it's apt not to happen again.

That's all, I guess.

June 6, 1938.
10:30 A. M.

Present: Mr. Burlew
Mr. Bell
Mr. McReynolds

W. J. Jr.: I asked Burlew whether I could be of any help in getting his projects started and he said his main trouble is he has been unable, for a week or ten days, to get the President to approve any of their two thousand projects, which they have ready, so I asked him to come over to see me, ~~to~~ see what I could do to help.

I moved a little faster, Burlew, on the strength of what you told me. I told McIntyre the President ought to see you, Bell, and myself.

Burlew: Yes sir. I just got a call outside.

W. J. Jr.: And then he said he had an appointment with Aubrey Williams and somebody else at two, and so I said, "I don't know what the President is doing at two, but I think this is more important."

Burlew: Williams is coming in on it because the President's idea is we go to W. P. A. and take over some of their projects.

W. J. Jr.: Now I asked Mr. Burlew to list me some of his troubles, as far as getting started is concerned.

Burlew: First, here is this book. It is now up to 2,160 projects, and amounts to a total of two hundred sixty-nine million dollars (\$269,000,000) in grants, but we have to take out of that about fifty-six power companies, which we know are definitely competing, or which we suspect are, and we are rerunning the book for that reason.

Keene, by the way, one of Mr. Bell's assistants, thinks this book ought to be gone over and broken down and certain projects taken out for W. P. A. We oppose that very strongly because this is a list the Congressmen have been fighting over for two and one half years, and the municipalities don't want W. P. A., and it will delay the whole

procedure, and we are quite willing, and anxious, to give W. P. A. a share in the new projects which they could do to better advantage, but this list, we think, ought to go through with our eyes closed because it has been reported to Congress at two sessions, and the basis of this legislation is mainly on these projects, because they are things the Congressmen wanted, and the President wouldn't give them to them before. And the President is pretty well convinced to that too, because when I told him two weeks ago that the Budget wanted to break these down into classes, he said, "I don't want that; this is all we need right here - the type of projects."

W.S.Jr: May I just see what it looks like.

W.P.A.: Yes.

W.S.Jr: Too bad this could not be ready when we go over there, with the power projects out, so if he decides "All right with me," we can say, "Mr. President, will you sign it."

W.P.A.: All right, let's do it this way: Let's get him to leave it up to us, after inquiry, to eliminate such power projects as are competing. He could trust us to do that. That was one thought I had on running the book over, but he could approve this with the understanding that we would eliminate any questionable power projects. Then, if he decides it, he does it on our information, so it's the same thing in the end.

W.S.Jr: Could you do it this way? Supposing he signed this - couldn't you substitute the other book on Wednesday, but get this one signed today.

W.P.A.: We wouldn't have to substitute the other book; we would not announce these allotments, for example, where there was any question of power projects in competition.

W.S.Jr: Sort of puts him in ^afalse light, that he did approve it.

W.P.A.: Could he write "Approved, except power projects. Submit those back on Wednesday?"

- H.M.Jr: Why not put a place for him to sign?
- Burlew: Here it is, on the back page. He just says, "O. K., F. D. R."
- H.M.Jr: Type it there in writing, something like this: "For your information power projects will be submitted later." I would put it something like this: "For your approval, but wish to note that we will not go ahead on the power projects."
- Burlew: We'll, eliminate power projects and submit a new list which are not competing.
- Bell: May I make a suggestion?
- H.M.Jr: That's what you're here for.
- Bell: I would say, "Approved except all power projects which will be submitted at a later date."
- Burlew: All right. We can do that very quickly.
- H.M.Jr: And I would put it in there and I would say the chances of getting it signed are ninety-nine per cent.
- Burlew: I do too. After Cabinet was over I was leaving the room and he called me back, and said, "Now how about this list?" "Well," I said, "we're trying to get this information from Williams, and," I said, "we have not gotten it yet."
- There is another thing we will have to talk him out of. He set up a formula with me, after Cabinet meeting two weeks ago that we should take the percentage of unemployed and percentage of population and then strike a mean figure between the two to determine how much a state should have on, say a billion dollar program. Now that is a very complicated thing. Williams has not been able to give us any figures; we have tried, repeatedly, and that is all right if it is workable, for the new program, but this stuff here is signed, sealed, and delivered, it seems to us.
- H.M.Jr: Never mind how I felt about this thing before it went up on the Hill. It's law now, or will be, and I want to do what I can to help.

Burlew: You certainly were grand at Cabinet meeting. You made more progress, as far as I was concerned, than anything that has happened.

W.M.Jr: You know what Bob Moses used to do in New York; he knew a thing like this was coming through and he would have those projects, before the bill was signed, and the day the bill was signed he had the contract ready for signature, and he would let the bids for roads and public parks the day that the Governor would sign it. Now I don't see why you fellows couldn't do a little fudging, if necessary, and tell the city of New York, for example, "Now go ahead and get these bids out."

Burlew: That's right.

W.M.Jr: And the city of Philadelphia, and the city of Chicago, "I'll tell you verbally that we've got this approval, and now get your contracts out." I don't know that it's going to go through this week, but if the President signs this I would get on the telephone and tell these cities to go ahead.

W.M.Jr: We will. We will.

W.M.Jr: But I would tell LaGuardia, "These things are approved; now go ahead and get out your bids."

Burlew: That's right, and that could be done. We don't have any more bond contracts; we now have offer and acceptance, and as soon as this list is approved we can make offers and acceptances.

W.M.Jr: Yes, but if you fellows had people telephoning all afternoon after this meeting you would gain at least a week.

Burlew: Yes. We have the country divided up with 'expeditors' and each fellow would take his state.

W.M.Jr: Let me get these figures in my mind. How much is there, less power projects?

- Burlew: One hundred twenty-five million dollars (\$125,000,000) power projects, and the other is two hundred sixty-nine million (\$269,000,000).
- Bell: Leaves a hundred forty-four million (\$144,000,000) projects.
- H.M.Jr: This is the forty-five per cent?
- Burlew: Yes.
- Bell: Some of the hundred twenty-five million (\$125,000,000) would go back because they are not competing.
- H.M.Jr: Yes, but just for this afternoon, how much is that?
- McReynolds: Over three hundred million dollars.
- Burlew: We are putting it at three hundred fourteen million five hundred nineteen thousand dollars (\$314,519,000). That's loan and grant.
- Bell: Two hundred sixty-nine millions (\$269,000,000) you want; it's almost six hundred million dollars in projects.
- H.M.Jr: What I want to get is this: Here's six hundred million dollars.
- Bell: That's the total. Now you're going to leave a hundred twenty-five million of projects out, so you get four hundred seventy-five million (\$475,000,000).
- Burlew: I think it will be about that.
- Bell: And three hundred twenty million dollars (\$320,000,000) in projects that will be approved if he eliminates power.
- H.M.Jr: Is that one hundred per cent?
- Burlew: Yes.
- Bell: Yes.
- Burlew: But the power projects will run it way up.

- E.M.Jr: But you are taking over there, exclusive of any power projects. How much will that be?
- Dell: Three hundred twenty million dollars, of which we will put up a hundred forty-four million dollars and they will borrow the rest.
- E.M.Jr: What I want to get over to the President, if you people give this out, and these people begin to send out inquiries to steel mills and other concerns, we are just a little bit better off, and if he can follow this up with something definite, I want just a little bit better publicity, and the fact that you have never done it before - and what I want to get to the President - "here's this stuff; let's get this thing out." You see any objection, Dan?
- Dell: No, I don't.
- E.M.Jr: These fellows, you get on the phone; and this other thing, what I want you to do is this
- Dell: Are you sure Hopkins has not completed some of these projects?
- Dulax: He may have, but that's taken care of.
- E.M.Jr: Here is the front page of the Wall Street Journal, just a little thing - a hundred twenty-four thousand barrels of flour - another project I have been working on. Isn't there some way, when this stuff begins to go, that we could say, "This is so much steel," and begin to put a very good publicity man, that will keep feeding these stories out?
- Burlew: Oh yes, we do that.
- E.M.Jr: But I mean - and then if we could start to correlate this, maybe with Procurement, or if we could designate one fellow as a clearing house, just to handle this kind of stuff. The best man in the country wouldn't be any too good. And get the stuff that Peoples is doing, plus what you're doing.
- Dell: How about Mellett?

- H.M.Jr: Mellett is good, but Mellett is doing all this Administration stuff over there. If Mellett is the fellow, let him know what's happening, what this means to steel, and so on, and let's play up some of this news instead of taking a beating every day. See?
- Burlew: Yes.
- H.M.Jr: Now you will have that ready at a quarter of two. What are some of your other troubles? You understand the spirit in which I am approaching this?
- Burlew: I do, and I certainly appreciate it.
- Mind you, this book has been to the President three times; twice before he went away. Mind you, the last time I took it over, the President said, "We'll work this up on this basis of employment and population."
- H.M.Jr: I am for it, but we haven't got the time.
- Burlew: Not with this book.
- H.M.Jr: Do it with the next one. But I am going to beg him to O. K. this, this afternoon, so tonight or tomorrow your people will be on the telephone.
- Burlew: That's right. I want to say this, that we can follow this with books repeatedly. We have three hundred applications already in the office being examined, new applications, so we can follow this up every few days with an announcement of new projects if he will approve them.
- You asked about some of our short-cut methods. We are getting regional directors in Thursday of this week and we are going to speed them up. One proposal is that we appoint inspectors for projects when they are approved. Heretofore we have appointed an inspector when the project is starting to be built, but if we appoint him immediately and put him on the job we will be able to expedite the thing by weeks.
- H.M.Jr: Who pays for that?

- Burlew: P. W. A. It doesn't mean any more men; we have to appoint the men anyway; just means they will be on the rolls a few weeks more.
- W.C.Jr: That's fine.
- Burlew: Here's one application. Jesse Jones has started to try to make loans out of his one billion and a half dollars for these projects and we handle the grants. One specific case came up at Akron and he said definitely he would not agree to it, but nevertheless the applicant was all pepped up and tried to force us to let Jesse Jones do it. I took it up with the President and he approved it, and I let him understand what was involved - competition between Jesse Jones and us, but he approved our making the loan, but the point is if Jesse makes the loans and we make the grant, we are backing and filling. If it is feasible, and all that
- W.C.Jr: Now, you are going to do both loan and grants?
- Burlew: Unless the applicant makes a loan privately - only a small percentage.
- W.C.Jr: But Jesse is competing with you on municipalities?
- Burlew: Yes, he tries to. In this particular Akron case he wanted to make the loan and we make the grant.
- W.C.Jr: Did you get it settled?
- Burlew: Yes, the President understood it thoroughly.
- W.C.Jr: Well, I wouldn't bring that up, because Jones is out of town. If you have that again, let's go on that application again.
- Well: Is that the only case?
- Burlew: Yes, but we were afraid it would be a precedent, but it's Federal. We think the lump sum warrant ought to go directly to W. P. A. We work through the Treasury just the same, but it cuts out a lot of complication with the Comptroller if we have a regular sum.

Bell: That's the way the others were.

Burlew: They were, but I don't think all of them.

Bell: The only thing the President does in the Act is approve projects, so the money is made to you. I don't believe it could be any different.

Burlew: All right. We have had conditions put on us. For instance, we go over to the White House with a book and the President would have something he would require, and now in the last program that held us up very materially, and it held us up in this book, because he had me take it back and have me add the time it would take to start and complete, and all that means delay.

W.A.Jr: Oh, that particular thing, I think, is very important, because you fellows have a bad reputation - "Honest horse but always last."

Burlew: Another thing we want to do is have the President give us authority to encourage the applicant to go ahead on his preliminary estimates and then if bids come in and they are a little higher, we approve if our engineering department says it's a fair bid.

W.A.Jr: Does the President get in on this?

Burlew: He won't let us make additional allotments. We have projects held up as much as four to six months because the bids are four thousand dollars over the estimate.

W.A.Jr: Up to now, one thing I would bring to his attention that you have mentioned, is to get this first thing signed.

Burlew: I agree with you.

W.A.Jr: I am more than willing to go back with you again but if you don't mind, he's only allotted us fifteen minutes.

Bell: That's right.

W.A.Jr: And Aubrey Williams is going to be there. I would concentrate on getting this thing cleared.

Burlew: That's right.

T.M.Jr: Now, what I would like to do is stop here now, because I've got this group at eleven, and I would like, unless there is something else, I would like to just go over and help you get that book signed, and that stuff on Jones, I would like to do that another day.

Burlew: We can take it up later. I don't have to do it now.

T.M.Jr: But, after all, if we can get that book signed today then I think if you have the power plants ready Wednesday, and then have some other stuff, I could see you again, and might ask the President if he would let me come along the next time and we could have another meeting in advance.

Burlew: Following this periodically with the announcement would have a wonderful effect.

T.M.Jr: I know you have troubles, and I also know the President. I would just concentrate to get this three hundred twenty-four million dollars O. K'd.; then get your fellows started and then if you people are coming down Thursday we will tell the President, "Now you want to be ready so you can tell these fellows Thursday," and we'll try to see him Wednesday afternoon to get another clearance. Check, Mac?

McNayolds: Yes, by all means.

Burlew: That's good.

Bill: One thing, in hurrying up projects, I believe you have some Federal projects that might be started as soon as these, and they are just as important, and I think what the President could do would be to give us authority to immediately start those.

Woolen: Those Veterans' hospitals and prisons; are they ready?

Bell: No, but in a day or so, because I have to work out with Burlew, some kind of procedure.

H.M.Jr: Why don't you take Burlew and go upstairs for a couple of minutes?

Burlew: I want you to know we appreciate this at W. P. A., and I'm going to cable the Secretary.

H.M.Jr: When he comes back tell him I helped a little.

June 6, 1938. 276
11:32 a. m.

Randolph
Burgess:

I tell you this market changed a little bit.
We thought it would and they settled down a little
more rational basis.

H. A. Jr:

Good.

B:

The bonds are now quoted a hundred and one
twenty nine thirty one.

H. A. Jr:

Yes.

B:

That's on a two sixty two basis.

H. A. Jr:

I see.

B:

There's been some selling of rights by some of the
banks who've been buying intermediates or some of
the notes - even some bids of some of the new notes.

H. A. Jr:

Yes.

B:

Now the notes are quoted nineteen twenty one -
a hundred and one nineteen twenty one.

H. A. Jr:

A hundred and one nineteen twenty one.

B:

Yes. Which is a seventy nine basis - for the
September notes that brings their basis about the
same as the bonds with the interest added. So I
think you get a little more conversion to the notes
than looked like on the first crack off this morning.

H. A. Jr:

That's all right. But -

B:

And it looks more rational - looks as though it is
behaving better - you are much more apt to get good
buying at decent prices - the rights - than you
would at those high prices.

H. A. Jr:

You're pleased the way it's going.

B:

Yes, I like this change a lot better than I did
the first thing this morning.

H. A. Jr:

Good.

B:

Metropolitan Life, I understand, is putting in a

big block for exchange.

H.M.Jr: Good.

B: And the Mutual Life. Some of the other Life companies are nibbling around a bit. One saving bank bought some of the notes.

H.M.Jr: I see. All right.

B: There was lots of very active trading.

H.M.Jr: Thank you.

B: All right.

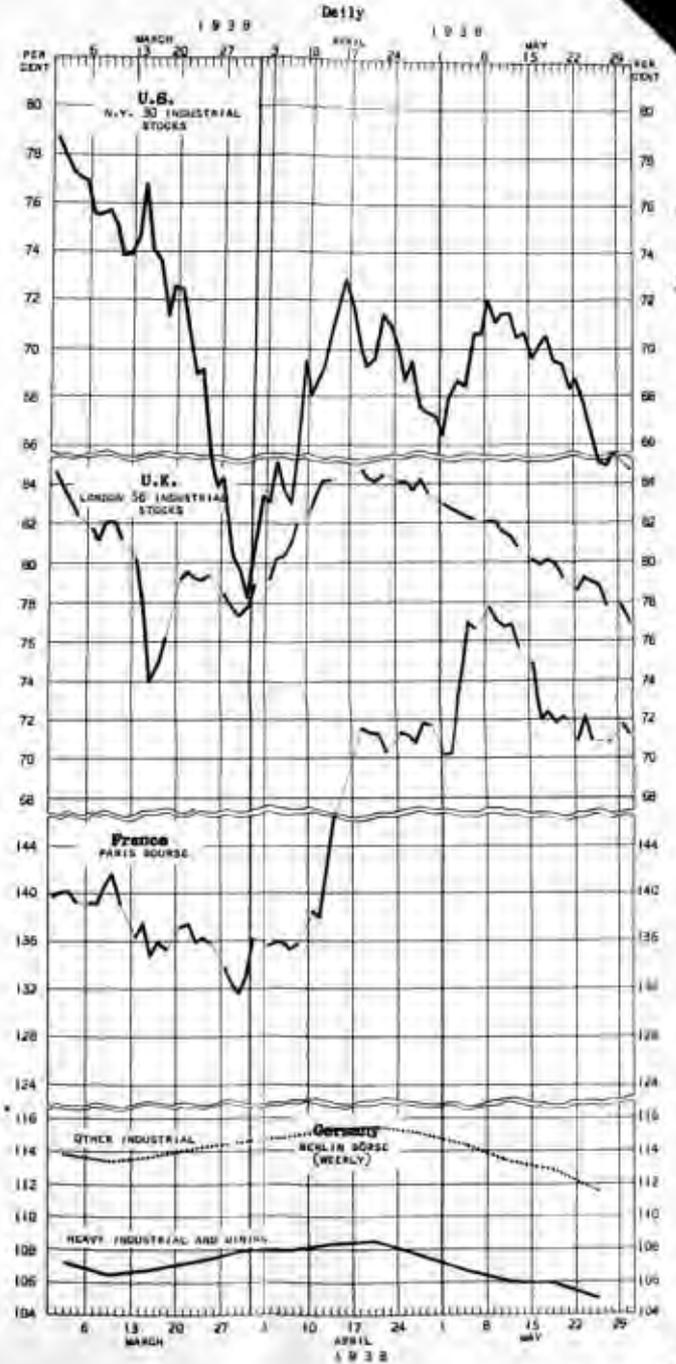
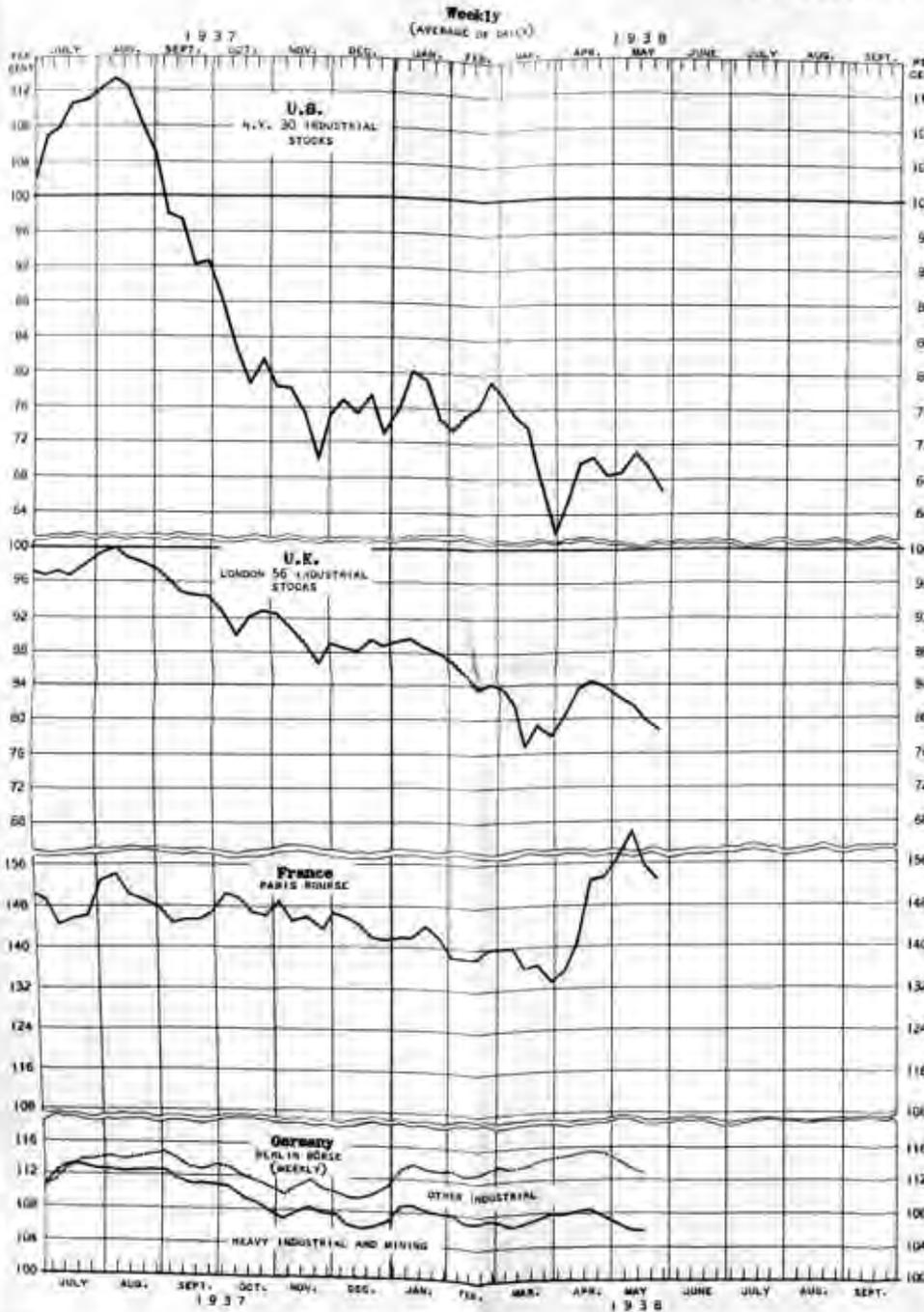
H.M.Jr: Thank you.

B: Goodbye.

Approximately June 6, 1938

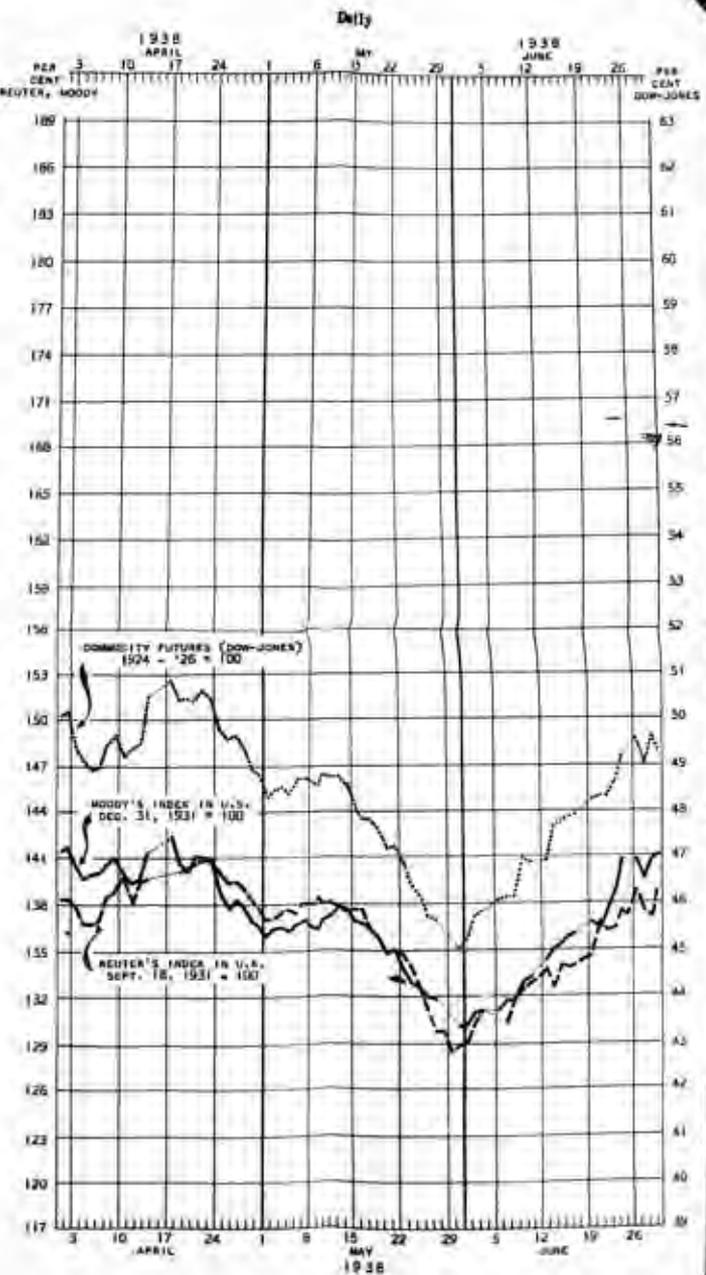
It was on this chart that the Secretary based his rain drop story of recovery which he related to the President about this date. (See 9:30 group meeting of June 13th when he told the group the story. See also diary entry of June 22nd showing where the President used the story at a press conference.)

INDICES OF FOREIGN AND DOMESTIC SECURITY PRICES
August 1936 = 100



277

COMMODITY PRICE INDEXES IN U.S. AND U.K.



U S GOVERNMENTS STRONG

FOLLOWING SECRETARY MORGENTHAU-S ANNOUNCE-
 MENT THAT NO NEW MONEY WOULD BE SOUGHT BY THE
 U S TREASURY IN JUNE QUARTER FINANCING
 OPERATION U S GOVERNMENT ISSUES PUSHED FORWARD
 ON A WIDE FRONT - OUT OF 24 ISSUES TRADED ON THE
 BIG BOARD 22 MADE NEW HIGHS FOR YEAR TO DATE -
 OF THESE EIGHT REPRESENT NEW ALL-TIME HIGHS AND
 ONE A NEW HIGH SINCE 1936

THIS STRENGTH REFLECTS OPINION OF BUYERS
 THAT WITH JUNE FINANCING HELD DOWN TO A RATHER
 LIMITED AMOUNT THERE WILL BE CONTINUED DEMAND
 FOR OUTSTANDING ISSUES & OPINION HAD BEEN ABOUT
 EVENLY DIVIDED THAT THE TREASURY WOULD OFFER
 ADDITIONAL SECURITIES FOR NEW MONEY IN THE JUNE
 OPERATION AND SOME WHO WOULD OTHERWISE HAVE
 BEEN BUYING TREASURIES THESE PAST FEW WEEKS HAD
 BEEN HOLDING OFF
 ADD U S G

0

v

ERNMENTS STRONG

IN PREVIOUS ITEM 1ST GRAH LAST LINE YEAR
 SHOULD READ 1936

TREASURY DEPARTMENT

282

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, June 8, 1938.
6/4/38.

Press Service
No. 13-51

Secretary of the Treasury Morgenthau announced today the offering, through the Federal Reserve Banks, of 20²⁵ year 2-3/4 percent Treasury bonds of 1958-63, and of 5 year 1-1/8 percent Treasury notes of Series A-1943, both in exchange for 2-7/8 percent Treasury notes of Series B-1938, maturing June 15, 1938, or 2-1/2 percent Treasury notes of Series D-1938, maturing September 15, 1938. Exchanges will be made par for par, and the offering of the new bonds and of the new notes will be limited to the amount of maturing notes of either series tendered and accepted in exchange therefor. Cash subscriptions will not be received.

The Treasury bonds of 1958-63 now offered only in exchange for Treasury notes maturing June 15 and September 15, 1938, will be dated June 15, 1938, and will bear interest from that date at the rate of 2-3/4 percent per annum payable semiannually. They will mature June 15, 1963, but may be redeemed at the option of the United States on and after June 15, 1958. The bonds will be issued in two forms: bearer bonds with interest coupons attached, and bonds registered as to both principal and interest: both forms will be issued in the denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

The Treasury notes of Series A-1943, also now offered only in exchange for Treasury notes maturing June 15 and September 15, 1938, will be dated June 15, 1938, and will bear interest from that date at the rate of 1-1/8 percent per annum payable semiannually. They will mature June 15, 1943, and will not

be subject to call for redemption before that date. The notes will be issued only in bearer form with coupons attached, in the denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000.

The Treasury bonds and the Treasury notes will be accorded the same exceptions from taxation as are accorded other issues of Treasury bonds and Treasury notes, respectively, now outstanding. These provisions are specifically set forth in the official circulars issued today.

Subscriptions will be received at the Federal Reserve Banks and branches, and at the Treasury Department, Washington, and should be accompanied by a like face amount of either 2-7/8 percent Treasury notes of Series B-1938, maturing June 15, 1938, with final coupon due on June 15 detached, or 2-1/2 percent Treasury notes of Series D-1938, maturing September 15, 1938, with final coupon due September 15 attached. The notes of both series will be accepted at par. If notes of Series D-1938 are tendered for Treasury bonds, accrued interest on such notes from March 15 to June 15, 1938 will be paid following their acceptance; if such notes are tendered for Treasury notes interest on the surrendered notes will be credited from March 15 to September 15, 1938, and interest will be charged on the new notes from June 15 to September 15, 1938, and the difference, about \$9.67 per \$1,000 will be paid following acceptance of the notes.

The right is reserved to close the books as to any or all subscriptions at any time without notice, and, subject to the reservations set forth in the official circulars, all subscriptions will be allotted in full.

The amount of Treasury notes of Series B-1938 maturing on June 15, 1938, is \$618,056,800, and of Series D-1938 maturing on September 15, 1938, is \$596,416,100. Any of these notes may be exchanged for the Treasury bonds or the Treasury notes, and any maturing notes not so exchanged at this time will be paid in cash when they mature.

- 3 -

Special Treasury bills aggregating \$250,306,000, which mature immediately after June 15, and about \$190,000,000 interest on the public debt, which becomes due on June 15, will be paid from the Treasury's cash balance.

The texts of the official circulars follow:

UNITED STATES OF AMERICA

2-3/4 PERCENT TREASURY BONDS OF 1958-63

Dated and bearing interest from June 15, 1938

Due June 15, 1963

REDEEMABLE AT THE OPTION OF THE UNITED STATES AT PAR AND ACCRUED INTEREST ON AND
AFTER JUNE 15, 1958

Interest payable June 15 and December 15

1938
Department Circular No. 584

Public Debt Service

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, June 6, 1938.

I. OFFERING OF BONDS

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 2-3/4 percent bonds of the United States, designated Treasury Bonds of 1958-63, in payment of which only Treasury Notes of Series B-1938, maturing June 15, 1938, or Treasury Notes of Series D-1938, maturing September 15, 1938, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series B-1938 and of Series D-1938 tendered and accepted.

II. DESCRIPTION OF BONDS

1. The bonds will be dated June 15, 1938, and will bear interest from that date at the rate of 2-3/4 percent per annum, payable semiannually on December 15, 1938, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1963, but may be redeemed at the option of the United States on and after June 15, 1958, in whole or in part, at par and accrued interest, on any interest day or days, on 4 months' notice of redemption given in such manner as the Secretary of the Treasury shall prescribe. In case of partial redemption the bonds to be redeemed will be

determined by such method as may be prescribed by the Secretary of the Treasury. From the date of redemption designated in any such notice, interest on the bonds called for redemption shall cease.

2. The bonds shall be exempt, both as to principal and interest, from all taxation now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority, except (a) estate or inheritance taxes, or gift taxes, and (b) graduated additional income taxes, commonly known as surtaxes, and excess-profits and war-profits taxes, now or hereafter imposed by the United States, upon the income or profits of individuals, partnerships, associations, or corporations. The interest on an amount of bonds authorized by the Second Liberty Bond Act, approved September 24, 1917, as amended, the principal of which does not exceed in the aggregate \$5,000, owned by any individual, partnership, association, or corporation, shall be exempt from the taxes provided for in clause (b) above.

3. The bonds will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege and will not be entitled to any privilege of conversion.

4. Bearer bonds with interest coupons attached, and bonds registered as to principal and interest, will be issued in denominations of \$50, \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. Provision will be made for the interchange of bonds of different denominations and of coupon and registered bonds, and for the transfer of registered bonds, under rules and regulations prescribed by the Secretary of the Treasury.

5. The bonds will be subject to the general regulations of the Treasury Department, now or hereafter prescribed, governing United States bonds.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of bonds applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

IV. PAYMENT

1. Payment at par for bonds allotted hereunder must be made or completed on or before June 15, 1938, or on later allotment, and may be made only in Treasury Notes of Series B-1938, maturing June 15, 1938, or in Treasury Notes of Series D-1938, maturing September 15, 1938, which will be accepted at par, and should accompany the subscription. In the case of Treasury Notes of Series D-1938 tendered in payment, coupons dated September 15, 1938, must be attached to the notes when surrendered, and accrued interest from March 15, 1938, to June 15, 1938, (\$6.25 per \$1,000), will be paid following acceptance of the notes.

- 4 -

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for bonds allotted, to make delivery of bonds on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive bonds.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.
Secretary of the Treasury.

UNITED STATES OF AMERICA

1-1/8 PERCENT TREASURY NOTES OF SERIES A-1943

Dated and bearing interest from June 15, 1938

Due June 15, 1943

Interest payable June 15 and December 15

1938
Department Circular No. 585

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, June 6, 1938.

Public Debt Service

I. OFFERING OF NOTES

1. The Secretary of the Treasury, pursuant to the authority of the Second Liberty Bond Act, approved September 24, 1917, as amended, invites subscriptions, at par, from the people of the United States for 1-1/8 percent notes of the United States, designated Treasury Notes of Series A-1943, in payment of which only Treasury Notes of Series B-1938, maturing June 15, 1938, or Treasury Notes of Series D-1938, maturing September 15, 1938, may be tendered. The amount of the offering under this circular will be limited to the amount of Treasury Notes of Series B-1938 and of Series D-1938 tendered and accepted.

II. DESCRIPTION OF NOTES

1. The notes will be dated June 15, 1938, and will bear interest from that date at the rate of 1-1/8 percent per annum, payable semiannually on December 15, 1938, and thereafter on June 15 and December 15 in each year until the principal amount becomes payable. They will mature June 15, 1943, and will not be subject to call for redemption prior to maturity.

2. The notes shall be exempt, both as to principal and interest, from all taxation (except estate or inheritance taxes, or gift taxes) now or hereafter imposed by the United States, any State, or any of the possessions of the United States, or by any local taxing authority.

3. The notes will be accepted at par during such time and under such rules and regulations as shall be prescribed or approved by the Secretary of the Treasury in payment of income and profits taxes payable at the maturity of the notes.

4. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

5. Bearer notes with interest coupons attached will be issued in denominations of \$100, \$500, \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of these respects shall be final. Subject to these reservations, all subscriptions will be allotted in full. Allotment notices will be sent out promptly upon allotment.

- 3 -

IV. PAYMENT

1. Payment at par for notes allotted hereunder must be made or completed on or before June 15, 1938, or on later allotment, and may be made only in Treasury Notes of Series B-1938, maturing June 15, 1938, or in Treasury Notes of Series D-1938, maturing September 15, 1938, which will be accepted at par, and should accompany the subscription. In the case of Treasury Notes of Series D-1938 tendered in payment, coupons dated September 15, 1938, must be attached to the notes when surrendered. Interest from March 15, 1938, to September 15, 1938, on the maturing notes will be credited to subscribers, and interest from June 15, 1938 to September 15, 1938 on the new notes will be charged to subscribers. The difference (\$9.672131 per \$1,000) will be paid following acceptance of the notes.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 6, 1938

TO Secretary Morgenthau
FROM Mr. Haas *MA*
Subject: Business and price research program

I am submitting herewith a summary of our research program on commodity prices and business. As you know, this is a program which will require some time to work out, since it calls for a great deal of original research, and since extensive calculations are involved in carrying the studies back by months and by individual industries over a 10- to 15-year period. It is possible that quick studies could be worked out that would be of some value, but to get at the fundamentals of business and prices, which we conceive to be the object of the program, deeper and more careful research is necessary.

As each section of the program becomes far enough advanced to show significant results we will present the results in chart form for your evaluation. You have already seen the completion of one section of the program in our calculation of an index of basic demand, which promises to be of considerable value in measuring the extent to which production at a given time is out of line with demand. The partial completion of another section is represented in our weighted index of new orders in dollar values, which we have shown in chart form by industry groups and in total. We are now working on a further development of this index to express it in terms of physical volume, which would relate it more directly to the level of industrial production.

Our research program is divided into two parts: (1) That concerned with business activity, and (2) that concerned with commodity prices.

(1) Business research program

(a) Basic demand index

Our research program on business activity was laid out after deciding what were the critical points in the business system on which information was needed for determining the

Secretary Morgenthau - 2

current state of business and predicting its future trend. Since business activity in the long run depends upon the level of consumer demand, our first task was to develop a method of measuring this demand. This would enable us to know at any given time whether, and to what extent, business activity was running above or below the level of demand. No such index being available, it was necessary to develop original studies by industries to provide the basis for such an index.

Work on this section has been completed, except for possible revisions. Indexes of "basic demand" have been compiled for each of 13 leading industries, and these have been combined into a weighted general index. This is expected to provide a practical method of determining where business stands in relation to demand, and to serve as a warning when it is getting out of line in either direction. It is not intended to indicate the time of a turn.

(b) New orders index

Before consumer demand can affect business it must be reflected in new orders on the books of industrial concerns. New orders data have been available in confidential reports and in published form, but no means was available for combining them to show their actual relationship to business activity. The second section of our research program was therefore to work out a weighted index of new orders. This has been partially completed. We have worked out indexes, on a dollar value basis, for eight industrial groups and combined. We are now working to develop such an index in terms of physical quantities, which would be more closely related to business activity.

Since working out our index of new orders, we have noted that others engaged in developing methods of business forecasting have been impressed with the need for such an index. Wesley C. Mitchell, in the May 23 Bulletin of the National Bureau of Economic Research, makes the following comment:

"Perhaps the most promising thing that might be done along these lines is to start with the hypothesis that the new orders placed today will be the output of tomorrow, and that a forecasting index might therefore be made by combining reports on orders in many lines of business, including also contracts for construction. In analyzing time series we have found the rough rule to hold, that orders for commodities and construction contracts make cyclical upturns and downturns before corresponding reference dates for revivals and recessions."

Secretary Morgenthau - 3

A writer on business and stock market forecasting on the staff of Barron's Weekly has the following to say on the desirability of such an index in the May 30 issue of this publication:

"An ideal business index for speculative guidance would be one that registered the volume of forward buying. Such a type of statistical record would portray with what rapidity the tide of business was flowing, as measured by manufacturing needs for actual sales requirements, and it would at the same time tell whether inventories were inadequate or excessive. If a comprehensive index of forward buying were obtainable, and this is not yet evolved because of the reluctance of individual businesses to disclose trade secrets, then the world at large could have prompt knowledge of the effect of sales volume on inventories, the fluctuations of which play so big a part in earning power."

(c) Indexes of unfilled orders and inventories.

In addition to new orders, two other important factors affect the trend of industrial production: (1) The amount of unfilled orders on manufacturers' books, and (2) the stocks of finished goods in the hands of manufacturers. Statistical data on these subjects are very imperfect. We are working, however, on the development of an index of unfilled orders, and we think it may also be possible to work out some measure of manufacturers' stocks.

It will next be necessary to determine the relative influence of new orders, unfilled orders, and inventories on industrial production, in order to use the indexes most effectively in predicting business trends. We have done some preliminary work in measuring their relative influence on production in the steel industry.

(d) Separate industry studies.

The studies previously mentioned have been designed for anticipating trends in business activity as a whole, though they supply a considerable amount of information for analyzing individual industries. A further part of our program is directed toward studying trends in individual industries, since these may at times give a more important

Secretary Morgenthau - 4

clue than the aggregate figures as to the outlook for business. We have been particularly impressed with the individual importance of such industries as those represented by steel, automobiles, construction, textiles, and the railroads, and have given these considerable attention in our research program.

(e) Regional business studies.

A turn in the business trend frequently becomes apparent in one section of the country before it appears in the composite data. In the 1933 recovery, for example, business in the South began to improve while other districts were still depressed. We have therefore taken as part of our program the study of regional business trends. Charts have been prepared showing weekly trends in steel activity by steel districts; monthly trends by census districts for such data as automobile registrations, farm incomes, and construction awards; and department store sales by Federal Reserve districts.

When these various projects have been completed, our equipment for forecasting business should be vastly improved. Our weak point will probably lie in predicting the trend of new orders, especially at times when unfilled orders are low, and new orders are consequently a more important business factor. For this purpose our research program on commodity prices may be useful, since price trends for sensitive commodities are a strong influence in stimulating industrial buying.

(2) Commodity price program

The objects of our research on commodity prices are: (1) To determine the relative importance of supplies, consumer demand, and monetary factors on commodity prices, in order that the effect of changes in any one of the factors may be estimated; (2) to detect indications of inflationary or deflationary influences in the commodity price structure; (3) to estimate the probable effectiveness of control measures against either inflation or deflation; (4) to measure the effect of foreign influences on the price structure.

In the field of commodity prices, very little information has been available that would enable one to forecast trends in the general price level over short periods of several years or less, except as they may be expected to follow trends in business activity. Practically all price research work of economists to date has been directed either

Secretary Morgenthau - 5

... explaining the broad swings of prices resulting from supply and other monetary factors, which is of little value for our immediate purposes, or toward explaining movements in prices of individual commodities, assuming certain trends in the general price level. These again are of little value to us, since the general price level is the thing we want to forecast.

We were thus confronted with the task of working out practical methods for forecasting price trends over relatively short periods, such as would serve our major purposes of forecasting business trends, estimating revenues, and analyzing effects of monetary policies.

We have taken as our first task that of isolating the influence of the monetary factor on prices from the influence of supply and demand. Most of our research work on commodity prices has been concentrated on this project. While the task is admittedly a difficult one, our results so far have been encouraging. If we can construct an "index of monetary influence" it will provide a basic series of fundamental importance in forecasting price trends, and which will serve as a measure of inflationary or deflationary influences in the price system.

The development of such an index requires working out separate price studies for a considerable number of individual commodities, determining for each commodity the influence of supply factors, demand factors, and monetary factors, and combining the individual price fluctuations indicated as due to monetary factors into a composite index. We have taken a group of 30 sensitive commodities included in the B.L.S. sensitive price index as the basis for this project, and have carried out studies for the majority of these commodities with more or less success. In a number of cases we have been handicapped by inadequate statistics.

The effects of the usual supply and demand factors on prices, including such factors as stocks of commodities, industrial demand, export demand, etc., will have been determined in working up the individual commodity studies. These studies will help one to avoid the mistake of attributing to inflation influences a rise in prices due to heavy industrial demand and small supplies, as that in the winter and spring of 1936-37.

The index of the effect of monetary influences, when it is worked up, will be used as the basis for an analysis

Secretary Morgenthau - 6

of how such factors as monetary policies, volume of credit, foreign influences, etc., affect the general price level. Such an analysis is greatly needed as a guide in formulating business and price control policies. It should be of assistance when the time comes to make the shift from Government spending to private spending, and at such times as monetary and credit restriction may be needed to prevent undue price rises.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUNE 6, 1938

TO Secretary Morgenthau
 FROM Mr. White

Subject: The Haitian situation

1. Haiti is in a serious economic depression now:

(a) The prices of its export products -- particularly coffee -- have fallen severely. Peasants have been refusing to sell coffee at the low prices prevailing.

(b) Revenue receipts have fallen by 19 percent in the six months ending March 1938 compared with the same period of the previous year.

(c) Haiti has been losing foreign exchange. The balance of trade, which is nominally favorable, has turned sharply unfavorable. For the six months ending March 1938 Haiti had an unfavorable balance of trade of 3.2 million gourdes (1 gourde = 20 cents) compared with a favorable balance of 4.7 million gourdes in the same period of the previous year. Treasury deposits in the United States fell from 1.2 million gourdes to .7 million gourdes.

(d) While her foreign exchange reserves have declined, the Government has sharply increased loans. Extension of Government credits increased from 100,000 to 1,250,000 gourdes in the six months ending March 1938.

2. Haitian foreign bonds which were selling above par in 1937 now sell for 72.

She has not yet defaulted on her foreign debt service so far as we know, but she probably will be soon forced to do so unless the situation changes.

3. Unless Haiti gets a substantial foreign loan she will have to:

(a) Depreciate her exchange

or

(b) Sharply restrict her imports and increase her exports.

Secretary Morgenthau - 2

Over half Haitian imports come from the United States. In 1937 we sold her about \$5 million, and bought only \$2½ million from her. Depreciation of the gourde, or further restrictions on her imports will curtail our exports to Haiti.

4. Haitian chances of increasing her coffee exports quickly enough to correct the situation without assistance are slight.

She lost her chief market for her principal export when France renounced its agreement with her. France formerly bought 65 to 70 percent of Haitian coffee exports, but in 1936 France renounced its agreement with Haiti, and now buys less than 10 percent of the exports. Though the United States has substantially increased her purchases of coffee from Haiti, during the past two years she has far made up to Haiti for the loss of the French market.

5. Can Haiti greatly increase her sales of coffee to the United States?

There is no import duty on her coffee. Furthermore price factor is already in her favor, but has not yet resulted in sufficiently increased purchases by Americans. Therefore increased purchases by the United States must be obtained through improvement in quality, and sales promotion. These are slow processes.

6. Haiti may be able to improve her position in the years to come by greater diversification of her export crops -- particularly bananas, cacao, sisal, sugar and cotton.

She already has had some success in this diversification program.

June 6, 1938.

8/11/17
300

Re: This morning's conference on Chinese and Haitian loans.

(It was my impression that the State Department was concerned solely with finding arguments against the Chinese loan proposal. Were they as eager to find arguments in favor of a solution of the difficulties they could, I suspect, have reached a position of approval without exerting themselves over much.)

1. With respect to the possible violation of the Hague Convention:

(The following are questions of international law on which expert opinion is necessary. They occur to me as questions that merit independent consideration before accepting the State Department's views.)

(a) Can the Hague Convention apply unless a state of war is recognized by the President? Can Japan object that it is a violation of the Hague treaty since she has not declared war?

(b) Japan has violated the Hague Convention (as well as other treaties). The State Department publicly so stated. Is Japan, therefore, entitled to the protection which the Convention presumably is supposed to yield?

(c) The Export-Import Bank extended a loan to Italy on January 20, 1937; Italian troops were then and still are engaged in pacification of a foreign nation (Abyssinia) which we still recognize as an independent power. Italy was engaged in war with Abyssinia in the same sense in which Japan is engaged in war with China (neither Italy nor Japan have declared war) yet the loan was made. Is this an adequate precedent?

(d) The League of Nations on May 14, 1938, passed a resolution which "earnestly urges the League members to do their utmost to give effect to the recommendations contained in the previous Assembly [recommendations to assist China] and to take into serious, sympathetic consideration the requests they may receive from the Chinese Government in conformity with the said resolution". Does the League of Nations' action have any bearing on the present status of the Hague Convention as it applies to Japan?

(e) If an Export-Import Bank loan to China (for relief purposes) is regarded by the State Department as a possible violation of the Hague Convention on the grounds that it is an unneutral act, could not the same be said of a \$50 or \$100 million Government gift via the Red Cross to China?

- 2 -

2. Should the same loan privileges be extended to Japan?

(a) The chief economic objective of the loan is to sell some of our surplus raw materials and to raise the price of those materials. Sale of flour, cotton goods, etc. to China would represent a net increase in world sales. The Chinese people would be able to buy goods which they otherwise could not.

In the case of Japan the situation is different. There it might well mean merely replacing other imports or making it possible for Japan to increase her exports in order to get the greatly needed exchange. If a sale to Japan of flour, rice, and cotton goods, etc. on credit is contemplated, it would seem that a prior lengthy and careful investigation, possibly by a commission, will be necessary to determine the ultimate destination of the goods or of goods which they may replace. In the case of China no such doubt exists and the loan could go forward at once.

One of the conditions of the loan could easily be that an American commission would supervise the distribution and use of those products so as to make sure they were consumed by the Chinese people who are in need of further food and clothing, etc.

(b) How would the American public react to a loan to Japan, in view of the fact that such a loan would be:

(1') An indication of our lack of disapproval of Japan's actions;

(2') A definite contribution to Japan's ability to conduct a more effective war against China.

Just where do our long run international political and economic interests lie -- with a victorious and strengthened China, or with a victorious and strengthened Japan? Just where do the sympathies of the bulk of American people rest -- with the Japanese invaders or the innocent Chinese populace?

3. Resentment of Japan.

(a) The suggestion that a Red Cross gift be substituted for the proposed loan has much the appearance of an excuse for doing nothing or doing extremely little. Were Congress

- 3 -

to consider an appropriation for relief to China, it is extremely doubtful whether the amount they would contribute would be more than \$5 or \$10 million. Certainly it would be far from the amount contemplated by the loan. Therefore, even were the attempt successful, the amount given would be of insignificant assistance to the surplus crop problem.

(b) If the proposed loan to China would be resented by the Japanese Government, to the extent that the latter would declare war on China, may the same not be true of a relief gift to China via the Red Cross if the gift involves any large sum? Could a loan to China such as is contemplated be the decisive factor in shaping Japan's policy with respect to declaration of war on China?

4. Can the Export-Import Bank make the loan?

This is, of course, a legal question. If the Export-Import Bank can legally extend a loan only if it regards such a loan as bearing "a reasonable risk", does that rule out a loan to China?

When we made the grant of a \$50 million loan to China in 1931, China:

- (a) Was engaged in a widespread civil war;
- (b) The control of the Central Government over the remainder of China was confined to a few provinces;
- (c) Japan had just started to take over Manchuria, and
- (d) China was on the verge of a severe depression.

The situation now is that China today has a better opportunity to emerge as a people with international independence, free from Japanese domination and free from civil war than appeared at any time in the last fifteen years.

Nonetheless it is obvious that the risk is great -- but so is the prize.

5. Would the loan be a sound investment for the United States to make?

- (a) It is not unreasonable to expect China to pay back the

loan -- or at least a substantial part of it -- during the next ten years.

(1') There is reasonable expectation that Japan will sooner or later have to come to terms with China, leaving an independent China highly centralized with at least a large part of its present resources and population. It is not at all impossible that Japan may be forced to leave China in a stronger position than she was in 1936.

(2') China's gratitude for aid in her present struggle would insure sincere attempts at repayments when her situation permits.

(3') After the war China will be greatly in need of additional loans and will attempt to preserve her credit.

(b) There are economic advantages that must be weighed against the possible loss if the loan is not repaid. The value of our wheat and cotton crop will rise as a consequence of the sale. The increased value may amount to as much as the total loan. But the increased value of the various crops is only a small part of the benefits to recovery likely as a consequence of a rise in the price of those crops.

(c) Even if China defaults completely on the loan, the loss is far less than the money value of the loan. The most we could lose is wheat and cotton which, in effect, we do not and will not have. Paradoxical as this may sound, it is nevertheless true because unless our surplus is reduced the restrictions imposed on next year's plants will be greater because of this year's surplus crop. The alternative to the export of the crop is lower crop prices this year and more idle hands and idle lands next year.

6. Does China want the loan?

Even if China doesn't wish to borrow the whole amount, she could make the same arrangements as she made in 1932.

It may be that transportation may constitute an insuperable barrier to the purchase of American flour and cotton, but it would seem that is a question which China alone can answer.

61 127
304

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 6, 1938

TO Secretary Morgenthau
FROM Mr. Haas

Subject: Proposals (1) to make a loan to China for the purpose of purchasing agricultural surplus commodities, and (2) to improve the economic situation in Haiti

Present: Secretary Morgenthau; Secretary Wallace; Sumner Welles, Under Secretary of State; Dr. Feis, Economic Adviser, State Department; Mr. Taylor; Mr. Cliphant; Mr. White; and Mr. Haas

Secretary Morgenthau opened the meeting by saying the purpose of the conference was to trade Haiti for China.

Mr. Welles stated that Secretary Hull discussed with him the proposition of a loan being made to China for the purpose of exporting agricultural surplus commodities, and that the Secretary of State had arrived at no final opinion with regard to the matter as yet. He said that technically it was true no state of war existed between China and Japan, but nevertheless there were many complicating factors and points which needed further investigation. The Hague Convention, for example, of which the United States is a party, defines as an unneutral act the making of a loan by one Government to another Government which is engaged in war.

Secretary Wallace pointed out that as the Hague Convention is of long standing we must have violated it in the last great War.

Mr. Welles stated that the United States Government didn't loan money to the belligerents in the World War until it was a participant in the War.

Secretary Morgenthau asked how, if there was not technically a state of war, would it be possible to make the Hague Treaty apply in the present situation.

Mr. Welles replied that whether or not technically China and Japan are at war, practically a state of war exists. Japan

Secretary Morgenthau - 2 -

without question would make vigorous protests to this Government if a loan were made to China for the purpose of purchasing agricultural surpluses. He went on to say that although Japan has not formally declared war, this move might be sufficient to make her do so. Among other complications which have come up in discussion in the State Department, he said, was the fact that the only way the commodities could be taken by China was via the Hong Kong route, and if this were used Japanese might block the Hong Kong entrance. In that case, the only other available trade route into China would be through French Indo-China, an overland route. The cost of transportation over this route would be very high. He continued by saying that consideration had been given to the suggestion of offering the same proposition to China and to Japan. In that case, if the Japanese accepted the proposal and bought cotton gray goods, for example, at reduced prices, it would adversely affect the United States, as the Japanese might utilize the low priced gray goods for domestic consumption and sell their own cotton goods in the world markets in competition with products of American cotton manufacturers.

Mr. Welles stated that the State Department group was also considering a suggestion that the Red Cross, through Congressional authorization, be permitted to buy the American agricultural surplus commodities and distribute them in the distressed Orient. This authority, he pointed out, might be included in the present Recovery Bill.

Secretary Morgenthau said he didn't think that kind of proposal would be acceptable to Congress, in view of the needs of the people in the United States; that he wouldn't recommend \$1 of the \$3½ billion Recovery Bill be used to give wheat to China.

Secretary Wallace added that he didn't think such a proposal would be passed by Congress in any case.

Mr. Welles suggested that the processing of the surplus commodities, by giving some employment, would remove a certain amount of objection.

Secretary Morgenthau said the President and Secretary Hull would have to make the decision as to what to do.

Secretary Morgenthau - 3 -

Mr. Welles then went on to point out some additional difficulties which may arise. Japan would probably maintain that China was using the material to support the military operations.

Secretary Wallace pointed out that a stipulation could be made requiring that the products were to be used for that part of the population not involved in military operations.

Mr. Taylor said he thought the only solution of the problem was to go to Congress and get authorization to make this loan. If action were taken through the Export-Import Bank, it would be subject to criticism in this country as well as in other countries. That procedure would mean doing by indirection something for which direct authority was lacking, since it is obvious that China's credit is no good, and on that basis specific Congressional authority would be necessary.

Secretary Wallace expressed the opinion that in the long run China was an admirable credit risk.

Mr. Welles stated the credit aspect of the problem was a distinct worry to him. If the same proposition was offered to Japan, we would be confronted with this problem: After having discouraged private capital from going into Japan, the Government would then be extending a credit to Japan.

Secretary Morgenthau suggested the important thing to keep in mind is the motivation - what we are trying to do, that is, to get rid of surplus wheat and other agricultural surplus products. He pointed out that one of the things which has already been done to relieve this situation was a loan by the Government on 7 billion bales of cotton. The object is to get some of the agricultural surpluses consumed.

Secretary Morgenthau said Secretary Hull had mentioned to him that the same offer might be made to Japan, but Secretary Morgenthau had pointed out to Secretary Hull that if this were done the commodities involved must be confined to agricultural surplus products. Secretary Morgenthau then went on to give as an illustration of benefits to this country that disposing of 100 million bushels of wheat might reasonably result in an increase of 10 cents per bushel in the remaining wheat supply.

Secretary Morgenthau - 4 -

Secretary Wallace, in response to Secretary Morgenthau's question, said he thought that an increase of 10 cents per bushel was a reasonable expectation.

Secretary Morgenthau went on to say that it must be the President's decision whether or not daring moves are now necessary to stop the downward spiral in prices. One hundred million bushels of wheat taken off this market would be a great help in the price situation. The President must decide whether the risk involved, moving the wheat to China, is large enough to overbalance the benefit to commodity prices.

Mr. Welles suggested that it is not known whether or not China would want the wheat.

Secretary Morgenthau said he didn't know whether or not China would be interested; that the first move was to take the matter up at the State Department; that in any case he would never, as a matter of policy, make any preliminary sounding out of China.

Secretary Wallace added that this was about as far as this Conference could go.

Secretary Morgenthau stated he would like to explore the matter further and thought it was important enough to devote an hour to discussion.

Secretary Wallace pointed out he had an appointment at the White House in about fifteen minutes and wondered if the group could take up the discussion of the Haitian problem.

Dr. Feis suggested it should be ascertained what kind of legislation was necessary to place surplus commodities in the hands of the Red Cross.

Secretary Morgenthau suggested getting a Red Cross resolution for the distribution of surplus commodities to our own people in need.

Secretary Wallace pointed out that the resolution might be broad enough to include the distribution of commodities to the whole world where needed.

Secretary Morgenthau - 5 -

Secretary Wallace said with regard to the Chinese proposal he would be willing to give his proxy to Secretary Morgenthau.

Mr. Welles then went on to discuss the situation in Haiti, pointing out that the drop in the price of coffee and other international factors had brought about a somewhat desperate economic situation, and added that what was needed was a loan of \$5 millions - \$3 millions in cash for the payment of labor, and \$2 millions for the purchase of materials. He suggested that the Haitians would set up any kind of machinery desired by this country to effect the payment of service charges on the loan.

Mr. Welles pointed out there were two alternatives other than a Government loan to Haiti:

- (1) A United States financial house might make a loan to the Haitian Government
- (2) A large construction company, for example, J. G. White, might make a loan to the Haitian Government

Along with such a loan, the Export-Import Bank might provide a trade loan, the Agriculture Department might assist in the agricultural program, and the Bureau of Public Roads might assist on the road projects.

Secretary Wallace mentioned that funds available under Section 32 could be used to finance the sale of rice and flour to Haiti.

Mr. Welles pointed out that a loan like the one being considered for China would do Haiti no good. He said further that the United States Government itself might make the loan to Haiti, on the theory of keeping Germany out of the situation, but thought probably Congress would not provide the authorization.

Secretary Morgenthau said he had no information on this point, as he had never discussed that type of loan with any of the members of Congress. He felt sure that loans to Continental Europe were out of the question, but that Latin American loans might be different.

Secretary Morgenthau - 6 -

Secretary Wallace suggested that regardless of who made the loan the fundamental problem of repayment would have to be resolved into the form of international trade.

Secretary Morgenthau suggested that Mr. de la Rue might be asked to come up.

Mr. Welles said that he was already here.

Secretary Wallace stated the most realistic way of improving the situation for Haiti would be to exchange United States surplus food products for their export products of coffee and cocoa.

Secretary Morgenthau inquired if anyone had talked with the A. and P., that they were the largest buyers of coffee in the World.

Dr. Feis said Standard Brands who manufacture Chase and Sanborn coffee were buying Haitian coffee.

Mr. Welles, commenting on Secretary Wallace's suggestion, mentioned that other coffee countries would complain and questioned whether it could be done under existing legislation. He added further that in any case Haiti doesn't need the surplus food products.

Dr. Feis suggested there were three alternatives which might be used to improve the situation in Haiti:

- (1) The Export-Import Bank might make a loan of \$3 millions to the Haitian Government
- (2) A private firm might make a \$3 million loan to the Haitian Government
- (3) Congressional authorization might be secured to permit taking over Haitian export products

Secretary Morgenthau, referring to financial assistance which might be given to Haiti, said that legislation might be sought which would permit the making of loans by the United States Government to governments on the North American and South American continents, and that while he didn't know what chance prospective legislation for this particular purpose would have, he was certain any loans in connection with Continental Europe would be out of the question.

Secretary Morgenthau - 7 -

Mr. Welles expressed the opinion that such procedure would set a very bad precedent, beset with many difficulties. He pointed out the State Department has been for some time combating propaganda which is being spread to convince people that the United States Government has imperialistic ideas with regard to Latin America. He thought that asking Congress for loans which would be confined to North American and South American countries would provide these propagandists with new material. The more specific proposal that the State Department had in mind with regard to Haiti, he didn't think would be subject to the same interpretation, that is, a public works program and a widening and expanding of the lending powers of the Export-Import Bank.

Secretary Morgenthau asked if Mr. Berle had been in touch with this problem, as he thought Mr. Berle was an expert in working out financing arrangements of this sort.

Dr. Feis said Mr. Berle knew about the problem, but what was needed here was a source of funds.

Secretary Morgenthau stated he was very apprehensive of approaching private firms with regard to extending help because he felt it might place the Government in an embarrassing situation later on; and that he had always steered away from such a policy.

Mr. Welles explained he had in mind merely making arrangements for the Haitian representative to contact private firms, but making it very clear that the Government took no responsibility whatsoever.

Secretary Morgenthau suggested that what is needed is for the President to decide whether or not the Haitian situation is critical or serious enough in view of the interests of the United States involved for him to designate someone to work out a solution and carry it through even if some risks were entailed. He recalled that in 1933 the President felt the continued decline on commodity prices was so serious that we should take some chances and assume risks, and on that basis asked the Secretary to carry through a program which would meet the situation; this was done. The Secretary pointed out that there are times when a situation warrants taking considerable risks.

Secretary Morgenthau - 8 -

Mr. Welles said that we would like to take care of this situation which was really a small situation in itself, but felt he didn't want its solution to jeopardize any large policy which was fundamentally more important to the United States.

Secretary Morgenthau suggested that this small situation if let go may later on force a change in the so-called large policy and necessitate the making of loans to Latin America.

Mr. Welles said he hoped this would not come true, for he felt that extension of credit rarely made friends because it placed the loaning country in a creditor position and developed all the friction usually existing between creditor and debtor.

Dr. Feis suggested that one of the best ways to handle the Haitian situation would be to buy their products.

Secretary Morgenthau indicated it would be out of the question to use the relief money to buy Haitian coffee. He added, however, that he would be delighted to listen to Mr. de la Rue along with Dr. Feis.

Mr. Taylor said he thought the underlying legislation was broad enough to accomplish what was wanted, and all that was necessary was to show that the loan would assist in the export of American products.

Mr. Welles, coming back to the Chinese situation, expressed the opinion that the proposal got down to about two alternatives - that of making the same proposition to both China and Japan, or legislation providing for purchases of agricultural surplus commodities by the Red Cross, which, in turn, might distribute them in China. He said Secretary Hull would get in touch with Secretary Morgenthau as soon as he arrives at a final opinion with regard to the matter, and added that that would be tomorrow.

June 6, 1938.

MEMORANDUM FOR THE SECRETARY'S FILES:

At the end of March and the beginning of April, 1938, the Secretary of the Treasury arranged through the Spanish Ambassador for the purchase of five million ounces of Spanish silver.

On May 26 the Legal Division was advised for the first time of these arrangements and was asked to pass upon the instructions that the Treasury should receive from the Spanish Ambassador relative to the payment for the silver. It was then for the first time that the Legal Division was enabled to examine the file in this case.

It became apparent that certain difficulties might arise by reason of the manner in which the papers had been drafted, and on May 27, Messrs. Taylor, Dietrich and Bernstein drafted some instructions relating to payment for the silver. Mr. Bernstein cleared these instructions over the telephone with Mr. Hackworth of the State Department. Pursuant to the suggestion of Mr. Taylor, Mr. Bernstein submitted such instructions to the Spanish Embassy and the Ambassador embodied these instructions in the form of a letter dated May 27, 1938, addressed to the Federal Reserve Bank of New York as fiscal agent of the United States and signed by the Spanish Ambassador. The original of this letter was forwarded to the Federal Reserve Bank by the Treasury in a letter dated May 27, 1938, together with certain instructions for payment.

On Monday, May 30, the Lawyers for the Federal Reserve Bank communicated with Mr. Oliphant and advised him of the arrival of the silver and the receipt of cables indicating an adverse claim in the silver. It was decided that for the time being the Federal Reserve Bank should not remove the silver from the boat.

On May 31 Messrs. Oliphant and Bernstein continued their consideration of the case and discussed the matter further with the people at the Federal Reserve Bank and with Mr. Taylor. On that morning a conference was held in the Secretary's office attended by the Secretary and Messrs. Taylor, Oliphant and Bernstein. Mr. Oliphant stated the issues involved and pointed out the alternative ways of proceeding. One alternative was to proceed with the contract that had been entered into. This would involve the Government in possible liabilities since there were adverse claims to the silver. The other alternative was to refuse to pay for the silver until Spain had cleared up its title to it. To follow the latter course would lessen the possibility of any double liability on the part of the Government, but would prevent us from giving the desired aid in the matter. The Secretary recognized the existence of possible liabilities if the Treasury went through with the arrangement, but emphasized the fact that the President of the United States and the Secretary of the Treasury had the right to rely upon the representations

of the Spanish Ambassador. The Secretary decided that the Department would go through with the arrangement and accept the silver and make payment therefor as requested by the Spanish Ambassador. Messrs. Taylor and Oliphant concurred in this conclusion. However, Mr. Oliphant pointed out to the Secretary that the Legal Division had been given no opportunity to pass on the papers constituting the contract, and that such papers contained defects which weakened the Government's position. The Secretary recognized this situation and said that hereafter the papers would clear through the Legal Division. It was also decided at this conference that the silver would be moved directly from the docks to the Assay Office and held there and not be moved at this time to any refining company. After the conference instructions were issued to the Federal Reserve Bank and the Assay Office in New York to move the silver as quickly as possible to the Assay Office. The Federal Reserve Bank was reluctant to act in this matter until it received specific instructions from the Treasury Department, together with a letter agreeing to indemnify them from loss. A letter dated June 2, 1938, confirmed the instructions given to the Federal Reserve Bank and indemnified them in the manner agreed upon. The Federal Reserve Bank was also instructed to forward to the Treasury for delivery to the Spanish Ambassador the check for \$2,007,500.

At a conference in the Secretary's office on June 2, the Secretary delivered to the Spanish Ambassador the check for \$2,007,500, together with a letter dated that day, and also a statement dated June 2, 1938, showing how the amount was arrived at. On June 3, 1938, the Ambassador came to the Treasury and endorsed the check and received cash for the same.

At a conference on June 2 the Spanish Ambassador indicated that his government would like to sell an additional 5,000,000 ounces of silver to the Treasury, and the Secretary indicated his acceptance and said that the proper papers should be prepared. On June 3 the Spanish Ambassador delivered to the Treasury a request that the United States purchase 5,000,000 ounces of the Spanish Government's silver. On the same date the Secretary delivered to the Spanish Ambassador a letter signed by him stating the terms and conditions upon which he would purchase 5,000,000 ounces of silver. That letter was prepared by the Legal Division with the cooperation of Messrs. Lochhead and Dietrich. The possibility of clearing the letter with the State Department was raised, but it was finally concluded that such would not be necessary.

In the late afternoon of June 3 the Treasury was advised by the Federal Reserve Bank of the demands and inquiries made upon them by Sullivan & Cromwell, representing some person claiming to be representing the Bank of Spain. We advised the Federal Reserve Bank to in turn advise Sullivan & Cromwell that such inquiries were being referred to the Treasury Department.

On June 4 the Federal Reserve Bank was served with a summons and complaint and order to show cause in an action entitled Banco de Espana v. Federal Reserve Bank of New York. On Saturday and Sunday, June 4 and 5, the Treasury Legal Division studied this matter and was in constant telephone conversation with the attorneys for the Federal Reserve Bank working out a procedure to be followed in the Court on June 6.

Thomas Oliphant
Ch. Brewster



BAJADA DE ESPAÑA
WASHINGTON

314

June 6, 1938

Secretary of the Treasury
of the United States.

Dear Sir:

I have been instructed by my government to deliver
the following message to you:

"Secretary of the Treasury of the United States.
The Government of Spain agrees to sell to the United States
approximately 5,000,000 fine troy ounces of silver owned by
it, on the terms and conditions stated in your letter of
June 3, 1938, which was transmitted through the Spanish Embassy
at Washington. Payment for such silver should be made by
check drawn to the order of the Spanish Ambassador in Washington."

Fernando de los Rios
Spanish Ambassador.

Secretary of the Treasury
of the United States.

Dear Sirs:

I have been instructed by my government to deliver
the following message to you:

"Secretary of the Treasury of the United States.
The Government of Spain agrees to sell to the United
States approximately 5,000,000 fine troy ounces of
silver owned by it, on the terms and conditions stated
in your letter of June 3, 1936, which was transmitted
through the Spanish Embassy at Washington. Payment
for such silver should be made by check drawn to the
order of the Spanish Ambassador in Washington."

Ambassador of Spain

Initialed: JWP BB AL PD WCT

(COPY)

June 5, 1938.

Dear Sirs:

You have brought to my attention the order dated June 3, 1938, of Mr. Justice Pecora of the Supreme Court of the State of New York in the case entitled Banco de Espana v. Federal Reserve Bank of New York, served on you on Saturday, June 4, 1938, directing you by George L. Harrison, Walter S. Logan or Herbert H. Kimball to appear in the Supreme Court of the State of New York at 10 A.M. on Monday, June 6, 1938, for the purpose of taking their depositions by the plaintiff with reference to the location of the chattels referred to in the complaint in said action and, upon such examination, to produce all instruments of title, bills of lading, documents, records, correspondence, memoranda or papers relating to such chattels and referring to or bearing upon their location. The complaint describes the chattels in the following language:

"2,334 boxes or flat cases containing silver and/or securities consigned by E. Agat to Reserve Federal Bank (said 'Reserve Federal Bank' being defendant, the consignee of said boxes or flat cases) and shipped by SS NORMANDIE which arrived in New York on or about May 30, 1938, said boxes or flat cases bearing the marks 'F.R.B.' and 'B.B.5' and numbers 1 to 2,334, inclusive."

You have asked for my instructions as to your authority to furnish the information requested and to produce the documents, etc., referred to in such order. The Department has given this matter as careful consideration and study as was possible in the short time that has been made available.

The Federal Reserve Bank of New York was by my direction acting as fiscal agent of the United States pursuant to law (e.g., Section 15 of the Federal Reserve Act) in regard to such chattels, and since all documents, etc., relating to such chattels were involved in official transactions of the Government of the United States and of the Treasury Department thereof, any such documents, etc., are official records of this Department and subject to its jurisdiction and control. I am not satisfied that it would be in the public interest to produce for the purposes stated in said order, and I am therefore unable to consent to the production of, in connection with such order, by you or any of your officers, agents, or employees, any instruments of title, bills of lading, documents, records, correspondence, memoranda or papers relating to said chattels.

However, you are authorized to state that the chattels apparently intended to be referred to in the above quotation are in the possession of the United States and are located at the United States Assay Office at New York, 32 Wall Street and 32 Old Slip, New York City, New York.

Very truly yours,

(Sgd.) H. Morgenthau, Jr.

Secretary of the Treasury.

Federal Reserve Bank of New York,
New York, New York.

BB:meu
6/5/38

Initialed: JWP BB



SPANISH EMBASSY
WASHINGTON

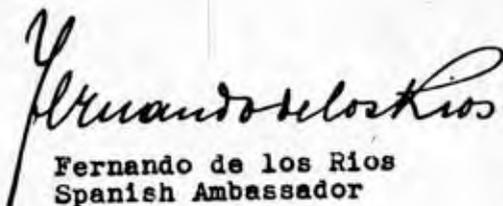
318

June 3rd, 1938

Secretary of the Treasury
of the United States.

Dear Sir:

I have been instructed by my government to submit to you a request that you purchase from my government approximately 5,000,000 fine troy ounces of its silver. I would appreciate your advising me of the terms and conditions on which you would buy such silver.


Fernando de los Rios
Spanish Ambassador

Secretary of the Treasury
of the United States.

Dear Sir:

I have been instructed by my government to submit to you a request that you purchase from my government approximately 5,000,000 fine troy ounces of its silver. I would appreciate your advising me of the terms and conditions on which you would buy such silver.

Ambassador of Spain.

Initialed: JWP BB AL FD WCT

(COPY)

June 3, 1938.

The Government of Spain,
Barcelona, Spain.

(To be transmitted through the
Spanish Ambassador to the United
States in Washington, D. C.)

CONFIDENTIAL

Pursuant to your request contained in the letter from the Ambassador of Spain dated June 3, 1938, the United States will purchase from you approximately 5,000,000 fine troy ounces of silver owned by you, at the rate of 43 cents United States currency per ounce .999 fine, shipped in time to arrive in the normal course in New York City on or before July 15, 1938, on the following terms and conditions:

- (a) 95% of the purchase price of the silver shall be paid to you by the United States upon delivery of the silver to the Superintendent of the United States Assay Office at New York or any other consignee designated by me.
- (b) Final settlement shall be made on the basis of figures as to weight and degrees of fineness of the silver established by a United States Assay Office or Mint or any recognized American refinery designated by me, which figures shall be accepted by you as final.
- (c) You shall arrange for the shipment and insurance of the silver and shall consign it to the Superintendent of the United States Assay Office at New York, 32 Old Slip, New York, New York, or to any other consignee designated by me. All documents shall be forwarded directly to the

designated consignee. You shall pay all costs and expenses incurred in effecting the delivery of the silver to the designated consignee, including, without limitation of the foregoing, all costs and expenses of shipment, transportation and insurance. In addition thereto, any reasonable and necessary costs and expenses incurred by the United States in connection with such silver shall be for your account.

- (d) If you deliver silver coin or silver bars other than bars which are good delivery in the London or New York markets, the cost, or the estimated cost as determined by me, of melting and refining such silver into such good delivery bars shall be borne by you, and such melting and refining shall be at your risk.
- (e) Title to the silver shall vest in the United States upon being delivered on board a steamship bound for New York City. You shall assume the risk of loss of the silver during transit, i.e., you agree to hold the United States, its officers, agents and employees harmless from any loss or damage to the silver while the silver is in transit, from the time it is delivered on board such steamship until it is received by the designated consignee, and from any costs and expenses arising from any such loss or damage.
- (f) Your acceptance must reach me not later than June 7, 1938.

(Sgd.) H. Morgenthau, Jr.
Secretary of the Treasury
of the United States.

Initialed: JWP BB AL OR FD WCT

KNOW ALL MEN BY THESE PRESENTS that I AURELIO VALLS of Mount Royal Hotel, London, Manager of the Branch in London, England, of the Banco de España, acting in the name and on behalf of said Bank and by express authorization of its duly constituted Officers and Board of Directors, do HEREBY APPOINT JOAQUIN SUNYE of New York City, the true and lawful Attorney-in-fact of said Bank and HEREBY AUTHORIZE AND EMPOWER him on behalf of said Banco de España to make demand upon the Federal Reserve Bank of New York and upon any others for the immediate delivery to him or upon his order of the property of said Banco de España, contained in Two thousand three hundred and thirty-four (2,334), more or less, boxes or flat cases consigned by Establecimientos AGSI, or others, to the Federal Reserve Bank of New York and shipped by the SS. "NORMANDIE" which arrived in New York on May 30th and to accept delivery of said property and give receipt therefor in name of said Banco de España, or otherwise

London, England,
June 3, 1938.

Aurelio Valls
A Valls

For and on behalf of Banco de España.

Before me, the undersigned, Vice-Consul of the United States of America, appeared AURELIO VALLS who declared and said that he was the person who signed the foregoing Power of Attorney for and on behalf of the Banco de España and he did acknowledge it as and for the act and deed of the said Bank.

Franklin C. Owen
Franklin C. Owen

New York, N. Y.
June 3, 1938.

Federal Reserve Bank of New York,
New York, N. Y.

Dear Sirs:

Under authority from Banco de Espana, conferred by instrument, a copy of which is hereto annexed, and a radio photograph of the original of which has been exhibited to you, I hereby demand the immediate delivery to me of the following described property:

2,334 boxes or flat cases and their contents consigned by E. Aget to Federal Reserve Bank of New York, shipped from Havre, France, by SS NORMANDIE which arrived in New York on or about May 30, 1938, said boxes or flat cases bearing the marks "F.R.B." AND "B.B.5" and the numbers 1 to 2,334, inclusive.

Very truly yours,

(Sgd.) Joaquin Sunys

June 3, 1938.

MEMORANDUM FOR THE FILES:

Mr. Logan phoned me and advised me of the conference which he and Knoke had had that afternoon with Sharp and Wyatt of Sullivan and Crosswell and a Mr. Sunye, claiming to represent the Bank of Spain. Logan and I discussed possible courses of action.

I phoned Mr. Oliphant and discussed this matter with him. He felt that I should tell Logan to orally advise Sullivan and Crosswell that their inquiries were being referred to the Treasury Department in Washington. I phoned Logan and advised him accordingly. Logan will send to me a memorandum of the conference and the documents left with him by Sunye.

(Sgd.) B. Bernstein

EB:men
6/3/38

324

June 3, 1938.

MEMORANDUM FOR THE FILES:

Walter Logan of the New York Federal Reserve called Mr. Bernstein at 3:12 P.M. and in his absence spoke to me. Logan stated that he had just received a call from Sharp of Sullivan and Crosswell that Sharp had with him a man from the Bank of Spain and that they wanted to come over to see Logan and present a formal demand for "the cases". Logan stated that he advised Sharp that he would get in touch with him as soon as possible with regard to the matter.

I told Mr. Logan that as soon as Mr. Bernstein returned we would call him. I then telephoned Mr. Dietrich and advised him of the above. Mr. Dietrich suggested that we get in touch with Mr. Bernstein at the Embassy and he put through a call to Mr. Bernstein. I advised Mr. Bernstein as to the above.

(Sgd.) J.W.P.

B
JWP:mas
6/3/38

MEMORANDUM FOR FILE

June 3, 1938

A conference was held in Mr. Bernstein's office at 12:30 noon on Friday, June 3, 1938, relative to the proposed second shipment of Spanish silver. The conference was attended by Messrs. Dietrich, Barnes, Weber, O'Daniel, Frantz, Bernstein, and Pable.

It was determined that there would be no objection to the New York Assay Office receiving the second shipment of silver and upon receiving proper instructions, issuing a bullion fund check therefor on the Treasurer to be sent to Washington for delivery. It was tentatively decided that the Assay Office would show the amount of such advance payment as a special silver asset and report it to the Treasurer as such and that such amount would be taken into the Treasurer's books as an unclassified item until final settlement, when the total amount would be transferred to the regular silver bullion assets.

JWP:WJW

J.M.P. - W.J.W. - A.D. - L.B.N. - B.A.B. - T.P. - C.B.

(COPY)

FEDERAL RESERVE BANK
OF NEW YORK

June 3, 1938.

Attention: Mr. Bernstein

Sir:

There is enclosed herewith photostatic copy of a cable in Spanish dated June 2, 1938, addressed to the President of the Federal Reserve Bank of New York and signed by the Bank of Spain and three Spanish commercial banks in San Sebastian, together with a copy of our translation.

The text of this cable was read to Mr. Bernstein by Mr. Logan late last night.

With reference to my letter of June 2, I am now enclosing photostatic copy of the message dated May 29, 1938 received by Mr. Harrison in Spanish and signed by Mr. Ramon Artigas, First Deputy Governor Bank of Spain, San Sebastian. The copy of this message forwarded to you with our letter of June 2 is a copy of our translation of the Spanish text.

Respectfully,

(Sgd.) L. W. Knoke
Vice President.

The Honorable,
The Secretary of the Treasury,
Washington, D. C.

Enc.

TRANSLATION OF CABLE

FROM (see signatures) DATE San Sebastian, June 2, 1938.
TO Director or President Federal Reserve Bank of New York, New York
REF. NO.

Confirming cable Bank of Spain, Burgos, the remainder of the official banking community and adherent private banking are interested retention of the cases shipped by Government Barcelona or Bank of Spain in Barcelona until authorities decide who can withdraw them in name and representation of official banking and of private banking adherent to National Spain

Bank of Spain - Banco Hispano-Americano -
Banco Commercial de Barcelona - and Banco Soler

Y Torra

GL

Checked EFL

(COPY)

FEDERAL RESERVE BANK
OF NEW YORK

June 2, 1938.

Attention: Mr. Bernstein

SIR:

I enclose copies of three cables as follows:

One dated May 29, 1938 received by
Mr. Harrison signed Ramon Artigas, First Deputy
Governor Bank of Spain, San Sebastian, and

Two dated May 30, 1938 received by
Mr. Harrison signed A Valls of 1 Brick Court Temple
London EC 4,

which were dictated over the telephone to the Treasury Department on May 21, 1938.

There is also enclosed a copy of a letter dated May 31, 1938 received by us from the Acting Consul General of Spain in New York.

Respectfully,

(Sgd.) L. W. Knobe

L. W. Knobe,
Vice President.

The Honorable,
The Secretary of the Treasury,
Washington, D. C.

Encs.

C O P Y

CONSULADO GENERAL DE ESPAÑA
515 MADISON AVENUE
NEUVA YORK

New York, May 31st, 1938.

Federal Reserve Bank of New York,
33 Liberty Street,
New York, N. Y.

Gentlemen:

With reference to the shipment of 2,334 cases containing pesetas 35,000,000, per Steamship "NORMANDIE", to be delivered to Federal Reserve Bank of New-York or its order, I deem it convenient to state that although the receipt given by the Manager of your Foreign Department to me, (through Mr. Francisco Borrell of the staff of this Consulate General of Spain,--corresponding to the two bills of lading of the shipment in question,) indicates that you received said two bills of lading at 3 p.m. to-day, the fact is that Mr. Borrell arrived at the Federal Reserve bank of New-York this morning at 10.45 and informed the attendant that he wished to see Mr. L. Warner Knoke, Vice-President, to deliver to him, by order of the Spanish Consul, the referred shipping documents.

Word was passed to Mr. Knoke, and Mr. Borrell was asked to wait, which he did until 1 P.M. when Mr. Knoke received him and told him that he could not receive the shipping documents until he had instructions from the Treasury Department for which the Federal Reserve Bank of New-York acts as its fiscal agent.

Thereupon Mr. Knoke said that as soon as said instructions would be received that he would call the Spanish Consulate General, which he did, at approximately 2³⁰ P.M. to-day.

The undersigned had the pleasure of calling on Mr. Knoke last Saturday morning and it was agreed at that time that as soon as the shipping documents would be received they would be delivered to the Federal Reserve Bank of New-York without delay. This morning you called this Office twice between 9³⁰ and 10⁰⁰ a.m. to inquire if the papers had been received and you were informed that they had not. Shortly after the registered letter containing them was received and Mr. Borrell was dispatched to your Office immediately with the results set forth.

Yours very truly,

(signed) Luis Careaga

Acting Consul General of Spain

COPY

INCOMING CABLEGRAM - SERIAL NO. 1853

Received on May 31, 1938

London, May 30, 1938.

President

Federal Reserve Bank of New York

New York

Have been informed that 2334 boxes containing gold silver securities and other valuables belonging to the Bank of Spain and other private banks also to private individuals are on the Normandie arriving New York today consigned to you.

As representative of the legitimate Board of Directors of the Bank of Spain operating at Burgos I formally request you to hold such consignment in safe custody until legal decision as to proper ownership is secured. For preliminary confirmation of my authority please apply to Mister McComas of Bankers Trust and Mister Crane of Standard Oil.

A Walls of 1 Brick Court Temple London EC 4

NY RCA 111 Eng.

C O P Y

INCOMING CABLEGRAM - SERIAL NO. 1854

Received on May 31, 1938

London, May 30, 1938.

President

Federal Reserve Bank of New York

New York

As continuation today's cable note that our lawyers
are Messieurs Sullivan and Cromwell 48 Wall Street.

A. Valls of 1 Brick Court
Temple EC 4

by RCA 31 Eng.

C O P Y

INCOMING CABLEGRAM - SERIAL NO. 1960

Received on May 31, 1938

San Sebastian, May 29, 1938.

Urgent

Director or President of
Federal Reserve Bank of New York,
New York

General Council Bank of Spain Governor and Deputy
Governors only and legitimate representation thereof with
eventual domicile in Burgos

It is in the interest of the Federal Reserve Bank of New
York that it retain the 2334 cases sent from Barcelona
shipped per steamer Normandie from Le Havre for arrival in
New York on 30 or 31 inst. containing deposits metallic
values belonging to Bank of Spain and other banks in
Barcelona until competent authorities determine who may
dispose of them

Ramon Artigas
First Deputy Governor
Bank of Spain.

NY CC 81 Spanish

(COPY)

FEDERAL RESERVE BANK
OF NEW YORKAIR MAIL

June 2, 1938.

Sir:

In accordance with telephone instructions confirmed by your letter dated June 2, 1938, we enclose herewith check for \$2,007,500 drawn by this bank as fiscal agent of the United States on the Treasurer of the United States, over symbol No. 17686, to the order of "The Ambassador Extraordinary and Plenipotentiary of Spain to the United States" for delivery to such Ambassador at Washington, D. C., as an advance payment for the approximately five million ounces of silver .999 fine, referred to in said letter, purchased for the account of the United States.

Respectfully,

(Sgd.) L. W. Knoke

L. W. Knoke,
Vice President.

The Honorable,
The Secretary of the Treasury,
Washington, D. C.

Enc.

June 2, 1938.

My dear Mr. Ambassador:

There is delivered to you herewith a check for \$2,007,500 drawn by the Federal Reserve Bank of New York as fiscal agent of the United States on the Treasurer of the United States to your order, as an advance payment for the approximately five million ounces of silver .999 fine, purchased for the account of the United States, and which arrived in New York on May 30, 1938, on the SS NORMANDIE.

Very truly yours,

(Sgd.) H. Morgenthau, Jr.

Secretary of the Treasury.

His Excellency,
The Ambassador Extraordinary and Plenipotentiary
of Spain to the United States,
Embassy of Spain,
Washington, D. C.

BB:am
6/2/38

Initialed: BB FD AL HO WCT

June 2, 1938.

Advance payment for silver ex S/S "Normandie" received
on May 31, 1938:

2,334 cases said to contain Spanish silver coins
purporting to contain approximately 5,000,000
ounces of silver .999 fine.

5,000,000 ounces of silver .999 fine at 43 cents
U. S. currency per ounce .999 fine - --\$2,150,000.00

Less:

5% withheld	\$107,500.00	
Estimated cost of refining coins	<u>35,000.00</u>	<u>142,500.00</u>
		<u>\$2,007,500.00</u>

(COPY)

337

June 2, 1938.

Dear Sirs:

This will confirm the specific instructions telephoned to you as fiscal agent of the United States on May 31, 1938, to receive and endorse the shipping documents in connection with the shipment of approximately five million ounces of silver purchased for the account of the United States and consigned to you on the SS NORMANDIE, which arrived in New York on May 30, 1938, and to assist in the prompt transportation of such silver to the United States Assay Office in New York City. You are also instructed, as fiscal agent of the United States, to draw a check in the amount of \$2,007,500 on the Treasurer of the United States over symbol No. 17686 to the order of "The Ambassador Extraordinary and Plenipotentiary of Spain to the United States" and to forward such check to this Department for delivery to the Spanish Ambassador at Washington, D. C., as an advance payment for such silver. You are also instructed to debit the General Account of the Treasurer of the United States on your books with the amount of said check, as a transfer of funds to the United States Assay Office at New York, and to credit said account with said amount, as a check issued. The instructions contained in this Department's letter of May 27, 1938, relative to payment for such silver are modified accordingly.

It is understood that the terms of the Department's letter to you of June 19, 1934, regarding the purchase for the account of the United States of silver, at home or abroad, are applicable to the

aforementioned silver and to the action taken by you relative thereto. Without limitation of the terms of that letter, it is understood that the Treasury Department will reimburse the Federal Reserve Bank of New York for, and save it harmless from, any liability or expense incurred by the Bank by reason of or in connection with any acts, arrangements, or agreements entered into or performed in accordance with any authorization or instruction from the Treasury Department relative or applicable to the aforementioned silver or to the action taken by you relative thereto, except for the negligence of the Federal Reserve Bank.

Very truly yours,

(Sgd.) H. Morgenthau, Jr.

Secretary of the Treasury.

Federal Reserve Bank of New York,
New York, New York.

Initialed: BB HO FD AL WCT
WJW GOB O'D DWB SBF SMCC LCA EMF

BB:meu
6/1/38



REPUBLICA DE ESPAÑA
WASHINGTON

May 27, 1938

Federal Reserve Bank of New York
As Fiscal Agent of the United States,
New York, New York.

Dear Sirs:

I am in receipt of the following cited instructions from my Government and the Bank of Spain:

"Advise the Federal Reserve Bank of New York as Fiscal Agent of the United States as follows: In accordance with the contract for the purchase of (5,000,000) five millions ounces of silver .925 fine, arranged by cable of March 31, 1938, by order and for account of the Treasury of the Spanish State, we are advising you that the SS NORMANDIA, which sailed on May 26, 1938, carries on board (175) one hundred and seventy-five tons of said merchandise packed in 1,350 cases marked: F.R. The silver is sent in Spanish coins of five pesetas denomination. The Spanish Consul in New York City will deliver to you the documents covering this shipment. In accordance with the agreement you can make payment for this shipment by check drawn to the order of the Spanish Ambassador in Washington"

Fernando de los Rios
Ambassador of Spain.

Federal Reserve Bank of New York,
As Fiscal Agent of the United States,
New York, New York.

Dear Sirs:

I am in receipt of the following cabled instructions from
my government and the Bank of Spain:

"Advise the Federal Reserve Bank of New York as fiscal agent
of the United States as follows: In accordance with the contract
for the purchase of (5,000,000) five millions ounces of silver .999
fine, arranged by cable of March 31, 1938, by order and for account
of the Treasury of the Spanish State, we are advising you that the
SS NORMANDIE, which sailed on May 26, 1938, carries on board (175)
one hundred and seventy-five tons of said merchandise packed
in _____ cases marked: F. R. The silver is sent in Spanish
coins of five pesetas denomination. The Spanish Consul in New York
City will deliver to you the documents covering this shipment. In
accordance with the agreement you can make payment for this shipment
by check drawn to the order of the Spanish Ambassador in Washington."

Ambassador of Spain

I cleared this over the phone with
MacDworth of State Department - BB

Initialed: BB FD WCT

May 27, 1938.

MEMORANDUM FOR THE FILES:

While at a conference between Messrs. Taylor, Dietrich and myself in Mr. Taylor's office, Mr. Taylor called Hackworth of the State Department and advised him of the situation with respect to the purchase of silver from Spain. At Mr. Taylor's request I then spoke to Mr. Hackworth, and Mr. Hackworth said that in the situation described, the Department would be justified and protected in relying on a cable delivered to the Department by the Spanish Ambassador containing instructions stated to be from the Bank of Spain and the Spanish Government, to the effect that payment for the silver should be made into "X" account. Mr. Hackworth also stated that in the absence of any evidence that payment of the money into the "X" account would result in the misappropriation of the funds, the Treasury was not under any duty to investigate and determine whether the moneys when placed in such account would be used unlawfully and without the consent of the Bank of Spain and the Spanish Government.

After the conference with the Spanish Ambassador, I read to Mr. Hackworth the draft of the letter which the Spanish Ambassador was going to send. Mr. Hackworth stated that such letter would be satisfactory.

(Sgd.) P. Bernstein

SB:mas
5/27/38

(COPY)

May 27, 1938.

Federal Reserve Bank of New York,
33 Liberty Street,
New York, N. Y.

Attention: Mr. L. W. Knoke
Vice President.

Dear Sirs:

I am enclosing a letter dated today addressed to the Federal Reserve Bank of New York, as fiscal agent of the United States, received from the Spanish Ambassador, relative to payment for the five million ounces of silver .999 fine, purchased in accordance with your cable to the Bank of Spain, Barcelona, dated March 29, 1938.

You are hereby authorized, as fiscal agent of the United States, to effect the payment in the manner indicated in the Ambassador's letter, that is, by check to the order of "The Ambassador Extraordinary and Plenipotentiary of Spain to the United States", forwarding such check to such Ambassador at Washington, D. C., and to charge the amount of such check to the General Account of the Treasurer of the United States on the books of your bank.

Very truly yours,

(Sgd.) Wayne C. Taylor

Wayne C. Taylor,
Acting Secretary of the Treasury.

Enclosure
FD:ek
5/27/38

June 6, 1938

With the President at lunch, also Eccles.

Eccles tried to sell the President, first, that we should subsidize private housing -- houses that cost \$3500 or under through letting them have WPA labor. The President was not favorably inclined as he felt that this would not help immediately.

Eccles wanted to do something for the railroads, principally through giving them a 100% loan to buy railroad equipment. Then the President and Eccles got on to talking about the situation and Eccles, as usual, was very vague and when Eccles left the President he said, Eccles certainly has not got anything which would put anybody to work at this time.

Bell, Aubrey Williams, and Berlew came in. I prepared the President for Berlew's report of 2100 projects which both Ickes and Berlew have been trying to get the President to o.k. for several weeks unsuccessfully. After some argument the President finally signed it, only when I definitely asked him to do so.

The nigger in the wood pile, I learn, was the following: Colonel Harrington was waiting outside and I said to him, The President has just o. k'd a lot of projects for Public Works, but I don't suppose you have any objection because there are enough projects to go around for everybody. And he said, Well, we are beginning to scrape bottom. I said, What do you mean? He said, Well, take for instance in Cleveland, where we have 70,000 people at work. He said, We are running out of projects. This explains, evidently, that Hopkins' organization has been holding up the approval of Ickes' projects because they wanted some of those projects for themselves, again proving that Hopkins' first thought is always his own organization and not what is best for the country.

Berlew was tremendously appreciative and said he would immediately cable Mr. Ickes because he knew how pleased he would be to get the good news.

Berlew said he could get out 300 projects a day, starting this afternoon. I said, Can't you get them all out by Saturday night? He said he would.

6/6/38
June 7, 1938

Last night, on reading in the papers that Congressman Woodrum was putting up a fight to knock out the \$212,000,000 appropriation for farm parity, I decided that it was worth while to make an effort to help him.

Before calling up the President I called up Bell to find out how the matter stood. I then called the President and in a rather hesitating manner said that I would like to discuss the \$212,000,000 appropriation with him. He said, "What about it?" I said, "Well, I think it is unnecessary. The advocates of this appropriation admit that they won't spend it until December or January and why have a large amount of money hanging over our head? If necessary, we can take the question up in January when Congress meets again." I told the President that Woodrum was doing his best to have it eliminated. The President seemed to be unaware of this. I said, "Inasmuch as you are seeing him at 9:30 Tuesday morning, don't you want to tell him that you are not interested in this appropriation, I said, because with the processing tax with the same amount hanging over the market, I just don't think it's wise."

Much to my surprise, the President said, "Well, you don't have to argue with me about it. I don't want it. I never asked for it." He said, "How does Henry Wallace feel about it?" I said, "Well, naturally, he wants it." So the President said, "Well, I guess he only wants it because he is Secretary of Agriculture." He said, "It's okie-doke with me to have it go out."

I tried my best to get Woodrum last night, but could not, because I wanted to stiffen his back bone when he saw the President this morning. I got him at 7:30 this morning and told him that I knew he was going to see the President at 9:30 and that I had arranged with Bell, who was writing a memorandum opposing the \$212,000,000, as Director of the Budget, to get that memorandum over to the President by 9 o'clock this morning.

I said, "As Secretary of the Treasury, I am absolutely opposed to this and I thought you would like to know it." He was, of course, pleased. He said, "I am afraid, though, that the House will pass it anyway, but I think it is very good ball for the President if he

-2-

would come out against it. I said, 'Well, confidentially, for your own information, when you see the President this morning I think you will receive a very favorable reception if you ask him how he feels about the \$212,000,000.'

I realize I was taking some chance by telling this to Woodrum, but after all the President did tell me, last night, that he didn't want it, so knowing how he feels I wanted to do everything I can to save at least \$212,000,000 out of the wreckage.

June 6, 1938. 345

CONFERENCE WITH THE PRESIDENT REGARDING APPROVAL OF PWA PROJECTS.

Present besides the President were Secretary of the Treasury Morgenthau, Assistant Secretary Burlew of the Interior Department, Aubrey Williams, and myself.

The President said that what he wanted was for the PWA to show some speed in approving projects under the program to be inaugurated under the provisions of the Relief Bill now pending in Congress. Mr. Burlew said that he had with him the list of projects which the President had seen on previous occasions, involving approximately \$600,000,000 in amount. Mr. Burlew said that there were approximately 120 power projects which might or might not be found to be of such a character that they would involve competition with private interests and therefore would have to be eliminated from the list. He had, therefore, provided an approval of the entire list except the power projects, which would be subsequently submitted to the President after it had been determined whether or not they were competitive projects with private interests.

There was some discussion as to the publicity on the approval of these projects and it was decided that the President would approve the projects subject to the approval of the Relief Bill, and that Mr. Burlew should announce publicly that he had been to the President and discussed with him a number of projects for which old applications had been previously received and approved which would involve approximately \$144,000,000 in grants from the Federal Government and that the President was prepared to approve these projects immediately upon the signing of the Relief Bill.

It was agreed that the President would see us again Wednesday afternoon to go over any other projects such as the power projects eliminated from this

list which would be eligible for grants or loans under the PWA section of the Relief Bill, together with any Federal projects that might be submitted at that time for approval. I told the President that we would have several million dollars worth of projects available for approval at that time.

swB

347

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 6, 1938

TO Secretary Morgenthau

FROM M. A. Harris

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

Prices of Treasury bonds moved to new highs since March, 1937 in fairly active trading last week. The average price for all issues advanced about 10/32nds, with individual gains ranging from 8/32nds to 15/32nds, with the exception of the 2 7/8s of 1955/60 and the 2 3/4s of 1956/59 which were up 7/32nds and 5/32nds respectively.

On Tuesday and Wednesday there was a good demand but turnover was relatively light and gains were held to small fractions, but on Thursday, following the announcement of tentative plans for June Treasury financing, the market became strong and active. On Friday mixed changes resulted. This was due to the disclosure that the holders of the September notes would be given the same privilege of exchange as the June holders and to some speculation as to the type of security that would be offered. Believing that a long bond would be offered, the 2 7/8s of 1955/60 and the 2 3/4s of 1956/59 lost 8/32nds while changes for other issues ranged from small gains for the short issue to small losses for the longer issues. On Saturday prices were unchanged to 2/32nds lower.

Treasury notes continued in good demand, with prices firm to small fractions higher each day. However, aside from the "right"

issues, activity was limited. The June issue advanced 12/32nds and at the close Saturday was quoted 101.27 bid. The September issue lost about 6/32nds on Thursday when it was learned this issue was to be refunded. This drop brought it to the same price as the June issue and it also closed the week at 101.27 bid, up 6/32nds for the week. Other notes advanced 3 to 8/32nds with the 1 1/2s due 12/15/40 advancing 10/32nds.

Corporate Bonds

Corporate bonds did not move far in either direction last week and interest in all classes of issues remained at a low ebb. Daily volume was light. High grade rails drifted to fractionally lower levels while second grade rails and low-priced rails continued to be the worst performers. High grade utility bonds were firm with some issues advancing fractionally. Lower grade utilities recovered rather well and in a number of instances with pronounced gains. Industrials displayed mixed movements, with Saturday's closing level about unchanged from the previous week.

New Issue Market

Capital financing was the largest last week for several months, totaling almost 250 millions. This figure was largely made up of the Commonwealth Edison issue of \$33 million 3 1/2s of 1968, \$100 million of U. S. Steel 10-year 3 1/4% debentures and the \$60 million State of Pennsylvania issue. These issues were quickly absorbed by the market with banks, insurance companies and other institutions large buyers.

Dealers' Portfolios

Dealers increased their holdings of U. S. Government securities

and guaranteed obligations by \$54.9 millions last week, which is the largest increase since the week ended March 7, 1938. Changes by groups are given below:

(in millions of dollars)

	<u>Holdings May 28</u>	<u>Holdings June 4</u>	<u>Change</u>
Treasury bonds	42.3	52.5	+ 10.2
" notes (1 year)	46.8	58.3	+ 11.5
" " (1-5 yrs.)	35.5	62.5	+ 27.0
" bills	2.8	0.3	- 2.5
H. C. L. C. bonds	- 0.5	9.7	+ 10.2
F. F. M. C. bonds	<u>6.2</u>	<u>4.7</u>	<u>- 1.5</u>
	133.1	188.0	+ 54.9

Investment Accounts

There were no transactions executed in the New York market for the investment accounts during the past week.

System Account

The only transaction by the Federal Reserve System was the replacement of the weekly bill maturity amounting to \$58,294,000 by the purchase of \$46,100,000 of the new bill issue and \$12,194,000 of the issue due June 16, 1938.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 6, 1938

TO Secretary Morgenthau
 FROM Mr. Haas
 Subject: The Business Situation

Conclusions

(1) Business activity during May sagged slightly further, tentative estimates placing the F.R.B. adjusted index for the month at 75, which compares with 77 for April. A renewed decline in basic commodity prices during the month, resulting partly from deflationary influences arising from the Czechoslovakian crisis and other causes, and partly from increasing supplies of commodities, has had an unfavorable reaction on business sentiment. New orders, particularly for steel, have consequently shown a declining tendency. (Chart 1)

(2) While underlying conditions, with the exception of the commodity price trend, appear favorable for a turn in business, the recovery may be delayed somewhat longer awaiting a change in public psychology, which will probably be conditioned upon an upturn in sensitive commodity prices. The generally held opinion is that no upturn in business is likely before fall, owing to the prospect of a summer shutdown of the automobile industry and other adverse factors, chiefly of a seasonal nature. This is not necessarily true. Industrial production has been running below consumption for so long a period, and inventories have apparently been so far reduced, that an upturn in business could take place at any time if psychological conditions became favorable.

We estimate that a rise of 10 points in the F.R.B. index would be required to adjust industrial production to current demand. While the deficit thus far has been made up out of inventories, these appear in some cases to have already been reduced to abnormally low levels. It seems entirely possible that the present inventory situation may prove to be a bullish rather than a bearish factor.

(3) The way is being paved for an upturn in business later in the year by an approaching stimulus to business in the form of Government spending, an encouraging situation in the construction industry, and an expansion of the capital markets. Experience suggests that such an upturn would likely be foreshadowed by an improvement in stock prices and sensitive commodity prices somewhat earlier.

Secretary Morgenthau - 2

(4) A solution of the price dilemma may now be in the making. Price disparities may possibly be corrected by a rise in prices of raw materials due to increased demand and expanded credit, accompanied by a competitive downward adjustment of prices of finished products such as steel and automobiles, as soon as business improves sufficiently to increase the prospective demand for such products. Steel prices, in several past instances, have been reduced shortly after business had begun to improve. (Chart 2)

The general situation

With further declines in automobile and steel production generally expected, and no important stimulus in sight to improve business during the immediate future, the generally held opinion is that business activity will be maintained for several months longer at current levels or moderately lower, and that an upturn of moderate proportions will occur during the fall. Tentative estimates place the F.R.B. index for May at 75, a 2-point decline from the April figure.

This discouraged sentiment has shown itself in a decline in new orders during May. It will be noted in Chart 1, however, that orders for products other than steel have held up much better. The decline in steel orders doubtless reflects in some degree the increasing disparity between steel prices and the level of prices for other commodities. Any improvement in sentiment, such as might be brought about by a rise in stock prices or commodity prices, would probably be reflected immediately in new orders, and new orders would probably be translated almost immediately into production.

Sentiment recently has been unsettled by reports that the automobile companies are contemplating a complete shutdown for two months, beginning around July 1, while a change-over to new models is made. We estimate that a complete shutdown for this length of time would reduce the F.R.B. index by 2.5 points, if it affected automobile production alone, and by a possible maximum of 5.0 points if it caused a decline in the output of steel, textiles, glass, and rubber products entering into automobile manufacture. The latter possibility does not necessarily arise, since (1) the current buying of these products by automobile companies has apparently been light; (2) materials for new models are likely to be bought during the shutdown period; (3) previous shutdowns of automobile plants have usually not been accompanied by any material reduction in the output of related industries.

Telephone conversations with statisticians and economists of the leading automobile companies, however, have brought statements that no departure from usual changeover practices are contemplated. Operations are expected to be gradually reduced during the summer, to allow dealers to work off stocks of old models, and assembly lines will as usual be stopped for a number of weeks while the shift to new-model production is being made. The stoppage will be staggered as between different models; hence there will probably be no complete halt in assemblies by either General Motors or Chrysler. Other factory operations will be continued while the assembly lines are stopped. The consensus of opinion of those interviewed is that 150,000 to 160,000 cars will be produced in June, as compared with a figure of approximately 200,000 for May; a production of 90,000 to 95,000 is expected in July; a total somewhere below 30,000 in August; and in September a total above July.

Pointing toward a business improvement during the fall are the following factors:

(1) A continued reduction in inventories.

According to trade reports and actual statistics, inventories have been substantially reduced in recent months, particularly in merchandising channels. The Federal Reserve index of department store stocks at the end of April, seasonally adjusted, was reduced to 68, as compared with 76 at the same time last year. Wholesalers' inventories at the end of April, according to Department of Commerce reports, were 12 percent lower than in April last year. Price reductions have to some extent been a factor. Manufacturers' inventories are apparently being reduced at a slower rate, notably mill stocks of cotton goods, though recent production curtailment will hasten the process.

(2) Production has for six months been running substantially below the estimated level of demand, confirming the fact that inventories have been greatly reduced. An upturn of approximately 10 points in the F.R.B. index will be necessary merely to adjust production to the present level of requirements, when inventories can no longer be drawn upon, according to our study of basic demand. It seems entirely possible that inventories have become overemphasized as a bullish factor, and that the inventory situation may, in fact, have become bullish.

Secretary Morgenthau - 4

(3) The change in automobile models will tend to increase business activity. Following a year of very low demand, automobile production this fall will be reinforced by the stimulation provided by model changes. This was an important business factor in 1935.

(4) Government spending through P.W.A. and W.P.A., expected to get under way strongly by the end of the year, may lead to anticipatory private buying during the early fall.

(5) The well-maintained volume of construction should continue to be a supporting factor in business activity.

Among the offsetting factors, on the other hand, are the following:

(1) Agricultural incomes will be lower than last year. Present estimates place the total income of farmers (including Government payments) at a probable maximum of 7.3 billion dollars in 1938, which compares with a total of 8.5 billions last year.

(2) Some decline may occur in the purchasing power of other income groups, heretofore well maintained, such as those of service and professional workers, and those in wholesale and retail trade.

(3) Export demand is likely to be lower, judging from declining trends in industrial activity abroad.

The price dilemma

A solution of the problem of price disparities may come about through (1) a rise in basic commodity prices, resulting from depleted inventories, increased Government spending and increased industrial demand, at a time when the reservoir of credit has been greatly expanded; and (2) an increased rate of activity in the rigid-price industries, which would provide a setting in which a reduction in prices would lead to a broader demand and greater profits to manufacturers.

Steel prices, on several occasions in the past, have been reduced after an upturn in business was under way. (See Chart 2.) This was especially noticeable in the latter part

Secretary Morgenthau - 5

of 1921 and the latter part of 1924, doubtless contributing to the rapid improvement in business which took place in each of those years. These price reductions were apparently brought about by an increase in steel demand, at which time the steel companies were able to profit by a further stimulation of demand resulting from reduced prices.

Current price developments

The decline in basic commodity prices, which has recently been a weak feature in the business situation, has at least temporarily been halted, and upturns have occurred in a number of commodities. More favorable foreign copper statistics than had been expected, a sharp reduction in the export quota on rubber, oversold conditions in such commodities as wheat and rubber, and, according to press reports, some psychological effect of the prospective Government buying of surplus products, were factors in the upturn.

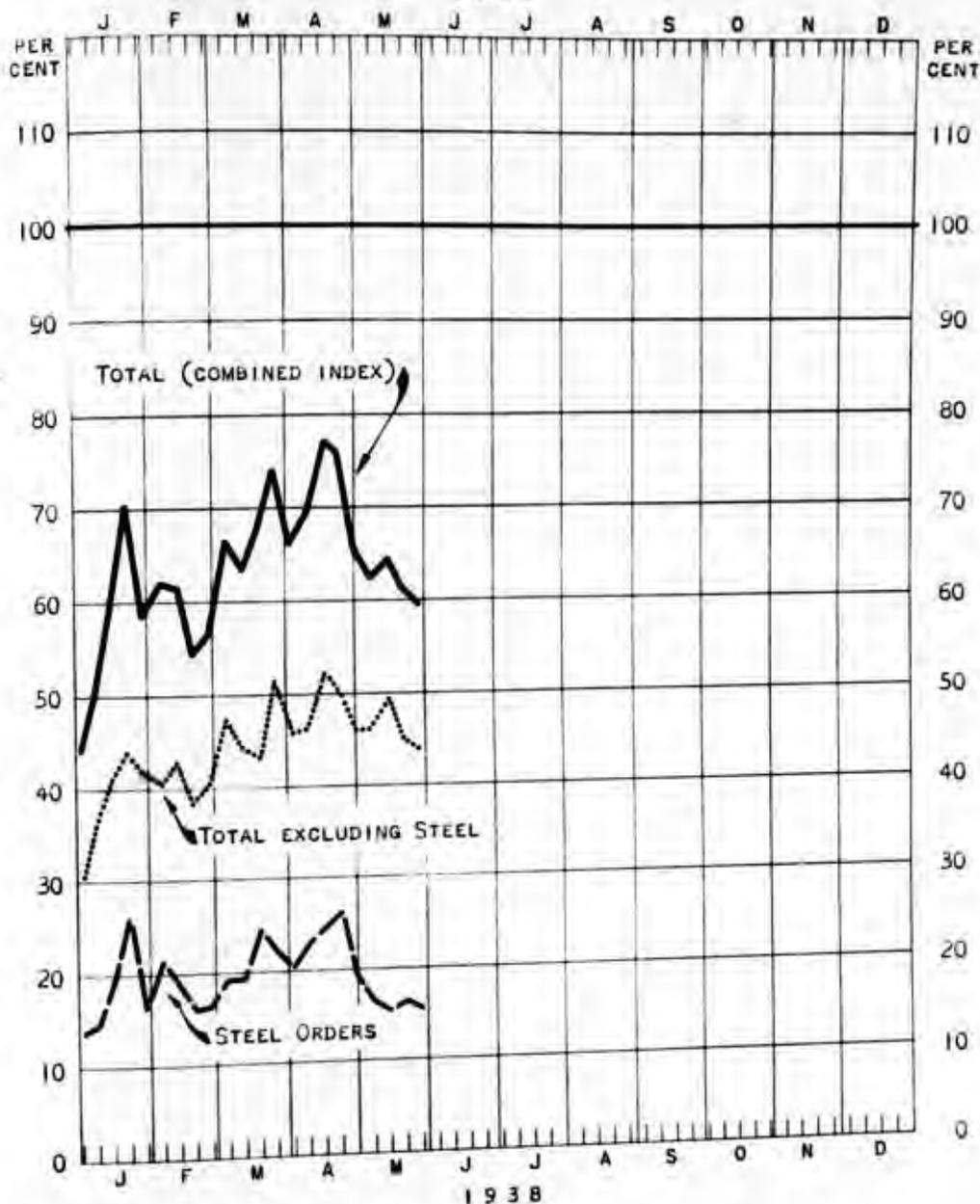
The favorable reception of two large security issues this week, which would have been worthy of note even in 1929, provides concrete evidence of the improved situation for new security flotations. It has brought rallying tendencies in the stock market and was doubtless a strengthening factor in commodities.

In addition to the prospect of a record wheat crop, privately estimated at about 1,077,000,000 bushels, it appears that the cotton crop this year may be considerably larger than has generally been looked for. An estimate of 12,927,000 bales for this year's crop, based on June 1st prospects, has been made by the Fairchild Bureau, an organization having a good record for crop forecasting. Crop expectations generally have been around 11,000,000 bales.

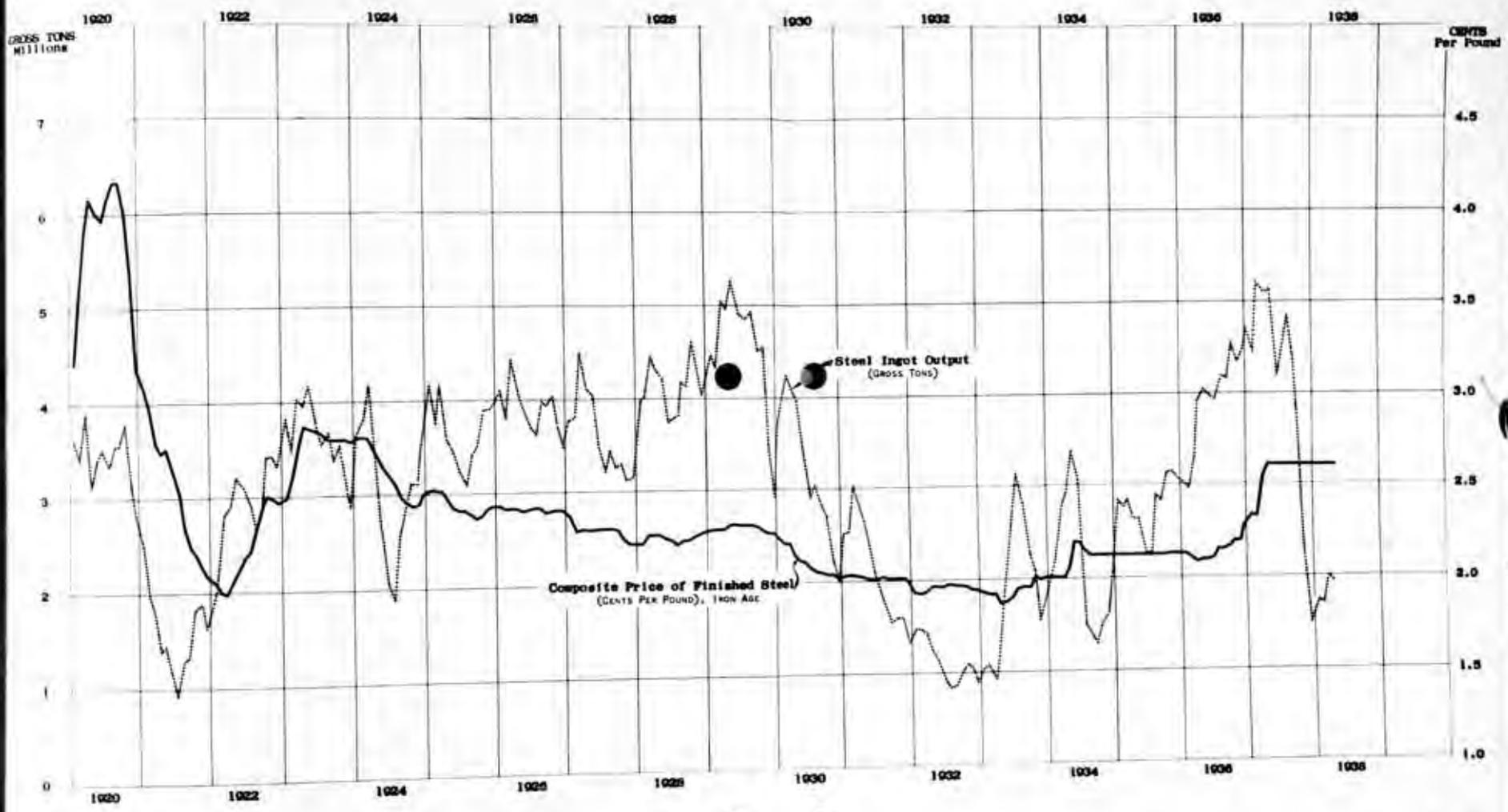
INDICES OF NEW ORDERS

1936 = 100

1938



STEEL PRODUCTION AND PRICES By Months



June 6, 1938.
2:55 p. m.

H.M.Jr: Hello.
Randolph
Burgess: Hello Henry.

H.M.Jr: Hello, Randolph.

B: Well the situation is just about what it was when I talked to you last.

H.M.Jr: Uhhuh.

B: That is the bonds are quoted a hundred and one twenty nine to thirty one.

H.M.Jr: Yes.

B: And the notes about eleven thirty seconds under that.

H.M.Jr: Uhhuh.

B: The long bonds - the two longest issues show a drop of seven and five thirty seconds. The intermediate bonds are all up, the notes are up a little bit.

H.M.Jr: Uhhuh.

B: Now what we get is that the corporations which hold these maturing notes and some of the commercial banks are selling the rights.

H.M.Jr: I see.

B: That the insurance companies and savings banks and some of the banks that are long term minded are buying them.

H.M.Jr: Well, that's fine.

B: So it's just right.

H.M.Jr: That's fine, it -

B: I think it's all right.

H.M.Jr: And just yet as to the proportion of bonds and notes.

B: That's pretty hard to guess. I think there'll be a few more notes than we first thought perhaps.

H.M.Jr: Well, it will be fine if these banks will sell.

B: I say I think it's all right, and I'd rather have the distribution take place so you don't have a lot of speculating in it.

H.M.Jr: You have a good distribution now.

B: Yes, we're getting it, yes.

F.M.Jr: Fine.

B: Yes.

H.M.Jr: All right.

B: I just got to the point of your Treasury bills.

H.M.Jr: Yes.

B: They went at 042.

H.M.Jr: 042.

B: Which is up a little on the hundred million you know.

H.M.Jr: Yes. Well that's what we expected.

B: There were more banks bidding this time.

H.M.Jr: That's the New York?

B: Yes.

H.M.Jr: That isn't for the whole Treasury.

B: That's just New York.

H.M.Jr: Yes.

H.M.Jr: Well that's all right.

B: Maybe a little lower for the country. Oh yes, that's all right.

H.M.Jr: Well I'm going to announce, in a few minutes, that we're going to close this as of Wednesday night.

B: I think that's a good thing to do.

H.M.Jr: Right.

B: Yes.

H.M.Jr: All right.

B: Right, Henry.

June 6, 1938.
4:04 p.m.

H.M.Jr: Hello, Lowell.
Lowell
Mellett: Yes.

H.M.Jr: Henry Morgenthau.

M: Yes.

H.M.Jr: How are you?

M: Fine, thank you.

H.M.Jr: I had a meeting, over at the White House, with the President and Burlew and Aubrey Williams and Bell, in which the President, on my recommendation, provisionally approved, subject to passing the Bill, some two thousand projects for Public Works.

M: Well, Henry, I just came from Burlew's office.

H.M.Jr: Oh you did.

M: He got me and gave me a fill in on that. I have been talking with him and Mike Straus and the others about it.

H.M.Jr: Oh. Well, I want you to know it was my suggestion.

M: Yes, sir, that's the way it was put to me.

H.M.Jr: And the point - I asked the President whether he didn't want to channelize this spending through you, you see? And - the publicity.

M: Uh-huh.

H.M.Jr: And he said he did.

M: Yes.

H.M.Jr: Now I just want to give you my thought. Now they always give out this stuff. The suggestion I made was that they hold back on the story until the President signs the Bill, and then let the President announce he's got so many hundred million dollars worth of stuff that will go to work right away, see?

M: Yes.

H.M.Jr: Now that will be something in an entirely different way they've ever done it before.

M: I think they must have a very different idea because their - their notion was that you above all people wanted to get the announcement out as quickly as possible.

H.M.Jr: What I want to do is -

M: With a maximum

H.M.Jr: Oh, no. No, no. What I want to do is to get them to give word to the city that they're getting this money subject to the passing of the Bill so the city can begin to figure.

M: Yes.

H.M.Jr: And then when the President signs the Bill he will announce that Public Works have so many hundred million dollars worth of projects which will start in so many weeks.

M: Well now, the plan is more or less tentatively agreed upon, what they can do, and I think they may have some misunderstanding of your desire.

H.M.Jr: Well -

M: Because all the conversation was predicated on what they could do to meet your desire in the matter.

H.M.Jr: Well -

M: Was that they give a maximum effect and the quickest possible effect.

H.M.Jr: By doing what?

M: Well - by - to make an announcement that would have the most immediate effect on business.

H.M.Jr: Yes.

M: And industry.

H.M.Jr: They're going to give one out right away.

- M: Well, now - so they contemplate getting out tomorrow a general story of the - of the - of this March amount to be available, the large amount of which is going to be done, and then that's going to be broken down into what that will mean in cement and so forth and so on. In the cement business I mean, and so on. Then, that's the stand until the - until they're ready to - until the Bill is to be signed - until the Bill is signed, then it will be given out as fast as they can give these projects and they can do about - they figure to five hundred to six hundred a day, it will be over a period of two or three days.
- H.M.Jr: I see.
- M: Which will be very good in itself. Then - but in the meantime notify the Congressmen -
- H.A.Jr: I see.
- M: A couple of hours before they give this to press so the Congressmen will be happy and he'll send out his own story. Now it is working to get the maximum publicity and the maximum industrial effect to build an effect out of it.
- H.A.Jr: Well, I'm not going to try to dot the t's - I mean dot the I's and cross the t's, but the main thing - now if that's the way they want to do it, I didn't understand it, but I thought they would hold back until the President signed, but if they've worked it out that way, if you and Straus are satisfied, why I'm not going to butt in.
- M: Uhuh. But this was all predicated on meeting your desires as they expressed it to me.
- H.A.Jr: Well, I -
- M: And so that was they had to meet certain conditions and troubles and staff and what not - /^{sorted}right along that line.
- H.M.Jr: Well, let's let it ride that way.
- M: Now, when I went over this, by the way, and I sat through this, I offered what opinions I had, but had to explain that this office, especially me, could not be doing any of that.

H.M.Jr: Yes.

M: At least.

H.M.Jr: I see.

M: You understand that we're going - maybe get appropriation on the theory if we don't do any of that.

H.M.Jr: Oh I see. I see. Well, I think that - just let us - after what I'm after is if we can get out - the next week or so, and really get the stuff out - five six hundred million dollars in real orders is going to help like hell.

M: Yes.

H.M.Jr: And if they want to do it that way and then have the President do some more when he signs it, that's all right.

M: Yes, I think that ^{perhaps} will/produce the maximum.

H.M.Jr: All right. Well anything as long as - I mean the main thing is this is real orders, not like Nathan Straus stuff, which is all earmarking.

M: Yes, I understand.

H.M.Jr: Well I'll let it ride the way you fellows worked it out.

M: Righto.

H.M.Jr: But as I find that these different things happen I'm going to ask them to keep you posted.

M: All right, fine.

H.M.Jr: Because - Oh, I think you should have it anyway.

M: Yes. All right, fine.

H.M.Jr: All right.

M: Righto.

H.M.Jr: Thank you.

MEMORANDUM OF THE DAY'S ACTIVITIES

June 5, 1938

To: The Secretary

From: Mr. Magill

Subject: Income taxation of state officers and employees

Pursuant to the President's direction, Mr. Oliphant and I discussed with the Solicitor General this afternoon, the legal steps to be taken in the application of the Port Authority case. The Attorney General was out of town. Mr. Jackson felt very strongly that no legislation should be recommended or adopted regarding income taxes for past years, except as a corollary to legislation fixing income tax liability for future years. It was agreed that Mr. Oliphant's office should prepare an opinion for the guidance of the Commissioner of Internal Revenue regarding the scope of the application of the Port Authority case; and that legislation should be sought at the next session of Congress.

Mr. Jackson also suggested that an interdepartmental committee should be formed to investigate and make recommendations regarding the whole field of the liability of the Federal government to various kinds of taxes imposed by the states and vice versa.

Mr. Oliphant is preparing a memorandum in response to the President's note to you.

Rm