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June 7, 1938.
9:25 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

John N. Garner: Yes, hello.

H.M.Jr: Henry Morgenthau.

G: Yes, this is -

H.M.Jr: How are you?

G: All right, how are you?

H.M.Jr: Are you up at the capital?

G: No, I'm at the Senate Office Building.

H.M.Jr: Oh! I'm going to do all I can to back up Cliff Woodrum to get out that two hundred and twelve million dollars for farm parity.

G: Well, I wish to God you'd take it out if I had my way you know.

H.M.Jr: I know. But I thought I'd try to save the two twelve anyway.

G: Do your damnest.

H.M.Jr: And I talked to the President about it last night.

G: Well.

H.M.Jr: And he said he don't want it.

G: Why of course, nobody wants it. Just put it in there because - they're throwing money away so god damn fast and these fellows say, "Why, we can get anything, why not take it?"

H.M.Jr: Yes.

G: That's the story about it.

H.M.Jr: Well, I asked him how he felt about it; he said he don't want it, he didn't ask for it.

G: I know he didn't.

H.M.Jr: So -

G: I wish you success.

H.M.Jr: Well, I just thought I'd let you know what I'm doing.

G: And go to it.

H.M.Jr: Thank you.

G: God bless you.

GROUP MEETING

June 7, 1938.
9:30 a.m.

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

Magill: I understand that this liquor floor stock tax passed the House and Senator Harrison is having a meeting of the Finance Committee tomorrow afternoon. I've asked Mr. Berkshire to attend it. It evidently will go through.

H.M.Jr: All right, what else?

Magill: Tarleau has made up a list of various defects in the Revenue Act of 1938, as well as other aspects of the revenue laws. I'd like to transmit them to your (Oliphant) Legislation and Regulations Division, and they can get to work on them while I'm away.

Oliphant: For correction the next time.

Magill: For correction the next time.

I talked to Mr. Hanes, as you know, about the general layout, and he particularly asked for some information as to our studies - broader aspects of the tax program. I told him I thought we were pretty well heeled.

That's all.

H.M.Jr: How's your child?

Magill: Well, he doesn't look very well, but he feels fine.

H.M.Jr: Herman?

Oliphant: The House is considering the last deficiency bill, and the Senate is calling the calendar.

H.M.Jr: Calling the what?

Oliphant: Calendar.

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

Oliphant: Bills that are up for passage without objection.

This is where Stimson can be reached by telephone today, in case you want to call him - be desirable - and express your gratification for his undertaking it.

H.M.Jr: What else?

Oliphant: That's all. One matter I'd like to tell you about after the meeting.

Gaston: About a couple weeks ago a letter came in to me from - a letter addressed to you from McIntyre transmitting a letter from Senator Barkley, who in turn transmitted a letter from a banker in Louisville. It was on the subject of permitting the American Institute of Banking convention, who are to have a field day at Fort Knox on Friday of this week, to approach and look at the depository, the gold depository. And I consulted Miss O'Reilly and then wrote to McIntyre that they could have the same privileges that any other visitor had; that is, they would be permitted to approach the depository and even go inside the fence, but not within the depository itself. Now Mrs. Ross has returned and tells me that you had given instructions that Miss O'Reilly didn't know about, that people were not even to approach the depository at all, not even to come up to the fence. Now, this is a convention of the American Institute of Banking - young bankers. What they can be told is that they may come up and go around the building. I got out a circular telling them about the depository. Is that all right?

H.M.Jr: Yes.

McR: By all means. I don't think they can carry it away.

Gaston: I didn't think they would.

H.M.Jr: In fact, Mac most likely got out some instructions.

Gaston: It came from Senator Barkley through the White House.

H.M.Jr: Mac is always doing things to irritate Miss O' .. - Mrs. Koss.

Gaston: It's partisanship in these campaigns, I think. He has his candidates.

H.M.Jr: Right. Any other important business?

Gaston: That's all.

Haas: You asked yesterday at that meeting - you wanted Secretary Wallace informed what went on.

H.M.Jr: I'd skip it.

Haas: I've got it here, but it's dynamite if

H.M.Jr: No, skip it.

Have you found out - what arrangements have you made with Surplus Commodities, about how they buy?

Haas: Tapp's going to send over a weekly report, and then - I told him to start and give me a cut-off as of May 1 and then weekly from then on. And I'll check with him again today. But he probably is compiling that.

H.M.Jr: Now, will you contact Dr. Parran? I don't know whether he's back or not, see, George. And I talked to Wallace about this committee and he says, "You go ahead." He says let's just do it between ourselves and Agriculture. Now, if Parran wants to see me, see, I'll see you and Parran; and let Mrs. Klotz know and she'll give you an appointment.

Haas: O.K.

H.M.Jr: What else?

Haas: I have nothing else.

H.M.Jr: I like that little graph of each business.

Haas: Do you? Fine. I'll have another one made to put in the front, which will be a composite of the total.

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Taylor: Dan and I have tentatively approved the Commodity Credit set-up for coming direct to the Treasury for advances pending financing. It is a set-up that will be identical with the United States Housing.

H.M.Jr: Well now, what did they do before?

Taylor: They did it through the R.F.C. before.

H.M.Jr: Oh, they come to us now. Well, would it be the same as United States Housing?

Taylor: Yes.

Bell: Except the amount would probably have to be larger - 100 or 150 million limit, something like that.

Taylor: They'll be in the next few months, probably August - they'll be in us for 75, and then finance either then or as soon as they get to 100.

H.M.Jr: Well now, you know about that 10:30 meeting tomorrow - Commodity Credit.

Taylor: (Nods no)

H.M.Jr: Well, Jones and Wallace.

Taylor: Oh, that's about the directors.

H.M.Jr: Yes. Well, as long as you fellows are sitting, you want - does anybody know what the play is?

Taylor: Yes.

H.M.Jr: What is it?

Taylor: Well, the play is that in the past they have had a majority of the directors of Commodity Credit.

H.M.Jr: Who has?

Taylor: Have been appointees of the R.F.C. So you have the R.F.C., the Farm Credit Administration, and the Department of Agriculture represented on the board.

Oliphant: Three from R.F.C., three from Agriculture, and two from Farm Credit.

Taylor: Well, I think they've had a little more than that.

H.M.Jr: Well, what Wallace asked for in his letter is that there be three each?

Taylor: He wants to cut the board down to nine. I believe the present board is eleven, so that they have six from the R.F.C. at present, and they want to have - Wallace's suggestion is that they have three for each.

H.M.Jr: Yes. Well, what's the matter with that?

Taylor: A commitment was given apparently to the committees of Congress that the management would remain unchanged. I don't think it's terribly important one way or the other.

H.M.Jr: Well, wouldn't the management still be the same?

Taylor: Well, that's the question, whether it would be or not.

H.M.Jr: Well, his suggestion is, Farm Credit three, R.F.C. three, and Agriculture three.

Oliphant: That's Wallace's suggestion.

H.M.Jr: Yes. Now, what's Jesse's suggestion?

Taylor: Leave it the way it is.

H.M.Jr: And that's how?

Bell: R.F.C. six.

Taylor: I think it's R.F.C. six.

McR: In other words, the R.F.C. runs it.

H.M.Jr: Oh, six to five.

Oliphant: At the moment the stock and all rights to vote the stock, hence full control, is vested in you by virtue of the Executive Order that transferred all the stock to you. But the President has power to put it wherever he pleases. What is apparently contemplated is another Executive Order.

H.M.Jr: Well, I want the management to continue where it is.

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I don't think there is any question about that.

Have you any doubts, Dan?

Bell: I don't know enough about it and its operation from the standpoint of the record, but it seems to me that in view of the attitude the Treasury has taken in the last three months on Commodity Credit, taking over the stock and then arranging yesterday for it to come directly to the Treasury, virtually taking R.F.C. out of the picture entirely, I question whether you want to decide this issue.

H.M.Jr: Well, ~~who's going to~~ decide?

Bell: Well, I think you'd be in a better position if you didn't say that you'd rather it be managed just as it is now and if R.F.C. has the balance of power leave it that way. That's good politics from your standpoint, probably.

H.M.Jr: Why?

Bell: Well, it doesn't put you in a position of siding with Agriculture and the other crowd.

H.M.Jr: You mean keeping it unchanged.

Bell: Yes. Say, "It's running all right, why change it then?"

H.M.Jr: I don't know why they should change it.

Taylor: I don't think there is any reason for changing it.

H.M.Jr: Unless Mac could get some of his people over there on their payroll. You think they could take a couple of Herman Oliphant's lawyers?

Oliphant: I didn't hear it.

H.M.Jr: Yes, you did. Oh yes, you did.

Oliphant: I heard - the last word I heard was "lawyers."

McR: It's one of his lawyers that runs it - his boy that he brought down.

H.M.Jr: I asked, if I changed it, could we get them to take a

couple of your lawyers on their payroll.

Oliphant: I'll see about that.

Bell: In that case we ought to have somebody on the board.

H.M.Jr: Well, I think unless we get some good reason - I think we can put it up to Wallace, why should it be changed?

Taylor: The reason he gives in a letter which he writes is the difficulty of getting a quorum.

H.M.Jr: Well, have an executive committee of three.

Well, anyway, the meeting is at 10:30 tomorrow.

Anything else?

Taylor: (Nods no)

Lochhead: The last reported Japanese gold shipment arrives this week, but it doesn't mean there is going to be any stoppage, because their balance is remaining at a low figure in this market. They're apparently using up the gold as fast as it's coming in.

H.M.Jr: What do they have, about five or six?

Lochhead: No, about ten million. But for a while it ran around 35. But they've got it to ten; doesn't seem to be able to get above it.

H.M.Jr: Do either you or White know the nationality of those nine planes that came over France three times?

Lochhead: I notice the French say it's no longer a diplomatic problem, simply military. Going to fire at them no matter who they belong to. That's the announcement.

H.M.Jr: Have another undeclared war.

Taylor: Didn't drop any silver down, did they?

Lochhead: What's about where it came out, though.

Gaston: Way to find out is to shoot a sample.

H.M.Jr: Anything else?

Taylor: (Nods no)

Lochhead: (Nods no)

White: (Nods nothing)

H.M.Jr: I want you (White) at the house tonight at 8:30.

White: (Nods yes)

H.M.Jr: Mrs. Klotz, have a stenographer and his machine there at 8:30.

Dan?

Bell: I really don't know how to handle that cotton.

H.M.Jr: You don't?

Bell: No, it's a matter of policy for the President to decide, in the last analysis.

H.M.Jr: Well now, I don't know, I haven't read the thing. All I saw was - would you state the question?

Bell: Yes. Wallace put up the proposition to spend six million dollars for the purchase and milling of wheat, and four million dollars for the purchase of cotton and ticking for manufacture into mattresses and comforters. And in my recommendation to the President I said, "I recommend that you approve the six million dollars for wheat, but as to the cotton, this presents a question of policy for you to decide; but I personally feel that the 9-cent loan and the 3-cent subsidy already provided for is all that should be expected of the Government, and I strongly recommend that the Secretary's proposal with respect to this commodity be not approved. I made a similar recommendation under date of October 15, 1937, with respect to a proposal for the purchase of approximately 62,500 bales of cotton to be made up into mattresses and comforters and distributed to the needy. In that case you agreed with me that the request should not be approved. However, I am enclosing two letters prepared for your signature, one granting approval only for the purchase of wheat and another covering

both wheat and cotton, in the event you should decide to depart from the policy heretofore followed of using Section 32 funds only for the purchase and distribution to relief agencies of surplus products."

He sends it to you and the Secretary of Agriculture for recommendation. I don't know what the Secretary of Agriculture is going to say.

H.M.Jr: Well, can we do this? Let's get the wheat letter over to the President, let's get a release on that, and then when Wallace is here tomorrow let's talk about the other matter.

Bell: All right.

H.M.Jr: Because I personally think that Hopkins - I've been thinking about it - that Hopkins should buy that cotton for his work groups. He buys the cotton gray goods, too, to make for his work rooms. Why shouldn't he buy this for the cotton ticking?

Bell: Either that or the sponsor should buy it. In many cases the sponsors are buying.

H.M.Jr: I agree with you, because Wallace hasn't got too much money and Hopkins has got unlimited money. I think if Hopkins wants to make a million mattresses, let him buy the cotton.

Bell: And 65 million dollars of the 125 million available next year is already earmarked for the cotton.

H.M.Jr: I agree with you. But can't we get that letter over today, so they can begin?

Bell: Yes, I'll have a memorandum down for your signature right after this meeting. You return it; it says, "I recommend you approve the wheat letter, and let us talk about the cotton."

H.M.Jr: Right. Right. Will you bring up the cotton tomorrow?

Bell: Yes.

H.M.Jr: Then let's take the wheat thing over. Let somebody

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sit on the doorstep there until they get it signed.

Bell: All right.

H.M.Jr: Let somebody sit on the doorstep until they get it signed. What?

When did that request go through first? How old is that request for wheat, I mean, and cotton?

Bell: You mean when it came to me?

H.M.Jr: Well

Bell: Wallace sent it to me on May 31, and I sent it to the President on June ...

H.M.Jr: Well, let's ...

Bell: ... 2, I think it is.

H.M.Jr: Let's get it

Bell: ... June 1, and he sent it to you on June 1.

H.M.Jr: Let's get the wheat letter. All right?

Bell: Yes, sir.

H.M.Jr: I don't think there is any difference between us. How much of the Section 32 money is already earmarked for the cotton?

Bell: 65 million. That's benefit payments.

H.M.Jr: What else, Dan?

Bell: That's all.

H.M.Jr: Did you get over that memo this morning at nine?

Bell: It was over there last night. I called Forster, and he said it had gone to the White House probably with a note on it to be sure he'd get it to the President same time Woodrum was there.

H.M.Jr: Well, Woodrum gave me a ring.

Bell: You got him?

H.M.Jr: 7:30 this morning.

Bell: Fine. I tried to get him and missed.

H.M.Jr: I got him 7:30 this morning. Anything else?

Bell: That's all.

H.M.Jr: Would you get for me, when you come down with that thing, who is on this committee - the joint committee of the Senate and House on this recovery bill, who are the members?

Bell: (Nods yes)

H.M.Jr: Mac?

McR: You mean on the conference committee.

H.M.Jr: Yes.

McR: I haven't anything.

H.M.Jr: Well, I have nothing else. Anybody got anything special?

Oliphant: I have.

H.M.Jr: You have.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, June 7, 1938.
6/6/38.

Press Service
No. 13-52

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 2-3/4 percent Treasury Bonds of 1958-63 and of 1-1/8 percent Treasury Notes of Series A-1943 will close at the close of business Wednesday, June 8, 1938. This offering is open only to the holders of Treasury Notes of Series B-1938, maturing June 15, 1938, and of Treasury Notes of Series D-1938, maturing September 15, 1938.

Subscriptions for either issue addressed to a Federal Reserve bank or branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, Wednesday, June 8, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and their division among the several Federal Reserve districts will be made later.

—oOo—

June 7, 1938.
10:27 a. m.

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H.M.Jr: Hello.

Operator: Secretary Wallace has gone to the Capital to a hearing.

H.M.Jr: Oh. Is

O: Appleby?

H.M.Jr: Yes. All right.

O: Mr. Appleby.

H.M.Jr: Hello.

Paul H.
Appleby: Hello, Mr. Secretary.

H.M.Jr: Appleby, will you tell Mr. Wallace that Mr. Bell and I have sent over by hand, and we're going to wait for the President to sign it, - allocation of six million dollars out of section 32 for wheat. Hello.

A: Yes. Six million dollars of section 32 for wheat.

H.M.Jr: Yes. On the four million for the cotton, I'm - we're holding that up to talk with Mr. Wallace about that, when he comes over here tomorrow.

A: All right.

H.M.Jr: Because both Bell and I feel that with half of section 32 already earmarked for cotton, why can't - and feeling that you're going to need every dollar of that for other - for food, why can't Mr. Hopkins take some of his money and buy four million dollars worth of cotton for mattresses.

A: Uhuh.

H.M.Jr: See?

A: Uhuh.

H.M.Jr: See?

A: All right.

H.M.Jr: Our^{is} thought if we could let Mr. Hopkins buy the cotton for the mattresses.

A: All right.

H.M.Jr: But the six million , we'll most likely get that O.K'd today.

A: All right.

H.M.Jr: And then

A: That's fine.

H.M.Jr: You act on the wheat I think, the better it will be.

A: Yes.

H.M.Jr: But you tell that to Mr. Wallace.

A: Yes indeed.

H.M.Jr: Right.

A: Thank you.

June 7, 1938.
10:54 a .m.

Operator: Go ahead.

H.M.Jr: Hello.

Mr. Stimson: Yes.

H.M.Jr: Mr. Stimson.

S: Yes.

H.M.Jr: Henry Morgenthau, Jr.

S: Well, how do you do sir?

H.M.Jr: How are you Mr. Stimson?

S:

H.M.Jr: Mr. Stimson, I'm calling to let you know how pleased I am that your firm is going to represent the Federal Reserve on this question of title of Spanish silver.

S: Well, that's very kind of you Mr. Morgenthau, I appreciate your good wishes very much.

H.M.Jr: And I - I hope that you'll have time to - to keep your eye on it yourself.

S: I will - I will do all I can sir. I told Mr. Logan the difficulties that I was in, just at present, but of course I - if you retain the firm, I will do my best.

H.M.Jr: Well, we've - I've asked the Federal Reserve and our fiscal agents to retain your firm, because -

S: I have - I -

H.M.Jr: We wanted the best.

S: Yes, well I know that. The great difficulty that I had told them of was that I am finishing a pretty very busy year, and that I've got to take a rest this summer, but until the 20th of July, I can be around and very helpful.

H.M.Jr: Fine. Well, I think it would be most helpful and not being a lawyer I think we've got a good case if we have good counsel.

S: Very well, it's very kind of you to call me up.
I - if it's a case I always like to
be on the side with which I can
sympathise.

H.M.Jr: Yes.

S: And in this case, as Mr. Logan explained it to me -

H.M.Jr: Yes.

S: I understand our Government's interests coincide with
the established Government of Spain.

H.M.Jr: That's right.

S: Which is the one that I myself have been hoping would
come out all right eventually.

H.M.Jr: Fine. Sometime, when I see you, I want to tell you
a conversation I had within the last six months an
overseas conversation with Sir John Simon.

S: Oh, indeed.

H.M.Jr: Knowing something, a little bit about your conversation,
I want to compare notes.

S: That's very interesting.

H.M.Jr: Because when I got him on the phone, down at his home,
on a Saturday night.

S: Yes.

H.M.Jr: He was very much flustered. He said, "Now wait a
minute, this is too much like a conversation that I
had once with Secretary Stimson."

S: Well.

H.M.Jr: And I'll tell you all about it sometime.

S: He'd better be a little careful about that because
he - he evidently did not do what I did.

H.M.Jr: I see.

S: Make a good record of it.

- 3 -

H.M.Jr: Well, I made an excellent record of my conversation with him. But sometime I'll tell you about. I think you'll -

S: All right.

H.M.Jr: Thank you.

S: Thank you.

H.M.Jr: Goodbye.

June 7, 1938.
11:30 a. m.

20

H.M.Jr: Hello.
Randolph
Burgess: Hello.

H.M.Jr: Hello, Randolph.

B: Oh, hello, Henry.

H.M.Jr: Yes.

B: Well, we're getting the maximum of pressure from this market just now. You notice the quotes are off some. Well - but that I think is natural -

H.M.Jr: Well, I got the new two and three quarters at a hundred and one - twenty one twenty five.

B: They're nineteen twenty two now.

H.M.Jr: Nineteen twenty two.

B: Yes. Now, what's happening of course, is that with the books closing tomorrow, these boys that want to sell their rights have got to do it today, for regular delivery, so you get the maximum of pressure between now and three o'clock.

H.M.Jr: Yes.

B: And naturally the buyers we recognized at the time are a limited group of the investor fellows. Now there's some buying going on, the insurance companies are not buying very much but they are converting -

H.M.Jr: Yes.

B: Pretty much the stuff that they have into the bonds.

H.M.Jr: Yes.

B: And some of the banks are buying bonds. Philadelphia National bought four - the Bowery Savings Bank five - the conversions we have so far, the report shows bonds seventy million and notes twenty six.

H.M.Jr: Uhhuh.

B: A little better than - well, between two for one and three for one.

- 2 -

H.M.Jr: Yes.

B: Which is all right. Now, at these present prices there would be a little more tendency for the conversions to go into the notes.

H.M.Jr: Well, -

B: There's still a very good premium on it.

H.M.Jr: Yes.

B: And it's still all right, nothing to worry about.

H.M.Jr: Why, you mean you say it's - they're selling at a hundred and one nineteen.

B: Yes.

H.M.Jr: Well, you don't want me to worry on that basis, do you?

B: Not a bit, I think it's just right. I'm glad to see it work off a little because it's much more apt to get good absorption.

H.M.Jr: Yes.

B: If the prices work off a little so that an investor will feel free to go in and buy.

H.M.Jr: Well now, you fellows are going to convert fifty-fifty, aren't you?

B: Well, we haven't finally confirmed that, we're waiting to see how the conversions came through.

H.M.Jr: Uhhuh.

B: But I don't see any reason for changing that ~~one~~ the basis of the present -

H.M.Jr: But you're not selling any rights.

B: Oh, no. We haven't done a thing.

H.M.Jr: Right. Well, I don't see anything to - why do you think they're weaker?

- 3 -

- B: Well, I think it's mostly because there's a time limit, you see.
- H.M.Jr: There's a what?
- B: There's a time limit now.
- H.M.Jr: Yes.
- B: On the sale of rights.
- H.M.Jr: Yes.
- B: They've only got today and tomorrow, mostly today, because tomorrow would have to be a cash transaction, which is a little unusual.
- H.M.Jr: I see.
- B: So in the next three hours they've got to do all they're going to do on selling rights.
- H.M.Jr: Well whatever the pressure is, it'll be in the next - it'll be between now and closing.
- B: Between now and closing.
- H.M.Jr: Yes. Oh, I feel fine. I think everything is all right.
- B: Well, I'm delighted to see it. As a matter of fact, there'll be a little less enthusiasm because the enthusiasm was driving those prices up where an investor wouldn't look at it. He'd say it was crazy.
- H.M.Jr: Did I tell you my conversation about the issue with the President?
- B: No, what did he say?
- H.M.Jr: Why, Marriner was over there for lunch and he said, "You know how Henry gets these issues across don't you?" And Marriner said, "No, I'd like to know." So he said, "Well, Henry finds out what the price is and he adds an eighth." So he said, "Oh, no, Mr. President, you're wrong an eighth is no good nowadays, it takes a full point." You and I know that.
- B: He's wrong on both counts.

- 4 -

H.M.Jr: Right.

B: Find out what the market is and

H.M.Jr: Well, give me a ring after market.

B: All right.

H.M.Jr: If you get worried, call me.

B: No, I haven't been worried a bit, I think it's all right.

H.M.Jr: Well, I'm perfectly happy.

B: Yes, so'm I.

Tuesday
June 7, 1938
1:07 p.m.

HMJr: Hello.

Operator: Congressman Woodrum.

HMJr: Hello.

O: Go ahead.

HMJr: Hello.

Congressman
Woodrum: Hello, Mr. Secretary.

HMJr: How are you?

W: I was just going to try to call you; I had to rush from the White House up to my Committee and then on the floor here. I had a very satisfactory talk and the President said - authorized me to state....

HMJr: Yeah.

W: ...that he was standing right where he did when he - ah - sent his message on the Agricultural Bill and that is if there were to be parity payments there must be taxes.

HMJr: Right. Well...

W: I think that'll put the thing right.

HMJr: You think you can knock it out?

W: Well I don't know now about that.

HMJr: Uh huh.

W: But I think we can - we can maintain opposition and if these fellows are going to take the responsibility of overriding everything why they can't blame the President.

HMJr: No - but, on the other hand what they'll say is, "All right, we'll promise to give you the taxes in January."

W: Yes.

- 2 -

HMJr: That won't help any.

W: Yes. Well, we're going to try to do that.

HMJr: What?

W: We're going to try to get that promise out of them if we can, but I don't know about whether they're going to give the taxes or not.

HMJr: Uh huh. Well, I - the safest way is to knock it out.

W: That's what we're going to try to do.

HMJr: Right.

W: We're going to give them a battle on it.

HMJr: Well I thought you got awfully good publicity in the papers today on it.

W: I think so too.

HMJr: I didn't see a single paper that was unfavorable.

W: Yeah.

HMJr: Everybody seems to be with you.

W: Well, that's fine. I haven't had a chance to look at the press.

HMJr: Ah - when will that come up for a vote in the committee?

W: We're going to have a meeting of the conferees Thursday. You see, we've got this deficiency bill on the boards now...

HMJr: Oh yeah.

W: And we finish that tomorrow and we're going to meet the Senate conferees Thursday. I'll keep you posted on it.

HMJr: I wish you would.

W: I shall do so.

- 3 -

HMJr: Thank you.

W: Thank you, sir.

Tuesday
June 7, 1938
2:35 p.m.

27

HMJr: Hello.

Operator: Burgess.

HMJr: All right.

O: Go ahead.

HMJr: Hello.

Burgess: Hello.

HMJr: Yes.

B: Oh hello, Henry.

HMJr: Yeah.

B: Well, when I called you before it was just at the low point.

HMJr: I see.

B: From that point they have come back a little...

HMJr: Good.

B: ...so they've closed about three thirty-seconds higher than they were at that time.

HMJr: Good.

B: That is the bonds have closed 101.22 - 25 and the notes 101.12 - 14.

HMJr: Well, that's all right.

B: Now, there wasn't very much buying apparently came in.

HMJr: There was not?

B: But there was some indication that the insurance companies - at least one or two of them - would be interested at about a 265 basis.

HMJr: Yes.

B: Now that's a 101.17.

HMJr: I see.

B: And I think it's clear that there's investment buying at a price...

HMJr: Yeah.

B: ...which is not far from the present level.

HMJr: Good.

B: Or a little lower.

HMJr: Well that's encouraging.

B: Now I think what will happen will be that holders of these rights - either banks or dealers - will convert into the bonds a good deal on speculation....

HMJr: Good.

B: And count on working them off over a period.

HMJr: Good.

B: Which is all right - just the proper procedure.

HMJr: Fine.

B: To work them off with investors.

HMJr: Fine.

B: Unless the demand has not been quite as large as - ah - oh, not quite as large as Devine estimated.

HMJr: Yes.

B: But I think there's sufficient there to take care of things over a period.

HMJr: All right.

B: Ah - it's pretty hard to say how much the conversion will be both ways. At 3 o'clock our figures showed a 155 bonds and 28 notes.

- 3 -

HMJr:

B: I think the notes will come in more largely later perhaps.

HMJr: Good.

B: But I think you'll still get a - more than half the conversion into a bond.

HMJr: Have they put through FDIC conversion yet?

B: Yes, I've got that, that's included.

HMJr: Well that must be

B: That was on the notes, you see. So if you leave that out...

HMJr: Yeah.

B: So the market in general is very heavily for the bonds...

HMJr: Yeah.

B: ...so far.

HMJr: We've - say about 20 million?

B: They were seventeen and a half.

HMJr: Well there you are.

B: So, apart from that you've got - if there were twenty-eight - so apart from that you've only got 11 million of the notes.

HMJr: Right.

B: That's in New York of course.

HMJr: All right, Randolph.

B: All right, Henry.

HMJr: Thank you.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Tuesday, June 7, 1938.
6/6/38.

Press Service
No. 13-52

Secretary of the Treasury Morgenthau announced last night that the subscription books for the current offering of 2-3/4 percent Treasury Bonds of 1958-63 and of 1-1/8 percent Treasury Notes of Series A-1943 will close at the close of business Wednesday, June 8, 1938. This offering is open only to the holders of Treasury Notes of Series B-1938, maturing June 15, 1938, and of Treasury Notes of Series D-1938, maturing September 15, 1938.

Subscriptions for either issue addressed to a Federal Reserve bank or branch, or to the Treasury Department, and placed in the mail before 12 o'clock midnight, Wednesday, June 8, will be considered as having been entered before the close of the subscription books.

Announcement of the amount of subscriptions and their division among the several Federal Reserve districts will be made later.

—oOo—

June 7, 1938

My dear Mr. President:

I appreciate fully that any suggestion of new legislation at this date is almost out of the question.

However, I am taking the liberty of sending you herewith a draft of a bill which you may feel is of sufficient importance to ask the leaders of Congress whether they could still get it through at this session.

It is unnecessary to point out to you the constantly increasing financial difficulties in which various South American and Central American countries are finding themselves and the dangers to which that exposes them; and, with this in mind, I feel that if Congress gave you the power as suggested in this bill, your hand would be greatly strengthened.

Sincerely yours,

The President,
The White House.

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Sincerely yours,

The President,
The White House.

B.

A B I L L

To authorize the Secretary of the Treasury to make certain foreign loans, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That whenever the President, after consultation with the Secretary of State and the Secretary of the Treasury, shall determine and proclaim that, by reason of a violation or threatened violation of the Monroe Doctrine, or by reason of a disturbance or threatened disturbance of the peace of nations of the Western Hemisphere, an emergency exists and that financial assistance to any government in the Western Hemisphere will, in the interests of the United States, aid in the preservation of the Monroe Doctrine and of peace in the Western Hemisphere, the Secretary of the Treasury is authorized, on behalf of the United States, to make loans to any such government at such times and upon such terms and conditions as the Secretary of the Treasury, with the approval of the President, shall deem appropriate; Provided, That the amount loaned to any one such government shall not at any time exceed in the aggregate \$_____; and Provided further, That such loans shall bear interest at a rate not less than the rate borne by the then last issued obligations of the United States having a substantially similar maturity. For the purpose of making loans under this Act, the Secretary of the Treasury is authorized to use as a public debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under said Act, as amended, are extended to include loans made hereunder.

Initialed by HO

(C O P Y)

June 7, 1938

I sent word to McReynolds today that I am lifting the ban on loaning Klaus to the Department of Justice.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

35

DATE June 7, 1938

TO Secretary Morgenthau
FROM Mr. Haas

Attached is a memorandum from Miss Lonigan covering the results of two conferences in the office of Dr. Stanley, Chief of the Division of Home Economics.

These conferences were arranged by Secretary Wallace during the conference with Dr. Parron, which he has spoken to you about. I arranged with Dr. Parron to have Miss Lonigan attend the subsequent conferences presided over by Dr. Stanley. Dr. Parron did not attend himself but sent two representatives who worked in the field under discussion.

Attachment

June 7, 1938

36

To: The Secretary
From: Miss Lonigan *EL*

Following is the result of two conferences in the office of Dr. Louise Stanley, chief of the Division of Home Economics:

All Federal Surplus Commodity estimates of increased consumption of wheat and other commodities are made on a surplus basis, and not on a relief basis. Estimates have not yet been made of possible distribution on a relief basis, that is, giving an adequate diet to relief families.

Dr. Stanley suggested that FSRC should have an emergency program for moving quickly into areas like Cleveland, and giving them adequate food. She said she saw no reason why giving adequate food to starving families should be contrary to Agriculture Department policy.

Development of such an emergency policy would include

1. Formal ruling by FSRC that in specified emergencies relief officials might distribute enough of each commodity to make an adequate diet. (Two and a half sacks of flour, instead of one, etc.)

2. A source of funds

3. Some penalty by which cities or states, which were aided by FSRC, when their finances broke down, would receive fewer commodities in the six-month period following the emergency (to prevent relief officials and mayors and governors from "dumping")

their relief problems back on the FSRG)

Agreement for more generous commodity distribution on such an emergency basis would be far easier to obtain than on any permanent basis. It might lead more easily to re-orientation of surplus commodity policy than would a frontal attack. Dr. Stanley is now ready to adjust her thinking to meet the relief emergency. Mr. Brickett is still afraid. (It might be desirable to discuss the question with Governor Myers and Mr. Perkins).

* * * * *

For a permanent program of commodity distribution the following steps are necessary:

1. Declaration of surplus commodities largely on a basis of market conditions
2. Establishment of family quotas on a physical welfare, not a "surplus" basis.
3. Improvement in relief machinery to include applications, at least, from 1,500,000 to 2,000,000 families not now covered under any relief system (as rural Texas, most of the South, counties in many northern and western states, cities without finances, District of Columbia).

No surplus commodities can be distributed where there is no relief agency, or where relief agencies are prohibited from aiding families or employables, as in the District. At present about one-quarter of all WPA families get surplus commodities,

while possibly 2,000,000 needy families cannot get them.

4. Full protection against price increases which would hurt low-income self-supporting families.

5. A source of funds.

Relief distribution of surplus commodities costs about \$.50 a family a month.

Potential Cereal Consumption

At present the FSRC allows a medium sized family one sack of flour per family per month. In the enlarged program of surplus commodity purchases, recently suggested by FSRC, the allotment of flour remains unchanged. The increase is in other commodities. This second buying program proposed by FSRC is still on a "surplus" basis. If a shift were made to a basis of adequate diets, Dr. Stanley estimates flour consumption at about 56 pounds of flour and cereal per family per month, or $2\frac{1}{2}$ sacks instead of one.

A third estimate is possible, based on a higher flour and cereal consumption among families who have less than an adequate diet. In other words if families cannot get fifteen commodities they may need a higher compensatory ration of flour than in a balanced diet. At the Washington Self-Help Exchange, workers who have no other food would like to take home six loaves of bread a day for a family of 4 or 5, in addition to their own lunch. This is equivalent to 180 pounds a month, or more than three times the adequate diet. In a "compensatory diet" for families on emergency rations cereal consumption might rise

to 100 pounds per family per month.

Possible estimates of cereal distribution are as follows:

	<u>Pounds of flour per month</u>	<u>Equivalent bushels per month</u>
FSRC, actual, early 1938	-	-
FSRC, 2,000,000 families, Cleveland emergency basis (25 lbs. per mo.)	50,000,000	1,250,000
Dr. Stanley's adequate diet, (56 lbs. per mo.) 2,000,000 families	112,000,000	2,800,000
Dr. Stanley's adequate diet, 3,500,000 families	196,000,000	4,900,000
Compensatory diet for relief families (100 lbs. per mo.) 3,500,000 families	350,000,000	8,750,000

There would be no possibility of achieving the maximum estimate of cereal consumption very quickly because relief agencies would object to commodity distribution, and grocers might object to loss of trade in cities which still had money. If city finances are on a sound basis for the next three or four years, it is not desirable to substitute commodities for cash. If city financing is not sound, it is desirable to expand commodity distribution because some day, as in Cleveland, there may be nothing else.

FEDERAL EMERGENCY ADMINISTRATOR
OF PUBLIC WORKS
WASHINGTON

40

June 7, 1938.

MEMORANDUM for Secretary Morgenthau:

After I left you at the White House yesterday, I called in Mr. Mellett at your suggestion and also officers of the Public Works Administration.

We discussed the announcement of the 2,000 projects approved tentatively yesterday by the President. It was unanimously agreed that a general press release (copy attached) should be issued immediately, which has been done, but that the announcement of particular projects should be withheld until the signing of the Act. We have keyed up our procedure to the point where this can be done at the rate of 600 projects a day, and the interval between now and the signing of the Act will not be wasted, as we will have daily preliminary releases prepared leading up to the issuing of the lists. As this differs somewhat from our understanding when I left you yesterday, I am reporting it to you for any suggestions you may wish to make. I think myself that the complications which might arise from premature announcements would offset any benefits that might otherwise be gained.



E. K. BURLEW,
For the Administrator.

Attachment.

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OF PUBLIC WORKS

WASHINGTON

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E. K. BURMAN,
For the Administrator.

Attachment.

ENCLOSURE

FEDERAL EMERGENCY ADMINISTRATION
OF
PUBLIC WORKS

438

44-9117

FEDERAL EMERGENCY ADMINISTRATION
OF PUBLIC WORKS

DIVISION OF INFORMATION

FOR IMMEDIATE RELEASE

Release No. 3310

President Roosevelt has directed the Public Works Administration to prepare for allotment immediately upon the passage and signature of the pending PWA Act of 1938 a list of projects with a total estimated construction cost of \$600,000,000.

These projects, of varied type, will send men back to work at sites and will create orders for materials totalling upwards of \$332,000,000. On the basis of figures worked out by the Bureau of Labor Statistics in actual cost analysis of specific PWA projects already built, the list of projects will create 1,756,000 man-months of direct employment at construction sites.

In addition to the direct employment, the projects, according to an estimate prepared by the Bureau, will create 2,841,000 man-months of indirect employment in factories, on railroads, in the mills, mines and forests producing and distributing materials for the projects.

Illustrating the widespread regenerative effects of the PWA program, the Bureau estimated that the \$600,000,000 worth of projects will bring about the release of \$165,000,000 in pay rolls at the project sites. In turn, the release of these pay rolls will create secondary employment and stimulation of consumer goods businesses.

Bringing stimulus to heavy industry, the projects to be allotted will result in heavy orders for basic construction materials. Based on materials purchased for PWA projects during the last five years, the Bureau of Labor Statistics estimated that the projects will create orders for \$90,800,000 worth of iron and steel projects. In turn this will mean the creation of 122,000,000 man-hours of employment in mills, mines, forests, yards and transportation.

Second heaviest beneficiary of material orders will be foundry and machine-shop products, including machinery. Of these products, orders totalling \$27,500,000 will be necessary. Approximately \$23,000,000 worth of electrical machinery, apparatus and supplies will be required. Orders to the extent of \$23,400,000 for lumber and millwork will be placed. These orders will create an estimated 22,500,000 man-hours of work in production, fabrication and distribution of these products.

A breakdown of the materials to be ordered and the amount of indirect employment to be created because of the projects as worked out by the Bureau follow:

Type of material	Value of material orders	Man-hours in mines, forests, factories, and transportation industries
Iron and steel products, n.e.c.	\$90,800,000	122,200,000
Foundry and machine-shop products, including machinery.....	27,500,000	1/
Electrical machinery, apparatus, and supplies.....	23,000,000	1/
Lumber and millwork.....	23,400,000	22,500,000
Cement.....	22,800,000	15,000,000
Brick and tile, etc.....	13,400,000	12,100,000
Heating materials.....	9,600,000	7,700,000
Plumbing materials	8,700,000	6,800,000
Other materials.....	102,800,000	1/

1/ Data not available.

According to numerous studies of the Bureau of Labor Statistics, PWA in the past has exerted a broad regenerative effect on heavy industries generally. During the last few years PWA projects have accounted for heavy percentages of domestic production of building materials, spreading business and employment in proportion to the amount of projects undertaken. Additional stimulation now will be given as new projects are allotted funds.

The PWA Act of 1938 is now under consideration in conference in the Congress. As passed by the Senate, it provides that the PWA program be continued until June 30, 1941 and provides \$965,000,000 for allotments for the type of projects hitherto undertaken by PWA.

ROOSEVELT ORDERS P W A TO PREPARE IMMEDIATELY
FOR PROJECTS TOTALING 600 000 000 DLS -
TO CREATE LARGE DEMAND FOR IRON AND STEEL
PRODUCTS
ADD - ROOSEVELT AND P W A PROJECTS

45

WASHN - PRESIDENT ROOSEVELT HAS ORDERED
THE P W A TO PREPARE FOR ALLOTMENT IMMEDIATELY
UPON THE PASSAGE OF THE PENDING P W A ACT A
LIST OF PROJECTS WITH AN AGGREGATE CONSTRUCTION
COST OF 600 000 000 DLS

THE PRESIDENT-S ACTION WAS THE LATEST MOVE
OF THE ADMINISTRATION TO PREPARE FOR THE
QUICK INAUGURATION OF THE PUMP PRIMING
PROGRAM TO COMBAT THE RECESSION

P W A OFFICIALS SAID FOLLOWING DISCLOSURE
OF THE PRESIDENT-S ORDER THAT THE LIST OF
PROJECTS IS ALREADY VIRTUALLY COMPLETE
AND THAT THEY EXPECT FINAL ARRANGEMENTS TO BE
COMPLETED WITHIN THE NEXT FEW WEEKS

THESE OFFICIALS ESTIMATED THAT THE
NEW P W A PROGRAM WILL CREATE A DEMAND FOR
BUILDING MATERIALS TO THE VALUE OF
322 000 000 DLS AND WILL PROVIDE APPROXIMATELY
1 756 000 MAN-MONTHS OF DIRECT EMPLOYMENT
ON THE CONSTRUCTION SITES - ALTOGETHER IT
IS ESTIMATED THAT 165 000 000 DLS IN PAYROLLS
WILL BE RELEASED AT THE SITES DURING THE
CONSTRUCTION

THE P W A SAID THAT THE PROJECTS TO BE
ALLOTTED WILL RESULT IN HEAVY ORDERS FOR THE
BASIC CONSTRUCTION MATERIALS - IN THIS
CONNECTION THE BUREAU OF LABOR STATISTICS
ESTIMATED ON THE BASIS OF PAST EXPERIENCE

43

THAT THE PROJECTS WILL CREATE ORDERS FOR
90 800 000 DLS WORTH OF IRON AND STEEL
PRODUCTS ALONE

THE SECOND HEAVIEST BENEFICIARY OF MATERIAL
ORDERS ACCORDING TO THE P W A WILL BE FOUNDRY
AND MACHINE SHOP PRODUCTS WITH ORDERS
EXPECTED TO TOTAL 27 500 000 DLS -
APPROXIMATELY 23 000 000 DLS OF ELECTRICAL
MACHINERY APPARATUS AND SUPPLIES WILL BE
REQUIRED WHILE ORDERS TO THE EXTENT OF
23 400 000 DLS FOR LUMBER AND MILLWORK WILL
BE PLACED IT WAS SAID

OTHER ESTIMATES OF THE AMOUNT TO BE
EXPENDED ON MATERIAL COSTS FOLLOW - CEMENT
22 800 000 DLS - BRICK AND TILE 13 400 000 DLS -
HEATING MATERIALS 9 600 000 DLS AND PLUMBING
MATERIALS 8 700 000 DLS - IT WAS ALSO ESTIMATED
THAT ORDERS FOR MISCELLANEOUS BUILDING
MATERIALS AND EQUIPMENT WOULD PROBABLY
TOTAL 102 800 000 DLS

THE NEW P W A ACT NOW IN CONFERENCE BETWEEN
THE HOUSE AND SENATE PROVIDES 965 000 000 DLS
FOR ALLOTMENTS FOR THE TYPE OF PROJECTS
HITHERTO UNDERTAKEN BY P W A

AT THE SAME TIME IT WAS ANNOUNCED THAT
THE DIRECTORS OF THE 7 P W A REGIONS HAVE
BEEN ORDERED TO WASHINGTON FOR AN EXECUTIVE
CONFERENCE JUNE 9 TO WORK OUT THE FINAL
DETAILS FOR HANDLING THE NEW PROJECTS

6/7/38 HD

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

47

DATE

June 7, 1938

TO Secretary Morgenthau
FROM Herman Oliphant

For your information - Re: Commodity Credit Corporation

At the present time the Board of Directors of the Commodity Credit corporation is composed of twelve members - six representatives from the RFC, two from Farm Credit Administration, and four from the Department of Agriculture. There are two vacancies, one in the representation from Agriculture and the other in the representation from RFC. The By-Laws of the corporation provide for a Board of Directors of twelve, while the charter provides for a minimum of three directors. Secretary Wallace proposed to reduce the number on the Board to nine - three representatives from the RFC, three from Farm Credit Administration and three from the Department of Agriculture. He has submitted a proposed letter to the President and suggests a conference between you, Mr. Jones and himself.

All the capital stock of the Commodity Credit Corporation is now held by you (the certificates are in the custody of the Treasurer of the United States subject to your order). You have been authorized by Executive Order to exercise, on behalf of the United States, any and all rights accruing to the holder of the stock. While the President may, by subsequent Executive Order, change the designation of the person authorized to exercise the rights arising out of ownership of the stock, that power, at the present time, may only be exercised by you.

Although directors need not be officers or stockholders, they must be selected by the stockholders at the annual meeting which is to be held on April 10 in each year. The By-Laws provide that any director may be removed, with or without cause, at any time by the affirmative vote of the majority of the stockholders. Since you hold all the stock of the corporation, you may select all the directors who, in turn, have the power to amend the By-Laws.



TO:

Mrs Small

49

N.Y. 4/27/38 -

NMC says to file this -
is up to Agri. to make
next move.
mas

Do you want to keep this
or send to Mrs Farrell -
Ltr sent by hand today
4/26/38 EJM.

From: MR. TAYLOR

this at
meeting next: 58
Wed. (M)

April 26, 1938.

Honorable H. A. Wallace,
Secretary of Agriculture.

Dear Mr. Secretary:

I regret to find that no specific reply has been made to your letter of March 31st, with which you were good enough to enclose copy of your letter addressed to Chairman Jones respecting the provisions of Executive Order signed March 22, 1938 relating to rights of holders of stock in the Commodity Credit Corporation. Pursuant to your suggestion, I shall be glad to discuss this matter with you, Chairman Jones and Governor Myers at our earliest mutual convenience.

Sincerely yours,

H. M. Jones
Secretary.

W.S.

ca to HS 4-27

TREASURY DEPARTMENT

OFFICE OF THE SECRETARY

EXPEDITE

MRS. ROBERTSON

MR. TAYLOR'S OFFICE

4/22/38

OFFICE OF
THE SECRETARY OF THE TREASURY

52

4/22/38

Mrs. Robertson:

Mr. Taylor sent this
in to the Secretary so I am re-
turning it.

Does it need an
acknowledgment?

M. Small

See last A

Yes will discuss
at earliest
convenience.

MS

MR. MORGENTHAU'S OFFICE TO-

Mr. Magill
Mr. Gibbons
Mr. Taylor

Mr. Oliphant
Mr. Gaston
Mr. McReynolds

.....

Mr. Allen	Mr. Helvering
Mr. Bartelt	Mr. Hester
Mr. Batchelder	Mr. Irely
Mr. Bell	Mr. Julian
Mr. Berkshire	Mr. Kent
Mr. Birgfeld	Mr. Kilby
Mr. Broughton	Mr. Lochhead
Mr. Bryan	Miss Lonigan
Mr. Cannon	Mr. O'Connor
Mr. Davis	Miss O'Reilly
Miss Diamond	Adm. Peoples
Miss Flanagan	Miss Reynolds
Mr. Graves	Mr. Rose
Mr. Greenberg	Mr. Sloan
Mr. Haas	Mr. Smith
Mr. Hall	Mr. Spangler
Mr. Hanna	Miss Switzer
Mr. Harper	Mr. Thompson
Mr. Heffelfinger	Mr. Upham
	Mr. Wilson

H M J: -
This is the
letter Jesse mentioned
yesterday well

DEPARTMENT OF AGRICULTURE
WASHINGTON



March 31, 1938.

Hon. Henry Morgenthau, Jr.,
Secretary of the Treasury.

Dear Mr. Secretary:

In view of the provisions of the Executive Order signed by the President on March 22 authorizing and directing the Secretary of the Treasury to exercise on behalf of the United States any and all rights accruing to the holder of stock in the Commodity Credit Corporation, I am enclosing for your information a copy of a letter which I wrote to Chairman Jones of the Reconstruction Finance Corporation early in March.

If you believe it would be helpful I would like to have an opportunity to discuss this matter with you, Chairman Jones and Governor Myers at your convenience.

Sincerely yours,

H. Wallace

Secretary.

RECEIVED
MAR 10 1938
MORGENTHAU OFFICE

55

March 11, 1938.

Hon. Jesse Jones, Chairman,
Reconstruction Finance Corporation,
Washington, D. C.

Dear Mr. Jones:

You will recall that some weeks ago we agreed that no action would be taken with reference to the vacancy on the Board of Directors of the Commodity Credit Corporation created by the resignation of Mr. Oscar Johnston, until the farm bill and the bill for the restoration of the capital of the Commodity Credit Corporation were enacted. Since both measures have now been passed by Congress and approved by the President, it appears desirable to consider the future organization of the Commodity Credit Corporation, for the purpose of carrying out the commodity loan activities authorized by the new farm bill. We have been giving some consideration to this in the Department of Agriculture and there is enclosed a copy of a suggested draft of a letter to the President, which, if it meets with your approval and the approval of Governor Myers and the President, would form the basis for a balanced organization of the directorship of the Commodity Credit Corporation.

If this suggestion is followed it would be my thought that the Secretary of Agriculture would retire from membership on the Board and that the Department would be represented by three members including one representative of the Bureau of Agricultural Economics. The Agricultural Adjustment Administration will have a vital interest in all of the lending activities of the Corporation and may be able to render considerable assistance to the Corporation in connection with the local administration of commodity loans, such as is being done with respect to the 1937 corn loan. The Bureau of Agricultural Economics may also be of considerable assistance to the Corporation by reason of the work carried on by the Bureau under the Warehouse Act and with reference to the grading, classing and inspection of various farm products.

These suggestions are made in the interests of working out a plan of organization which will render the maximum of service in the commodity loan field with a minimum of cost to the government and

with a view to attaining a maximum of coordination between the various agencies primarily interested in the commodity loan program. It should be understood, of course, that any procedure adopted at this time may have to be modified in the light of experience at some later date.

Sincerely yours,

S/ H. A. Wallace

Secretary

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SUGGESTED DRAFT OF LETTER TO WHITE HOUSE

The passage of the new Farm Act and of the act to replenish the capital of the Commodity Credit Corporation makes it desirable at this time to give consideration to the organization of the lending activities contemplated by the new Farm Act so as to make the ever normal granary program most effective, safeguard the interests of the Treasury and the public and provide for practical administrative machinery.

Section 302 (a) of the Farm Bill provides as follows:

"The Commodity Credit Corporation is authorized, upon recommendation of the Secretary and with the approval of the President, ~~to make available~~ loans on agricultural commodities (including dairy products). Except as otherwise provided in this section, the amount, terms and conditions of such loans shall be fixed by the Secretary, subject to the approval of the Corporation and the President."

Subsequent provisions of the section give more detailed directions with reference to loans on corn, wheat and cotton.

The bill relating to the capital of the Commodity Credit Corporation recently enacted provides for the transfer of all of the stock of the Commodity Credit Corporation previously held by the Reconstruction Finance Corporation, the Secretary of Agriculture and the Governor of the Farm Credit Administration, to the Treasury with voting and other rights vested in the President or such officers or agencies as he shall designate. The President is free, therefore, to direct the organization of the Commodity Credit Corporation in such manner as he may determine to be most effective in carrying out the commodity loan program.

At the present time the Commodity Credit Corporation operates under a Board of Directors made up of six members from the Reconstruction Finance Corporation, two members from the Farm Credit Administration and four from the Department of Agriculture. There are some advantages in a joint administrative set-up of this type. The use of the Reconstruction Finance Corporation branch agencies, for example, is an economical way of handling the financial aspects of the loan problem between the Commodity Credit Corporation and banks located in agricultural regions. On the other hand, the Reconstruction Finance Corporation has no facilities for careful supervision of the country end of the lending operations such as is being provided in connection with the 1937 corn loan by the County and State Conservation Committees. Also it is felt that some of the warehousing problems can be handled more advantageously in the future by close cooperation between the Commodity Credit Corporation and the Federal Warehouse

Administration of the Department of Agriculture rather than through the use of Reconstruction Finance Corporation branch agencies to approve satisfactory warehouses.

The Farm Credit Administration has a vital interest in the lending activities of the Commodity Credit Corporation because of its large agricultural credit activities of various types, including production credit, intermediate credit, loans to cooperatives and land bank credit.

It is suggested, therefore, that the Board of Directors of the Commodity Credit Corporation be reconstituted so as to include three representatives from the Reconstruction Finance Corporation, three from the Department of Agriculture and three from the Farm Credit Administration. It is believed that a Board of nine can operate the affairs of the Corporation quite as effectively as the present Board of 12. It is also suggested that an Executive Committee of three directors, one from each of the above agencies, be established in order that the current affairs of the Corporation may be handled expeditiously without too frequent Board meetings.

These suggestions are made with a view to working out a joint organization satisfactory to the Reconstruction Finance Corporation, the Farm Credit Administration and the Department of Agriculture. It is believed that it should be possible to handle the lending functions quite effectively in this manner.

49 Stat 5
12 USC 24
1350-
payment
975

[PUBLIC—No. 442—75TH CONGRESS]

[CHAPTER 44—3D SESSION]

[H. R. 9381]

AN ACT

To maintain unimpaired the capital of the Commodity Credit Corporation at \$100,000,000, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That as of the 31st of March in each year and as soon as possible thereafter, beginning with March 31, 1938, an appraisal of all the assets and liabilities of the Commodity Credit Corporation for the purpose of determining the net worth of the Commodity Credit Corporation shall be made by the Secretary of the Treasury. The value of assets shall, insofar as possible, be determined on the basis of market prices at the time of appraisal and a report of any such appraisal shall be submitted to the President as soon as possible after it has been made. In the event that any such appraisal shall establish that the net worth of the Commodity Credit Corporation is less than \$100,000,000, the Secretary of the Treasury, on behalf of the United States, shall restore the amount of such capital impairment by a contribution to the Commodity Credit Corporation in the amount of such impairment. To enable the Secretary of the Treasury to make such payment to the Commodity Credit Corporation, there is hereby authorized to be appropriated annually, commencing with the fiscal year 1938, out of any money in the Treasury not otherwise appropriated, an amount equal to any capital impairment found to exist by virtue of any appraisal as provided herein.

Sec. 2. In the event that any appraisal pursuant to section 1 of this Act shall establish that the net worth of the Commodity Credit Corporation is in excess of \$100,000,000, such excess shall, as soon as practicable after such appraisal, be deposited in the Treasury by the Commodity Credit Corporation and shall be credited to miscellaneous receipts. The Secretary of the Treasury is directed, as soon as practicable, to use any amounts so deposited to retire an equivalent amount of the public debt, which amount shall be in addition to any other amount required to be used for such purpose.

Sec. 3. The Secretary of Agriculture, the Governor of the Farm Credit Administration, and the Reconstruction Finance Corporation are hereby authorized and directed to transfer to the United States all right, title, and interest in and to the capital stock of the Commodity Credit Corporation which each of them now holds. All rights of the United States arising out of the ownership of such capital stock shall be exercised by the President, or by such officer, officers, agency, or agencies as he shall designate, and in such manner as he shall prescribe.

Sec. 4. With the approval of the Secretary of the Treasury, the Commodity Credit Corporation is authorized to issue and have outstanding at any one time, bonds, notes, debentures, and other similar

obligations in an aggregate amount not exceeding \$500,000,000. Such obligations shall be in such forms and denominations, shall have such maturities, shall bear such rates of interest, shall be subject to such terms and conditions, and shall be issued in such manner and sold at such prices as may be prescribed by the Commodity Credit Corporation, with the approval of the Secretary of the Treasury. Such obligations shall be fully and unconditionally guaranteed both as to interest and principal by the United States, and such guaranty shall be expressed on the face thereof, and such obligations shall be lawful investments and may be accepted as security for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof. In the event that the Commodity Credit Corporation shall be unable to pay upon demand, when due, the principal of, or interest on, such obligations, the Secretary of the Treasury shall pay to the holder the amount thereof which is hereby authorized to be appropriated, out of any money in the Treasury not otherwise appropriated, and thereupon to the extent of the amount so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such obligations. The Secretary of the Treasury, in his discretion, is authorized to purchase any obligations of the Commodity Credit Corporation issued hereunder, and for such purpose the Secretary of the Treasury is authorized to use as a public-debt transaction the proceeds from the sale of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under such Act, as amended, are extended to include any purchases of the Commodity Credit Corporation's obligations hereunder. The Secretary of the Treasury may at any time sell any of the obligations of the Commodity Credit Corporation acquired by him under this section. All redemptions, purchases, and sales by the Secretary of the Treasury of the obligations of the Commodity Credit Corporation shall be treated as public-debt transactions of the United States. No such obligations shall be issued in excess of the assets of the Commodity Credit Corporation, including the assets to be obtained from the proceeds of such obligations, but a failure to comply with this provision shall not invalidate the obligations or the guaranty of the same. The Commodity Credit Corporation shall have power to purchase such obligations in the open market at any time and at any price.

Sec. 5. Bonds, notes, debentures, and other similar obligations issued by the Commodity Credit Corporation under the provisions of this Act shall be deemed and held to be instrumentalities of the Government of the United States, and as such they and the income derived therefrom shall be exempt from Federal, State, municipal, and local taxation (except surtaxes, estate, inheritance, and gift taxes). The Commodity Credit Corporation, including its franchise, its capital, reserves, and surplus, and its income shall be exempt from all taxation now or hereafter imposed by the United States, by any Territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority; except that any real property of the Commodity Credit Corporation shall be subject to State, Territorial, county, municipal, or local taxation to the same extent according to its value as other real property is taxed.

Approved, March 8, 1938.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 7, 1938.

TO Secretary Morgenthau

FROM Mr. White

SUBJECT: Siam's offer to sell 22 million ounces of silver coins to us.

Summary

1. The silver Siam wants to sell us apparently represents all the monetary silver she has except subsidiary coins.
2. Despite recent unfavorable trend in her balance of trade, Siam doesn't urgently need additional foreign exchange.
3. Therefore, it appears that she wants to sell the silver because she lacks confidence in the future of silver and prefers to have gold.
4. We have nothing to gain by purchasing Siam's silver except to avoid all the repercussions on the silver market which may follow our refusal.

Our conclusion, therefore, is:

(a) We believe it desirable not to make an offer for Siam's silver now

But

(b) There is sufficient doubt as to the effect on the silver market that our refusal to purchase Siam's silver would have to justify, in our opinion, the following recommendation:

That we neither accept nor refuse the offer, but that we suggest discussions with an accredited representative of Siam's Government. The discussion might explore the possibilities of compromise. The compromise might, for example, take the form of small periodic purchases with the understanding that Siam would keep the major portion of their silver as part of their monetary reserves.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 7, 1938.

TO Secretary Morgenthau
FROM Mr. White
Subject: Siam's offer to sell 22 million ounces of silver coins to us.

1. The silver Siam wants to sell us apparently represents all the silver coins she has (except subsidiary coins).

The 22.7 million ounces Siam is offering is several million ounces more than she is reported to have had in her monetary reserve. Baht silver coins (Siam's monetary unit is the "baht" or "tical". It contains .434 ounces of silver. Its exchange value is 45 cents.) are not reported as being in circulation, though silver subsidiary coins do circulate. (The mint reports for 1936 did record 32 million ounces of silver in Siam but that probably includes subsidiary coins.)

2. Why does Siam want to sell all her silver now?

There are two possible reasons:

(a) She may wish to dispense with silver as a part of her monetary reserve in favor of gold.

(b) She may need to increase her foreign exchange to meet continued unfavorable balance of payments.

The latter reason does not seem to be a probable one despite the appearance of a less favorable balance of trade.

Her balance of trade -- which constitutes by far the most important item of her balance of payments -- has become sharply less favorable in 1937 compared with 1936. In 1936 her export surplus was approximately 25 million bahts and fell to 2 million bahts the next year.

However, the consular dispatches show that her large foreign exchange holdings were not perceptibly reduced in the past year. Our latest report shows that in February 1937 Siam had 120 million bahts of sterling in her currency reserve against a note issue of 140 million bahts and in addition the Treasury held 43 million bahts in sterling.

Therefore, we conclude that Siam is in no immediate need for more foreign exchange but wishes to sell her silver because of the first reason, i.e., she wishes to replace silver with gold in her monetary reserve.

Prepared by H. D. White and H. Glasser

Regraded Uclassified

Secretary Morgenthau - 2 - 6/7/38.

3. If that is the reason why Siam wants to sell her silver coins, should we purchase them?

It seems to us that we should not do so without prior negotiations exploring the possibility of some other arrangement.

(a) If we do purchase the silver now, it would mean that:

(1') We would be facilitating arrangements whereby another country has given up the practice of keeping silver as part of its monetary reserve. In the previous instances there was at least the excellent excuse that the countries needed the foreign exchange. In the case of Siam the reason is palpably a lack of confidence in silver.

(2') We would be weakening the possibilities -- none too strong already -- of silver being maintained as part of the monetary reserves of any country.

(3') We would be adding 22 million ounces to our stock of silver.

(4') We would be executing a transaction yielding neither direct nor indirect benefits to us with a country with which we have only unimportant commercial relations. (Siam is very closely tied to England commercially, financially, and politically.) We sold \$3½ million worth of exports to Siam in 1937 (chiefly tobacco, electrical goods, machinery, oil and canned milk) which was less than 4 percent of Siam's imports, and bought \$½ million (chiefly rubber, teak and art goods), which was less than half of 1 percent of Siam's exports.

(b) If we don't purchase Siam's silver:

(1') We would be taking a step thoroughly in accord with the objectives of the Silver Purchase Act. One of the important objectives of this Act was to increase the world monetary use of silver. By refusing to buy the silver now in the monetary reserves of Siam, we would be carrying out the spirit of the Act.

The case of Chinese silver, for example, is quite different in that they were in effect forced to sell their silver holdings in order to obtain needed foreign exchange. By purchasing their silver we were helping to stabilize the world price for silver.

Secretary Morgenthau - 3 - 6/7/38.

(2') Siam would have to choose between (a) attempting to sell her silver through the normal commercial channels in appropriate amounts and at proper times, and (b) holding her silver until such time as the need for selling it becomes more urgent.

Siam is not in need of the gold which she can obtain from the sale of her silver. Therefore, it is not certain that she would risk offering her silver on the open market in the knowledge that we are averse to purchasing it, and in the further knowledge that we would not look with favor upon such sale.

On the other hand, Siam may prefer to run the risk of selling her silver in the open market now for whatever it would fetch rather than hold it. The fact that she has offered the silver indicates that she lacks confidence in the future of silver and she may prefer to take what she can get during the next few months rather than risk the decline in the value of those silver assets if she continues to maintain it as part of her monetary reserve.

(3') Just what effect our refusal to purchase Siam's silver would have on holders of silver stocks the world over is uncertain.

On the one hand, they would fear that this is the first step in an alteration of our foreign silver purchase policy. They may say to themselves: "If the United States doesn't wish to buy silver at 43 cents an ounce it is probably because it does not wish to hold the price at that level very much longer". As a consequence, the supply of silver offered may increase substantially. The Treasury would then be confronted with the necessity either of buying the additional quantities or letting the price of silver drop some more.

On the other hand, there is the possibility that various holders of silver will be satisfied with the Treasury's explanation, if an explanation is offered. Their reaction to the explanation might be to strengthen their expectation that we intend to continue our present silver purchase policy.

(4') For the first time we have a good excuse not to purchase silver while fulfilling completely the spirit

of the Silver Purchase Act. It may be regarded as a legitimate and intelligent execution of the Silver Purchase Act because it would indicate that we were not buying silver indiscriminately but only when there was a good reason for it.

4. Conclusion:

(a) We believe it desirable not to buy Siam's silver

But

(b) There is sufficient doubt as to the consequences on the silver market of our refusal to purchase Siam's silver to justify, in our opinion, the following recommendation:

That we neither accept nor refuse the offer, but that we request discussions with an accredited representative of Siam's Government. The discussion might explore the possibilities for compromise, which may take the form of very small periodic purchases with the understanding that they would keep the major portion of their silver as part of their monetary reserves. In any case, the negotiations will serve to help us understand just why Siam wants to sell the silver. Moreover, there doesn't seem to be any need either on our part or on Siam's part for speed in this matter.

Tuesday
June 7, 1938
3:14 p.m.

HMJr: Hello.

Operator: Mr. Hogate. Go ahead.

HMJr: Hello.

Kenneth C. Hogate: Hello, Mr. Secretary.

HMJr: How are you?

H: Fine, thank you. And how are you after - ah - getting a lot of money very successfully again?

HMJr: Oh, I - I feel - ah - very happy about the financing.

H: Well, I think so too. I think it was a great success.

HMJr: Yeah. Ah - the suggestion that I have to make to you is - ah - as a possibility of journalism...

H: Yes.

HMJr: I have pretty good reason to believe that all of these reports about a two month shut-down by the automobile factories is wrong.

H: Yes.

HMJr: See? And, I needn't tell you that it's having a very depressing effect. Hello?

H: Yes.

HMJr: And I wondered if you couldn't get an interview with Chrysler and General Motors as to what their plans are over the summer.

H: Ah - I don't see why not.

HMJr: And - ah - I don't know about Ford but I have very good reason to believe that General Motors and Chrysler are not contemplating that so-called two month shut-down.

H: Yes.

HMJr: See? And I think if they came out and said so, it would be helpful.

H: Well I do too and it's a good suggestion and we'll go right after them.

HMJr: And golly, I should think it would be in their self interest to come out and say so.

H: I do too.

HMJr: And if you break a story on all three automobile companies on the same day, I think it would be quite a scoop.

H: Well I do too. I think it's a very good suggestion and we'll get after it and try to do it tomorrow.

HMJr: Now I don't - I don't know anything about Ford, but Chrysler and General Motors, I'm pretty sure they don't contemplate anything - they're running their plants in the usual way that they have every summer.

H: Yes. All right, I'll - I don't see why Ford should be different.

HMJr: All right. Thank you.

H: Thank you very much.

HMJr: Goodbye.

H: Goodbye.

(Note: See diary entry of 6/10/38 -- Wall Street Journal story in re the above)

June 7, 1938. - 67
4:37 p.m.

Dan W.
Bell:provide the revenue.

H.M.Jr: What did he say?

B: He didn't say when.

H.M.Jr: I don't understand. What did he say he told Woodrum?

B: He told Woodrum that he had nothing to add to what he had previously said. That the revenue should be provided to make parity payments.

H.M.Jr: Yes, but what is he going to do about your estimates I don't quite understand that.

B: The two twelves?

H.M.Jr: Yes.

B: He isn't going to sign it. You see I sent it over - I sent it over in a form that he could sign it if he decided to, but I recommended against it.

H.M.Jr: Well, did he take your recommendation?

B: He took my recommendation not to send it up.

H.M.Jr: Yes.

B: But he didn't take my recommendation that I should write to Woodrum and tell him that it is not in accord with his financial program. I said I don't want you to write anything.

H.M.Jr: I see.

B: But I've given Woodrum my informal instructions that he tell the committee that the President has nothing to add to his previous statement.

H.M.Jr: Well -

B: Now you can interpret that two or three ways, one is that he's dead set against it, the other is that they can go ahead and pass it and provide the revenue in some subsequent Congress. See?

B: But I don't know how Woodrum is going to interpret it.

H.M.Jr: Oh'. Not too good.

B: No, I don't think so. A little weak.

H.M.Jr: Yes, I think so.

B: Nothing definite about

H.M.Jr: I wish he would have come out definitely

B: That's right. And I think he would have held it because the Appropriation Committee is nine to one against it.

H.M.Jr: No.

B: Yes. Cannon of Missouri is the only fellow who voted for it.

H.M.Jr: Oh, for heaven's sake.

B: Nine to one.

H.M.Jr: If he had taken a strong position.

B: Oh, they'd have gone right down the line for him.

H.M.Jr: I see.

B: Yes.

H.M.Jr: All right, Dan.

B: But I'm afraid we've lost it.

H.M.Jr: I'm sorry.

B: O. K.

H.M.Jr: All right.

June 7, 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 States of Illinois, Indiana and Wisconsin.

TECHNICAL STAFF, CHICAGO DIVISION

1. Effective September 1, 1938, a division of the Technical Staff of the Commissioner's Office will be established comprising the States of Illinois, Indiana and Wisconsin. It will be known as the Chicago 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 Chicago, Illinois, 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

sent by special messenger to Commissioner delivering by
Mr. McReynolds 6/8/38

place within the territory comprising the jurisdiction of the Chicago 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 defense 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 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 Agent in Charge will send the case to the Bureau for issuance of the certificate of overassessment or other appropriate action.

-4-

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 paragraph. 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 any 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 issue 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 Memo-graph 3552,
- (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.

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 2 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 September 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.

10/ Guy I. Helvering
Commissioner.

Approved: JUN 6 1938

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

AMH/ab

EDA

GRAY

LONDON

Dated June 7, 1938

Received 1:45 p.m.

Secretary of State

Washington

490, June 7, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

British markets continue under the influence of the Whitsun holiday and the volume of trading is very small. The franc has been somewhat offered with the Bank of France giving support at 178.30-42.

KENNEDY

RR

RECEIVED
JUN 7 1938
TREASURY DEPARTMENT
WASHINGTON, D. C.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 7, 1938, 4 p.m.

NO.: 886

FROM COCHRAN.

At eleven this morning I visited the Bank of France. Quiet opening for market, but steady demand for sterling. The rate moved from 178.25 to .35 while I was there without the French control offering any resistance. Last week's losses by the control were considerably less than for the preceding week, when the control spent approximately one billion in gold and foreign exchange. In addition to speculative and flight operations, the control is constantly having to yield foreign exchange because of the French adverse trade balance, which in this calendar year again is averaging around one and one-half billion francs per month. At the present time such losses for straight commercial purposes are 20 to 30 million francs per day. Very soon the tourist season should provide some foreign exchange to be applied against this drain. However, prospects for this year are not nearly so good as for the previous year. Besides covering the adverse trade balance, the control is also called upon for important amounts to permit French railways to pay what they owe abroad; it cost the control 450,000,000 francs in May alone for such charges.

There is practically an end to repatriation of French capital.

capital. The capital which is here is being held in rather liquid form with little inclination for long term investment.

The decree laws which have been issued up to the present do not promise much increase in French production, but rather an increase in spending, which will result in an increase in the Government debt burden.

It is my friend's opinion that by early autumn, and perhaps even in August, the Treasury's cash resources procured through the national defense loan and the short term obligations may be practically exhausted. If at that time it should prove necessary for the Treasury to resort to new borrowing from the Bank of France, the usual depressing effect upon the currency would be felt and then the control would lose gold.

At 3:30 this afternoon my market contact said sterling was still being sought and the control might have to begin giving soon. Forward franc discount against three months sterling increased to 1-13/16. Demand for gold coins continues and French investors who have always favored South African gold mining shares are now adding Canadian gold mining securities to their holdings. French rentes lower on a dull market. Rates are such that National Bank of Belgium is acquiring some in London today.

END MESSAGE.

BULLITT.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 7, 1938, 6 p.m.

NO.: 890

FROM COCHRAN.

At 6:00 o'clock I called on Rueff at the Finance Ministry. I made reference to the official statements issued last night by the trustees of the Austrian International Guaranteed Loan 1933 and of the Guaranteed Conversion Loan 1934 to the effect that no part of the monthly service installments due June 1 on both loans had so far been provided. Officials of the French Government meet on Wednesday to discuss their trade and financial relations with Germany with particular reference to the service on the two Austrian loans above mentioned. German representatives will arrive in Paris later in the week to talk with the French officials in the premises.

I was told confidentially by Rueff that his people have decided that if full service on the two Austrian loans is not insured by Germany in so far as the French are concerned, France will institute a clearing against Germany. Rueff said he understood the same would be done by the British, effective the first of July, if they do not get satisfaction from Germany in their present negotiations. On the first of July this step would be taken without respecting the formal requirement in the existing Anglo-German agreement that before the imposition of clearing one month's notice is to be given.

BULLITT.

A:LWW

JR

GRAY

Paris

Dated June 8, 1938

Rec'd 7:35 a.m.

Secretary of State,
Washington.

892, June 8, 10 a.m.

FROM COCHRAN.

Reference my 890, June 7, 6 p.m. B.I.S. issued
on June 7 following communique:

"The Bank for International Settlements, trustee
of the Austrian Government International Loan 1930,
announces that it has not received the service
installment due on 1st June nor the pledged revenues
out of which the currencies required for that
installment were to be provided. The bank for
International Settlements has protested against these
infractions of the loan contract and has made emphatic
representations to the authorities of the Reich for an
early payment of the overdue installment. Unless this
be forthcoming in due time, the trustee will not be able
to pay on 1st July more than five-sixths of the coupon
then due, except as regards the Austrian and Swedish
tranches, in respect of which the trustee holds
unexpended sinking fund moneys sufficient to complete
the coupon payment."

DDM:WVC

BULLITT

EDA

GRAY

PARIS

Dated June 8, 1938

Received 2 p.m.

Secretary of State

Washington

896, June 8, 4 p.m.

FROM COCHRAN.

When steady demand for sterling today moved rate to 178.39 French control intervened to give fair amount of pounds through Comptoir, Morgans and Societe Generale and brought quotation down to .29. Little activity on security market. Banks are busy trying to pass on to their clients new City of Paris bonds, giving purchasers 24 out of their own 25 francs commission per 1,000 franc bond. Florin strong on "orthodox gold standard" character of annual report of President Trip of the Netherlands Bank, details of which I am mailing.

French press has concluded that American situation must be serious to warrant two denials within one week by the Secretary of the Treasury of further dollar devaluation. AGENCE ECONOMIQUE editorial yesterday was particularly critical of President's failure to modify his attitude toward Wall Street. It referred

to

EDA - 2 - #896, June 8, 4 p.m. from Paris

to Secretary Morgenthau's recent remarks upon his satisfaction with the Tripartite Agreement and wondered why American domestic policy is not inspired by the same principles for developing business that are involved in the Tripartite.

(END SECTION ONE).

BULLITT

CSB

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PARTIAL PARAPHRASE, SECTION TWO, NO. 896, June 8, 1938,
from Paris.

The editor pointed out how the prosperity of other countries is tied up with that of the United States and said: "President Roosevelt should understand that he will be assuming a heavy responsibility before the world if he does not return as soon as possible to a more liberal financial and economic policy".

General press opinion in Europe is that popular sentiment in United States is opposed to further devaluation of the dollar and that such a step would prove illusory and would only start a further chain of monetary depreciation beginning with sterling.

I gather from conversations which I had today at lunch with private banker Dreyfus and Mitzakis, his manager, with National City Bank and Bank of France officials yesterday and with market traders this afternoon, that the present concern over the dollar comes mainly from the United States and business and banking travelers are carrying it to Europe as much as the press is doing so.

END MESSAGE.

BULLITT.

EA:LWW

June 8, 1938

I showed the President the Commencement Address which I am going to give on the 16th at the Temple University and he liked it very much. He said, "This might very well be an introduction to a book which would be written during the next five years". He said, "Frankly, you admit that we do not know what the answer is and we do not. Three things may happen: (1) People may decide at the election next fall to go back to the old order. (2) Things may get better due to nature or some natural forces which we do not understand, which would make things very much more pleasant the next two or three years for you and me and we could continue to try to improve things with a very difficult legislative situation or (3) Things may get very much worse and then we would have to do entirely new planning and, frankly, I just do not know what would be necessary to do."

So I said, "Don't you think, Mr. President, that there are several groups in the government in Washington who would like to see things get worse" and he said, "No, I do not" and I said, "I think you will find that there are" and his reply was, "If there are, they are not very important people".

CONFERENCE AT THE WHITE HOUSE
June 8, 1938

Those present, besides the President, were the Secretary of the Treasury, Assistant Secretary Burlew of the Interior Department, and myself.

Mr. Burlew said that he had for consideration several letters prepared by the Bureau of the Budget, approving projects under the pending PWA bill for the Navy, Treasury and War Departments, Veterans' Administration, and Department of Justice, in the aggregate amount of about \$85,000,000. The President went over the list of projects very carefully, raising certain questions regarding certain projects on the Navy list and the Army list. He reduced the Army list from approximately \$39,000,000 to \$30,000,000, and at the suggestion of the Secretary of the Treasury put a notation on each letter that the contract should be let on or before August 15, 1938. It is understood that the approval of the President was tentative and for the purpose of allowing the Departments to make preliminary plans in order that they may prepare to go forward with all possible speed upon the signing of the Emergency Relief bill.

It was also understood that these letters were based on the assumption that the amounts specified in the Relief bill for Federal projects, namely \$200,000,000, would remain unchanged and that if this sum is reduced in conference, it may be necessary to proportionately reduce the number and amounts of the projects specified in these letters.

sub

THE WHITE HOUSE
WASHINGTON

My dear Mr. Administrator:

By virtue of the authority vested in me under the Public Works Administration Appropriation Act of 1938, approved June , 1938, I hereby approve projects aggregating \$11,402,000 for the enlargement, extension, or remodeling of existing plants or facilities of the Navy Department, Bureau of Yards and Docks, for the amounts indicated in the attached schedule. (O.P. Nos. 752-09-1 to 752-09-36)

It is requested that the sum of \$11,402,000 be allotted to the Navy Department, Bureau of Yards and Docks, for the prosecution of any or all of the projects in accordance with and as described in said attached schedule: Provided, That the amount expended upon any one project shall not exceed the amount indicated therefor in such schedule. The prosecution of these projects shall be subject to all the restrictions and limitations of said Act.

Please furnish the Secretary of Navy a photostat copy of this letter.

*Contract to let run on
before Aug 15.*

Sincerely yours,



The Honorable,

The Federal Emergency Administrator
of Public Works.

THE WHITE HOUSE
WASHINGTON

My dear Mr. Administrator:

By virtue of the authority vested in me under the Public Works Administration Appropriation Act of 1938, approved June 1938, I hereby approve projects aggregating \$10,000,000 for the enlargement, extension or remodeling of existing stations or facilities of the Treasury Department, Coast Guard, for the amounts indicated in the attached schedule. (O.P. Nos. 752-12-1 to 752-12-178)

It is requested that the sum of \$10,000,000 be allotted to the Treasury Department, Coast Guard, for the prosecution of any or all of the projects in accordance with and as described in said attached schedule. Provided, That the amount expended upon any one project shall not exceed the amount indicated therefor in such schedule. The prosecution of these projects shall be subject to all the restrictions and limitations of said Act.

Please furnish the Secretary of the Treasury a photostat copy of this letter.

Sincerely yours,

Contracts to be let by Aug 15

Franklin D. Roosevelt

The Honorable,

The Federal Emergency Administrator
of Public Works.

THE WHITE HOUSE
WASHINGTON

My dear Mr. Administrator:

By virtue of the authority vested in me under the Public Works Administration Appropriation Act of 1938, approved June 1938, I hereby approve projects aggregating \$12,905,000 for penal and correctional facilities under the Department of Justice, Bureau of Prisons, for the amounts indicated in the attached schedule. (O.P. Nos. 752-06-1 to 752-06-20)

It is requested that the sum of \$12,905,000 be allotted to the Department of Justice, Bureau of Prisons, for the prosecution of any or all of the projects in accordance with and as described in said attached schedule: Provided, That the amount expended upon any one project shall not exceed the amount indicated therefor in such schedule. The prosecution of these projects shall be subject to all the restrictions and limitations of said Act.

Please furnish the Attorney General a photostat copy of this letter.

Sincerely yours,

Contracts to be let by Aug 15

Franklin D. Roosevelt

The Honorable,

The Federal Emergency Administrator
of Public Works.

THE WHITE HOUSE
WASHINGTON

My dear Mr. Administrator:

By virtue of the authority vested in me under the Public Works Administration Appropriation Act of 1938, approved June 1938, I hereby approve projects aggregating \$13,268,200, for hospitals and domiciliary facilities of the Veterans' Administration, for the amounts indicated in the attached schedule. (O.P. Nos. 752-64-1 to 752-64-22)

It is requested that the sum of \$13,268,200 be allotted to the Veterans' Administration, for the prosecution of any or all of the projects in accordance with and as described in said attached schedule: Provided, That the amount expended upon any one project shall not exceed the amount indicated therefor in such schedule. The prosecution of these projects shall be subject to all the restrictions and limitations of said Act.

Please furnish the Director of the Veterans' Administration a photostat copy of this letter.

Sincerely yours,

Contracts to be let by Aug 15

Franklin D. Roosevelt

The Honorable,

The Federal Emergency Administrator
of Public Works.

THE WHITE HOUSE
WASHINGTON

My dear Mr. Administrator:

By virtue of the authority vested in me under the Public Works Administration Appropriation Act of 1938, approved June , 1938, I hereby approve projects aggregating \$39,259,880 for the enlargement, extension, or remodeling of existing plants or facilities of the War Department for the amounts indicated in the attached schedule. (O.P. Nos. 752-13-1 to 752-13-83)

It is requested that the sum of \$39,259,880 be allotted to the War Department, Quartermaster Corps, for the prosecution of any or all of the projects in accordance with and as described in said attached schedule: Provided, That the amount expended upon any one project shall not exceed the amount indicated therefor in such schedule. The prosecution of these projects shall be subject to all the restrictions and limitations of said Act.

Please furnish the Secretary of War a photostat copy of this letter.

Sincerely yours,

Put to 30,000,000
Eliminate small jobs of doubtful permanency
Contracts to be let by Aug 15.

The Honorable,

The Federal Emergency Administrator
of Public Works.

Franklin D. Roosevelt

4246

Colo ribbon copy to Magill, June 16

89

June 8, 1938.
11:35 a. m.

H.M.Jr: Hello.

Operator: Congressman Doughton. Go ahead.

H.M.Jr: Hello.
Robert
Doughton: All right, Mr. Secretary.

H.M.Jr: How are you?

D: Oh, I'm back in the office for a little work.

H.M.Jr: Good for you.

D: Feeling pretty fair, thank you. How are you getting along?

H.M.Jr: Oh pretty well. What's on your mind?

D: How's that?

H.M.Jr: I got a message you called me.

D: Yes, I called you. I've been away, you know, now for over three weeks -

H. M. Jr: I know you have.

D: A vacation in the hospital. I got your message and all that. Well say, there's nothing - they keep telling me that Doctor Magill is going to quit - there's nothing to that, is there?

H.M.Jr: Yes, I guess he's going to go back and teach in the fall.

D: Huh?

H.M.Jr: He's going back to Columbia in the fall.

D: In the fall, he told - the last time I talked to him, he said he was not going to leave - I told him we'd - the men kept leaving and kept leaving, I didn't know what we'd all do here.

H.M.Jr: Well, I don't either, but -

D: Well, let me ask you -

- 2 -

- H.M.Jr: Go ahead.
- D: Parker is leaving you know.
- H.M.Jr: Yes.
- D: As chief of the staff, I'm calling a meeting of the joint committee to fill his - to fill the vacancy, Friday morning.
- H.M.Jr: Yes.
- D: And I think that before we leave here, that we ought to have a conference with you, and if you want - whoever present, how you - what you're going to have in mind about tax next year, and begin to lay the foundation and do some foundation work and preliminary study during the summer and fall.
- H.M.Jr: Well, unfortunately -
- D: Isn't it so?
- H.M.Jr: Yes, but Magill left on his vacation last night and I couldn't do anything about it until he comes back, and he's gone for a month now.
- D: Gone for a month.
- H.M.Jr: Yes.
- D: Well, if we're going to have a tax bill here next Wednesday - if we don't do some work. We came up here last year and we weren't ready.
- H.M.Jr: Well, Magill will be back after the fourth of July.
- D: I can run up here, I guess, after that for a conference.
- H.M.Jr: Well, I'll leave word that - that you called and give the memorandum to Magill and say the minute he gets back he should get in touch with you.
- D: I think I want to see the President before I leave and see what he's got in mind - general - there's a general proposition.

- 3 -

H.M.Jr: Well, if you get something, I wish you'd tell me.

D: How's that?

H.M.Jr: I hope you let me in on the secret.

D: Well, you ought to know it and let me in on it.

H.M.Jr: All right. Well, I know nothing.

D: Well, I don't hesitate to ask you and I see he indicates, you know, we'd have another tax bill.

H.M.Jr: Yes.

D: If we are, why we're going to come back here in January and nothing done preparatory to it, why you know where we'd be. Well, I just thought I'd call you and see anyhow about it.

H.M.Jr: Well, good luck, and I'm glad you're back at work.

D: Thank you very much.

H.M.Jr: Thank you.

D: Goodbye.

TREASURY DEPARTMENT

92

INTER OFFICE COMMUNICATION

DATE June 8, 1938

TO Secretary Morgenthau
FROM Mr. Haas 

Attached are two one-page memoranda prepared by
Miss Lonigan.

Attachments



June 8, 1938

93

To: The Secretary
From: Miss Lonigan 21

In the new relief bill, one approved amendment requires the payment of a \$40 a month minimum wage for WPA workers, throughout the United States. Wherever in rural sections the rate for all farm labor is less than a guaranteed \$480 cash a year, farmers will be unable to get farm labor, and will buy farm machinery. That will throw an even higher percentage of rural farm labor onto WPA than is moving there at present.

Whenever wage-rates in relief or work-relief are increased, that means not only an increase in income for families already on the program, but also the addition of all the families between the old and the new limits, in this instance all the workers earning between \$162 and \$480 cash income. That is a large part of the rural population in the South.

There is no limit to the expenditure that will be necessary for WPA, if WPA is permitted constantly to bring whole new classes of workers into the group of "needy", by subtle changes in its wage rates, or conditions of eligibility. As these grow more and more attractive, new classes of workers will constantly prefer WPA work to private employment. This continuous raising of levels of eligibility is always made out of sight, without the knowledge of other officials of the administration.

* * * * *

This guaranteed minimum of \$480 a year is also one further step in the continuing campaign of WPA to sabotage the Social Security program.

The attempt to undermine Social Security Board is also being carried out through WPA's CIO connections.

June 8, 1938

To: The Secretary
From: Miss Lonigan *el*

Last week I mentioned to you that Miss Jeeter, relief statistician of the Social Security Board, was one of the two ablest authorities on relief statistics in the United States. Since I made that statement to you, Miss Jeeter has ~~resigned~~.

During the last year Miss Jeeter has been subject to a continuing campaign of obstruction, which even descended to the level of personal attack, first by the WPA, and then by the Central Statistical Board at the suggestion of WPA. The Central Statistical Board called me and asked me to recommend to you that Miss Jeeter be disciplined. I ignored the request.

Miss Jeeter evidently reached the limit of her patience, since no agency in the administration gave her any support for high-grade professional work. If the Social Security Board had been made the recognized authority on relief statistics, in administration conferences, this hidden sabotage could not have been so wholly successful.

I am very much afraid that all other officials who are attempting to point out the procedures used by WPA, and to offset them by sound technical work, will be obliged to resign, unless they can get protection at the point where they are being attacked.

RE COMMODITY CREDIT BOARD OF DIRECTORS

June 8, 1938.
10:30 a.m.

Present: Mr. Taylor
Mr. Jones
Mr. F. F. Hill
Mr. Wallace
Mr. Tapp
Mr. Dasher

- H.M.Jr: Before the Agriculture crowd comes, have you (Hill) got any feelings about Commodity Credit, because I haven't had a chance to talk to you. I mean do you want anything changed, Mr. Hill, from the way it is now?
- Hill: No, I don't.
- H.M.Jr: I mean are you satisfied, is Farm Credit satisfied the way Commodity Credit is going along? I mean speaking from here.
- Hill: Well, I - as far as I know, Mr. Secretary, the Governor hasn't said anything to me about it. I haven't been
- H.M.Jr: Well, the purpose is today - I mean I'm satisfied. Now, if I'm going to make a change I've got to have somebody give me a damn good reason.
- Hill: As far as I know, the Governor is.
- H.M.Jr: I mean I told - Mr. Jones asked me point blank, was I satisfied the way he was supervising Commodity Credit, and I said, "Yes." Now, what I want to know is, who isn't?
- Jones: No reason to change.
- H.M.Jr: Who isn't?
- Jones: I think Bill Myers is satisfied.
- Hill: I'm sure of that.
- H.M.Jr: If the only trouble is the big board, let's shrink it, that's all. I mean instead of having 11 members, let's have five members. You can have the same proportion. You could have the same proportions. Just shrink it.

-2-

Jones: As a matter of fact, it's not in the way; I'd just as soon shrink it.

H.M.Jr: Well, that's Wallace's complaint.

Jones: Big board.

H.M.Jr: It's too big, they can't act. All right, let's shrink it.

Hill: By three or four, huh?

Jones: If you shrink it 50 percent, you'd have difficulty - he'll want to do the shrinking all on one side.

H.M.Jr: Just even off straight through.

Hill: Pro rata cut.

H.M.Jr: I mean there is no reason in the world why there should be more than five directors. What?

Jones: That's right.

H.M.Jr: Now, you could have it - I don't know; I mean I don't want to play politics, I'm not interested. But if that's the worst complaint, let's just cut it in half.

Jones: As a matter of fact, there is not

H.M.Jr: You got 11 or 12?

Jones: There are 12 members on the board now.

H.M.Jr: Well, you've got six.

Jones: We've got six.

H.M.Jr: These other fellows have each got three.

Jones: I think so. I got it right here, I'll tell you.

H.M.Jr: Bell had the stuff, or somebody had the stuff, for me.

Jones: I got it right here.

-3-

H.M.Jr: Who has my memorandum on that letter from Wallace?
Did I give that to Bell, huh?

Taylor: I think Dan has it.

Jones: Wallace and Tolley and Johnson. That's three.

H.M.Jr: (On phone) Mrs. Klotz, please.

Jones: One, two, three, four,

H.M.Jr: (On phone to Mrs. Klotz) Bell isn't coming to the
meeting. I think I gave him Mr. Wallace's letter
on Commodity Credit.

(Wallace and Tapp come in)

Wallace: Well, Henry, I was late getting away from a couple
Mississippi Senators.

H.M.Jr: Did you like them?

Jones: Mississippi Senators.

H.M.Jr: All that same old thing, huh?

Well, we're here at your request. What would you
like us to do?

Wallace: Well, sir, we're under the necessity of setting up
a new board.

H.M.Jr: Yes.

Wallace: I wrote you a letter. - I think I sent you (Jones)
a copy, didn't I?

Jones: (Nods yes)

Wallace: I think I did. ... suggesting that there be nine
members, as I remember it. I haven't read the letter
for a long time.

H.M.Jr: Bell has it. I've tried to get the letter.

Wallace: I think we suggested that there be - what was it?

Tapp: Three from Farm Credit, ...

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- Wallace: Three from Farm Credit, three from Agriculture, three from R.F.C.
- H.M.Jr: Why?
- Wallace: Huh?
- H.M.Jr: Why?
- Wallace: Why three?
- H.M.Jr: I mean why change it? I mean that's what I just
- Wallace: Well, as a matter of fact, there is rather a different set-up now there than there has been. Originally, I think, the set-up was about like that. Then when R.F.C. controlled most of the stock, it was changed somewhat. Now the Treasury controls the situation entirely, so I suggest we work back to the original situation.
- H.M.Jr: Well, we don't want any directors.
- Wallace: You don't want the directors. In view of the fact you don't want the directors, I'm suggesting we work back to the original situation.
- H.M.Jr: Our only interest is this. What I mean, to get down to brass tacks, we've got the stock now and - I mean it's a question of the management of this organization, and as far as I'm concerned I'm perfectly satisfied with the management.
- Jones: What's the - may I speak?
- H.M.Jr: Why not?
- Jones: What's the reason for changing? You see, under your new law, as far as I'm concerned, why, I have - it means nothing to me except grief, trouble, and more work. If that's - that's all I get anyway in this situation. We can only - the Commodity Credit can only make loans upon your recommendation and approved by the President. The only thing that the Board of Directors of the Commodity Credit can do is to be helpful if they've got a voice as a money lender. They are not required to lend upon your recommendation, but they can lend only upon your recommendation.

Under those circumstances, I don't see why it is necessary to change it.

Furthermore, when I asked the President what I should say on the Hill, asking for this new Commodity Credit situation, borrowing direct from the Government, and so forth, when asked, "Why the change?" which I knew they would ask me - "Why are you changing it? Aren't you getting along all right?" Have to say we were, but say it was a little more direct. But he said, "Say that the management would not be changed," and I said that in the Committee. Now, that's the one reason that I'd see ~~no~~ particular occasion for changing it. We try to cooperate. I think we do cooperate. And I see no reason - we generally do what you want done. I think it is helpful to the Administration, I think it is helpful to you, to have somebody else than yourself.

Wallace: Oh yes, oh yes. Of course, I'm only suggesting that Agriculture have one-third representation. I'm suggesting that Farm Credit have a third representation. I think Farm Credit represents both the agricultural and the financial point of view; represents very definitely a banking point of view. Farm Credit is very definitely looking at points of public security.

Jones: Why change the representation?

Wallace: I think we will definitely have a better-balanced presentation.

Jones: Isn't it a pretty well balanced presentation now? You balance it on one side and I try to balance it on the other. That's about the way it is.

Wallace: I don't know - I don't know how Farm Credit feels about it, but I'd like to see it a three-way proposition, with the three of us in on it. I haven't talked to them about it.

Jones: Just to be frank about it, we want to be helpful, and the voting is with the Secretary of the Treasury.

Tapp: Of course, I think one thing, if I may make this particular point: the Board itself is too large. There is quite a bit of lost motion and time. Now, in a board of nine

- Jones: In what way is there lost motion?
- Tapp: A board of nine can do the
- Jones: A board of three can do it. One man can do it - I mean when you get down to administration.
- (Wallace leaves group to use White House phone)
- H.M.Jr: Tapp, while we're doing this - when we get through - Bell and I had no question about the six million dollar purchase of flour, but we didn't see why your Surplus Commodities Corporation should take part of your money to buy cotton for cotton mattresses for Hopkins.
- Tapp: Well, ever since we had the money for removing surpluses we've done that.
- H.M.Jr: Well, Bell and I felt there was 125 million for next year and half of it now goes to cotton.
- Tapp: (Words muddled by Wallace's conversation on White House phone)
- H.M.Jr: You won't? Couldn't you buy - couldn't you increase your six to ten million for wheat and get your flour and store it?
- Tapp: We could, but we felt that there will be close to five million barrels by June - before (words muddled again)
- H.M.Jr: As I say, 62 million dollars for cotton out of 125.
- Dasher: 65.
- H.M.Jr: 65. I mean have you ever bought cotton for Hopkins before?
- Tapp: We bought 50,000 bales in June, 1936.
- H.M.Jr: For Hopkins?
- Tapp: We don't buy it for Hopkins; we turn it over to the states, and they use it in connection with their work projects.

H.M.Jr: Oh.

Are you (Dasher) handling that for Mr. Bell?

Dasher: Yes, sir.

H.M.Jr: Could you (Tapp) stay after and talk with him, because neither Bell nor I understand it.

Tapp: Yes, we'd be glad to.

H.M.Jr: Because neither Bell nor I understand it. It just doesn't frankly make sense to us, because maybe we don't know. And if you've got any unused money - I mean while we're waiting - I mean my reports from Cleveland still show that you just - you're not touching the situation.

Dasher: The President signed the letter on wheat and held up the four million dollars on cotton, and a request for an allotment of six million dollars for fruits and vegetables and - that is, truck crops.

H.M.Jr: Fresh milk?

Dasher: Dry milk and dairy products.

H.M.Jr: I'm more than willing to sign that. I'll do that cheerfully.

Dasher: That's another six million dollars.

H.M.Jr: Well, if you don't mind, I wish you would talk, and if you want - because I just can't - can't you find, with all of your people and everybody saying that those people are so hungry, something more useful than mattresses?

Dasher: It sort of looks that way.

Tapp: Cotton situation is sort of bad, too, as a matter of fact.

H.M.Jr: Money for Hopkins, through Procurement, for buying 65 million yards of cotton.

Tapp: Of course, if Mr. Hopkins would buy the cotton, I'd

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be perfectly satisfied, but heretofore he hasn't done it.

H.M.Jr: Would you try it?

Tapp: Yes, we will.

H.M.Jr: It is to go to mattresses, isn't it?

Tapp: That's right.

H.M.Jr: Would you try it?

Tapp: If he'd buy them - he hasn't done it since 1934, when he had direct relief money.

H.M.Jr: Well, how much - how much does - oh, you want four million dollars.

Dasher: 50,000 bales for ticking.

H.M.Jr: Well, listen, if he did that, couldn't you put that four million dollars to damn good use for food?

Tapp: Between now and June 30 I doubt if we can buy additional ...

H.M.Jr: Does it lapse?

Dasher: Yes - just fiscal year appropriation, 30 percent of customs, you see.

H.M.Jr: I wouldn't worry about another four million dollars worth of flour. If you bought wheat futures and just tucked it away

Dasher: The President turned this same proposition down when we wanted to buy 62,500 bales of cotton out of Section 32 money to do this very same thing with.

H.M.Jr: Bell - excuse me - Bell and I feel very strongly on this. But if you would talk to him - give you 24-hour service; we won't hold you up beyond 24 hours.

Tapp: I think what we better do - Mr. Bell and I talk to Aubrey Williams. What needs to be done is to obtain more cotton; needs to be done very much.

H.M.Jr: Would you make that effort in the next 24 hours?

Dasher: In the relief bill also there is authority to spend 50 million dollars by Harry Hopkins - to turn it over to Surplus Commodities Corporation.

H.M.Jr: Did that stick?

Dasher: Yes, it stuck. It's not an addition, but it's authority for Harry Hopkins to spend 50 million dollars.

H.M.Jr: But he can't spend his money ...

Dasher: Oh, after July 1, yes.

H.M.Jr: I'll find out from Bell.

Tapp: I think we'll talk to Hopkins or Aubrey Williams.

(Wallace returns to group)

H.M.Jr: While you (Wallace) were talking, we were talking about that cotton for mattresses, and he (Tapp) is going to stay behind and see about that. Is that all right with you?

Wallace: Lovely.

H.M.Jr: Save both of us. I mean we just thought we might see whether Hopkins wouldn't buy it for his - the cotton for his own mattresses, and keep that money for you for food. All right?

Wallace: (Nods yes)

H.M.Jr: Now, where were we? No, you (Dasher) stay and listen to the rest of this, because Mr. Bell is interested. If you don't mind. Please.

Dasher: Yes, sir.

H.M.Jr: Go ahead. We were talking about

Jones: We were talking about the size of the board.

Wallace: Got just to the point that a board of nine would be more efficient than the rather big board we have now.

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Jones: Well, in what way, now? You have had no difficulty in having meetings. Of course, you have to wait on the Secretary (Wallace) and if he gets there you can have a meeting. That's what the situation is. The others are all available.

Wallace: Well, Jesse, I was figuring on this new set-up on getting off the board.

Jones: Well, I suggested that to you before.

Wallace: So this is my counter suggestion as a method of getting off the board. Otherwise, I'll feel obliged to remain on.

Jones: Well, I see no particular reason for being on the board, as I indicated to you before. I think naturally all these men that are on that board - they are reluctant to argue with you, a member of the Cabinet.

Wallace: All right, sure.

Jones: I said that to you before I said it to anybody else, and I think it's true. Now, I think you're pretty well represented when you get Mr. Tapp and Mr. Tolley.

Wallace: You feel ex-officially I'm there.

Jones: They fully carry the ball.

Tapp: I'm not on the board, Mr. Jones.

Jones: What?

Tapp: I say I'm not on the board.

Jones: Well - but then, the Secretary suggested you might take his place, and I think if that were done that it would make it all right. Our boys like Wilcox; he's a pretty good man. You might not like him for that reason. I mean it's just a question here - if there is any good reason for taking it away, chopping it off, all right, but if there isn't I don't think we should change it.

Wallace: Well, I think it's an excellent thing to do.

Jones: Excellent thing to change?

Wallace: Yes.

Jones: Well, I don't agree with you. Now, we're 50-50 there anyway. After all

H.M.Jr: Well, I've got a compromise suggestion. How is it now? In total numbers, how many?

Jones: There are 12 members now.

Tapp: Six of R.F.C. and two from Farm Credit, and there are four from Agriculture. One vacancy which has never been filled, so there are actually three from Agriculture.

H.M.Jr: Well, they could have four.

Tapp: Yes, presumably. The vacancy has never been filled.

H.M.Jr: That's six. All right, what would you think of the suggestion: three from R.F.C., two from Agriculture, and two from Farm Credit - board of seven.

Wallace: Don't think we can get represented sufficiently the full point of view in Agriculture with only two.

Jones: Who do you want on from Agriculture?

Wallace: I think we really ought to have one from AAA on.

Jones: Is that Tolley?

Wallace: I think we ought to have one ...

Jones: I mean is that Tolley, AAA?

Wallace: Well, Tolley is the head of AAA, administrator of AAA. Wouldn't necessarily be Tolley.

Ought to have - preferably, I think, we ought to have one from B.A.E. on.

Jones: Who would that be?

Wallace: The Chief is Al Black, but it wouldn't necessarily be Al Black. Ought to have someone who is familiar with the warehousing situation; I think that's rather

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important. I think we have neglected it altogether too much.

Tapp: Well, the inspection and grading, and that kind of thing - B.A.E. can be very helpful on safeguarding loans. Generally inspection and grading as well as warehousing.

Wallace: And I'd like to have someone from my office, so that my office is posted on it.

H.M.Jr: How many does that total?

Wallace: Well, that would be three.

Jones: Who would be from your office, Tapp?

Wallace: Well - oh, Tapp is from AAA.

Jones: Well, would you want Tapp and Tolley both from AAA?

Wallace: No, I think we ought to have one - I think preferably Tapp.

Jones: Tapp instead of Tolley.

Wallace: Yes, I think so.

Jones: Now, who would be from the warehousing?

Wallace: I think probably Kitchen would be more familiar with that than Black.

Jones: Who?

Wallace: Kitchen has been ...

Jones: How do you spell it?

Tapp: Plain "kitchen."

Wallace: Just like "kitchen" is spelled.

Tapp: He handles regulatory work of the B.A.E. - inspection and grading.

Jones: And what other department?

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Wallace: I want my office represented, so I could know what's going on direct.

Jones: Well, that would be you.

Wallace: No, I think - I was thinking of Mr. Evans to represent my office.

Jones: Evans. And who else? Now, that would be Evans and Tapp and Kitchen. What others would you have? Another department?

Wallace: No, no, just the three. I think you want to hold this thing down to the minimum as long as you've got the vital points of view represented.

H.M.Jr: How many do you need, Hill?

Hill: We've got two now, haven't we? I should think we could get along with one.

H.M.Jr: That doesn't help the poker game. That wasn't the right answer. It's all right, though.

Wallace: Let them get along with one. We put three on. They'll have one.

H.M.Jr: As the stockholder, you see, I've got sufficient confidence in all you fellows that I can't get very much excited about it. No, I'm sincere in that.

Jones: Well, do you charge Goodloe up to the R.F.C. when you say we got six?

Wallace: Uh-huh.

Jones: Well, he's no more R.F.C. than he is Agriculture. He's the executive officer of the institution in the absence of Talley.

H.M.Jr: I say this board of seven would be ample. I think a board of seven would be like Federal Trade Commission.

Jones: Let's see, Talley is seldom present. I don't like to leave him off. Because of the condition of his health, I haven't seen him lately.

Tapp: He hasn't been to a board meeting for two years, I don't believe.

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- Jones: He's been there a couple times last year. He was there some day when I remember - once or twice over there.
- Tapp: Last year?
- Jones: Well, the years pass pretty fast, but - that is, to me. They don't pass so fast to you. They will later on.
- Wallace: Curious thing, now the years speed up.
- H.M.Jr: Well, come on, boys, let's get together. I want to find out what you're going to loan on wheat, which is a damn sight more important than who's the board of directors. Does the board ever meet?
- Jones: You charge Pierson to the R.F.C. He's in the Export-Import Bank. I don't see that we've got very much to fuss about.
- Wallace: Well, as a matter of fact, if you take this seven proposition and let these other folks sit in to know what's going on, let the seven be the official board, it seems to me it ought to function very nicely.
- H.M.Jr: Well - I mean I don't want to get down to - but if, for instance, your assistant head of your Agricultural Economics sits in - I mean he's just as good - I mean after all, when it gets down, it's you and Jones make the policy. Neither Farm Credit nor I have anything to say about it. Maybe you (Hill) think you do. I know I don't.
- Hill: I think we have an illusion.
- H.M.Jr: What?
- Hill: I think we have an illusion of it.
- Tapp: Farm Credit's representation has been very effective and very helpful.
- H.M.Jr: Well then, what's the matter with the suggestion I made? I mean three, two, two. And then as long as it's Jones' responsibility as far as the money going out - I mean I think the only reason - I simply think

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the fellow is going to lend the money, I'd like to hold him responsible. I mean so we look to somebody. We can't look to Agriculture, because the actual loaning is in this organization. Now, who's going to be the daddy? I don't want to look to Farm Credit, because I fought like hell five years ago to keep from having this in Farm Credit.

- Jones: Well, the way I feel about the whole thing is, as long as we've been sort of supervising it and would like to look after it for another year - then I think we've got to determine whether we're going - it's going to become a part of Agriculture or whether it isn't.
- Wallace: Well, that's what we've been recommending right along, that it be made a part of the Department.
- Jones: Well, I think you're wrong about it. I think you've finally found that out, that it's
- Wallace: Well, if we can get some of these things fully and completely straightened out that have to do with the servicing of loans in the country - I mean to be sure that your security is there, if the county committees are in on it - we're gradually getting those straightened out.
- Jones: We have had no difficulty, have we? I think the only thing we have disagreed on is the thing of Federal or state warehouses - the only thing. What else have we ever disagreed on? And I've done that from a political standpoint, as I explained to you perfectly frankly. I think you'll catch hell from the Hill the minute you exclude state-chartered, state-listed warehouses.
- Wallace: Well, there is that involved. We got off on the wrong foot there originally.
- Jones: Yes, and who did that?
- Wallace: We all did.
- Jones: We all did it, and it's done. That's the only thing I've ever heard of that we disagreed on.
- H.V.Jr: Wayne and I just don't know what this is all about.

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- Jones: Well, you're the judge.
- H.M.Jr: That's deeper than anything I know about.
- Jones: Well, you can be entertained, then.
- H.M.Jr: All right.
- Wallace: Well, Tapp, do you know of any points there which ...
- Jones: What is it that we don't
- Tapp: No, I think to get a properly - I mean, of course, the cooperative relation between the Department of Agriculture and the board work and Commodity Credit has been very fine.
- Jones: Why change it?
- Tapp: Balance up your board here so that the Farm Credit aspect and the agricultural aspect and the financing aspect - give that full consideration. We have problems of getting things approved by the Secretary and then by the President, and those can be worked out very nicely, but I think they can be worked out much more harmoniously with an equal representation.
- Jones: If you eliminate the R.F.C., if you eliminate the board, that's what you'd have. That's what you suggest; you eliminate the board action, entirely. And that's entirely all right, if that's what the President wants; God knows it means nothing to me. If the Secretary recommends and the President approves, the board can or cannot. Now, the board has just about - we can't do a damn thing.
- I don't see any reason, Mr. Secretary, for changing the ratio now, because we don't disagree. And unless these gentlemen have got something in mind
- Wallace: Do you think I can leave here, say, at 11:20?
- H.M.Jr: I don't want to seem rude, but I hope so.
- Wallace: I just wondered, what would be your guess?
- H.M.Jr: I would say, absolutely.

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- Wallace: (to Kieley) All right, tell Secretary Hull I'll be there at 11:25.
- Jones: Well, I too.
- Taylor: This is pretty good fun, I think.
- Wallace: Well, apparently what this boils down to - I didn't realize that it was a tender subject with R.F.C. - apparently what it boils down to is whether or not control should be left in R.F.C. or whether it should be split up three ways between Agriculture, Farm Credit, and R.F.C. It isn't Agriculture that would have control.
- Jones: Oh yes, you've got it now. If the R.F.C. directors all felt that they could stand up against the recommendation of the President of the United States and Secretary of Agriculture, there would be a veto. Now, if you can imagine that, you've got a pretty good imagination. That's absolutely all there is to it.
- Wallace: Of course, there's no imagining to it.
- Jones: That's absolutely all there is. You recommend - "I'd like to lend so-and-so on these terms." That's the way you've been doing it. You get the approval from the President; you prepare the approval and he signs it. It comes over there. What can the board do? Acquiesce.
- Tapp: As a practical matter, what we've been doing is to get the board's agreement on those things before we send them to the President.
- Jones: Not always. That's what you ought to do. That's the reason you boys and our boys - Commodity Credit boys - ought to work out these things, so we're in agreement, before you go to the President. But you can do it the other way.
- Tapp: We've been trying to work it out on a harmonious basis. This suggestion is a three-way method to
- Jones: Well, you just want to
- Wallace: Well now, we might do this. Might put four - what do you think of this, Jesse: put four of the R.F.C.

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boys on, put three from Agriculture and three from Farm Credit.

Jones: Well, I know what your purpose is, and I'd like to be perfectly frank about it. There is no more reason to charge Goodloe up to the R.F.C. than there is to charge him up to Agriculture, and there is no more reason to charge Warren Pierson - he's President of the Export-Import Bank.

Wallace: Well, I think they both ought to be on. Who are some of the others?

Jones: We've got here Wells, ..

Wallace: No, I mean from the R.F.C.

Jones: W. J. Johnson. Ben Johnson is out. Clifford Durr, Lynn Talley - now if Pierson and Johnson are counted, we'd have four.

Wallace: Put five of them on, three from Agriculture and three from Farm Credit.

Jones: Why change it at all? You're getting on perfectly all right. Why don't you go along here for a year, then let this fellow (H.M.Jr) determine again?

H.M.Jr: I do think it's an unwieldy board.

Jones: Because it's 12.

H.M.Jr: I think if you had four, three, three - I think it would be absolutely fair. I think that's absolutely fair.

Jones: Mr. Tepp has been doing a large part of the work anyway. He's not on the board as a director. He speaks for the Secretary and all that, with authority...

H.M.Jr: I think that's perfectly fair - four, three, three. Hell's bells, if anybody

Dasher: Can I make one observation, sir?

H.M.Jr: If you please.

- Dasher: In these matters of advocating a loan on an agricultural commodity originating with the Secretary of Agriculture, it comes to the Bureau of the Budget and we get the Department of Agriculture representatives there to tell us the necessity for it.
- Jones: The what?
- Dasher: The necessity for this loan. Then we send over to the Commodity Credit Corporation and they send a representative over and we have a hearing. Then we try to determine the merits of the request so that Mr. Bell can make a memorandum report to the President. Now, wouldn't it be a lot better if the thing could - all of the ifs, ands and buts could be ironed out and the necessity for the loan, the amount of the loan, all be determined before it comes to the Bureau of the Budget. Couldn't we - if the Secretary sends his request to the Commodity Credit Corporation, the Board of Directors would have a meeting, go into the merits of the case, and then let the thing come through the Bureau of the Budget, if necessary, as it probably is, to advise the President - tell the President, "Now, here's the thing, it's been coordinated, everyone is in on it; here's the whole story." As it is now, we're handicapped.
- Jones: No doubt about that being the right way to do it.
- Dasher: It doesn't work that way. That would help us immeasurably.
- H. M. Jr: Jesse, if I'm to be the judge, I think four, three, three is perfectly fair. I suggested three, two, two, but Wallace says he needs three. Make it four, three, three. That's six and
- Jones: What did you say now?
- H. M. Jr: Four for you, three for Agriculture, and three for Farm Credit. They go out and hire a ham - a couple ham actors if they're short of people.
- Jones: Well, why don't we - why don't you exclude from that number - let Goodloe be not representing anybody. He oughtn't to represent anybody. He ought to be entirely

without any possible semblance of a connection.

- Wallace: We could do this, then: go to our original suggestion of three, three, three, and not have Goodloe as representing anybody.
- Dasher: You wouldn't be willing to have a representative of the Budget and the Treasury combined?
- H.M.Jr: No. No.
- Dasher: So he'd know what's going on.
- H.M.Jr: You can sit on it, but not go on the board. I've very carefully got myself off all the boards. And I'm sure Mr. Bell feels the same way. We've got to be - we shouldn't take any of the responsibility of the board. I'm sure Mr. Bell agrees.
- Wallace: Sure, we'd be delighted to have you.
- H.M.Jr: It's bad enough to cough up the money.
- Dasher: More as an observer.
- H.M.Jr: If the Bureau of the Budget wants a man to sit in on the meeting, that's up to Mr. Bell. But to have him as a member - I would strongly advise Mr. Bell against it. But to have him at the board meeting, yes - to save your time. But as a member of the Board of Directors, no. We've gotten away from it.
- Dasher: Yes, sir.
- H.M.Jr: Because on the one hand you say, "Your Budget member voted for this," and on the other hand, "No, but your Budget Director voted against it." But to have a fellow there, yes.
- Dasher: That's what I had in mind.
- H.M.Jr: You (Wallace) and I are playing numbers and Jesse is playing names.
- Wallace: I would sort of like to have Jesse tell me - Jesse tells me I've been sitting there as Secretary of Agriculture bulldozing these fellows; he's asked me if R.F.C. has stepped on these fellows - I'd like to

ask where I've abused these fellows and influenced them to do things against their better judgment, and so on.

Jones: Well, I think you're a little out of patience with us when we don't agree with you. That's about it. When we're there - everybody in our organization is trained to speak their minds and give our board their opinions and honest best judgment, and not try to do something to please the Chairman or any other member of the board. And so it has occurred to me that you've been a little out of patience some time with us when we didn't agree with you.

Wallace: I'd like to go into specific cases where you've been so seriously violated.

Jones: Oh, it's an impression I've gotten. It's not serious. I get along pretty well with most everybody, and try not to worry much about anything. Not even about who was elected in Iowa.

Wallace: Same disinterest in it, I'm sure.

Jones: I see no serious objection if you want to make nine ...

Wallace: Well, in view of the fact that it is such a great asset to R.F.C. for me to get off the board, it seems to me this proposition would be eminently satisfactory. Make it a four, three, three basis.

Jones: If you stay on the board, I thought I'd get on the board to be there to kind of - I'd breeze in second best, but then ...

H.M.Jr: Where do you get that nine basis?

Wallace: No, let's make it ten now.

H.M.Jr: Three and three is six, and four is ten, over in the Treasury.

Jones: How's that?

H.M.Jr: Three and three are six, and six and four make ten.

Jones: Well ...

Wallace: You still use that type of figuring in the Treasury,

do you, Henry?

Taylor: We try to make ten. Make eleven ever so often.

H.M.Jr: Ten doesn't make nine.

Jones: Here's the way I've got it down. The names don't necessarily count. Evans, Tapp, and Kitchen. Myers and Wells are on the board now from the Farm Credit. Then I've got Talley and W. J. Johnson and Ben Johnson and Pierson and Goodloe. Now, that makes ten.

H.M.Jr: How many you got down for your crowd?

Jones: Well, I don't think, for instance, Goodloe and Pierson

H.M.Jr: Well, why should Goodloe - he's the manager - why should he be a member of the Board of Directors?

Jones: Well, Vice President and member of the Board.

H.M.Jr: Well, you've got four.

Jones: I'm counting - want to leave Pierson there with Talley; Talley is still the President.

H.M.Jr: That will give you the three; I don't care if you want another one.

Jones: That's ten there.

Wallace: Why not make them the official members, and if you have, have other folks around for advice?

H.M.Jr: How do you get - you've got five.

Jones: No, I've got Goodloe to himself there.

H.M.Jr: How many directors altogether?

Taylor: You've got eleven the way that is.

Hill: Just two from Farm Credit.

Jones: You got two there now. But Pierson and Goodloe are not going to go against anybody.

H.M.Jr: But you're not doing it the way I suggested - four, three, three.

Jones: We'll put Pierson or Goodloe in, one of them.

Wallace: Put them in as representing - put Pierson in as representing, not R.F.C., but Export-Import Bank.

Jones: That's what he is now.

Wallace: Why have Pierson on at all? Is it necessary he be on?

Jones: No.

Wallace: But maybe it is necessary to have him on.

Jones: He's Export-Import Bank. That seems to justify his being on there. He represents Export-Import Bank, and should not represent R.F.C.

Wallace: Why not put it just this way? Have on ten

Jones: Three, Agriculture.

Wallace: That would mean just changing his classification, changing Pierson's classification.

H.M.Jr: Agriculture, three. Farm Credit

Jones: Two.

H.M.Jr: Export-Import Bank, one. R.F.C.,

Wallace: Two.

H.M.Jr: Four.

Wallace: Four, yes.

Jones: That's all right.

Wallace: O.K., Jesse?

Tapp: Sure.

H.M.Jr: Four, three, two, one - six, ten.

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Taylor: That charges Goodloe to the R.F.C.

H.M.Jr: That all right with you (Wallace)?

Wallace: O.K.

H.M.Jr: Now we got this thing settled, you got a Board of Directors. Is that all right with you, Wayne?

Taylor: (Nods yes)

H.M.Jr: When are you fellows going to give us an inkling what you're going to do on wheat? I read the papers.

Jones: Now, before we have a meeting of the board - just one minute - to re-elect officers, I want a little time to confer with Talley. There's no hurry about it. The thing is working normally.

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

I mean I don't know whether you fellows are ready. I mean you make the recommendation to the board, don't you, as to price? I mean just about when will that be coming along? Just give me a time.

Wallace: Well, I would say June 28, wouldn't you, Tapp, roughly?

Tapp: Well

Wallace: Well, of course, it depends on just what the price of wheat is on the farm on June 15. Those figures don't come in until about - when do you have them, 23d of June?

Tapp: 28th of June, but of course we can estimate them from the market prices rather accurately by the 16th or 17th.

Wallace: We're required under the law to make a recommendation if it is less than 52 percent of parity. I don't know whether it's going to be.

H.M.Jr: When you get ready to do it, will you let me know?

Wallace: Of course you'll know. You'll have to know.

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H.M.Jr: We don't always know - in the past - not before it's a signed order.

Wallace: I tell you, you better have this man over there sitting in; then you'll know.

Tapp: We're working day and night on the wheat loan problem, Mr. Secretary. It's very, very tough.

Jones: I think we can work out that financing thing he suggested, and we should do that.

Wallace: Really, I think it would be a good thing for you to have a man sitting there.

H.M.Jr: That's up to Bell. I mean, without being at all sarcastic or facetious - I mean Jones always calls us up and lets us know, so - I mean we always will know from there, because he says he's going to loan about so much and "What do you think?" They draw directly on the Treasury for the money.

Wallace: This is a Commodity Credit thing, Henry, and Commodity Credit is, under the set-up both present and past - has been fully as much under R.F.C. as under Agriculture, although the initiation comes from Agriculture. If you want to know when the situation is coming on in advance of our making the statement to Commodity Credit, we'd be happy

H.M.Jr: All I'm interested in right now is the price of commodities. It's a terrifically important thing, and for four or five days it's behaved well.

Jones: What is wheat selling at now?

H.M.Jr: I mean the commodity index for about four or five days has behaved well, and I'm tremendously

Wallace: Basis of 60 cents on the farm, I guess.

Jones: What do you plan to lend?

Wallace: I had hoped to hold it down to the bottom of 52 percent.

Jones: 52 percent?

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Wallace: Of parity, which means about 60 cents a bushel.

Jones: On the farm.

Wallace: On the farm.

Jones: Well, you're going to have to take it in the bins on the farm. Not going to be able to confine this to Federal warehouses, are you?

Wallace: Not Federal.

Jones: Even state warehouses.

Wallace: We're going to make some loans on the farm. A great many of them will be made in warehouses. Probably the majority of them would be made in warehouses, wouldn't you think, Tapp?

Tapp: Yes, unquestionably. Small portion of farmers will have their farm storage for loans.

Jones: I want to say for the benefit of everybody here I think we've got an awfully good man in Goodloe.

Wallace: A good man.

Jones: He's got a good mind. The only - worst thing against him, he's a lawyer.

Wallace: Jesse, you and I will just have to do a little horse-trading.

June 8, 1938

Excerpt from Herman Oliphant's weekly report to the
Secretary dated June 8, 1938:

Reorganization - Genesee Valley Gas Company, Inc. We
have been advised that this debtor has applied for an order
exempting it from the provisions of the Utilities Holding Company
Act. SEC has set the hearing, which we will attend, for June 20,
1938.

June 8, 1938.

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At 1:20 p.m. the President called H.M.Jr. The following is H.M.Jr's conversation, concerning Governor Stark:

H.M.Jr.
to the
Operator: I will take the President.

H.M.Jr: Henry talking. Surely. Oh no, no, I was just thinking. Is he going to be here? How late will he be here? Half past six. I will buy his apple trees. (Laughs) I see. Well I am coming over at 2 o'clock. You will tell me at two. I gather you have company now.

Missouri Ins. Case
Street (Charles R.)
500,000 went
Pendergast (file)

Governor Stark of Missouri brought this matter to the President's attention. He wants to know what we can do go "get" this fellow Pendergast. He claims that Pendergast has received \$500,000 out of the Missouri insurance case.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JUN 8 1938

TO Secretary Morgenthau
FROM Herman Oliphant

I have been in conference today with Mr. Wenchel and Mr. Shearer, whom you saw with Magill and myself recently, on whether we should appeal the Mellen cases. We have had a new offer of settlement. They now propose to concede the principal point of law on which we have proposed to appeal. This concession will increase the amount which will be paid to the Government by the following amounts:

A. W. Mellon,	\$ 82,755.62
R. B. Mellen,	117,415.31
H. H. McClintic,	85,843.92
C. D. Marshall,	<u>81,521.46</u>
Total	\$367,536.31

Interest on the foregoing is to be added which will make the total sum paid just about \$2,700,000. This is an increase of about one-half million dollars over the previous offer.

It has been agreed in conference that were we considering the appeal of like points of law in any other ordinary case and the principal point were conceded, as is now proposed, we would not appeal.

I have just discussed the matter with Mr. Magill by telephone, he being at home packing. He agrees that this new offer of settlement should be accepted and these cases not appealed, and he has authorized me to so advise you.

Mr. Wenchel has discussed this new offer with Mr. Halvering who authorized Mr. Wenchel to say to Magill and myself that he favored accepting this new offer.



COPY

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HOGAN & HARTSON
810 COLORADO BUILDING
WASHINGTON

June 4, 1938.

The Commissioner of Internal Revenue,
Washington, D. C.

Sir:

On March 28th last I sent to the Bureau a suggestion for the settlement, without appeal by either the Commissioner or the petitioner, of the 1931 income tax case of the late Andrew W. Mellon, in which final order of the Board of Tax Appeals was entered on March 24, 1938.

I am now authorized to make a proposition for the settlement of the 1931 income taxes of Andrew W. Mellon (now the Estate of A. W. Mellon, deceased), Richard B. Mellon (now the Estate of R. B. Mellon, deceased), H. H. McClintic, and C. D. Marshall, on the following basis:

1. All of these taxpayers will accept (with the addition below referred to) the decision of the Board of Tax Appeals in Mr. Mellon's case on issues applicable to their 1931 taxes. (See my letter to Deputy Commissioner Kirk of March 28th last enumerating these issues.)

2. The Commissioner has contended that the taxable gain realized by the above named taxpayers as a result of the acquisition of McClintic-Marshall Corporation assets by Bethlehem Steel Company, and the receipt by these taxpayers of property distributed to them upon the liquidation of Union Construction Company, is governed by the provisions of Section 112(c)(1) of the applicable Revenue Law. The taxpayers have opposed that contention. We now propose, if the settlement herein offered is made, to recognize that section as applicable to these cases.

3. Computations furnished us by counsel for the Commissioner show that each of the above named taxpayers would, under the application of Section 112(c)(1) to their respective cases, be required to pay the following amounts in addition to the amounts assessed against them under the rulings of the Board of Tax Appeals in Mr. Mellon's case:

A. W. Mellon,	\$109,755.61
R. B. Mellon,	144,415.31
H. H. McClintic,	103,843.92
C. D. Marshall,	<u>99,521.46</u>
Total,	\$457,534.31

4. We propose settlement, applying to the case of these taxpayers the said decision of the Board of Tax Appeals, and Section 112(c)(1), less a lump sum of \$90,000 by way of compromise on our position, said lump sum to be pro-rated among the four taxpayers in accordance with their respective stock interests in McClintic-Marshall Corporation and Union Construction Company. This would result in an additional tax, over that called for by a computation under

June 4, 1936.

the Board of Tax Appeals decision, as follows:

A. W. Mellon,	\$ 82,755.62
R. B. Mellon,	117,415.31
H. H. McClintic,	85,845.92
C. D. Marshall,	<u>81,521.46</u>
Total,	\$367,536.31

5. To illustrate how this proposition works out, we use the A. W. Mellon case:

The Board of Tax Appeals found deficiency for the year 1931 to be \$403,053.87. Under the instant proposition that sum would be increased by \$82,755.62 and the deficiency to be paid by Mr. Mellon's estate would stand at \$485,809.49.

6. If this proposition is accepted then it is to be agreed—

(a) That the Commissioner of Internal Revenue will not prosecute any appeal to the Circuit Court of Appeals, Third Circuit, or any other Court, from the decision of the Board of Tax Appeals in the A. W. Mellon case, or any part thereof;

(b) That the Estate of A. W. Mellon, deceased, will not prosecute any appeal to the Circuit Court of Appeals, Third Circuit, or any other Court, from the decision of the Board of Tax Appeals in the A. W. Mellon case, or any part thereof;

(c) That the Estate of R. B. Mellon will accept the rulings of the Board of Tax Appeals, in the A. W. Mellon case, plus the provisions of this offer, as applicable to the Commissioner's claim for additional taxes for 1931 growing out of (1) McClintic-Marshall Corporation-Bethlehem Steel Company transaction; (2) the liquidation of the Union Construction Company; (3) the holding that sums received by Mr. R. B. Mellon of the last named company constituted dividends and not loans; and (4) the holding that loss claimed on the sale of Western Public Service stock was not deductible;

(d) That H. H. McClintic and C. D. Marshall will each accept as applicable to their 1931 income tax deficiencies the Board of Tax Appeals decision in the A. W. Mellon case, plus the provisions of this offer, in respect of all of the matters enumerated in paragraph (c) above, except Western Public Service stock sales transaction, which in no way relates to them.

7. If this proposition is accepted it is requested that in view of the large sum involved, these taxpayers be allowed a reasonable time within which to pay the 1931 tax deficiencies. In at least one, and perhaps more, of the cases of the four taxpayers, it will be necessary to arrange by borrowing or sale of securities the sum required. In the case of the A. W. Mellon Estate, the deficiency will be paid before the end of the current fiscal year if settlement, under this proposition, is effected in time to permit that. The writer's information is not sufficient on the subject to permit stating an exact date when

The Commissioner of Internal Revenue #3

June 4, 1938.

the others would pay but payment would be made by each of these taxpayers within a reasonable time.

This proposition is respectfully submitted without prejudice to the taking by these taxpayers of positions contrary to the terms of this proposition should the same not be accepted.

Yours very respectfully,

Francis J. Hogan

Attorney for the Estate of Andrew W. Mellon,
Deceased, and Acting Herein For, and by
Authority of, The Other Taxpayers Named.

June 8, 1938.
3:41 p. m.

H.M.Jr: Hello.

Operator: Mr. Dewey.

H.M.Jr: Thank you.

O: Hello.

Thomas E. Dewey: Hello, Mr. Secretary.

H.M.Jr: How are you?

D: Fine. How are you, sir?

H.M.Jr: I'm all right. Look, Mr. Dewey, I'm writing you a formal letter in regard to one Hines.

D: Yes.

H.M.Jr: Giving you everything - I think that you asked for, but if you don't get everything that you want, after this letter goes through the works, let me know and I'll see that you will, see.

D: That's mighty fine. I don't like to bother you though.

H.M.Jr: No, no. No, no.

D: If I don't get it. Supposing - supposing I just call somebody else, whom you designate.

H.M.Jr: No, you call me.

D: All right.

H.M.Jr: Because I've done the thing in the orderly official manner.

D: Yes.

H.M.Jr: Instructed them to give you full cooperation.

D: Yes.

H.M.Jr: But -

D: Some timidity down the line.

H.M.Jr: Exactly.

D: Yes.

H.M.Jr: And if you don't get full cooperation, why I'd be delighted if you'd call me.

D: That's awful nice of you.

H.M.Jr: Because I'm - I want you to get everything that you're entitled to.

D: That's very nice of you, and I much appreciate it.

H.M.Jr: All right.

D: Right.

H.M.Jr: Thank you.

D: Goodbye.

June 8, 1938.
3:57 p.m.

Herman
Oliphant: here with Guy, and we're all agreed that it ought to
be just settled.

H.M.Jr: You've all agreed on what?

O: To settle the case.

H.M.Jr: Really.

O: Uhuh. It amounts to two million, seven hundred
thousand, and they conceded our principle law point
and the minor point that's left, we wouldn't if it
was John Joseph carrying the case up.

H.M.Jr: Well then, what I'm going to do is, I'm going to ask
you people -

O: Magill - I mean Magill authorized me to say that to you.

H.M.Jr: Well, I'd like to have a little meeting on it, it's
important enough. Supposing we have one tomorrow
morning about eleven o'clock.

O: Eleven o'clock - fine.

H.M.Jr: Who should be here?

O: I think Guy and myself is about -

H.M.Jr: Well, I'll send word that I want him here tomorrow
morning at eleven o'clock.

O: Fine. I'm sorry I missed you this morning.

H.M.Jr: Well, that was all right.

O: What's on your mind?

H.M.Jr: Golly I don't know now, the mind's gone.

O: How's everything?

H.M.Jr: All right.

O: O. K.

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

O: All right.

June 9, 1938.
9:52 a. m.

H.M.Jr: Hello.

Operator: Mr. Tapp is out of the building, attending a meeting, and he'll be back about ten thirty.

H.M.Jr: Well my press conference is at ten thirty. Leave word will he call me. Well, we'll call him about quarter of eleven.

O: All right.

H.M.Jr: We'll call him about quarter of eleven.

O: Right.

H.M.Jr: And find out if Aubrey Williams is in.

O: All right.

H.M.Jr: Please.

TREASURY DEPARTMENT
Office of the Secretary
Secret Service Division

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MEMORANDUM
June 9, 1938

To: Mrs. Klotz
From: Mr. Murphy

There is attached tentative
itinerary of the President's trip.

We will keep you advised of
any changes.

THURSDAY, JUNE 16

Leave Washington by train for New London

7:00 P. M.

Leave train at depot and board boat.

FRIDAY, JUNE 17

Lay off City Dock - Nahant

SATURDAY, JUNE 18

Potomac land at Salem.

Motor to Church, Nahant - attend wedding.
After wedding, motor to Club for luncheon
and reception.

After reception, motor to Salem - board boat.

SUNDAY, JUNE 19

8:00 P. M.

Land at Poughkeepsie - Dutton Lumber Co.
Motor to Hyde Park.

SUNDAY, JUNE 26

Motor to Annapolis - board Potomac for
Wilmington.

MONDAY, JUNE 27

9:00 A. M.

Arrive mouth Christiana River.

9:30 A. M.

Arrive Wilson Line Wharf.

9:55 A. M.

Motor to Stand - 300 yards distance.
Greet Crown Prince, Sweden.
Speech.

After ceremonies, motor to Penn. train -
3 blocks - 4th St. yards.
Entrain for Hyde Park.

THURSDAY, JUNE 30

11:00 A. M.

Leave Hyde Park by motor for New York World's
Fair via East Park Highway, Sawmill Road,
Hudson River Bridge, to 125th Street to
Tri-Boro Bridge to
Administration Building.

1:50 P. M.

To Federal Building cornerstone ceremonies.

2:00 P. M.

Leave Federal Building. Inspect buildings.

2:30 P. M.

Arr. NEA ceremonies. Speech to NEA convention.

2:55 P. M.

(Outdoor meeting if weather permits - inside if bad)

3:00 P. M.

Speech. Lv. immediately after speech for Hyde Park,
same route.

SUNDAY, JULY 3

8:30 A. M. (E.S.T) Leave Hyde Park in morning by train for
Gettysburg.

6:00 P. M. (D.S.T) Arrive Gettysburg.

6:30 P. M. Ceremonies.

7:30 P. M. Return to train and depart for Washington.

9:45 P. M. Arrive Washington.
(Approximate)

FIFTY-FOUR WALL STREET

June 9, 1938

Honorable Henry Morgenthau, Jr.,
2211 - 30th Street, N. W.,
Washington, D. C.

Dear Henry:

I have just been re-reading your Temple speech and I want to say again how much I admire it.

The first question I wish to raise occurs at the top of page 5, where I wonder whether it is fair to say that the people of the British Empire have begun to lose confidence in their own powers. I think they have lost their cocksureness but I do feel that they still regard themselves as capable of protecting their own way of life. I agree fully with your comment that the fate of democracy in the world depends increasingly on what happens in this country. Don't you think also it is going a bit strong in the last paragraph on page 5 to say that the 'democratic rights and privileges of your fathers are in no wise abridged'? I should have thought that the most you could say would be, 'are in essentials still unchanged'.

It is on page 8 that I begin to have increasing difficulty. I personally am of the opinion that the pursuit of the so-called 'good neighbor' policy with Mexico as an example is hardly the method of making democratic institutions stronger in the world. In other words, to say to a dictator that he can rob your nationals at will, does not strike me as being the way to persuade the world to keep hands off democracies. Otherwise, I think the comments in that paragraph very modest and well-deserved.

On page 9, in the second sentence of the full paragraph, I would, if I were you, rephrase it to show that you feel that public works have value, but not leave your sentence open to the implication that you think that the great amounts of money used for unemployment have actually resulted in public works which have value to the amount spent. You do not say this but you imply it, and I would not leave myself open to the charge of having said it, as I am sure you will agree with me that it is not true.

I think the sentence, 'Our currency and credit are no longer at the mercy of irrational gusts of speculation' is an overstatement. Within the last week there has been considerable speculation in this market on rumors that James Roosevelt is for

devaluation. I think the most that can be said is, "We have attempted to lessen the amount of speculation in connection with our currency and credit" - or some such statement.

Again, at the bottom of page 9, I should like to use some such phrase as, "Attempts have been made to achieve more equitable and more orderly relations between capital and labor". I think your statement is stronger than the facts can justify.

I think that the first two sentences in the last paragraph on page 10 could be quoted to prove that you justify all the expenditures that have been made to date; and as that is not true, I think you should re-phrase those sentences.

On Page 12, I feel very badly indeed to have you, for the first time in your career so far as I know, join in the President's oft-repeated game of class warfare. I do not think you need to do it, and I hope very, very much that you will not do it. I do not think the first paragraph on page 12 needs to be omitted, but I do think it should be reworked so that you take your position on the basis that all good Americans wish to have economic security and political stability. To my way of thinking, the hard-boiled industrialist and the unprincipled politician should be put on exactly the same basis in discussing questions of economic security and political stability.

In view of what seem to me to be now the apparent causes of the present recession, I think you are on very dangerous ground when you say that a repetition of the 1932 cataclysm has been prevented by the 'basic reforms', using that phrase as a blanket phrase. If indeed it has been prevented - and we do not yet know in the constantly deepening economic gloom in which we live whether it has been prevented - it has been by a strengthening of the banking system but certainly not by some others of the laws now on the statute books. I think also you should hesitate to use the phrase, 'to make further recessions impossible'. The world being what it is, I doubt very much that alternations of better business and poorer business can be prevented from recurring. So it was when Joseph was in Egypt; so it is today; and so it will always be so long as we live in a world where the Lord sends the rain or withholds it, where earthquakes occur, where volcanoes erupt, and where human beings seek each other out to kill and rob. And if I were you I should not want to go on record as saying that I thought further recessions were impossible, or could be made so.

On page 15, can you not omit the sentence, "We have a political and social set-up which fosters initiative and inventiveness."? I do not think this is so, and it does not seem to be necessary to your argument. I should omit also the word 'all' in the following sentence. Your conclusion is not quite so strong

if you leave it out, but I think it is much more supportable.

The first sentence in the next paragraph (on page 15) seems to me much too optimistic. In the midst of the sharpest and severest depression in our entire economic history, a plan of 'providing an abundant life for all' - whether they be hard-working and deserving or wasters and idlers - would seem to me to be the most soul-destroying program that anyone could contemplate. Surely, to have a world that is worth while, character, integrity, and attainment must still be the hallmarks; not an abundant life for all, whether deserving or undeserving.

I think the material which starts on page 16 is grand. I'd like to add the word 'more' before 'satisfactory' in the third line of the paragraph beginning 'Somewhere'. And I'd like to add the phrase, "who deserve it" at the end of the fourth line on page 17.

If by commenting on the things that I would like to do with this speech I seem to be critical of it, I hasten to assure that such is not at all the case; I think it is a grand job, but I do think it would be better and more defensible if the points I have made were thought over again by you. But no one who wasn't a swell fellow could have written it.

With affectionate regards,

Yours,



My love to Eleanor. I'm
looking forward with keen
pleasure to seeing you both
next Friday.

I am grateful to Temple University for this opportunity to talk to its graduates of 1938, and through them to the youth of America. My presence here is a particularly happy occasion for me because a few years ago this University paid a similar honor to my father.

There is much I should like to say, and yet I confess that I approach my opportunity with much the same trepidation as each of you approaches the new phase of life on which he is embarking. Ten years ago I should have been more confident. But no one who has been close to the seat of government and had had to grapple with the complex problems of the last decade can speak glibly of the road that is before you.

Were you graduating ten or more years ago you probably would have been assured of the triumphant spread of democracy and the growth of amity among the nations. You would have been informed that you lived in a land abounding with unequalled, yet equal, opportunities for all. You would have been told of the

rapidly rising standard of living, of the distribution of the good things of life to larger sections of the population, of the near-disappearance of poverty.

I cannot carry such illusory glad tidings to you. The world which now awaits you bears small resemblance to the world of the twenties. It is a world which you cannot enter with full assurance of security, with certainty that the capacities which you have developed for work, for creativeness, for enjoyment will attain a rich fulfillment. In the last decade history has marched at a tremendously rapid rate. The pattern it has evolved becomes more complex, more unstable. I think you will share with me the feeling that change will be even more rapid in the months and years to come.

You are graduating into a world parts of which are already at war, while over most of the remainder the expectation of war hangs like a storm cloud. Seldom in recorded history have tensions been so great. Never has the world prepared so madly and so rapidly for a war which all hope to avoid.

You are graduating into a world throughout large sections of which the lights of democracy have gone out and the driving force of individual initiative destroyed; into a world in which there is more and more regimentation of political, of economic, and of cultural life, and less and less security for life, for liberty, and for the pursuit of happiness.

This regimentation has assumed its most acute form in those countries which have been engulfed by a totalitarian philosophy -- a philosophy which is having its greatest impact on youth.

There every year fewer students are being graduated from universities. The range of subjects grows narrower, the duration of school life briefer. Every year youth devotes more and more of its energies to the preparation for war.

In those countries economic opportunity, as you and I know it is either non-existent or is being steadily whittled away. Even the elementary right to move freely from occupation to occupation is being drastically curtailed, while the opportunities

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for advancement are becoming increasingly dependent not upon merit but upon conformity to the political creed of the group in power.

In those countries you cannot join political parties save the one prescribed by the state; you can have no voice in the government; you can neither elect nor depose your leaders; you can neither make nor alter the laws by which you are governed; you may read only from a prescribed list of books; what you write is strictly censored; what you say is closely watched; your thoughts are suspect; you must love and hate, rejoice, cheer, salute, breathe at the state's bidding. In those countries all the elements which constitute the liberal traditions of our country and are the warp and woof of our democratic philosophy are either dead or dying.

How does the campaign against democracy stop at the confines of the totalitarian states. It is being carried boldly and aggressively to other countries where democracy is cherished by the bulk of the people. So effective has been the attack

that democratic peoples abroad have begun to lose confidence in their own powers of resistance and defense. For this reason the fate of democracy in the world becomes increasingly dependent on what happens in this country. The responsibility which history has placed upon you -- the youth of America -- is epic in its consequences. As the President said in this very city, you have "a rendezvous with destiny".

You who are graduating in the United States are in an especially favored position to undertake this responsibility. For you the menace of war is more remote. There is no immediate threat from any enemy without.

For you, the democratic rights and privileges of your fathers are in no wise abridged. You may study what and where you like, engage in any profession you elect, live where you will. You are not cogs in a war machine. You don't have to devote fruitful years of your life to the science of killing. You are not forced to put behind you for one, two, or three years all thought of creative effort, of cultural pursuits,

a full life and peaceful endeavor toward which you have been looking and for which you have so earnestly prepared. You are not compelled to doff your cap and gown for a uniform and en-train for an army camp.

All the liberties denied in the totalitarian State are yours. They are yours because your Government has refused to deviate from the fundamental principle that the will of the people freely and openly expressed shall be the law of the land. In these disturbed times when freedom is being assailed throughout the world, these liberties will remain yours only so long as you give them your whole-hearted allegiance.

In my generation we took our liberties largely for granted. They were handed to us on a silver platter and we accepted them as a matter of course. Your generation cannot afford such complacency. The retention of the decencies and amenities of civilized life involves, nay demands, a struggle in which we all, and youth especially, must participate. None can afford to be neutral. He who abstains from the struggle in the naive

belief that these matters do not concern him or that the outcome will not depend on his own efforts is unconsciously helping the enemy.

We must jealously guard our liberties against infringement. We must never forget that they will be swept away unless the liberties of all who accept the basic principles of democracy -- minorities as well as majorities -- are consistently protected and preserved. Failure to defend those liberties in one city, or county, or State strikes at the liberties of all of us. When we are indifferent to repression, when we tolerate the curtailment of constitutional rights in any place or by an individual or groups of individuals, no matter how powerful, no matter how close to the seat of government, we make easier an attack upon our own constitutional rights.

We cannot expect our Government to do all the fighting for us. No truly democratic Government can move faster or farther than the people. But we do expect it to express the people's will for the defense of democracy; we do expect it to take the

lead in anticipating the basic needs of the people.

How has our Government done that? How has it fostered the conditions under which our democratic institutions will thrive and the right to economic security become a meaningful reality?

Our Government has steadily worked to develop peaceful international relations. It has helped to arrest the tide of war by rigid adherence to its treaty obligations and by its determined refusal to recognize illegal acts of aggression. In its dealings with small nations it no longer permits the machinations of "dollar diplomacy". It pursues the "good neighbor" policy with the Latin American nations. We are not among the warmongers. "The American nation hates war." It has sought peace and pursued it. It has taken the initiative in cooperative efforts to introduce some semblance of order in international monetary relationships and it has undertaken an active program to lower the barriers to international trade.

Lastly, it has built up a Navy adequate to defend our shores against any potential threat of invasion.

At home our Government arrested the catastrophic decline which devastated the lives and fortunes of Americans during the first years of the depression. To an extent unparalleled in history it provided useful work for the unemployed by a vast system of public works which have permanently increased the wealth of our country. It has introduced basic reforms long overdue. Our currency and credit are no longer at the mercy of irrational gusts of speculation. Our banking system has been strengthened and made more flexible; the adoption of deposit insurance gives protection to the small depositor. The securities markets function as a concern fraught with public interest and must now bear the responsibilities which public interest demands. More equitable and more orderly relations between capital and labor have been promoted, and we

have taken the first and most difficult steps toward a system of social security.

The Administration is particularly proud of its record of aid to the youth of America. We set up the Civilian Conservation Corps which has brought health and vigor to hundreds of thousands of young men who were losing confidence in themselves. We created the National Youth Administration which has enabled thousands of students to continue their education under less precarious circumstances. Among you here today there are doubtless a number who can attest to the utility of that program.

True, this program has involved large expenditures. But I consider those expenditures a necessary investment to maintain the physical and spiritual health of the people. As I stated in my address of November of last year "... in no event will this Administration allow anyone to starve, nor will it abandon its broad purpose to protect the weak, to give human security, and to seek a wider distribution of our national income."

There remains much to be done: Millions of decent homes to be built; slums wiped out; transportation reorganized; the machinery of Government administration improved. The excessive power of monopolies must be restricted. Our taxation system must be revised so as to eliminate cumbersome overlapping of Federal, State and local taxes and attain equitable distribution of tax burdens. These are only some of the tasks.

The major task, however, is to get our economy to function on an even keel so that all who are able and willing to work can find outlets for their creative energies. Until we succeed in that task, our liberties will not be safe. So long as youth is haunted by the spectre of unemployment, it may fall easy prey to antidemocratic movements. Such movements thrive on economic insecurity. The enemy is ever within the gates ready to exploit hardship and suffering for his own private advantage.

In the fight for economic security and political stability the Government has already incurred the enmity of those who would sacrifice the public weal to private advantage, who, firm in the possession of the prerogatives arising from unbridled economic power, are willing to deprive others of the liberties which democracy gives. In times of stress their greatest strength lies in the confusion of issues, in the distortion of fact and principle in the exploitation and subtle misinterpretation of the noblest American traditions for their own base purposes. We must not let the issue become confused. We must not be tricked into exchanging our liberties for an illusory mess of pottage. We must not forget that the liberties we cherish for their own sake are the very weapons with which the fight for economic security must be won.

There are those who still tell us we ought not to plan our future, that we ought to take refuge in the good old practices and precepts of the past when all seemed well. That

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is a perfectly comprehensible attitude. But it is the dream-thinking of beaten men who seek solace in the surroundings and the associations of a less troubled time in the hope of recapturing the past. The past will not return. We cannot turn the clock back. We live in different times and history confronts us with new problems that the past had no need to solve and cannot solve for us.

I wish I could tell you that we were out in the clear; that the immediate pressing problems were over. I wish I could truthfully say that "prosperity is around the corner". Unfortunately our tasks -- your tasks -- have only just begun. The basic reforms carried through under the courageous leadership of President Roosevelt are only a beginning. They prevent a repetition of the 1932 cataclysm, but the fight to alleviate and end the present recession, to make further recessions impossible and to bring about order better than we have yet seen is still before us. It is a task that calls for

effort and sacrifice, for wisdom and courage, patience and vision.

You are living in hard times, yet adventurous times. The geographical frontiers are gone, but there are new, ever-expanding worlds, whose limits recede as we approach them. In the past we concentrated on the development of our natural resources. More recently, and somewhat tardily, we turned our attention to the conservation of those resources. The time has now come for us to devote a much larger share of our energies to an even vaster task -- the maintenance and development of our human resources.

America is a land of economic potentiality which can provide for the full development of our people. Nature has endowed us with almost all the natural resources essential for a high standard of living for all. We have far more capital resources than any other country. We have the technical skill and knowledge to utilize this capital. Our labor supply is as

varied and as efficient as our technique of large-scale production is advanced. We have a political and social set-up which fosters initiative and inventiveness. We have all the ingredients essential to a high standard of living.

The solution of the economic problems of providing an abundant life for all is temptingly within our grasp. It is no longer a will-o-wisp. But it still escapes us. We find one-third of this, the richest nation in the world, ill-fed, ill-housed, ill-clad. Bumper crops of wheat, of corn, of rice, of cotton, -- yet poverty stalking the land. Billions of capital idle, millions of hands with no work to do. The best-equipped factories in the world working quarter - and half-time, while millions lack the goods these factories could make. Warehouses full, yet larders empty. This year the prospect of unusually abundant crops confronts us. Instead of giving rise to rejoicing, this prospect arouses fear that the farmers will have a lower income. Technological progress is steadily occurring in most industrial fields. But this progress is often

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accompanied by displacement of labor, reduced employment, and the emergence of stranded areas. It is indeed a tragic commentary that abundance alarms us more than scarcity, that inventions which ultimately raise the standard of living take such heavy toll, that increased capacity to produce may actually reduce the national income.

Somewhere in the process of the production and distribution of wealth there is a short-circuit which no one as yet has been able to eliminate. There must be a satisfactory method, there must be a way out. It must be possible to develop our economic resources more successfully than we have been able to do. It must be possible to eliminate the glaring inequalities in the distribution of income and yet retain private incentive. It must be possible, while retaining our democratic liberties, to win for the people of America the realization of the most fundamental right, the right to work, -- to work at tasks suited to their capacities and training, under conditions

in keeping with human dignity, for wages yielding a decent standard of living, and without restrictions on genuine collective bargaining. It must be possible to so organize our economy as to insure economic security for all.

This is your challenge, these the frontiers you must explore, the worlds you must conquer. Your discoveries, your conquests, will yield riches infinitely greater than pioneering of geographical frontiers. They will demand all the courage and audacity you have.

It will be written in history that my generation only began to solve the problem of balanced production and of the equitable distribution of income without which balanced production is impossible. We have taken only the first groping steps in the right direction. When history passes judgment on your generation, let the verdict be more favorable. Let it pronounce that you succeeded. Let it say that you resolved the paradox of poverty in the midst of plenty.

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The post-war generation has sometimes been called the lost generation. Your generation, I hope, will go down to posterity as the generation which found itself, the generation which, no longer seduced by the glittering prizes that blind chance awards to the few, turned itself to a concerted pursuit of the welfare of the country as a whole, and thereby saved America by its courage and resourcefulness, and the world by its example.

June 9, 1938

Refer to record of group meeting this morning for HM, Jr's telephone conversation with Aubrey Williams in regard to buying mattresses and also for reference to Woodrum amendment.

GROUP MEETING

June 9, 1938.
9:30 a.m.

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

H.M.Jr: Who's going to be here Saturday?

Gibbons: (Nods yes)

H.M.Jr: Incidentally, yesterday I was amazed to hear the President say in front of Bell, "The Secretary of the Treasury agrees with me that the thing to do is from now on have all Coast Guard men, Geodetic Survey, Lighthouse, so forth and so on, go to Annapolis, and we'll use the Coast Guard Academy as . . ."

Gibbons: Post-graduate.

H.M.Jr: "... post-graduate." So I said to him, "Mr. President, which one of us was dreaming when I agreed on that?" He said, "You were."

I said - well, I didn't want to get into an argument - "Do you mind if we hold it up until the next time we have lunch?" We never discussed it. Every time he goes to Annapolis, somebody over there gives him that and he comes back with it. I say this: graduating twenty-five people on a half a million equipment - it's a tough argument.

Gibbons: Yes.

H.M.Jr: But - incidentally, Bell has allotted yesterday - and the rest of them, plus W.P.A. - it's either 10 or 11 million dollars to Coast Guard, and at my suggestion the President has written a cross all these allotments "Contract must be signed by August 15." Now, you tell Admiral Waesche if he hasn't got that going by August 1, I don't think he's the man I think he is.

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- Gibbons: I think it's nearly all drawn up and ready to go.
- McR: I think he can have it in 48 hours. Dan Bell and I talked to the Admiral long ago and he's had nearly all of his men here working on it.
- H.M.Jr: The President said, "All kinds of things."
I said, "They're all self-bailing - self-liquidating."
He said, "All right. Only go in for self-bailing products."
He was in a good humor.
- Gibbons: What you say is true. I was just waiting
- H.M.Jr: (On phone) Find out whether Mr. Bell is coming.
- Gibbons: The establishment up there is very grandiose.
- H.M.Jr: Anyway, I'll talk to you about it. You fellows let Coast Guard know I want them to set the example, please.
- McR: I predict they will.
- H.M.Jr: And I think that my speech will get its final polishing tonight. And Gaston, could you arrange for those of the 9:30 who would like to read it over the week-end - they could have one in confidence. Anybody that wants to see either speech.
- Gibbons: Graduation speech?
- H.M.Jr: Yes. If anybody wants to see it, it's available, I'd say, Friday noon.
Mac?
- McR: I've got nothing - I've got nothing to worry about this morning, I think.
- Gibbons: I tried to get hold of McIntyre all day yesterday on that Delaware situation. The President told Senator Hughes he would go along with him, to submit a name.

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H.M.Jr: I can't - this is high politics and I leave it all to you. As long as you don't come out for any candidates.

Gibbons: Huh?

H.M.Jr: Come out for the right candidates.

What's the fellow's name who does the estimates on the bonds? What's his name - downstairs?

Upham: Kilby.

H.M.Jr: (On phone) Get Kilby on the wire, please.

McR: Oh, that man from out in Kansas City - he was to be here at 10.

H.M.Jr: Yes.

McR: Plane doesn't get in until 10:30. All the rest of the boys will be here at 10.

H.M.Jr: (On phone) Hello, Kilby. I have a press conference at 10:30. Can you give me an estimate on the conversions? - Well, will you get anything more? - Well, don't you do a little mathematics based on previous - what comes in the night mail, and so forth and so on? - Well, be here at 10:25 with the best estimate you can give me. 10:25. And do a little - get out your slide rule and do a little sliding. - All right.

Gaston: He told me they had 1080 last night, which is just exactly 90 percent.

H.M.Jr: Well, he sent that up to the house, but, you see, the first announcement I made - then they carry that, they don't carry the second. I'd like to give it to them.

Gaston: Be at least 75, I should think.

Gibbons: That's all.

White: Just two items of minor interest.

One is - I think it was stated in one of his letters,

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if you've seen it - that as a consequence of the British Government's worrying more and more with respect to the coming recession - they are really concerned over it, and it is reported that they are contemplating

H.M.Jr: Concerned with what?

White: With the coming recession. There is more and more evidence

H.M.Jr: Is that what they call it over there?

White: No, I think they call it the American depression, but they're planning - it's reported that they're planning a five-year building program and public works program, housing program and so on.

Second point that you might be interested in was that Colonel Strong, before he left, outlined the Chinese situation and said that the Chinese, even though they might make considerable progress at first, would not make Hangkow before a few months, unless they were very, very lucky, and they might not make it at all.

Gaston: Japanese.

White: Japanese, yes. But they're going ahead faster than he had anticipated at that time.

That's

H.M.Jr: Anything else? Our Swedish friend - is he going to be back next week?

White: He'll come back any time that you want him.

H.M.Jr: Well, why not let's have him in for lunch next Wednesday, say? Who will take care of that?

White: Well, he left me his address at which I could get in touch with him.

H.M.Jr: All right, let's have him next Wednesday for lunch, huh, if that's convenient? Next Wednesday.

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White: For him? I assume so.

H.M.Jr: Well, have you got his address?

White: He said any time.

H.M.Jr: Will you send him a wire?

White: (Nods yes)

Lochhead: Foreign markets completely stagnant. Really nothing at all to report.

H.M.Jr: Why is sterling creeping up a little bit?

Lochhead: Well, it's just simply that at the present time it's creeping up a little bit on the talk of inflation on this side. A lot of argument where the inflation talk is starting from, this side or the other side.

H.M.Jr: Why should that put sterling up?

Lochhead: It's a flight from the dollar, people getting out of the dollar.

White: Not inflation, but devaluation.

Lochhead: Well, one or the other. It's loose talk. It's crept up half a point.

H.M.Jr: The thing that interests me is this, that for five days - more than that - our stocks have gone up, the British have leveled off. The British stocks have not gone up, but ours have, and our commodities have been going up now for about ten days, theirs have gone up. I mean our commodities are moving right with theirs, but their stocks haven't followed yet. I think that's quite interesting.

White: The British are worrying a very great deal about their continued increasing unfavorable balance of trade, and it is very much in the cards, insofar as they have control, and they do have a large measure of control, that they will not let sterling rise very much.

H.M.Jr: Well, sterling going up again is good for us, isn't it?

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- White: Yes. Doesn't make much difference.
- H.M.Jr: I mean - I'll put it this way - I'm much more comfortable seeing sterling going up gently at this particular time than seeing it falling gently.
- White: That's right.
- H.M.Jr: You agree on that.
- White: Yes.
- H.M.Jr: I mean it bothers me to see it go down towards \$4.90. I don't like it.
- White: I think you can look forward to its beginning to decline because of that fact - they're very much worried.
- H.M.Jr: That's something else again.
- Taylor: Don't you think the French situation has some effect on that too?
- Lochhead: Yes. I mean, of course, certain factors. But the only point is, as far as we've been able to trace, the volume of funds transferred between the markets are so small just now that it is pretty hard to say that the daily fluctuations have an important trend as yet. New York banks are reporting smallest turnover they've had in several years, both in francs and sterling, and that is reflected in the London market also.
- H.M.Jr: All right?
- Lochhead: I think most of the French money going to the London market probably goes a little bit to gold, so therefore that in itself wouldn't be sterling.
- H.M.Jr: Well, frankly, I haven't been reading the cables for a week now. I haven't been in touch.
- Lochhead: Very few - nothing been coming over.
- H.M.Jr: I glance at them, but there's nothing usually in them, huh?
- Taylor: French thing rather messy again; that's why I was

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asking that.

H.M.Jr: All right. Very.

Upham: I think I'll keep my troubles to myself.

H.M.Jr: Don't forget, Monday is the day for you, boy.

Upham: I won't forget.

H.M.Jr: What? All right. I gave him a threat that if he didn't come through with uniform bank examination, I'd write it, and God knows I know little enough about it. On that basis, I think Cy will come through with something. All right?

Taylor: Do you want to talk about Siam any time?

H.M.Jr: Well, I think the answer to Siam is this. If they want to send some of their silver over, in New York and San Francisco we have an open silver market. I think that's the answer.

White: I have a little memo here on it.

H.M.Jr: Well, I really don't want to - how little? I mean how little is the memo?

White: The memo is four pages, but there's a summary on the first page.

H.M.Jr: Isn't that the answer?

Taylor: I think Harry's got a very good memo on what the possibilities are.

H.M.Jr: Well, I'm willing to read it. (Reads portion of memo) But what Harry says is, Siam is smart and we shouldn't help them be smart.

White: Not yet.

H.M.Jr: Well, I think you've got to answer the cable. Why don't you send them a cable like that and simply say, "We're buying silver everyday in New York and San Francisco, and we buy it at today's price."

White: I think you're liable to get it all.

- Lochhead: They could send it over
- H.M.Jr: The fellow's entitled to an answer. I'd write a cable, something along those lines. Let me take a look at it. The three of you show it to me this afternoon. But I think those guys are entitled to an answer.
- White: If you settle all the terms and make it clear to them they might not collect for several months.
- H.M.Jr: That's all right. "And the smelters are full." Fix me up a cable and have it for me this afternoon.
- Anything else?
- Taylor: (Nods no)
- H.M.Jr: George?
- Hass: Haven't got anything important. Here are those figures of Tapp's put all on one sheet.
- H.M.Jr: Now, are you in on this deal about the cotton, who should furnish the cotton, Hopkins or Surplus Commodities? That's what I want to tell Bell about.
- Hass: No, all I know about is what you mentioned here the day before yesterday in staff. Tapp called me up when I jacked him up about getting these figures over, and he was very much disturbed. He said, "Now they turned that down." I said I didn't know. He said the Secretary's office, referring to Wallace's office, just called him and said it had been turned down.
- H.M.Jr: The cotton?
- Hass: Yes. Then he went on to say that Hopkins was to furnish it. He wasn't very optimistic. He said they tried that once in October and Hopkins wouldn't give him the money, and he went on to say, too, that they had this money which expired June 30.
- H.M.Jr: well, that's the point where we ought to get Parran and Dr. Stanley in on it to show them the need for the food. "Now, I wondered if you'd like ..." There

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is so much need in Cleveland, the thing is so necessary to do a job there. I mean perfectly silly - I mean that they should be worried how to spend that money to feed the people adequately.

- Haas: That's right. You can see by that sheet there.
- McR: Surplus Commodities furnish the cotton before they process it. That's where they got the cotton before.
- H.M.Jr: Who did?
- McR: Surplus Commodities.
- H.M.Jr: Yes, but I - it seems with 65 million dollars out of 125 going to cotton and the people hungry - it seems to me that Wallace should spend his money for food, and for the million mattresses let Hopkins buy the 50,000 bales.
- I wonder if Bell is coming. I don't want to move
- (On phone) Is Mr. Bell coming down? Check on it.
- Well, as soon as Bell comes.
- Gaston: Ready for me?
- H.M.Jr: Yes.
- Gaston: Guy Helvering will be over here at 10:30. Did you get a chance to look at this release?
- H.M.Jr: Oh, I'll just take it for granted.
- Gaston: I thought it would be desirable to have a release as well as a statement at the conference, so we'll give that out.
- H.M.Jr: We're just doing New York, or New York and Chicago?
- Gaston: New York and Chicago both announced. They announce that on August 1 a similar technical staff division will be established in New York City and on September 1 a Chicago division will be set up.
- H.M.Jr: O.K. Anything else?

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Gaston: No, nothing else.

Oliphant: You asked Bernie when we were in talking to the Spanish Ambassador to give you a summary of that, so I had him also go right back to the beginning.

H.M.Jr: Swell. What else?

Oliphant: There's an answer to that note from the President on tax exemption. He asked me to see the Attorney General and Solicitor General.

And then Jimmy sent a letter over asking a suggestion for an answer to a tax exemption inquiry, and I suggested this.

I'd like to see you some time today.

H.M.Jr: I'm seeing you at eleven on Mellon.

(Bell comes in)

Hello, Dan, we can't do business without you.

Bell: Good morning. Sorry to be late.

H.M.Jr: What does this letter say, Herman? What does it say in non-legal language?

Oliphant: That the President wouldn't want to recommend just taking care of the retroactivity of the thing, he wants the whole thing dealt with.

No, that's the front of it. That's where the

H.M.Jr: O.K. What else?

Oliphant: I say, there's some other items.

H.M.Jr: Well, you stay after we get through with Mellon.

I told "thingumabob" to be up here at 10:25, let me know about the bond conversions - fellow downstairs. You're (Bell) right in on it?

Bell: I don't know what the latest figures are. Last night I knew there were about 60 million of one and 80 of the other outstanding. Probably get it in the mail.

H.M.Jr: You get your figures from Kilby, don't you?

Bell: Yes, sir.

H.M.Jr: Now, what's the latest on the battle of the million mattresses? Who's going to furnish the cotton?

Bell: I don't know. I haven't had time to have any conference.

H.M.Jr: Who's going to do that?

Bell: I see it in the paper, though, so I assume it's settled.

H.M.Jr: What's in the paper?

Bell: This morning....

H.M.Jr: What?

Bell: .. in one of the papers. They were going to buy so many thousand bales of cotton and process them into mattresses.

H.M.Jr: Well, I'll call up.
(On phone) Jesse Tapp. He's over in Agriculture. I don't know ...

Maas: Assistant Administrator of AAA.

H.M.Jr: (On phone) Of three A's. Jesse Tapp.
I just want to get that straightened out.

Bell: No, I haven't done a thing since the conference yesterday.

H.M.Jr: All right. Heard anything from Woodrum?

Bell: No, not a thing.

H.M.Jr: They meet today?

Bell: I think they meet this morning at 10:30. Think we better talk to him?

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- H.M.Jr: Well, there's no need my talking to him again. He knows where I stand. I mean as far as myself, as Secretary of the Treasury, I left no doubt where I stood on the 212.
- Bell: That's right, he knows where we stand.
- H.M.Jr: I mean I gave him a clean-cut
- Bell: I don't know if that helps him much after having been to the White House.
- H.M.Jr: At least he knows he can fight it without any repercussions from the White House.
- (On phone) Hello. - Well, my press conference is 10:30. Leave word, will he call me? - We'll call him about quarter of 11. We'll call him about quarter of 11. And find out if Aubrey Williams is in. - Please.
- I want to clean that up if I can, see whether they've talked to Aubrey.
- You know what he said? "My heavens, you don't want us to buy more than six million dollars worth of wheat. Why, what we going to do with it all?"
- Haas: So he didn't buy any at all until you started talking.
- H.M.Jr: I know. I'm very proud of that. If I never do anything else, I actually got Wallace to buy wheat for the starving people.
- Bell: There was another six million program came along after that.
- H.M.Jr: Well, you passed that.
- Bell: Yes.
- H.M.Jr: That's for vegetables, isn't it?
- Bell: Yes, sir, fruit and vegetables.
- H.M.Jr: Did it specify?

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Bell: Well, he specified in his letter, yes.

H.M.Jr: Could I have a copy of that? Would you make a note of that?

Bell: Yes, sir.

H.M.Jr: (On phone) Hello. (Conversation with Aubrey Williams follows:)

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H.M.Jr: Hello.

Operator: Mr. Williams.

H.M.Jr: Hello.

Aubrey Williams: Hello, Mr. Secretary.

H.M.Jr: How are you Aubrey?

W: Pretty good, sir.

H.M.Jr: What do you hear from Harry?

W: Well, he didn't look so hot last night. He still looked pretty peaked to me.

H.M.Jr: Uhhuh.

W: But he's out at his house now, and -

H.M.Jr: How is he?

W: I think he is going to try to come down tomorrow.

H.M.Jr: Uhhuh.

W: But that medicine he took was - it seemed to me about as bad as the disease.

H.M.Jr: Oh for heaven's sake.

W: It just knocked him completely out.

H.M.Jr: You mean for his throat?

W: Yes. It had nothing to do with any of the old trouble.

H.M.Jr: Good.

W: You see it makes one very anemic for three or four weeks afterwards.

H.M.Jr: For heaven's sake. Aubrey, has this thing reached you with what I call the battle of the million mattresses, as to who is to buy the cotton.

W: Yes, and Taap called me last night.

H.M.Jr: Yes.

W: Said the President had said that he and myself should get together with Dan -

H.M.Jr: Yes.

W: And Dan thinks we should buy the cotton out of our money.

H.M.Jr: Yes.

W: And they are perfectly willing to buy it out of theirs.

H.M.Jr: Yes.

W: That's all I know.

H.M.Jr: Well, the point is that if they don't buy that cotton they should buy more food.

W: On the other hand, if we have to buy it, it means we will just have to fail to put that many people on.

H.M.Jr: Yes.

W: And I went over last night, all these amendments, that have been put in our bill -

H.M.Jr: Yes.

W: And the amount of money that they take, if all of it's used, and I find - and this is the thing that's kept me awake a good deal of the night - I find that we will have to cut our rolls by four hundred thousand people, if -

H.M.Jr: What?

W: If that hundred and twenty five million is used for that purpose - if the fifty million which is put in to buy surplus commodities is used -

H.M.Jr: Yes.

W: If the eighteen million that the army slipped up and got away from us is used -

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

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- W: If another twenty/^{two}million is taken away from us and given to the army out of our unused money of this year - so that my God, when you add that up it just leaves you white.
- W.M.Jr: Well -
- W: If they'd make this thing at so many points, when added all up, just knocks the hell out of us and of course you couldn't do it. I mean you couldn't drop four hundred thousand people.
- W.M.Jr: Well, how - how many of those things are mandatory?
- W: I don't think that - I think - I know the army stuff is mandatory, and the fifty million dollars, if it gets through it's mandatory. The other is not.
- W.M.Jr: The hundred and twenty five is not.
- W: But they're already - Murphy's here today and the Ohio crowd are preparing to adjourn without doing a God damn thing. They say that this hundred and twenty five million is here and is going to be distributed, and if they'll just go home, why they'll get some of it.
- W.M.Jr: Uhhuh.
- W: That's what they - And Davis - I've got it on perfectly good authority that Davis says I'm going to do nothing and the Federal Government is going to have to do this.
- W.M.Jr: Uhhuh.
- W: He said that in Cleveland, in the presence of three people that called and phoned me.
- W.M.Jr: All right. Well you fellows are going to get together, sometime on this.
- W: Well, Harry is talking this morning with Gil about the effect of all these amendments and he's going to try to see the President today.
- W.M.Jr: Yes.
- W: To at least stop that fifty million dollar one.
- W.M.Jr: Uhhuh.

W: And to see if we can't get that Woodrum amendment knocked out, because if we could get that knocked out -

H.M.Jr: I thought that was out.

W: Well, it's out of the Senate bill.

H.M.Jr: Oh!

W: But Woodrum - Woodrum says that he doesn't - he has no word from the President that the President wants it out and until he has some direct word from him, he's not going to do anything.

H.M.Jr: Well, Woodrum saw the President two days ago. Did you know that?

W: Are you sure about that?

H.M.Jr: He saw the President.

W: Are you sure he did?

H.M.Jr: I know he did.

W: Well now, that's a very funny thing because Mac told me the President said he would discuss it with Sam Rayburn and didn't want to see Woodrum about it.

H.M.Jr: Well, maybe I'm telling tales out of school but I know that he saw - he saw him give -

W: Uhhuh. You don't know what took place.

H.M.Jr: No, but I know he saw him Tuesday morning early.

W: Well, that's wonderful, I - but I - Gil got no indication or at least he didn't register it with me that - that there was any change in the attitude of Woodrum.

H.M.Jr: Well, I don't know - I know he saw him, and I know he saw him on this bill.

W: Oh, yes. Well -

H.M.Jr: But what took place is something else.

W: Anything - you know I think it would be a good thing to call Harry and talk to Harry a little about this, I

- 5 -

H.M.Jr: I'll do that.

W: I think you could help out a lot on that Woodrum amendment right now.

H.M.Jr: Well, I want to see it knocked out.

W: Sure, I know you told me so.

H.M.Jr: I want to see it knocked out and I want to see - I'm opposed to the two hundred and twelve million for this parity payment, too.

W: I don't know anything about that.

H.M.Jr: Well, I know, but I - but I want the Woodrum amendment out. I'll - I'll call Harry a little later.

W: You get Harry through the White House you know.

H.M.Jr: I know. Yes.

W: Thanks very much.

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- H.M.Jr: Well, I was just doing a little checking.
- Bell: Woodrum amendment doesn't hurt anybody.
- H.M.Jr: What I'll try to do - try and get hold of Tapp, Parran and Dr. Stanley, and let's build this story of what the people are getting in Cleveland. That's just as good a place to fight on as any. See? And I'll fight it through tomorrow morning. And as soon as Tapp comes in, I'll ask him - "Let's get a story on this question." I mean I understand that Dr. Stanley says that they can double easily the amount of food they're giving them.
- Haas: To the relief people.
- H.M.Jr: And it's perfectly stupid to have Surplus Commodities be worrying about what they're going to do with their money when you've got a situation like that. If I can get a memorandum signed by Parran and Dr. Stanley as to conditions in Cleveland, and then lay that before the President and say, "You decide what is more important, that this agency buy 50,000 bales of cotton, or should it buy four million dollars worth of flour and skim milk." But I've got to have a scientific report to back it up. I mean I just want the President to decide which is more important between now and the first of July.
- Haas: Dr. Stanley seems very good.
- H.M.Jr: Incidentally, have Miss Lonigan in Cleveland again Monday, will you? I want to watch that. And not only watch the feeding, but also there's 70,000 people at work. And Colonel Harrington, chief of all projects for Hopkins, tells me they're running out of projects. Now, if they're running out of projects in Cleveland, what argument have they got against our using more money to feed people? See?
- Haas: Uh-huh.
- H.M.Jr: I mean on one hand they won't give us a dollar to feed people, but on the other hand Colonel Harrington says they're running out of projects in Cleveland, says we'll have to go to raking leaves. Well, before

-15-

raking leaves, they might better give the people something to eat.

So do you get the picture?

Miss: Yes, sir.

W.A. Jr: And let Miss Lonigan spend two days in Cleveland, then come back.

Miss: Fine.

W.A. Jr: And that's that.

Bell: He didn't confine that to Cleveland; you remember that.

W.A. Jr: Yes, he did. Well, they were worried about projects.

Bell: Over the whole country they were running short of them.

W.A. Jr: But, Dan, the most dramatic thing - I mean to get this question settled - I mean, you see, this food that they're giving is largely going to people who not only are getting work - to people who are already on the work relief rolls. I mean that's the thing. I mean it isn't that - and then there are these whole vast numbers of people that aren't getting anything. I mean you've got this picture of the Cleveland situation, of the people who are on work relief, and the food goes on top of that to them. Then there is this big army that gets nothing. And I - all I can do is just to keep plugging and plugging and plugging. And the President is definitely in my corner, but he - it takes a little time.

Here's that report (hands to Bell).

O.K.

June 9, 1938.
9:56 a.m.

H.M.Jr: Hello.

Operator: Dr. Burgess. Go ahead.

H.M.Jr: Hello.

Randolph
Burgess: Hello Henry.

H.M.Jr: Hello, Randolph.

B: Yes, sir. Well I called you up at six o'clock last night, but you had gone home. I wanted to congratulate you, I think the results are fine.

H.M.Jr: I do too. I accept the congratulations.

B: Thank you sir.

H.M.Jr: Kilby is here now.

B: What's that?

H.M.Jr: Kilby is in my office.

B: Yes.

H.M.Jr: And he says we've got nine hundred and twelve of bonds - two sixty three of notes.

B: Two sixty three of notes.

H.M.Jr: Making the total eleven fifty five.

B: Yes, well that's bully, isn't it?

H.M.Jr: And he thinks we get some more out of that '39.

B: I think you will too.

H.M.Jr: How much more?

B: Well, there's late mail - they're still opening, you'll get ten million more maybe.

H.M.Jr: That wouldn't make another one - no that isn't enough - another one per cent.

B: See, what per cent does this figure on, about ninety five or -

H.M.Jr: Why no, it's ninety seven now.

B: Yes.

H.M.Jr: Would it be safe to say ninety eight.

B: I don't believe so.

H.M.Jr: Ninety seven.

B: Yes.

H.M.Jr: I can say ninety seven plus.

B: Yes, that's right.

H.M.Jr: What?

B: Yes.

H.M.Jr: There's no reason why we shouldn't say that there's nine twelve of bonds, two sixty three of notes, is there?

B: No, I think the market would rather like to have the figures.

H.M.Jr: Righto.

B: Could say they're subject to change. And not having counted absolutely the last subscription it was nine twelve and two sixty three.

H.M.Jr: Uhhuh.

B: I think the market would be very much interested in that and would indicate the success of it. It's a good thing to do.

H.M.Jr: And of course of that two sixty three you and I must have supplied at least a hundred.

B: Yes, more than that. No, a little over - just a little over a hundred. We supplied eighty seven and you supplied seventeen.

H.M.Jr: Yes, well it's another good one. I'm satisfied, and -

B: Oh, I think it's very satisfactory Henry.

H.M.Jr: And I don't see how we can do it any better.

B: No, there's still a volume of these bonds that will be distributed over a period but I'm very much pleased about that because that'll keep a little weight on the market, keep it from going too fast.

H.M.Jr: Well, didn't a lot of distribution take place the last three days?

B: Oh, a great deal. A great deal.

H.M.Jr: Right.

B: We were watching it pretty carefully yesterday to see ~~that the~~ dealers didn't get loaded up and I don't think they did, they have a good block of them.

H.M.Jr: Fine.

B: But I don't think more than they can handle.

H.M.Jr: Well, we've done another one.

B: That's right.

H.M.Jr: Let's hope it's good for all summer.

B: I think it will be.

H.M.Jr: All right.

B: Very good, Henry.

H.M.Jr: Thank you.

B: First rate.

June 9, 1938

Federal Surplus Commodities Corporation
 Summary of Commodities Procured -
 July 1, 1937 to June 1, 1938

Commodity	Unit	July 1, 1937	April 28, 1938*	May 5, 1938	May 12, 1938	May 19, 1938	May 26, 1938	Total
		to April 29, 1938*	to May 4, 1938	to May 11, 1938	to May 18, 1938	to May 25, 1938	to June 1, 1938	July 1, 1937 to June 1, 1938
Apples (Dried)	Pounds	14,449,700	144,000	180,000	-	-	-	14,773,700
Apples (Fresh)	Bushels	5,603,648	46,200	7,800	2,400	-	-	5,660,048
Apricots (Dried)	Pounds	2,990,000	-	-	-	-	-	2,990,000
Beans (Dried)	Pounds	52,990,000	450,000	400,000	100,000	2,090,000	60,000	56,090,000
Beans (Snap)	Bushels	-	-	-	-	9,000	6,480	15,480
Butter	Pounds	8,320,208	918,040	753,828	513,712	663,544	1,451,152	12,620,484
Cabbage	Pounds	10,167,386	7,020,000	5,808,000	7,272,000	1,294,000	1,968,000	33,529,386
Celery	Crates	166,540	6,570	20,075	2,555	-	-	195,740
Cotton Fabric	Yards	629,536	26,279	-	92,000	400	-	748,215
Cottonseed Oil	Pounds	9,780,000	-	-	-	-	-	9,780,000
Eggs (Shell)	Cases	270,164	-	-	-	-	-	270,164
Flour	Barrels	-	-	-	7,000	3,000	124,800	134,800
Grapefruit	Boxes	155,499	48,000	69,000	48,000	37,500	42,042	400,041
Grapefruit Juice	Cases	-	-	40,500	4,660	-	-	45,160
Grapes	Tons	7,915	-	-	-	-	-	7,915
Milk (Dry Skim)	Pounds	8,642,250	-	-	-	-	-	8,642,250
Milk (Fluid)	Quarts	8,082,385	459,090	472,325	482,584	494,587	7,940,000	16,582,250
Onions	Pounds	3,000,000	-	-	-	-	477,520	10,468,491
Oranges	Boxes	1,563,626	87,514	78,972	49,934	31,280	13,860	3,000,000
Paper Bags	Bags	-	-	-	-	-	8,400,000	1,825,186
Peaches (Dried)	Pounds	2,534,000	-	-	-	-	-	8,400,000
Pears (Fresh)	Boxes	317,982	-	-	-	-	-	2,534,000
Peas (Canned)	Cases	927,026	-	-	-	-	-	317,982
Peas (Dried)	Pounds	6,000,000	-	-	-	-	-	927,026
Potatoes (Sweet)	Bushels	440,304	-	-	-	-	-	6,000,000
Potatoes (White)	Bushels	4,149,756	117,325	63,365	7,337	-	-	440,304
Potato Starch & Flour	Pounds	2,561,720	280,280	-	-	-	-	4,337,783
Prunes (Dried)	Pounds	45,105,650	-	1,400,000	-	-	-	2,842,000
Rice (Milled)	Pounds	70,550,000	3,360,000	2,080,000	560,000	-	-	46,505,650
Tobacco	Pounds	-	-	-	-	-	-	76,550,000
Tomatoes (Canned)	Cases	50,000	-	-	-	1,000,000	-	1,000,000
								50,000

Treasury Department, Division of Research and Statistics.

June 9, 1938.

Dates shown are those reported by Federal Surplus Commodities Corporation. Actually, however, no purchases have been counted twice because of this discrepancy.

Guy Haas: This is very good. Please keep it up each week. J.M.F.

RE MELLON TAX CASE

June 9, 1938.
11:00 a.m.Present: Mr. Oliphant
Mr. Helvering
Mr. Wenchel

H.M.Jr: Well, what's the proposal?

Oliphant: I have this on a single page, or I can state it for you. Which would you rather?

H.M.Jr: I think I'll read it first and then see where we are.
(Reads portion of memorandum)

Well, how much did they offer last time? Were you (Wenchel) in here?

Wenchel: Two, two.

Oliphant: Two, two. Two million, two hundred thousand.

H.M.Jr: Now, you fellows kept talking about - this is all about cash, but about the law involved.

Oliphant: Well, have you finished?

H.M.Jr: "They now propose to concede the principal point of law on which we have proposed to appeal."

Well, the question gets down, if this was John Jones, would you appeal?

Oliphant: We would not appeal.

Wenchel: We would not appeal. Put it this way, Mr. Secretary. If the court

H.M.Jr: Excuse me, I've been trying to get this man for an hour. (Has conversation with Ronald Ransom)

I told the boys by Monday if they didn't get together, why, I'd write the thing myself. The Fed's just holding out because they want to take over the Comptroller's office and F.D.I.C. Might as well smoke them out now.

Oliphant: Now, the memorandum I originally gave you on this when we recommended that we do appeal included

this: "If this were one of the run-of-the-mill cases involving no special circumstances, such as the prominence of the taxpayer and the history of the Government's dealings affecting him, this appeal would be prosecuted as a matter of course."

But I now say to you - Ros joins me in this - under this new offer, if it were anybody, it would be settled.

Wenchel: Put it this way, Mr. Secretary. If the Board had given us what the taxpayer now concedes, we would not appeal.

H.M.Jr: Well, are you all in accord? Helvering?

Helvering: Yes.

H.M.Jr: Want to accept?

Helvering: Yes.

H.M.Jr: You (Wenchel)?

Wenchel: Yes.

H.M.Jr: You (Oliphant)?

Oliphant: Yes.

Wenchel: And Shearer

Oliphant: Now, the action passes - it's up to Guy to call them in, and he tells them he wants the money.

H.M.Jr: I'm satisfied. Two million, how much?

Wenchel: Two million, seven.

H.M.Jr: That's good money these days.

Oliphant: I'd like to point out - take a minute to point out to you that if Guy or anybody prepares you a memorandum and shows you the total financial returns from the fact that you did take this position on the Mellon case, it would be a very large sum. For instance, we know that the R. B. Mellon estate tax case was settled

-3-

on our terms in order to avoid trial, and there are other aspects of things that are directly attributable to the attitude which the Treasury Department has taken on this case.

H.M.Jr: Well, let's have a memo.

Helvering: Well, it may reach farther than I know about, but of course I know personally that Mellon wasn't going to give in on that estate tax, which is a conditional assessment amounting to 26 or 27 million.

Oliphant: Conditional assessment of 26, 27 million. Conditional assessment of 22½ million and the rest interest.

H.M.Jr: What did they do?

Oliphant: They settled.

H.M.Jr: How much?

Oliphant: The additional amount - I don't know.

H.M.Jr: When can I have a memo? I'd like to have it to show to the President. Give me a little memo.

Helvering: I know that we wouldn't have gotten - I feel we wouldn't have got that settlement if we hadn't gone ahead with this.

June 9, 1938.
11:05 a. m.

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Ronald
Ransom:

I called you yesterday afternoon.

H.M.Jr:

Yes.

R:

To say that, like the late Will Rogers, I know what I read in the newspapers and I see that in our effort to get a better coordination of bank examination we may have reached a point where everybody is out of step with us.

H.M.Jr:

That's about right.

R:

Well, we might be right at that but that does present a problem of - of procedure.

H.M.Jr:

Yes.

R:

And I wanted to know if - just what was the status in terms.

H.M.Jr:

Well, you had lunch with Upham, didn't you?

R:

Yes, and he told me that the thing was just about at the point where something had to be done.

H.M.Jr:

Sure, and to be very frank, I can't help but think that - I may be wrong - but you fellows are holding back and by thinking that you are holding back, you hope to get legislation which will be favorable to the Federal Reserve next year, - maybe I'm all wrong, but that -

R:

I think you're wrong on that.

H.M.Jr:

Well, I think that's what the public thinks.

R:

Well, they might come to that conclusion, but I think that will be an erroneous -

H.M.Jr:

And I think it would be a tragedy if the three agencies here couldn't agree on one principle.

R:

Yes. Well I should think -

H.M.Jr:

But any time you're ready, if you'd like to come over and talk with me alone, I'd be delighted to see you Ronald.

R:

I'd be glad to, and -

- 2 -

H.M.Jr: And if you could help, why I think that would be a most constructive step.

R: I would like very much to get myself fully informed about the details of it, between now and say Monday morning, at -

H.M.Jr: Yes, I'm going to put the pressure on, beginning Monday, I'll write the God dam thing myself, although I don't know anything about bank examinations. I mean it.

R: Suppose, if I may call you Monday and try to come over -

H.M.Jr: I mean if we can't get together Monday, I'm going to write it myself.

R: I wouldn't blame you. I'll call you Monday morning.

H.M.Jr: O.K.

R: Thank you.



DEPARTMENT OF AGRICULTURE
WASHINGTON

June 9, 1938

The Honorable

The Secretary of the Treasury

Dear Henry:

Enclosed herewith is copy of a letter which
I have just sent Jesse Jones.

Sincerely yours

H. A. Waller

Secretary

Enclosure

June 9, 1938

Hon. Jesse Jones, Chairman
Reconstruction Finance Corporation
Washington, D. C.

Dear Jesse:

I assume you would not have made use of such vigorous and picturesque language yesterday unless you thought you had some facts to back up such language. I am writing, therefore, to ask in what instances the Department of Agriculture influence has been exerted to bring about unwise action on the part of the Commodity Credit Corporation.

Sincerely yours

Secretary's File Room
(Signed)

Hawthorne
Secretary

RECEIVED
OFFICE
JUL 11 1938
WA 000
11/13/38

JUN 9 1938

MEMORANDUM FOR THE PRESIDENT:

I have your memorandum note of June 3 suggesting that the problem of clarifying tax exemption under existing law and recent decisions be dealt with by a further test case after further study by the Treasury Department in conjunction with the Office of the Attorney General.

The Under Secretary and the General Counsel for the Treasury have, pursuant to your suggestion, discussed the matter with the Solicitor General, the Attorney General being out of town. This conference developed the difficulties of clearing up the whole matter by means of litigation alone, and plans were agreed upon for the work on the problem necessary in anticipation of legislation at the next session. All the Departments and agencies affected will be consulted.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President

The White House

HO:is Typed 6/8/38

JUN 9 1938

MEMORANDUM FOR MR. JAMES ROOSEVELT:

Enclosed hereto is suggested reply
to Mr. J. E. Ramsey, regarding the President's
attitude to Senator Lomorgan's bill on the taxa-
tion of State and municipal employees.

(Signed) H. Morgenthau, Jr.

TT:ld
Typed 6.8.38

Dear Mr. Ramsey:

I doubt that the President would indicate support of the bill introduced by Senator Lammie, which forbids assessment against State and municipal employees of internal revenue taxes for years prior to 1938.

The bill would prevent collection of taxes for past years even from those employees of State or municipal instrumentalities who have been consistently held taxable even before the Gerhardt case. Furthermore, it is subject to the objection that it would give relief to State and municipal employees against the collection of taxes for past years because of an unexpected Supreme Court decision, whereas other taxpayers in a similar situation are only relieved to the extent of the years barred by the statute of limitations. Moreover, the adoption of this legislation, which only deals with years prior to 1938, would not relieve the confusion with respect to the taxation of State and municipal employees for the current and future years. The President has already recommended to the Congress that legislation be adopted to subject the salaries of such employees to non-discriminatory Federal income tax. If any legislation is adopted, it ought to establish a rule of taxation for the future as well as for the past.

Sincerely,

TT:HO:ld
Typed 6.8.38

June 9, 1938. . 190
11:58 a. m.

Operator: Go ahead.

H.M.Jr: Hello.

H.E.Babcock: Hello, Henry.

H.M.Jr: How are you?

B: Fine. Grand day.

H.M.Jr: Good. I think I sensed your fine Italian hand in that fifty million dollar earmarking for surplus crops.

B: No - I'd sooner think it was yours.

H.M.Jr: Wallace called me up and informed me that it was the cooperative council that got it in.

B: Did he object?

H.M.Jr: I think so.

B: He does.

H.M.Jr: I - I think so, yes.

B: Well -

H.M.Jr: Well, now I think he put it on the ground to be sure that Hopkins would.

B: He did what?

H.M.Jr: I think he felt that Hopkins would object.

B: Well -

H.M.Jr: What I really think he was trying to find out was how much I knew about it.

B: Well you don't know anything about it, do you?

H.M.Jr: I know just as much as you do.

B: Yes.

H.M.Jr: A little less. So we'll see. They are speeding up their program quite a lot.

B: Yes.

H.M.Jr: But not enough yet.

B: Yes.

H.M.Jr: But they passed six million dollars for wheat this week, and six million dollars for vegetables. They've got about four million dollars left from -

B: What are they going to do with the wheat, Henry.

H.M.Jr: Make flour.

B: Make flour.

H.M.Jr: Yes.

B: Uhhuh.

H.M.Jr: Well, when I say - they may be buying flour direct, but -

B: Instead of buying the wheat.

H.M.Jr: I guess they're buying the flour, I imagine, I don't know.

B: Uhhuh.

H.M.Jr: So all they've got left now is four million dollars.

B: Uhhuh.

H.M.Jr: And they want to use that for cotton, and I don't want them to use it for cotton, and we'll see what happens, but they're down to about four million - that is left.

B: How does the fifty million - will that stand?

H.M.Jr: I doubt it.

B: Yes.

H.M.Jr: I doubt it, unless there's more pressure behind it than there seems to be, but you see that's mandatory of a hundred and twenty five million that's in there is not. Hello.

B: Yes, I'm listening.

H.M.Jr: So -

B: Hello.

H.M.Jr: I'm - I'm sure that the Hopkins crowd will do everything they can to get it kicked out.

B: Uhhuh.

H.M.Jr: But we'll know in a day or two.

B: Well, you're getting a very favorable press, I suppose you noticed it.

H.M.Jr: Well - on the surplus?

B: Yes.

H.M.Jr: I haven't seen an awful lot, no.

B: Well, I've seen it up here as - not it all, but I've probably seen a half a dozen mentioned as papers went through my hands.

H.M.Jr: Yes, well - you notice I very carefully kept out of it myself.

B: Yes. No, your name hasn't appeared.

H.M.Jr: No, well it's the only way I can get these boys to work with me if I let them get the credit.

B: Sure. Well now, -

H.M.Jr: Well, I just thought you'd like to know that they are beginning to put their money into these things.

B: Yes, yes. Well of course, they are just dribbling it in. They've got to hit it with a wallop.

H.M.Jr: Yes, well it's - it's a big big fight, it gets right down to the roots.

B: Yes.

H.M.Jr: One other thing.

B: No question Henry, I don't know the country well but there's no question but what you're in the right.

- H.M.Jr: Oh, well I - every day I'm more sure.
- B: Uhhuh. Well I'd say you know that in itself is worth something if a fellow is sure he's right, but - you're also - you're also going to get the approval.
- H.M.Jr: When - my speech is finished for next Thursday, I'll send you a copy of it. I'm talking at Temple University.
- B: Please do.
- H.M.Jr: And I'm hitting this thing and hitting it very hard and the President approved it.
- B: May I congratulate you on your doctorate and I'll - we'll call you Doctor after you get through.
- H.M.Jr: Well, I still think that's a compliment. Ed?
- B: Yes.
- H.M.Jr: One more personal matter.
- B: Yes.
- H.M.Jr: Are they still running that school of marketing at the college which you, I think, got started?
- B: Yes, they're running courses.
- H.M.Jr: I wonder if you'd mind taking a little time to look over and see if you could pick me a bright young man who might come down as understudy to Bailey, whose been with me for twenty four or twenty five years, who has marketing sense, and who would gradually work in, we've got two hundred and fifty acres of apples and fifty acres in other fruits, it's really a big proposition.
- B: Yes.
- H.M.Jr: it's all in, and I need some fellow that knows marketing, who could sort of gradually work his way in.
- B: You want a man who knows the theory of marketing so as to know what it's all about and then has got the trading instinct.

- 5 -

- H.A.Jr: Yes, and what I might do is if I got a fellow, I might put him from three to six months in some concern in Washington market or something like that, let him learn the business.
- B: Uhhuh. I'm not entirely sure. We get a number of those young men each year. We've been those men for about three years.
- H.A.Jr: Yes.
- B: And using them in our auctions, you know?
- H.A.Jr: Yes.
- B: And when would you want this man?
- H.A.Jr: The sooner the better.
- B: The sooner the better. I'll look over the staff of boys that are out because we - we get - we have conscientiously tried to pick them.
- H.A.Jr: But if you had somebody who was out, who had made good.
- B: Yes.
- H.A.Jr: That would be an - worth an awful lot.
- B: We've got, I know, one boy, I don't know where he is on a and so forth, and that's Hap Watson's son.
- H.A.Jr: Yes.
- B: Who, I think, has done pretty well.
- H.A.Jr: Well -
- B: I'll look over the list, Henry, and the first of the week I'll send it to you.
- H.A.Jr: There's a real opportunity for a boy down there.
- B: Yes. That's swell. I think it's a swell opportunity for him, and I'll do the best I can for you on it.
- H.A.Jr: And - if he's been out - sort of made good, why I really haven't got much time to teach him myself.

B: Yes. Well I was thinking if we had had a - Jack Crickey is here today - out of the eight or ten we've picked in the last two years, I wouldn't discard on you. I - I'd tell the boys they mustn't do that.

H.M.Jr: Oh, no, I know that.

B: - And I'll try and have a - two or three down for you the first of the week.

H.M.Jr: And when I see a little bit more daylight on this surplus I'm going to ask you to come down and spend another day.

B: I'll do that any time.

H.M.Jr: Right.

B: Swell.

H.M.Jr: Thank you.

B: Only, I want to go to the fight.

H.M.Jr: What's that?

B: I want to go to the fight.

H.M.Jr: That's all right. We've always got one down here for you, too.

B: O.K.

H.M.Jr: Thank you.

B: Thank you.

June 9, 1938.
4:14 p.m.

196

Clinton
Hester: Mr. Secretary.

H.M.Jr: Yes.

H: This is Hester.

H.M.Jr: Hello Hester.

H: Mr. Oliphant told me to check that Rankin matter
and that you wanted me to call you direct.

H.M.Jr: That's right.

H: Well, I'm up here in Mr. Doughton's office.

H.M.Jr: Yes.

H: Mr. Doughton went on the floor and talked to Rayburn.

H.M.Jr: Yes.

H: He's also talked to others and he talked to Rankin
himself.

H.M.Jr: Yes.

H: And he says he doesn't think you need to worry about
it.

H.M.Jr: Good.

H: And he's going to check further tomorrow and he'll
keep us advised.

H.M.Jr: Good.

H: If there's any danger at all.

H.M.Jr: Good. Because it's - you're getting quite a lot of
publicity on it.

H: Is that so. Well, he says there isn't any danger.

H.M.Jr: All right.

H: If there is any, he'll let us know. He'll keep right
after it.

H.M.Jr: I thought you'd be interested to know I was at the
President's desk when he spoke to you on Tuesday or
Monday. Was it Monday?

H: Yes.

H.M.Jr: And - on that bill - and he turned to me and he said, "Hester is a good man isn't he." And I said, "Yes, he is a very good man."

H: Well, I'm glad.

H.M.Jr: Because he seemed very much pleased on how you're handling that bill.

H: Well, I appreciate that very much and if you were surprised to hear him call me I was more surprised to get his call.

H.M.Jr: Well, I thought you'd like to know.

H: Yes, and I'm very grateful to you indeed.

H.M.Jr: All right.

H: Thank you, Mr. Secretary. Goodbye.

FEDERAL RESERVE BANK
OF NEW YORK

198

OFFICE CORRESPONDENCE

DATE June 9, 1938.TO CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.FROM J. W. McKeon

Mr. Knoke called Mr. Bolton at 10 a.m. today. Rumors on the Continent concerning further devaluation of the dollar originated from Paris, Bolton thought. Paris believed that their spending programs during the past fifteen years resulted in frequent devaluation of their currency and they felt that our spending programs will have similar effects on the dollar. American tourists travelling on the Continent also helped to spread the rumors.

Mr. Knoke stated that capital movements of short-term banking funds for the week ending May 25 were almost a reversal of the movement which had been in progress since last October. For the week ending June 1, however, movement of short-term banking funds was resumed again with an outflow of funds amounting to \$25,000,000 bringing the total net outflow of short-term banking funds to \$1,000,000,000. A shipment of gold amounting to \$1,750,000 was reported to us yesterday as having been shipped from London to Paris and reshipped via postal to New York. Bolton was interested in learning this and promised to investigate.

Bolton stated that Russia continued to ship gold to London (about 2750,000 weekly), but that little was known as to what the Russians did with the proceeds; sort of a mystery movement he said.

Japanese operations in the London market were quiet, although this morning Bolton had purchased about \$2,000,000 from Japan.

The weakness in belgas had ceased completely and Belgium had received considerable gold.

Paris market remained quiet and Bolton's guess was that the French Fund had about £100,000,000 of gold and foreign exchange.

JWMK:CS

Regraded Unclassified

EDA

GRAY

PARIS

Dated June 9, 1938

Received 1:45 p.m.

Secretary of State

Washington

902, June 9, 5 p.m.

FROM COCHRAN.

French control has today met a fairly steady demand for sterling at 178.30 through sales by Societe Generale, Chase and Morgans. National Bank of Belgium acquiring some gold in London. Bank of France statement as of June 2 showed increase of over two billion francs in note circulation to record level; deposits down about three and a half billion; coverage 47.13 versus 46.62. Still some nervousness over dollar outlook and one client of Paris American Bank today disposed of one half million dollars of American securities to buy gold in London.

French foreign trade for May showed deficit of one billion five hundred forty three million francs as compared with one billion three hundred ten million last May. Exports rose from one billion seven hundred sixty million francs May 1937 to two billion three hundred seventy four francs, and imports from

three

EDA - 2 - #902, June 9, 5 p.m. from Paris

three billion seventy million to three billion
eight hundred seventy seven million.

Rentes are weaker on likelihood of government
increasing official salaries and pensions because of
higher cost of living.

BULLITT

CSB

RECEIVED
JUN 10 1946
FEDERAL BUREAU OF INVESTIGATION
U. S. DEPARTMENT OF JUSTICE
WASHINGTON, D. C.

EDA

GRAY

LONDON

Dated June 9, 1938

Received 2:20 p.m.

Secretary of State

Washington

496, June 9, 7 p.m.

FOR TREASURY, BUTTERWORTH.

Activity in the city continues at a low ebb and all markets are inactive.

The franc came on offer near the close and the French control lost about half a million sterling. This may presage the beginning of nervousness in connection with the Czech elections of June 12.

KENNEDY

DDM:CSB

REB

TELEGRAM SENT

GRAY

June 9, 1938.

3 p. m.

AMEMBASSY

PARIS (FRANCE)

355

FOR COCHRAN.

Secretary of the Treasury announced today that at least 97% of the outstanding \$1,214,000,000 in notes, maturing in June and September, have been exchanged for new offering of bonds and notes. \$812,000,000 have been exchanged for the new 20 to 25 yr. 2 3/4% bonds and \$263,000,000 for the 1 1/8% notes.

HULL
(FL)

SAME TO: AMEMBASSY, LONDON, NO. 259, FOR BUTTERWORTH.

EA:FL:LWW

OFFICE CORRESPONDENCE

DATE June 10, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF FRANCE.

I called Mr. Cariguel at 11:30 today and asked what was going on in the market. The franc had been slightly under pressure for a number of days, Cariguel replied, and they had to sell a little sterling every day; it was not a big movement, however, the chief cause of it being a deficit of the French commercial balance. In addition to that, the French railroads which had borrowed last year a lot of short term money in Belgium, had had to pay off these loans and were still doing so. The total was running into billions (our records reveal no information on this point). ~~(according to our records the total is about xxxxxxxxxxxxxxxxx)~~ For the last four weeks they had repaid over 500 million francs which, of course, had represented a very steady drain on France. Today the market was again full of rumours about a further devaluation of the dollar; these rumours, he said, came from London. I replied that London had told me yesterday that the rumours emanated from Paris. At any rate I said I had found no indication that anybody of authority in Washington had any thought of a further dollar devaluation. This, of course, I emphasized was my own personal impression.

LWK:KN

FEDERAL RESERVE BANK
OF NEW YORK

Mc Callister 204

OFFICE CORRESPONDENCE

DATE June 10, 1938.

FILES

SUBJECT:

L. W. Knoke

Mr. Freyvogel of the Bankers Trust Company phoned me that he had received a cable from abroad inquiring as to the correctness of the rumour that the Treasury intended to raise the seigniorage (what they mean, I suppose, are the handling charges) on gold from 1/4 to 1/2 per cent per annum.

[Handwritten mark]

LWK:KW

RECEIVED

JUN 11 1938

TREASURY DEPARTMENT
Office of the Secretary
Treasury Building, Washington, D.C.

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 10, 1938, 1 p.m.

NO.: 906

FROM COCHRAN.

Franc opened at 178.35 this morning and soon moved to .42. Control intervened through Guaranty and other banks to hold rate steady at .40. This is requiring fairly strong intervention. International atmosphere is not good and Switzerland has resumed heavy gold purchases in London. Part of franc weakness results from latest moves of French Chamber toward legislation increasing Government salaries and pensions, aid to farmers and providing pensions for aged workers. Daladier and Marchandean are meeting with Finance Committee of Chamber today to discuss these projects which would place a heavy burden on the treasury if adopted as proposed.

At twelve noon I had a talk with the Bank of France; throughout the week in order to support the franc the stabilization fund has been obliged to intervene intermittently. Losses by the fund yesterday approached 500,000 pounds, which were the heaviest for the week.

Press reports from Amsterdam that Dutch bankers syndicate headed by Mendelsohn and Netherlands Trading Corporation

- 2 -

Corporation has granted a credit of 35,000,000 florins to Belgium in the form of three month treasury bonds renewable in part or in whole three times at the option of the Belgian Government. A similar operation but in a lesser amount is reported to have been concluded in Switzerland by the Belgian Government. Belgian Senate yesterday passed bill reestablishing crisis tax. It would appear that Minister of Finance Gerard will succeed through various means in procuring resources necessary to balance Belgian budget.

Proceeding this evening to Basel where B.I.S. directors meet this week-end.

BULLITT.

EA: LWW

REB

PLAIN

London

Dated June 10, 1938

Rec'd 2:35 p. m.

Secretary of State,
Washington.

501, June 10, 8 p. m.

FOR TREASURY FROM BUTTERWORTH.

A noteworthy demand for spot and three-months gold against dollars developed today. This movement seems to be occasioned not so much by the European political outlook as by a renewal of rumors of dollar devaluation which have taken slightly altered form as indicated by the following excerpt from a report from New York published in today's FINANCIAL TIMES:

"Shortly before the close of the stock market Washington reported that members of the House of Representatives were interested in Mr. Rankin's proposal. They held a meeting with him at which it was announced that an effort would be made to keep Congress in session until monetary legislation was enacted.

Senator Wagner stated that he would appoint a Senate banking and currency sub-committee to study possible means to raise price levels.

Rumours

REB

2-#501, From London, June 10, 8 p.m.

Rumours during the past few days that the gold content of the dollar would be changed because of greatly restricted production failed to check declining commodity price. The latest rumour is that Mr. J. P. Kennedy, United States Ambassador in London, will arrive here within a fortnight with a London and Paris agreement to devalue the pound, franc and dollar. The dollar would be cut to 50 cents."

The British authorities gave gold sufficiently freely so that the pressure gradually eased.

KENNEDY

CSB

RECEIVED
JUN 11 1953
INTERNATIONAL INFORMATION
DIVISION
U.S. DEPARTMENT OF STATE

GROUP MEETING

June 10, 1938.
9:45 a.m.

Present: Mr. Taylor
Mr. Oliphant
Mr. Gaston
Mr. Bell
Mrs Klotz
Mr. McReynolds
Mr. Upham
Mr. Lochhead
Mr. White
Mr. Gibbons
Mr. Haas
Mr. Hester (for very brief period)

(Secretary holds conversation with Congressman Marvin Jones as group comes in and listens)

H.M.Jr: There's the story.

(Hester leaves)

Bell: He's a swell fellow.

H.M.Jr: I'll go out to see him (Governor Harrison).

(Leaves room and returns in about three minutes)

Wanted to know whether it was all right to let Knoke go abroad.

Herman?

Oliphant: There has been a - telegraph companies have made application to the Federal Trade Commission - to the Federal Communications Commission to eliminate the present 15 percent discount which the Government has on telegraph rates, and there's an interdepartmental conference on that.

You probably notice that the floor stock tax on liquor passed.

And that large Customs bill which improves all those administrative procedures is out of conference now.

And the wire-tapping bill, the one we worked out with Ireys - that's passed the Senate and has been reported out favorably by the House Committee without amendment. Presumably we'll get that.

-2-

H.M.Jr: Won't be any fun in wire-tapping if it's legal.

Bell: Like stealing watermelons. Not any good if you don't steal them.

H.M.Jr: Takes all the sport out of it.

Oliphant: I think that's all.

Taylor: Does that include government departments, Herman?

Gaston: Oh yes, sure.

Oliphant: That's all.

McR: If that wire-tapping bill goes through, I think Irey can get well a week sooner.

Oliphant: Better call him up and tell him.

H.M.Jr: What else?

Oliphant: Hester calls us on it four times a day.

H.M.Jr: I just called up to see Sam Rayburn and Marvin Jones and Woodrum on this whole - this bill. Woodrum says - Sam Rayburn says, "Forget it. It'll go through." He also says, "Don't worry about that inflation thing." He says, "We won't keep the House here one minute for any inflation bill or any other bill." You know the one - what's this Missouri Congressman's name?

Lochhead: Rankin.

H.M.Jr: Yes, Rankin.

Upham: Mississippi.

H.M.Jr: Then I called up Cliff Woodrum and he says the farm organizations are fighting amongst themselves as to how to divide the 212, and he's got a slight chance of maybe kicking it out on that basis. "So see what you can do with Marvin Jones. Get him working on the boys. Get him working - maybe get him trying to rewrite the AAA. The boys will get restless; they won't stay." But Bankhead and Rayburn just let me down. They won't fight it. If it gets out on the floor they'll vote for it. If we can just get them

-3-

fighting as to how to spend it, maybe it won't get through. So I thought I'd call up Marvin Jones and give him a jag, and I've got a call in for Doughton.

Bell: Marvin - he can switch pretty fast when there's 200 million dollars involved.

H.M.Jr: That's all right. Well, you see, he didn't know it was going to be spent and he'll get in on it now and maybe we'll have a little dissension amongst the boys.

McR: Little scientific sabotage.

H.M.Jr: As ~~Woodrum~~ says, it will be 170 - instead of removing the Woodrum amendment, they're reducing the 50 million for relief - optional; 50 million for surplus crops - optional; and then setting aside 175 - if the emergency arises, the President can use 175 for anything he wants to - one month.

Bell: But they're leaving in the seven months amendment.

H.M.Jr: Yes. And he says that Byrnes and somebody else talked to the President and that's agreeable to the President. And I commented not at all. I didn't want to get in on it.

Bell: Well, Corry Gill called me yesterday and he was very much disturbed about the fight on the Woodrum amendment.

H.M.Jr: Well, I didn't get in on it. Very careful.

Bell: I gave him this suggestion. I said, "Forget the Woodrum amendment; it isn't going to hurt you. But fight for the seven months instead of the eight months." I said, "Go along with Woodrum on his amendment, but fight for the seven months and you're all right."

H.M.Jr: Well, the Woodrum amendment sticks, but there's one month floating.

Bell: Seven months, that's all right. That's just the same as when they started out. Won't hurt them a bit.

-4-

H.M.Jr: Fine. Well, I'm just going to keep plugging. We'll see what happens.

Did I pass you (Gaston)?

Gaston: I'm through. I have nothing.

H.M.Jr: You and White will come in here at 11.

Gaston: Yes.

H.M.Jr: Why do you seem doubtful?

Gaston: Well, the President's press conference is at 10:30. I can send somebody over there. Probably won't be through by 11.

H.M.Jr: Well, supposing - I'd really like to see you.

Gaston: Yes, I'll have somebody else by 11.

Oliphant: Can I have a copy of the speech?

Gaston: As soon as I

H.M.Jr: What I'm going to do - everybody who wants to read it go to Gaston's office and read it in there. I don't want it to float around. If anybody wants it, just go into Gaston's office and read it.

Gaston: We'll just keep one copy for that purpose.

Oliphant: How long is it? How long to ...

H.M.Jr: To read it - take 20, 25 minutes.

Oliphant: 20, 25 minutes be enough?

H.M.Jr: Yes.

All right, Herbert?

George? Got George out of bed, although he denies it flatly.

Haas: All shaved when you called.

H.M.Jr: All right.

-5-

- Haas: That's the first time in about three weeks.
- H.M.Jr: Yes, I haven't been bothering people.
- Haas: No - at that hour.
- H.M.Jr: That's pretty good.
- Haas: I checked up on these figures - the weekly figures.
- H.M.Jr: Talk out loud.
- Haas: The weekly figures on these clearings, Dun & Bradstreet clearings, are not published, but I've got the last monthly figures - got it over the phone - and it shows a decline; but the weekly figure which came out in this morning's paper shows the total for the country of 6 percent higher than the same week a year ago. But that includes the City of New York, which is up 13 percent - outside New York, down 7 percent. These figures are - clearings are very erratic, and usually the New York figure is omitted when you are using them as an indication of general business, because large security flotations and things of that sort enter into that New York figure.
- H.M.Jr: I see. How about the Fed on that? Suppose they'd have anything? The Board here - when did they release their figures on clearings?
- Haas: Oh, they use a figure of bank debits, you see, which is better, because all checks do not clear, and they have a figure of bank debits.
- H.M.Jr: I see. When do they release theirs?
- Haas: They have a weekly one.
- Gaston: Where's a report out today - Federal Reserve report published.
- H.M.Jr: Will you look it up?
- Haas: Uh-huh. I thought you would be interested in looking at those charts. Those are the individual commodities.
- H.M.Jr: What?

- Haas: I thought you might be interested in looking at the individual commodities to see what's happened.
- H.M.Jr: Well, there are 28 million bondholders holding out on us - 28 million dollars. Herbert Gaston was very much worried - 97.7 percent.
- Gaston: Uh-huh. Well, we gained one percent.
- H.M.Jr: Take that to Cabinet.
Anything else?
- Haas: Dr. Parran is due back today, so I haven't been able to reach him on that question you raised the other day - with regard to that conference, you know. And Dan and I are working on the trip.
- Bell: Talked to Colonel Harrington yesterday about that trip, and he says that the projects will all be closed down on Saturday - no work on Saturday at all, and be a very poor time to go. He advised against going on Saturday and Sunday.
- H.M.Jr: Well, that was your idea.
- Bell: Well, I did that because I'm snowed under on projects and I hate to send the man I've got that should go on all - at this time when all these Federal projects are piling in here under this W.P.A. program.
- H.M.Jr: Well, let Edna go out Monday and let her get as much as she can.
- Haas: Monday and Tuesday, like she has.
- H.M.Jr: Let her get a letter from Harrington so she can talk to the local fellows and find out how the projects - the question is, are they running out of projects, see? And you might suggest to Parran whether he'd like to send somebody with her, the idea being, what would be a decent amount of food to distribute there to keep the people from starving? Maybe he might send somebody with her. And it might be suggested that even maybe this woman ...
- Haas: Stanley.

-7-

H.M.Jr: Dr. Stanley might go. See?

Haas: Uh-huh.

H.M.Jr: Will you?

Haas: Yes. I doubt if she will go herself, but she'd probably send somebody.

H.M.Jr: All right, George. I won't keep these.
Anything else?

Haas: That's all. I'll have that other statement for you.

Taylor: They're off again this morning with the gold business.

H.M.Jr: Off again?

Taylor: Well, I mean very curious about it, particularly about Mr. Kennedy's mission, and I just - it seems to be having a very good effect on the market. So, shall we deny it very hard or

Bell: Easy.

H.M.Jr: "New York. Ambassador Kennedy is arriving
In the market, tripartite devaluation agreement caused a sharp expansion of hoarding, demand for gold from the Continent. Well-informed quarters in London, however, continued to regard the devaluation thought as ridiculous."

Gaston: Duffield just asked me about that a few minutes ago.

H.M.Jr: Let him ride.

Gaston: I told him that Mr. Kennedy was probably coming with some notions of his own.

White: Possibility he might consider letting out the answer to Thomas's letter, in which he recommends devaluation, now, and I think the letter may be answered in such a way that it is a possibility if you want to do anything, say anything at all.

H.M.Jr: I don't want to.

-8-

White: It doesn't say anything, but I think it disposes of the question temporarily.

H.M.Jr: I'm surprised, Harry. There's a certain columnist wrote an article here the last week accusing us of being responsible for these gold rumors because we wanted to put commodities up; and I always do what the columnists tell me.

White: Fine.

H.M.Jr: And another thing, I don't want to - I'm very much worried about Ambassador Kennedy. He may have this mission.

White: Well, we can very easily change the letter.

H.M.Jr: Well, I just think I'd let Mr. Kennedy keep on, and in the meantime I'm not worrying. All right? I mean far be it from me to do anything to put gold stocks up. I'd let her ride. Let Kennedy handle it.

White: It's going in the right direction.

H.M.Jr: He's got two newspapermen as his secretaries. Did you know the second one went out, the one from the Maritime Commission?

Gaston: Sheridan?

H.M.Jr: What?

Gaston: Sheridan or Harry

Taylor: Harold Hinton - I know he went over with him.

Gaston: Well

H.M.Jr: He went over. The second one.

Gaston: Harry what's-his-name - Springer? What's the name of that fellow, Cy?

Upham: I don't know.

H.M.Jr: (On phone) Hello. (Conversation with Congressman Doughton follows:)

June 10, 1938.
10:03 a.m.

Operator: Go ahead.

H.M.Jr: Hello.

Robert
Doughton: Hello.

H.M.Jr: How are you Bob?

D: Pretty fair, Mr. Secretary, how are you?

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

-D: Yes.

H.M.Jr: Are we going to have to get a processing tax through to pay for that two twelve?

D: Are we going to have to?

H.M.Jr: Yes.

D: I don't know. We couldn't get any processing tax now. I didn't work it out as a processing tax, and I doubt it very much. You'd better take that money out of this big spending program and take it and finance - pay those farm benefits out of that but I doubt if you could ever pass a processing tax. It'd be every bit of next summer.

H.M.Jr: Well, wouldn't it be easier to just -

D: How's that?

H.M.Jr: Wouldn't it be easier just to let the two twelve kind of die?

D: Die?

H.M.Jr: Yes.

D: You mean - not - not make that available?

H.M.Jr: Yes.

D: Well then, you wouldn't have any money at all, suppose they didn't pass the processing tax?

H.W.Jr: Well I mean -

D: They told us, you know, in the passing of that - Marvin Jones wouldn't need it. Half of us are voting for that bill because they said they could finance it out of what they had.

H.M.Jr: No, but I mean the two twelve. Why have that hanging over our heads? The boys say they can't spend it before December or January anyway.

D: Well - suppose you want to spend it in December and January, if you don't take that where would you get it?

H.M.Jr: Well, I mean -

D: We probably won't need any more till then.

H.W.Jr: No, but they got five hundred million dollars now to -

D: Well that's - why we shouldn't get along with that, that's all right.

H.M.Jr: Well, I think they can.

D: Yes, well, that's what we understood all the time, you know, until they began to talk about that later. I never have known where we are about that. Some would say one thing and some would say another, but I want to say to you in all frankness, that in my opinion, we will have a desperate time ever passing much of a processing tax unless it's like the other one was.

H.M.Jr: Yes, but why -

D: It might be you could put it on value why you might do it, but I don't believe we'll ever pass that kind of a processing tax.

H.M.Jr: Yes, but why not save ourselves a lot of grief, just not pass that two twelve?

D: How's that?

H.M.Jr: Don't let's put the two hundred and twelve in the Bill.

D: That's exactly what I'm in favor of.

H.M.Jr: Well, Cliff Woodrum needs a lot of help. He's doing the best he can.

D: Well, I'll give him all the help I can.

H.M.Jr: Yes.

D: I'm not much able to help anything, you know, I've been sick so long.

H.M.Jr: I know, but you've got about as much influence up there as anybody in the House.

D: Well, thank you, I'll see him about that today.

H.M.Jr: He needs a lot of help. He's going to fight right up to the end to knock out that two hundred and twelve.

D: Going to fight for it.

H.M.Jr: He's going to fight to knock it out.

D: Knock it out?

H.M.Jr: Yes.

D: Well, what - I thought you wanted it to stay in.

H.M.Jr: No, no, I want - I want the two hundred and twelve left out.

D: Left out.

H.M.Jr: Yes.

D: Then suppose you don't have enough money. Then you're going to try to make us pay some processing tax?

H.M.Jr: Oh, we - we've got enough money -

D: How's that?

H.M.Jr: If they leave the two hundred and twelve out of the Bill, we're all right. We've got enough money for -

D: Well, then of course I want to help leave it out. Yes. But if we, by leaving it out, we're going to force it to a processing tax why I wouldn't want to leave it out.

H.M.Jr: No, no. If they leave the two hundred and twelve out, we don't need any processing tax.

D: You don't.

H.M.Jr: We do not.

D: Well I'm glad to hear you say that and I'll take right over and see what I can do.

H.M.Jr: Attaboy.

D: Thank you very much. Goodbye.

Oliphant: That's statesmanship.

H.M.Jr: One of us is awful dumb. I'm sorry you couldn't hear - honestly, these conversations with Sam Rayburn, Cliff Woodrum, Marvin Jones, and Bob Doughton are absolutely classic.

Bell: Best I've ever heard.

H.M.Jr: They're absolutely classic. I wouldn't - they're absolutely classic.

Oliphant: They are men of conviction, aren't they?

McR: Poor old Bob was certainly ...

Bell: He wanted to leave it in the bill, but they didn't need the processing tax. In other words, the appropriation took the place of the processing tax.

H.M.Jr: Sam Rayburn was good. "Now listen, Henry, what's the use of fighting this? Let's be frank with each other. Going to get it out; it's going to pass. Don't waste your time. Don't waste your time. They're going to get it through."

So then one of the boys said, "You know, what they are trying to do is ..." - he said, "... is to get the President to veto the thing so they can pass it over his head." Well, they won't, of course, get a chance to do that. So if we can only stir up a little

All right. I'm not betting anybody a nickel, anyway. But that was funny.

"Where were we? We got by you (Taylor), didn't we?"

Taylor: Well, we moved over to other fields.

H.M.Jr: Well, I'm being very sarcastic on this gold rumor and the Kennedy stuff. My feeling is just to let it ride and keep saying that there is nothing to it, and I wouldn't do anything else. I said it very definitely. And I don't know what Kennedy's got, but in the meantime the market's behaving beautifully.

Taylor: On cognac, why, we have

H.M.Jr: (Laughs) Really, you people go - just go around the world. I thought I settled Siam last night.

Taylor: You did.

H.M.Jr: But this is cognac.

Taylor: It develops - it develops that you can continue to have a temporary - I think you can have a temporary regulation under which - rather, a temporary permit under which you can continue to manufacture it with these trick labels on. Is that

Oliphant: No; I'm giving you an opinion.

Taylor: Fine.

Oliphant: McReynolds already has one earlier - that you can't. You see, the regulations have to be approved by the Secretary. Now, you can't get around that by using temporary permits.

H.M.Jr: I can't have my pie and cognac too?

Taylor: You can have the pie, but

Oliphant: You have the power to pass on those regulations, but by issuing temporary permits

H.M.Jr: What do you want me to do?

Taylor: I just wanted to tell you there was this peculiarity which seems to develop.

H.M.Jr: O.K.

Gaston: They make champagne in New York, why not cognac in California?

McR: The only thing is, they do it and we don't have to approve their action. I wanted to remind him again.

H.M.Jr: O.K.?

Taylor: (Nods yes)

Gibbons: The Vice President wanted this reappointment signed. That was on this Johnson case - Collector of Customs down in Texas.

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H.M.Jr: All right. (Secretary signs appointment)

Gibbons: Mac, do you want to send it over?

McR: Yes, I'll see that it gets over.

H.M.Jr: Anything else?

Gibbons: That's all.

H.M.Jr: Harry?

White: We have just finished a study and analysis of the Japanese trade during the war period.

H.M.Jr: Which war?

White: During the current one.

H.M.Jr: I see.

Gibbons: Spanish or Chinese?

White: And we can write it up for you. But I'd like to tell you that they're in a bad way now - last few months. Situation is getting very bad. In fact, they're beginning to follow some of the tactics of Germany in depreciating their yen in China. Their yen is selling in China at about 20 cents.

H.M.Jr: I'd like to have it on Monday noon.

White: Yes, on the whole situation.

H.M.Jr: Anything else?

White: No.

Lochhead: Due to the rumors of the devaluation

H.M.Jr: What rumors? Kennedy rumors?

Lochhead: Yes, due to the Kennedy rumors, sterling did manage to touch about \$4.96 one time this morning. Dropped right off. And the gold price in London worked up about two cents to \$34.81; but that's a long ways from any export of gold from this market. In other words, it just gets slightly above the import point. But there is no real strength in the market yet.

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H.M.Jr: All right, what else?

Lochhead: That's all.

Bell: I have two things. The T.V.A., I guess, are about to enter into some contracts down there to purchase utilities, and they want to issue some bonds. They're coming in today or tomorrow and talk with Wayne and me. Be all right, I suppose.

H.M.Jr: I'd like to pass on it before it happens. I'd like to know about it.

Bell: Well, you'll have to approve it.

H.M.Jr: Well, I mean before any commitments are made. But I'd be delighted if you two men would explore it.

Bell: This is just a preliminary talk.

H.M.Jr: I mean I don't know a thing about it. I'd like to.

Bell: I don't think be much money involved. For that reason, I think we ought to buy the securities. There's another reason why I think we ought to buy them.

H.M.Jr: Could somebody prepare a memorandum showing me under what authority - what their authority is and what our authority is, and so forth? Can I have that Monday?

Bell: Yes, sir. There is a provision in the original act that the bonds issued by this corporation will have the same rights and privileges as the old Panamas, which makes them fully tax-exempt, and they also have the circulation privilege. That's another reason why we should buy the bonds, keep them out of the market.

H.M.Jr: How much?

Bell: I don't believe it will be over five million for this particular purchase.

H.M.Jr: You oughtn't to waste my time. But I would like to know about it.

Bell: 50 million is the limit they can sell, and the authority runs out in 1940.

H.M.Jr: All right, what else you got, Dan?

Bell: The other thing is, I'm working on a rather complete change in some phases of the daily statement beginning July 1. Involves a policy as to what we're going to do with R.F.C. I'd like to discuss that with you some day next week.

H.M.Jr: Can you let it slide until next week?

Bell: That'll be all right.

White: Does that include reconsideration of some changes in the budget procedure in some cases, too?

Bell: Yes.

H.M.Jr: Anything else?

Bell: That's all.

H.M.Jr: Is Straus taking any money - one million?

Bell: Have no indication that they want any more right away.

Upham: We got the Comptroller's regulation revised yesterday afternoon. I imagine it will be in the afternoon papers.

H.M.Jr: Anything else?

Upham: No.

H.M.Jr: Mac, your pal Willingham is sending a Congressman in to see me at quarter of 12. Isn't Oliphant being good to him?

Oliphant: Who's coming in?

H.M.Jr: A Congressman from Richmond, Willingham's Congressman.

Klotz: Satterfield.

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H.M.Jr: About Willingham. Isn't Oliphant keeping him happy?

Oliphant: Where is Willingham?

H.M.Jr: He's under you - that special board, your personal board over there.

Bell: Oh no, he's in Accounts and Deposits.

Oliphant: Willingham is in your

H.M.Jr: I thought he was to go on that board.

McR: No, you didn't want to put him over there.

H.M.Jr: No, no, I - put him on that board.

McR: O.K., we'll put him on.

Bell: We'd be glad to get rid of him.

Oliphant: Well, he's happy, isn't he?

Bell: Is that all there is to it? Just one man happy and ten unhappy.

Gibbons: *he Secretary will answer that question after he sees the Congressman.

H.M.Jr: Herman, when I was at Albany I once said to some assemblyman, "As long as I'm here I'll never do that." He says, "Don't say that - not in politics - because often you find it's convenient to change your mind." And you look so happy, Herman, I don't want to

Oliphant: I can't make the comeback I want to.

H.M.Jr: Well, I think that somebody slipped one over on me, because I took it for granted he was working for Herman Oliphant. Isn't there a vacancy on that board?

McR: Oh yes.

H.M.Jr: O.K., that's all I want to know.

June 10, 1938.
9:34 a. m.

227

H.M.Jr: Hello.
Sam
Rayburn: Hello.
H.M.Jr: Sam?
R: Yes, Henry.
H.M.Jr: How are you?
R: Fine.
H.M.Jr: Sam. As Secretary of the Treasury I'm very much interested in this two hundred and twelve million dollar appropriation for farm parity.
R: Yes.
H.M.Jr: And I hope it goes out.
R: It won't go in.
H.M.Jr: What?
R: It won't.
H.M.Jr: Won't it?
R: No.
H.M.Jr: Well, what's the sense of having that hanging over our heads and then maybe we won't need it and maybe we will?
R: Well, I'm just telling you though -
H.M.Jr: I know.
R: When they call the roll in the House, they'll adopt it just as sure as the devil.
H.M.Jr: They will.
R: Yes.
H.M.Jr: Are they going to vote on that specially?
R: Well, the House Committee has got to agree to it, or bring it back.

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H.M.Jr: Yes.

R: For a vote. So it'll be adopted, just as sure as the devil.

H.M.Jr: Do you mean? -

R: There won't be any stopping it.

H.M.Jr: In the Committee.

R: Well, it'll be up in the House if they bring it back for a vote in the House.

H.M.Jr: I see.

R: Just like it's put on in the Senate. You see the Senate has got to stand up because -

H.M.Jr: Supposing Cliff Woodrum doesn't let it come out?

R: Well, he's got to let it come out, Henry.

H.M.Jr: He does.

R: He's got to agree to it or bring it back and let the House vote on it.

H.M.Jr: I see.

R: You see, it'll be adopted just as sure as the dickens. Just like this darned thing they had up last year that the President vetoed, you know, let me see, what was that about?

H.M.Jr: Interest.

R: Yes.

H.M.Jr: Yes.

R: Well that last was vetoed.

H.M.Jr: Yes.

R: And now they're all sitting around here and it's down there again, you know.

H.M.Jr: Yes.

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R: And they want him to veto it, sign it or something, or veto it so that they can pass it over his veto again.

H.M.Jr: You mean that's what they're laying for.

R: Sure.

H.M.Jr: Well - well.

R: Somebody said something to me yesterday, the Chief called them about something else up here, what was that?

H.M.Jr: Oh, no, nothing this week.

R: Well there was something and I know I told them - somebody at the Treasury, I thought it was, and I said - it was some new thing that is -

H.M.Jr: Oh, yes, yes. That - this so-called inflation round robin.

R: Oh, hell, when we get this wage hour and this appropriation passed, why, there won't be holding them here for anything like that.

H.M.Jr: No, what's the name of the Congressman, Rankin?

R: Well, he's always getting up some big bugaboo, but -

H.M.Jr: Now, I want -

R: It won't go.

H.M.Jr: That's all I want to know.

R: Not a thing, it won't go at all.

H.M.Jr: You guarantee that?

R: I will.

H.M.Jr: Well -

R: They won't stay around here waiting for that thing to come up.

H.M.Jr: Attaboy.

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- R: When we get this other stuff, we're going to adjourn and ...
- H.M.Jr: But I better - I might as well quit fussing on the two twelve.
- R: I don't think there's any question about it, Henry.
- H.M.Jr: Thanks so much. I'll take your advice. Thank you.

June 10, 1938.
9:38 a .m.

231

H.M.Jr: Hello.

Operator: Woodrum. Go ahead.

H.M.Jr: Hello.

Woodrum: Yes, sir, Mr. Secretary, how are you?

H.M.Jr: I'm all right. How are you? You sound full of pep and -

W: Just fine, I'm feeling good.

H.M.Jr: Getting everything you want.

W: Not by a long shot.

H.M.Jr: How about -

W: We're having some fun with the boys.

H.M.Jr: How about the two twelve?

W: Well, this kind of a situation on that - we've gotten down to that point in the conference.

H.M.Jr: Yes.

W: And of course what these fellows - they want us to take that back to the House right quick and let the House vote on it.

H.M.Jr: Yes.

W: If we did we're sunk, because unfortunately, speaking to you entirely confidentially, Sam Rayburn and Bankhead came back to the House and told the fellows that everything was all right for that, that they had told the President he might as well take it. They've just split, don't you see, they laid down and quit on it.

H.M.Jr: Golly.

W: Instead of putting up a fight.

H.M.Jr: Yes.

W: So it's left to the appropriations committee and being the bad boys of the situation and wanting to gum up the works when everybody else is apparently

willing for it. I think the impression got out from the House that it was all right with the President, that he was acquiescing in it.

H.M.Jr:

Yes.

W:

But now this sort of a situation has developed which may have possibilities in it. I find that there's a very wide difference of opinion among the Agricultural fellows as to the terms of this amendment.

H.M.Jr:

Yes.

W:

And, for instance the corn and wheat fellows object very much to the formula that Russell, who's looking after cotton has put in this thing.

H.M.Jr:

I see.

W:

I believe they're having a meeting over here this morning, some of them.

H.M.Jr:

Are they?

W:

I think what they're going to probably do is to have an amendment to that.

H.M.Jr:

Yes.

W:

And it may develop into a cat and dog fight, when at the proper time I can come in and suggest to them that they had better not try to rewrite the adjustment act in this deficiency bill, let the whole thing go over.

H.M.Jr:

In other words, this isn't a farm bill.

W:

That's the idea, that's my - that's about my only hope.

H.M.Jr:

Yes.

W:

If I have to go to the mat with them right now, on the cold shoulder, they'll lick me in the House.

H.M.Jr:

Has Bob Doughton helped you any?

W:

Well Bob has been sick you know.

H.M.Jr:

Yes. But he's back.

W: He's well, but he's looking very bad and feeling very bad.

H.M.Jr: Bob - I'm quite sure - I'm going to talk to him in a few minutes.

W: Now Jere Cooper, I was sorry to find out, was for this thing.

H.M.Jr: Oh, gee.

W: And you see those fellows, I don't know, it's bad psychological time for them to have to make a decision of that sort apparently.

H.M.Jr: Yes. Well, now -

W: I'm getting a lot of letters from farm organizations who say we want the two twelve but we don't want it the way they've got it in there, now, if enough of that situation develops, why we may have them cutting into each other.

H.M.Jr: I see. Just as a matter of information, that fifty million dollars for surplus crops, is that a definite commitment or is that optional like the hundred and twenty five?

W: We're going to make it optional.

H.M.Jr: The fifty.

W: Yes.

H.M.Jr: Going to make it optional.

W: Yes.

H.M.Jr: Well, I think that'll please the - Hopkins.

W: We're changing the hundred and twenty five. We're cutting that down to fifty.

H.M.Jr: Down to fifty.

W: Yes.

H.M.Jr: Well that -

W: That is they'd use fifty for direct relief but we are also putting a provision in there that gives him the right to shift if he wishes to do so in the case of an emergency as much as a hundred and seventy five million of this work relief stuff.

H.H.Jr: Shifted to what?

W: Anywhere you want, sir.

H.H.Jr: Oh, fine, fine. Swell.

W: So I think that's - in other words we're modifying to so-called Woodrum amendments so that in case of an emergency and the President so finds that he can take a hundred and seventy five, which is one month's allocation, I think, and put it wherever he wishes to do so.

H.H.Jr: Well, I should think that - I haven't talked to the President, I just heard this, but I should think that he'd be - ah.....

W: I - well, I talked that over with him and so did Jimmy Burns, and that's - it's perfectly satisfactory.

H.H.Jr: Well, I - I haven't, but that's - under those -

W: After all, all we want is -

H.H.Jr: If there is an emergency, we don't want to let people starve.

W: Well, that's right.

H.H.Jr: Can't let them starve.

W: That's right.

H.H.Jr: And - well, that's very interesting. Well, I'm going to work a little on Bob Doughton and see if I can get him stirred up on this -

W: I wish you would.

H.H.Jr: And if there's anybody else that you think I can help by talking to on the two twelve, let me know, will you?

W: Well, how about Marvin Jones?

H.M.Jr: Huh-huh.

W: I don't think anybody can do anything with Marvin; of course Marvin - the House has a great deal of respect - the House has a great deal of respect for Marvin on agricultural matters.

H.M.Jr: Yes.

W: And he's gotten away with murder, over there, many a time.

H.M.Jr: I'd just as leave talk to Marvin.

W: But I don't think Marvin likes it the way it is. Now, if I can just get them cutting into each other, the corn and wheat fellows into the cotton fellows, enough, why, I've got him where I want him.

H.M.Jr: But this is entirely on the House side, there's no sense talking -

W: Oh the Senate will do anything at all.

H.M.Jr: Uh-huh.

W: They are in that mood that they'll do anything.

H.M.Jr: Right. Well, I'll give Marvin a ring, he's an old friend of mine. I used to be in farming you know.

W: I know that. Yes, I know you came down to see him early in the game.

H.M.Jr: Right.

W: Mr. Secretary. While I've got you I wonder if I might ask you this.

H.M.Jr: Sure.

W: My colleague, from Richmond, Congressman Satterfield, -

H.M.Jr: Sackerfield.

W: Satterfield.

H.M.Jr: Yes.

W: Is very much interested in a fellow by the name of Willingham.

H.M.Jr: Yes.

W: Maybe you know Willingham. In Alcohol Tax Unit.

H.M.Jr: Often, infrequent and constant.

W: I guess so.

H.M.Jr: Yes.

W: Well, anyway the proposition has been put up to me and I've tried to dodge it as much as I could but Satterfield wants to talk with you about a minute on that question.

H.M.Jr: For you, I'll do it.

W: If you would just see him for a few minutes, that's all I ask you to do.

H.M.Jr: If he calls me up, I'll be glad to see him.

W: Well, - won't you just let your secretary call him and tell him when you can see him?

H.M.Jr: Sure.

W: For just a minute.

H.M.Jr: Absolutely. I'll do it right away.

W: I'll appreciate it. I'll keep you posted on this.

H.M.Jr: We'll call Satterfield - where does he come from?

W: He's from Richmond.

H.M.Jr: Well, we'll call him right away.

W: Thank you.

H.M.Jr: You're welcome.

June 10, 1938
9:45 a.m.

237

H.M.Jr: Hello.

Operator: Congressman Jones.

H.M.Jr: Hello.

O: Go ahead.

H.M.Jr: Hello.

Cong. Marvin Jones: How are you boy?

H.M.Jr: How are you?

J: All right.

H.M.Jr: How do you like the price of cotton?

J: Oh, frankly, cotton is not the best in the world.

H.M.Jr: Yes. Marvin, on this two hundred and twelve for farm parity.

J: Uhhuh.

H.M.Jr: Is that thing going to go through?

J: Well, I don't know. I tell you, as much money as they're spending in the cities, I don't see why it shouldn't go through.

H.M.Jr: Where are they spending the monies in the city?

J: Oh, this whole relief fund, nearly eighty per cent of that has gone to the city.

H.M.Jr: Is it?

J: Yes. Now if we're going to have a spending program why - why shouldn't it be divided?

H.M.Jr: Yes.

J: Now, what - what's your answer to that?

H.M.Jr: Well, the thing that I don't want is, perfectly frankly, is the processing tax. That's what I don't want.

J: Uhhuh.

H.M.Jr: Because I think it will keep the prices of commodities down. I - may be all wrong.

J: Well, I don't know whether we'll ever get a processing tax or not, anyway. There's been a lot of opposition to the processing tax.

H.M.Jr: Yes. Well -

J: Of course if there's one established it won't be - it won't be of the size of the other processing fee.

H.M.Jr: Well, but it -

J: It never will be anything like the amount of the old processing fees. In fact what they've considered up here is about half of those fees.

H.M.Jr: Uhhuh.

J: As a sort of a supplemental fund.

H.M.Jr: Well -

J: Even so, Henry, I find there's a good deal of opposition to it, I've talked it around some.

H.M.Jr: On the two twelve?

J: No, on the processing thing.

H.M.Jr: Oh, yes.

J: They - a lot of them feel like that on this two twelve if - that naturally the relief plans are mainly in the cities, and that to spend all the monies in the cities tend to draw people there and further complicates that problem.

H.M.Jr: Uhhuh.

J: And that it ought to be - if we're going to have a spending program, and that sounds pretty logic, we're going to have a spending program it ought to be pretty well divided, and there may be some question about how far we'll go, how much money we should spend, but granting that we're going to have such a program, it might be wise to have the thing kept in a more or less balance sheet, rather than have it all go to - of course the more money you spend in the cities the more you are going to lure people there.

H.M.Jr: Uhhuh.

J: On the list, and people are struggling in the country are liable to give up and go to town, you know?

H.M.Jr: O.K.

J: Now, I don't know - what's your - do you think that ought to be supported?

H.M.Jr: Well, I just feel this. I can't get anybody to tell me that they're going to spend it between now and the first of January, so why have that hanging over our heads.

J: Well, why aren't they going to spend it between now and January.

H.M.Jr: Well, I haven't got anybody - well the way it's written - I mean you can't - you can't give that benefit unless - unless the parity price goes below what it is now.

J: Yes, by George, if it goes below - if it goes below at any time -

H.M.Jr: I mean the way it's written now, we - Agriculture wouldn't - wouldn't spend a cent.

J: I'll check on that.

H.M.Jr: What?

J: I'm going to check on that.

H.M.Jr: Well don't raise it on me now.

J: Well I'll take a look at it anyway, Henry.

H.M.Jr: Well -

J: In fact I thank you for calling. How are you getting along?

H.M.Jr: Oh we're all right.

J: I - I want to see you sometime. Have a little visit with you.

H.M.Jr: Why don't you?

J: I - I'll do that if I - I always hesitate because I know you have so many people wanting to see you.

H.M.Jr: No, no.

J: But you might like to see somebody who wasn't asking you for anything.

H.M.Jr: Well, I - I'd faint. But come down for old time's sake.

J: All right.

H.M.Jr: All right.

June 10, 1938.
10:23 a.m.

Operator: Mr. Oliphant.
Herman
Oliphant: Yes.
H.M.Jr: Herman?
O: Yes.
H.M.Jr: When did the call come from Jimmy Roosevelt?
O: The memorandum came to Magill - and Magill's office sent it in to me to apply it direct. I gave it to my man to take it up with - with Tarleau. It came yesterday evening, and I find when I get back to the office it hasn't reached Tarleau yet.
H.M.Jr: No.
O: It came - the memorandum from Jimmy to Ros -
H.M.Jr: Well could you have somebody bring it in to me?
O: I'll bring it in.
H.M.Jr: What?
O: I'll bring it in.
H.M.Jr: O.K.

June 10, 1938.
11:58, a.m.

H.M.Jr: Hello.

Operator: Jesse Jones. Go ahead.

H.M.Jr: Hello.

Jesse Jones: Hello.

H.M.Jr: Jesse?

J: Yes.

H.M.Jr: Save any more good stories to tell Henry Wallace?

J: I got a letter from him this morning.

H.M.Jr: Well, what does he say.

J: He wants me to specify wherein the type of

H.M.Jr: Oh my God. Did he take you seriously?

J: It looks like it, yes.

H.M.Jr: Oh, gosh. Well anyway, what I called up about, some place or other, in the last couple of days, when I saw the President, he was talking about he thought that the railroads, the Government loaned them a hundred per cent on equipment.

J: Yes.

H.M.Jr: Would, oh, maybe take two three hundred million dollars of RFC money.

J: Yes.

H.M.Jr: Had you been talking to him about it?

J: NO.

H.M.Jr: Well, I don't - because if there was any likelihood of that, once you were sure that you weren't going to get your bill. I don't know where he gets his facts from, but I think it would be very important.

J: We're not going to lend them the three hundred million or two hundred million either, Henry.

H.M.Jr: Well, I'm talking now about for - you know, for the purchase of equipment.

J: I know that, that's what I say. They don't need equipment now.

H.M.Jr: Yes. Well, where does the President - he made the statement - I forget when I was over there - some day this week - Bell was with me, that, oh they could - they had borrowed two three hundred million dollars if we'd lend them the money at a reasonable rate up to a hundred per cent on equipment.

J: Well now, I've done this, I've agreed - oh - manufacturers for instance.

H.M.Jr: Yes.

J: Like these lending fellows.

H.M.Jr: Yes.

J: That we would lend ninety per cent and / ^{they} would subordinate ten per cent and carry that over a period of ten years.

H.M.Jr: I see.

J: That gives the railroad their hundred per cent.

H.M.Jr: Uhuh.

J: We did agree to lend the Southern Railroad fourteen million dollars for equipment at a hundred per cent.

H.M.Jr: Yes.

J: Taking their equipment in on their certificates. The reason we did that one is that they are very big - renters of cars - they're on the debit side all the time. It's about the only road I know of that is on the debit side particularly.

H.M.Jr: Which road?

J: The Southern.

H.M.Jr: But where does he get this from?

J: Well, you see the best report had three hundred million dollars in it for equipment.

H.M.Jr: Oh, that's where he gets it.

J: That's where he got the idea.

H.M.Jr: I see.

J: And I told - I don't know whether I've ever told him directly, but I've told many people that there wasn't any chance for us to lend three hundred million dollars for equipment because the railroad won't buy it.

H.M.Jr: Yes.

J: They're trying to stay out of receivership.

H.M.Jr: Well, I just wanted to check with you.

J: You was thinking about the money too.

H.M.Jr: Well, no, what I was thinking about was the employment.

J: Oh, the employment.

H.M.Jr: I mean if -

J: Well now, I'm saying yes to everybody that wants to borrow money for a construction that's got any soundness.

H.M.Jr: Oh, I'm thinking about employment.

J: Well, I say, we're doing that.

H.M.Jr: You are?

J: And as I - just like I've said to you, I got these

H.M.Jr: Well would you do this for me Jesse. Have somebody in your organization give me - give you a little memo that you could show me, say once a week, just what you are doing in the lending field.

J: Be glad to.

H.M.Jr: Because I've been completely out of touch. I don't know -

J: I'll be glad to do it.

H.M.Jr: One of the reasons I'd like it is because there's always this crowd who keep talking about, well the RFC is slow and they're not doing any business. Well I don't know how to answer that.

J: Yes.

H.M.Jr: And if I could, once a week, get just a very brief memo that we'd loaned so much for this or that, it's just a little break/ not a big complicated thing.
down -

J: Are you going out of town this weekend?

H.M.Jr: Yes, I am.

J: When are you coming back?

H.M.Jr: Be back Monday morning.

J: I'd like to see you Monday if I can, sir.

H.M.Jr: All right.

J: All right, fine.

H.M.Jr: But you get the idea.

J: I do, and I'll arrange that.

H.M.Jr: They keep coming in all the time. Can't you get Jones started? - Can't you do this? Well, I don't know what - I don't talk to you except -

J: You can lead a horse to water but you can't make him drink.

H.M.Jr: I know that.

J: I'll have some figures for you Monday.

H.M.Jr: I'd appreciate it.

J: All right.

Auto Output Continues On Week-to-Week Basis; Closings Start in July

No General Two-Months Shutdown
Is Anticipated — September Ex-
pected to Show Upturn

From THE WALL STREET JOURNAL Detroit Bureau

DETROIT—As has been the case since late last fall, production schedules for virtually all automobile producers are on a week-to-week basis and subject to wide and frequent changes. Present tentative plans of the majority of producers, including Ford, General Motors Corp. and Chrysler Corp., are understood to call for the assembling of current models through this month and into varying dates in July, with output being scaled downward weekly for some makes. A limited August production appears a possibility for a few makes, depending upon the current sales and field stock conditions prevailing in July.

For the plants suspending in July, production on 1938 models is scheduled for late August or early September, with most assembly lines apparently likely to be down for four to seven weeks, against suspensions of from five to nine weeks and more in most years prior to 1937 and 1936. Reports of a general two-months shutdown are without foundation.

September to Show Upturn

There will be some deviation from this outline, but in the main the larger part of the industry's annual transition period probably will occur in the third quarter as usual, mostly in July and August, with September likely to be the first month since March to show a production gain over the previous month.

With several Ford Motor Co. assembly plants resuming operations after having been down from varying dates in the week ended May 28, production of the automobile industry this week will rebound sharply from last week's holiday-reduced total of 38,980 units, but will be under 40,000 units or more than a third below the spring peak production of 62,021 attained in the week ended April 16. A year ago this week, 118,798 cars and trucks were produced in U. S. and Canadian plants.

Sales and production which in 1937 were sustained at abnormally high levels through the ordinarily dull summer months, now are conforming, generally, to what is considered a more nearly normal pattern. Consequently comparisons of weekly output figures with corresponding 1937 weeks from now on through the re-

mainder of the 1938 model run are likely to be progressively more unfavorable.

Last year, forewarned by the wide publicity given the industry's sharp rises in wage and material costs, consumers took summer deliveries of cars that ordinarily would have been deferred till fall. Thus they avoided the automobile price increases that came in August and again in September-October.

Slight Model Changes in 1937

Influenced by a combination of circumstances, most manufacturers last year made only relatively slight changes in the 1937 lines for the 1938 models. This means that the annual periods of production suspension for the joint purpose of taking inventory at the end of the current run, and of retooling plants and rearranging production lines for the manufacture of new models, were of unprecedentedly short duration. Bulk of the assembly plants were down for around three to five weeks, whereas in the previous year the close-downs ranged from three to seven weeks. Up until the last two model years, changeover periods ran from five to nine weeks for the majority of assembly plants.

Several factors had important bearing upon last year's decisions to restrict model changes and upon the resultant reduced change-over periods. Acceptance by the public of current models was running at near-record levels, exceeded only in 1929. Shortages of new cars during the fall selling season seemed possible because of the threatened further labor trouble in auto company and supplier plants, making it desirable to build up heavier field stocks as quickly as possible. Delivery of the necessarily large volume of new tools and dies involved in a wide model change program was made uncertain by the labor outlook in the tool and die plants. Most important of all, by holding down the new tooling costs for 1938 models, the manufacturers held down the price advance to the minimum allowed by their sharply higher costs.

Murphy on Auto Industry

From THE WALL STREET JOURNAL, Washington Bureau

WASHINGTON—If the automobile industry can get back to something like a normal production schedule, it will be "the forerunner of recovery as it was in 1934," Governor Frank Murphy of Michigan predicted yesterday following a two-hour conference with President Roosevelt.

He said he believed that it was possible for the government and the automobile industry to get together in a way that would prevent a long shut down that is scheduled for next month and that would add a quarter of a million more to the unemployed rolls. He said he was not at liberty to say whether or not he had discussed with the President the possibility of future meetings between the chief executive and leading automobile manufacturers.

Chrysler Changeover Work Stoppage to Be Normal

From THE WALL STREET JOURNAL Detroit Bureau

DETROIT—K. T. Keller, president of Chrysler Corp., said that he expects the corporation's plants will be operating through most of July and that the time required for changeovers from current models will not differ greatly from recent years.

"While business is on a substantially lower level than a year ago, sales of our lowest price cars (the Plymouth) are taking an increasingly important part in what business is available," he declared. "As a matter of fact, the order situation is such that it was decided Wednesday to increase the production already scheduled for this month and next."

June 10, 1938

Dear Mr. Roosevelt:

I have your memorandum of June 9, 1938, and its enclosed memorandum from Mr. Lilienthal. Mr. Lilienthal suggests that taxpayers transferring electric power properties and facilities to the Tennessee Valley Authority be exempted from capital gains tax in respect of such transfers. In order properly to limit the provision so as not to occasion a large loss of revenue, there would be extensive drafting difficulties to solve. Such difficulties would, in my opinion, clearly preclude the presentation of an acceptable draft before the adjournment of the present session of Congress.

There are, of course, definite policy questions involved. Upon the theory of the proposed amendment, it is hard to justify the exemption thereby accorded to persons transferring property to the Tennessee Valley Authority when no relief is afforded to persons dealing with other agencies of the Federal government. It is undoubtedly true that the tax factor will be reflected in the price for which private power companies will be willing to sell their properties. It is to be noted, however, that the circuitry occasioned by the consequent payment of a part of the tax by the Federal government itself may be preferred to a revenue act containing numerous exceptions and exemptions which open the door to possible tax avoidance and loss of revenue.

Sincerely,

Secretary of the Treasury.

Mr. James Roosevelt,
Secretary to the President,
The White House.

TNT/mah

Copy for Mr. Tarleton
Room 390

THE WHITE HOUSE
WASHINGTON

June 9, 1938

Memorandum For: Honorable Roswell Magill
Under Secretary of the Treasury

Dear Mr. Secretary:

The enclosed just reached my desk.
I hasten it on to you, but I do not suppose
there is anything that can be done about it
at this late date. However, if you think
there is, will you take the necessary action?

With my best wishes to you,

Very sincerely,

James Roosevelt
James Roosevelt
Secretary to the President

P. S. Will you return this correspondence to
me when you are finished with it?

TENNESSEE VALLEY AUTHORITY
WASHINGTON

June 8, 1938

MEMORANDUM FOR COLONEL ROOSEVELT:

Mr. Lilienthal hopes that you will have an opportunity to examine the attached memorandum outlining a situation arising with respect to the proposed transfer of certain properties of private utilities to public agencies in the Tennessee Valley Authority area.

He hopes to telephone you to discuss the matter sometime tomorrow or Friday.

Marguerite Owen

The Revenue Act of 1938 (Pub. No. 554, 75th Cong., 3d sess.) provides for a tax on the income from the sale of property owned by corporations in the amount of 16¹/₂% or 19% of the selling price (depending on the manner of disposition of the money derived from such sale) less the cost of the property as adjusted for depreciation claims for past years. There are, of course, major policy considerations relating to taxation involved in the Revenue Act and ~~in~~ this type of provision. Obviously, this comment is not directed to these major and therefore prevailing considerations, but is intended to call attention to the fact that the provision does present a serious obstacle to the carrying out of another policy, namely the avoidance of duplication of facilities by the transfer to public agencies of existing private utility facilities in those communities desiring to change from private to public operation. Such transfers are under consideration in extensive negotiations now in progress in the Tennessee Valley and elsewhere.

As applied to the proposed transfer of certain of the electric properties of the Tennessee Public Service Company to the Tennessee Valley Authority and the City of Knoxville, Tennessee, the act would impose a tax, payable for the year in which the transfer takes place, which may amount to as much as \$365,000, depending upon final settlement by the Bureau of Internal Revenue of claims by the Company for depreciation in prior tax years. The total consideration to be paid by the Tennessee Valley Authority and the City of Knox-

ville is approximately \$8,000,000.

The Authority is now in negotiation with the Tennessee Electric Power Company, Alabama Power Company, and Mississippi Power Company for the acquisition of certain facilities, including substantially all the electric facilities of The Tennessee Electric Power Company. The amount of property and the probable purchase prices involved will in the aggregate exceed many times those involved in the Tennessee Public Service Company transaction. There is therefore a likelihood that the transfers by these companies, and particularly The Tennessee Electric Power Company, will if consummated involve a very large tax payment under the Revenue Act of 1938.

It has been found in practice that in negotiating for the acquisition of utility facilities, the primary if not the sole consideration for the transfer is the net amount of the purchase price available to the equity holders of the selling company after taxes and other claims have been met. The imposition of the tax may therefore have a vital effect upon the amounts paid for such facilities by the Tennessee Valley Authority and other public agencies of the Federal and State governments. To the extent that the tax is indirectly reflected in the purchase price of facilities by Federal agencies, it is, of course, circuitous, since the tax is in effect paid pro tanto by the Federal Government itself.

The practice of the utility companies in the past has been to minimize the amount of income taxes by making large claims for depreciation in the computation of such taxes. This policy results in increasing the tax which is payable upon the sale of the property

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by increasing the tax base, that is to say, the difference between the selling price and the cost as adjusted for depreciation claims for past years. Ordinarily the depreciation claim for income tax purposes is in excess of the amount set up for depreciation on the books of the company, the excess of such claimed depreciation being distributed in the form of dividends. While, in justice, security holders who have thus received the benefit of liberal reductions in taxes on account of depreciation should not object to the imposition of a tax on the income from a sale in excess of the cost as thus adjusted for depreciation, in practice security values seem not to have been discounted because of the depreciation factor as reported to the Bureau of Internal Revenue, and the tax is considered as a tax upon the transfer.

The tax therefore creates a very considerable resistance to a transfer, and is a serious factor in the reluctance of utility companies to dispose of any of their facilities to public agencies. The elimination of the tax upon the income derived from the sale of utility facilities to public agencies would, in our judgment, be of very great assistance in pending negotiations for the acquisition of privately owned utility facilities by public agencies, and would demonstrate the interest of the Federal Government in avoiding duplication of facilities and competition between public and private agencies.



TREASURY DEPARTMENT
WASHINGTON

June 10, 1938

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TO THE SECRETARY:

Tennessee Valley Authority to
Issue Bonds

Under Section 15 of the TVA Act approved May 18, 1933, the Board is authorized and empowered to issue on the credit of the United States and to sell serial bonds not exceeding \$50,000,000 in amount, having a maturity of not more than 50 years from the date of issue thereof, and bearing interest not exceeding 3-1/2 per cent per annum. These bonds shall be issued and sold in amounts and at such prices, not below par, as may be approved by the Secretary of the Treasury. All bonds issued and sold under this section shall have all the rights and privileges accorded by law to the Panama Canal bonds authorized by Section 8 of the Act of June 28, 1902, which is the circulation privilege and includes full tax-exemption features. The purposes for which the proceeds of the bonds may be ~~used~~^{used} are the construction of any future dam, steam plant, or other facility to be used in whole or in part for the generation or transmission of electric power. This section ties in with Section 12 of the TVA Act, which authorizes the Board to construct, lease, purchase, or authorize the construction of transmission lines within transmission distance from the place where generated, and to interconnect with other systems.

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The Secretary of the Treasury has no authority to purchase the securities issued under this section.

On August 31, 1935, the original Act approved May 18, 1933, was amended, but instead of rewriting Section 15 of the original Act, a new section numbered Section 15 (a) was added, which provides that with the approval of the Secretary of the Treasury the Corporation is authorized to issue bonds not to exceed in the aggregate \$50,000,000 outstanding at any one time, which bonds may be sold to obtain funds to carry out the provisions of Section 7 of the amendatory act, which becomes a new Section 12 (a). This is for the purpose of permitting the Board to extend credit for a period of not to exceed five years to States, counties, municipalities and non-profit organizations, to acquire, improve and operate under certain conditions existing distribution facilities and incidental works, including generating plants and interconnecting transmission lines, or interest in such facilities, incidental works and lines.

Bonds to be issued under this section may be sold upon such terms and conditions and in such manner and amount and at such prices as the Corporation may prescribe, with the approval of the Secretary of the Treasury, provided that the interest rate shall not exceed 3-1/2 per cent per annum, nor shall the bonds be sold at such prices as to afford an investment yield of more than 3-1/2

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per cent. This section authorizes the Secretary of the Treasury to purchase these bonds in the same manner and under the same terms and conditions as bonds of other corporations, such as the Reconstruction Finance Corporation, Commodity Credit Corporation, etc.

I conferred today with representatives of the Tennessee Valley Authority and they advised me that negotiations were now going on for the acquisition of certain electrical properties in the Tennessee Valley area and that these negotiations should be concluded within the next thirty to sixty days, and when concluded it would be necessary for the Authority to acquire, through bond issues under authority of Section 15, a maximum sum of about \$3,000,000. I understand that this matter has been discussed with the President and the matter raised at that time as to whether he should seek an appropriation of an amount necessary to make this purchase or whether the funds should be raised through the sale of TVA bonds. He expressed a preference for the bond sale because of the Congressional investigation of TVA, and the Tennessee Valley Authority is now seeking to work out with the Treasury the necessary arrangements for the disposition of such bonds.

I was also told that there is in process of negotiation the acquisition of the Commonwealth Southern which may involve as much as forty to fifty million dollars. If this property is acquired under Section 12 of the original Act, it would exhaust the bond-

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issuing authority of the Authority under Section 15. The bond issue of \$3,000,000 discussed will fall under Section 15 where the authority is very limited. Here the Authority can only issue \$50,000,000 in bonds and even if it issues a short-term security and then refunds that short-term security into another, it will exhaust its authority to that extent. In other words, it has no ~~reversing~~ fund as it has under the authority contained in Section 15 (a). Also, Section 15, as heretofore indicated, accords to the bonds issued thereunder all the rights and privileges of the old Panama 2 per cent bonds, which were fully tax exempt and had the national bank note circulation privilege.

I told the representatives of the TVA that the Secretary of the Treasury had no authority to purchase any securities issued under Section 15, and that in view of the fact that any securities issued thereunder were accorded all the rights and privileges of the old 2 per cent Panama bonds, I had some doubt as to whether the Secretary of the Treasury would approve the issuance of such securities for sale on the market. I told them that I could not, of course, speak for the Secretary, but in view of the fact that a policy had been established of eliminating from the market all bonds bearing the circulation privilege, I could not see how the Secretary of the Treasury could permit the issuance of a small sum like this with such rights attached.

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I told them that there seemed to me to be two courses open. One is to confer with officials of the Reconstruction Finance Corporation to see whether the RFC could under its broad authority purchase these securities. I told them that even in this case I was quite certain that the Secretary would request the RFC not to sell such securities on the market. The other course open to them, and the one which I favor, is to get an amendment to the TVA Act which would repeal Section 15 of the original act and amend Section 15(a) of the amendatory act by changing the amount of bonds to be issued thereunder from \$50,000,000 to \$100,000,000 and expand the purposes for which the proceeds of the sale of such bonds could be used to include sections of the Act other than Section 7. This would give the Corporation \$100,000,000 bond-issuing authority, which is what it has at the present time; would make it a revolving fund, which is very desirable for refunding purposes; and would give it the flexibility of permitting it to come directly to the Treasury where small amounts are involved and then paying off what the Treasury holds through an open market financing.

They agreed that this was the more desirable course, but in view of the investigation of the TVA now going on in Congress, they were in some doubt as to whether it would be the proper course to pursue at this time. They were to study it over the night, consult with Mr. Lilienthal and let me know tomorrow or Monday.

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If the Act is not amended as suggested above, and if the RFC has authority to purchase these securities, my recommendation is that arrangements be made with the RFC for it to purchase the securities directly from TVA and that the Secretary have a very definite understanding with that Corporation that it will not sell these securities to any outsider. While the bonds must contain a provision according them full tax exemption and circulation privileges, they would be ineffective so long as the securities are held by the RFC.

swB

Cabinet, June 10, 1938

When I handed the President the New York Times business index, he seemed quite disturbed that the index was off again.