

DIARY

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PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 22, 1938, 5 p.m.

NO.: 983

FROM COCHRAN.

This afternoon at four o'clock I visited at the Bank of France. The French control had gained a large amount of foreign exchange yesterday afternoon, but had lost about half of it yesterday and the remainder today. Therefore for the two days' operations it is about even.

My friend told me that the unfavorable turn in the market resulted partly from the reminder through a press report that on August 5, a maturity of 2,278,000,000 francs of Bonnet one-year bonds will face the Government.

A denial which was apparently inspired by the Ministry of Finance has come out today stating that when those bonds mature the Government will seek no new money. However, the market anticipates some sort of consolidation or conversion operation rather than reimbursement of the loan.

According to my contact up until yesterday there had been continuing demands for foreign exchange with a resultant "nibbling" on the control's reserves. The volume of francs available for investment in government securities and otherwise is contracted, because francs are converted into foreign exchange for meeting the deficit in the trade

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trade balance,repaying government railway obligations  
abroad and for such movement as there may be from this  
currency into gold for hoarding purposes.

END SECTION ONE.

BULLITT.

EA:LWW

PARAPHRASE OF SECTION TWO OF TELEGRAM NO. 983 OF JUNE 22,  
1938, FROM PARIS.

In my friend's opinion, the last denial of Secretary Morgenthau had by its positive and formal character stopped dollar devaluation rumors. There is still some tendency, he believes, to fear all currencies. This is evidenced by the important purchases of gold coins even though there has been a let up in the demand for gold bars at London.

I had a talk with the Governor of the Bank of France, Fournier. Fournier said he knew there were reports in the press that further shipments of silver from Loyalist Spain were crossing France, presumably on their way to the United States. However, he said he had no knowledge that Paris is involved in such transactions or that Spanish silver coins are being melted here ~~far~~ into bars for shipment to the United States, as was reported in a recent issue of the London STATIST. On June 29 he expects the French Court to hand down a decision on the question of the Spanish gold which the Bank of France is holding. In 1931 it will be remembered the Bank of Spain borrowed French francs from the Bank of France and for these francs pledged gold in France. Since that time the French franc has been devalued over 50 percent. Therefore there remains, after repayment of the credit last year, almost one-half of the pledged gold. Demand for this gold has been made by the Bank of Spain at Barcelona; the Bank of Spain on Burgos has sought to restrain the Bank of France from delivering the gold.

The Bank of France Governor remarked that the majority  
of

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of the directors and of the branches of the old Madrid Bank of Spain are with the Bank of Spain of Burgos. He also made reference to the recent court decision in London to the effect that there is still only one de jure government in Spain, but that there was also a de facto authority which controlled a large part of Spanish territory. Under the circumstances, Fournier said he would not be surprised if decision should be reached by the French court that it is incompetent to judge in the premises.

END OF MESSAGE.

BULLITT.

RECEIVED  
 JUL 23 1944  
 THE NATIONAL ARCHIVES  
 COLLEGE PARK, MARYLAND

EA: LWW

## GROUP MEETING

June 22, 1938.

9:45 A. M.

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

H.M.Jr: Bell, I read in the papers, that Home Owners Loan got out a forty million dollar issue. The Tribune says that they are smarter than we are because they are selling at issue point, but no one told me they were going to get out forty million dollars.

Bell: Didn't Mr. Taylor tell you?

H.M.Jr: No. The first I saw about it was in the papers.

Bell: He's been handling it a couple months with Delano. I thought he brought it up at staff meeting some time ago, when he said around the twenty-second of June they were going to have an issue.

H.M.Jr: But no one gave me the rates; they must have decided on the rates after Taylor left.

Bell: No.

H.M.Jr: Well, anyway, so that I keep you informed, Jones was fussing here yesterday; I refused to give him a rate, because I couldn't figure it. He's going to sell fifty million dollars to finance Southern California Water Districts - four per cent, fifty year bonds, and he has the Chase Syndicate - as of yesterday they bid him a hundred seven. Fifty million dollars, with an option taken on the twenty-five.

Bell: Are those his loans or P. W. A.? You know?

H.M.Jr: I am not sure. There's about a hundred fifty million dollars there. I didn't have the .....

Bell: Must be his.

H.M.Jr: I didn't have the facts, and I don't know how to figure those things anyway. I just don't have appeal for it.

Bell: Do you want me to get the dope on it, in a memorandum?

H.M.Jr: I think if you will call them up - I'll tell you who's handling it for them ....

Bell: Mulligan.

H.M.Jr: Mulligan is handling it for them.

Bell: Mulligan.

H.M.Jr: I'd do it as soon as you get out. He said he was limiting the Syndicate to two forty-five.

Bell: Did he say anything about doing some financing on his own account?

H.M.Jr: No. I ---

Bell: I suppose Taylor - he told you, informally, of giving them a hundred million dollar credit and we'd operate with Commodity Credit the same as we operate with United States Housing Authority up to a hundred million.

H.M.Jr: I haven't gotten in on any of that.

Bell: And along in August - between August 15 and 25, they'd get out an issue between a hundred and a hundred and twenty million.

H.M.Jr: They couldn't pick a worse time. When you talk to Mulligan, tell him I think it's a terrible time to do it, and if they are going to do it, they'd better do it right after the Fourth of July. Fifteenth to twenty-fifth of August -

I suppose there isn't a Government bond man in the city.

Lochhead: It's pretty slack then.

Bell: At the present time there's about fifty-eight million dollars in cash, and when the deficiency bill is signed, they'll get million dollars in appropriations.

H.M.Jr: I'd rather give them the money and let them come along after my financing.

Bell: Wayne was trying to get them in before or after and he thought it would be a little late.

H.M.Jr: Tell Mulligan for me it ought to be from the first to the fifteenth of July, or after the fifteenth.

Bell: Yes, I'll call him.

H.M.Jr: Mac?

McReynolds: Will you sign this letter to Traynor, accepting his resignation? (H.M.Jr. signs letter.)

This is a letter I prepared, to be signed for General Wood. There isn't any question in my mind about the answer on that. (Inaudible - speaking to Mrs. Klotz.) ..... double-crossed him.

H.M.Jr: Double-crossed who?

McReynolds: Double-crossed Ickes, while he was working for him.

H.M.Jr: Say, I think I've heard of that fellow. Wasn't he one of - who was one of Ickes' Chief Investigators?

McReynolds: Glavis - but he worked independently.

Gaston: What's his name, Mac?

McReynolds: Jamie.

H.M.Jr: Hasn't he got quite a history?

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McReynolds: Oh, quite a history. He got in a lot of trouble with those fellows up there.

H.M.Jr: Sure.

McReynolds: He's only applying for a supervisory job. He said he got a leave of absence.

H.M.Jr: Hasn't that fellow got quite a reputation - that Jamie?

Gaston: I, indistinctly, remember quite a story about him.

McReynolds: You wanted Graves here to talk about Bernie today. I don't think it's fair, and Harold doesn't think it's fair, with Bernie away. He had considerable interest in that bank up there - considerable loans out; when the bank went out it broke him, and he came in to see me and asked me whether I thought he ought to go into bankruptcy. I told him I didn't think so, but that it was his own affair, of course, but that I thought he could work out something with them. He worked out an agreement with them, on which he was supposed to pay forty dollars a month to clear himself on a reduced amount. He hasn't kept that forty dollars a month up. That's what Diggs is hollering about. Graves has had Bernie out on the west coast for some time, and all he can do now - I've got a long report from him, but he has no papers to refer to, but I don't think you ought to act on it until Bernie gets back. Graves says in any instance, he is willing to get Bernie in and kick him in the face if necessary, and make him clear up his agreement up to date, and make him pay up his arrears.

Graves: I can take care of that with Bernie, I am sure.

McReynolds: I don't think there is anything in it except an indication of lack of good faith and his failing to keep up his forty dollars a month payment.

H.M.Jr: Now listen! Of all the people in the Treasury, both of those men ought to see that fellow - better than seeing his wife - you are going out there, and I am not going to sit around here and

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wait for a month. You take the papers out with you.

Graves: They are his private papers. I wouldn't have access to them.

H.M.Jr: Then he'll have to take leave of absence and come back. I am not going to wait. I don't think we should have waited two days. If necessary let him take his leave of absence and come back.

Graves: I'll see him next Tuesday at San Francisco.

H.M.Jr: I want this thing straightened out right away. Of all the people - if there's anybody in the Treasury under personal obligations to me, to keep his record clean, it's Bernie. There's nobody that owes it to me more than Bernie to keep his record clean. God, what I went through for that fellow. I don't want to fool around with it, Harold.

Graves: I'll take care of it as soon as I - next Tuesday.

H.M.Jr: As long as Mac knew he owed us money, and all that, I wouldn't - I mean, I just - I wouldn't - there is no - there's no reason why he shouldn't keep his payments up. Will you - the two of you .....

McReynolds: It seems ridiculous he should have let it go. I don't know what arrangements he made with the bank. The only thing he talked to me about was whether he should go into bankruptcy. I told him it was his business, but that I didn't think it necessary.

H.M.Jr: Between the two of you, I want it cleaned up. Get an air mail letter back to McReynolds and give it to Upham so he can give it to Diggs.

Graves: Yes sir.

McReynolds: All right.

H.M.Jr: O. K., Mac?

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McReynolds: You wanted some information on that Railroad Retirement bill.

H.M.Jr: Yeah.

McReynolds: Now that bill does three things. A report's going to the Budget - sent over there - it's just a resume of the report that we sent up to Congress when they were considering the bill, and Social Security's given you a report, and Labor Department has given you a report, all of the same general respect. The bill takes the Railroad Retirement group - I don't mean retirement, I mean unemployment group.

H.M.Jr: Unemployment group.

McReynolds: Unemployment insurance end of it - it takes it out of the Social Security Board entirely. It takes the collection of the taxes out of Internal Revenue, out of Treasury. They collect them directly - the Railroad Retirement Board does, and they - it takes it out of the state system entirely. They - the state doesn't participate at all in the expense of this thing. It makes it a Federal unit of the Unemployment proposition for railroad people along; makes a special group of them, and it puts them under the Railroad Retirement Board, and takes out a preferred group from the general group and they - it just doesn't make sense.

Bell: The Board will do everything - collect the taxes, invest them, pay it out to the individuals when they are unemployed.

H.M.Jr: I thought we did have a special group.

Bell: Retirement, but not for the unemployment organization. But they are not separate so far as the taxes are concerned. Internal Revenue collects the taxes.

H.M.Jr: This makes them separate and puts them under the Retirement Board?

McReynolds: They collect the taxes - it takes it out of the Treasury. That's never been done before. The

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Treasury has always collect<sup>ed</sup> whatever taxes were due. They propose to collect their own. There is another thing; they are permitted to use these taxes they collect, not only to pay for investments, but on a per centage basis to pay their administrative expenses, so they don't have to have an appropriation. That is the most vicious part of it. They've got no supervision of Congress, or anybody else over the amount of administrative expenses.

H.M.Jr: Can they make campaign contributions?

McReynolds: It's crazy - absolutely crazy. It sets up the separate - it is the first precedent for relieving the states entirely of the expense of your unemployment insurance. It is the first step toward Federalizing that whole project.

Bell: I think it picks up all the bad features of any bill introduced in Congress and incorporates them in this one bill. It's a step in giving the Railroad Boards higher compensation than any other group in the country.

McReynolds: That is the reason why they want it.

Olipphant: It's also a step of breaking up the whole system along industrial lines, organizing the old Social Security program instead of one giant organization, breaking it up into industry. There is reason to expect - no reason why Communications should not come up next year and ask for Communications Boards, taking in telegraph and telephone .....

H.M.Jr: And each one will try to get a little more than the other got out of the Federal Government.

McReynolds: It's the most expensive thing that can possibly be contemplated.

H.M.Jr: Now, Dr. White, you can have your say.

White: Well, I am not familiar with the detailed merits of the bill beyond what is probably obvious. In the first place two of the leading authorities in the country on unemployment insurance - men who have

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studied it abroad and here, E. M. Burns, of Columbia, I know personally; and Brown, of Princeton, are strongly in favor of the bill, for numerous reasons, but I wouldn't pretend to know enough about it to comment on it. I am sure they have made a more careful study of it than I have.

McReynolds: Are you sure about Brown?

White: Yes. He's strongly in favor of it. I think he's come out in the hearings. Then, I would say that the railroads have always been made a separate case; that the states, I think most of the states, either all or almost all of the states, have provisions in their unemployment insurance to make a special exception of the railways, and there are special circumstances that apply to the railways that I think do not apply to any other industry, although much of what you said probably is true. But I wouldn't tend to comment on the merits of the case; it is only this aspect of it that I thought might be raised. That bill was passed unanimously by both houses.

Bell: But, during the closing days and the rush of the session.

White: It's not only that, but I think that most of the - I happened to glance through the Congressional debate and I noticed that a great many of the Republicans went out of their way to speak in favor of it - so as to go on record in favor of the bill, for purposes of their own, to be sure, but none the less, it does indicate that before anyone goes out on a limb to disapprove that bill, to ask the President to veto a bill which has been unanimously approved in closing sessions, which indicate, you see, that Congress will not have a chance to pass it over his veto, which they would have done in a minute had it been done during the time Congress was in session, smacks very largely of dictatorship if anything does.

Upham: I don't like "dictatorship."

- White: I am just raising various things that occur to me. I am not going into the merits of the bill because, as I say, if you like it, I'll be glad to examine it from an economic basis, but I am merely setting forth the fact that there must be some merit in it because of the fact these two leading authorities have come out for it, and the further fact that it has always been recognized in text books on unemployment insurance as being a desirable move. One of the reasons is the model they have set up is far superior to that of the Social Security model. It is much simpler; the administration is cheaper, and the conclusions, as I say, of those who have examined foreign systems, are that this is a much better way of handling it.
- H.M.Jr: Well, ....
- Bell: What do you mean, "administration is cheaper?"
- White: The administration is less costly, but, for example, it is already breaking down in certain states; it is held - I don't know about the merits of this at all - I am merely repeating what I know cursorily. I am presuming it will, (A) cost the states a good deal more than ten per cent, and the Treasury will have to dig into - make good the added administrative costs; (B) that because of the implication it may cost them less than ten per cent to administer, except in unusual times, in which case they will have piled up a reserve to take care of the additional expenses, and I don't think the President will veto it anyhow. Why recommend something which he may not veto? I'd even go farther and say probably - I am almost sure he won't veto it, particularly when there is a question - when you've got a strong position as to the merits of the case. That is my sole thought.
- H.M.Jr: Out of this, Mac, I wish you'd call up Professor Brown at Princeton.
- McReynolds: All right.
- White: And then if you want to get more than one opinion - point of view, E. M. Burns, of Columbia. There's

another thing - that Board - you were a member of the Economic Security Board, weren't you?

H.M.Jr: Originally, yes.

Bell: That Board was studying old age reserve.

H.M.Jr: Let's talk up to Brown, who impressed me as a very able fellow, and Chairman of the Advisory group.

George?

Haas: I don't know whether you want to have any more comments on that or not.

H.M.Jr: Go ahead.

Haas: Just very briefly, I think that Harry, from the economic standpoint, may be considering a bill in an entity, and an economist may look at it separately and say that the arrangements that this bill carries have advantages and improvements over the general Social Security Act, but the big objection, as I take it, that Mac makes, is the additional administration of the whole problem, of putting this - this organization is out to collect its own taxes. Another administrative disadvantage, which the precedent this bill will set, I think, is where the argument comes in on the thing. I think there is a possibility of this setting a precedent which even though in itself it might be an excellent arrangement for a Social Security provision for a group of people, it may set a precedent which will eventually work in the breakdown of the whole Social Security work.

White: May I say a word?

H.M.Jr: Sure, go ahead.

White: I would be inclined to say just the opposite - that if something of this sort isn't done, the thing may break down. The application is in danger, and the railroads have always been a peculiar case, and the railroads is one case where the Government has wanted to maintain as much control as possible. Therefore, they are in

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a justifiable exception - they are a justifiable exception, but the important thing that I want to get across is merely that if you are going to investigate the case further on its economic merits .....

- H.M.Jr: I want Mac to find out where Brown stands on that.
- McReynolds: Miss Dewson was in on this thing last week.
- H.M.Jr: Molly Dewson - she's like every other bureaucrat, she doesn't want to lose something.
- White: That is why a good deal of this originates with Bigge over at the Security Board.
- H.M.Jr: Let's find out what Brown thinks.
- McReynolds: I'm willing to say that the most of the activity, looking toward the preparations for reasons of disapproval is chargeable to me personally, because the minute it got on the ticker - when it passed the House - I called Social Security Board and told them to get busy.
- H.M.Jr: I just don't know Mac these days, do you (Mrs. Klotz)?
- Oliphant: From the legislative standpoint, I'd like to make one remark.. That is from the legislative standpoint. Accept the objective that White outlined, and White's right - one of the biggest things urged in its favor is that the general Social Security program is administratively so big it is impossible. The unfortunate thing about it is that this group went off into a room and drafted this bill, even though we wanted to separate the railroad thing it ought to have been drafted by everybody who saw the whole picture. That is, even though I favored the bill, I wouldn't favor this bill until the thing has been reworked out. It may be a good case for separate administration, but no good bill for separate tax collection. So that, as legislation, I think it is untimely.
- H.M.Jr: Well, I'm interested in this discussion, because it brings up - but it's kind of late, but, as I say, I'm going to ask Mac to find out what Brown has to say.

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Bell: Every report that the Bureau of the Budget made on it was "not in accord" with the President's program, and with the consent of the President. I took it to the President personally, and sat down at his desk, and he said, "Every report that comes across your desk, hold it not in accord." I did that after Jimmy Roosevelt told Social Security to go easy on it.

H.M.Jr: You mean Jimmy wants this.

Bell: I mean, politically, I think he was trying to get the Administration to go easy on it.

H.M.Jr: I see. That's all very likely.  
All right, Mac, anything else?

McReynolds: I haven't anything else. I've got a case here that you wanted to talk to me about, about an individual that you sent in to me some time ago.

H.M.Jr: (Looks at memo.) Can we or can we not?

McReynolds: (Nods "No.")

H.M.Jr: Well, we'll have to get a new doctor.

McReynolds: He's working there and he can continue to work there, but it's just a routine.

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

Bell: I have nothing.

H.M.Jr: (Speaks aside to Mrs. Klotz.) (Nods to Mr. McR.)

McReynolds: That's all. We'll take care of that.

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

Bell: I have nothing.

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

Lochhead: London gold market is settling down to a normal market now. France managed to gain yesterday and again this morning. Japan is making another shipment of gold, the first one in about a month,

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and Sweden is starting a new series, shooting for that goal of seventy-five million dollars.

H.M.Jr: You gold boys - Gold Dust Twins - the Minister of Siam is coming down on the twenty-ninth to see me.

Lochhead: That's not gold dust, though.

H.M.Jr: Polish up on your Siamese.

White: Siam is extremely strong - but he left himself with only one argument as to why he wanted to sell silver.

H.M.Jr: That is, .....

White: Because he is a little dubious about the future of silver.

Gaston: It's a pretty good argument, I'd say.

H.M.Jr: Well, anyway, polish up on your Siamese, will you, boys?

Gibbons: You've heard the story about when the King of Siam was here and Al Smith took him up on top of the Empire State Building. Smith was telling him all about it, and showing him the vastness of everything from there, and the King was just showing no enthusiasm at all. Finally Al said, Good God, your Majesty, aint you impressed?" He said, "No, Excellency, the white elephant is the emblem of our country, and the white elephant is the thing we adore over there. (Laughter.)

H.M.Jr: A good story.

Gibbons: I've got nothing else to report.

H.M.Jr: That is a good contribution. Harry?

White: Mix gold with silver - a few other things here. One here is the French-Indo thing. .... - depreciation of the franc, and there is a possibility we will get that dumped. They are beginning to hoard it for export. It isn't important, but it's interesting. It's another country off the silver coin.

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Then, we heard from Mexico - to be sure it's a month late before we get our information - but this chap down there gave many reasons why he expects the peso to drop. Merely want to remind you that if it drops to the melting point, we can get a lot of it, but more than that, apparently the Mexican government is collecting what is equivalent to our silver certificates, in order to release the silver which is behind it, which they probably will sell, to get the foreign exchange. Although they are coining silver, on the other hand, they are reducing the amount of silver in circulation.

Whether his prediction is sound or not, I don't know, and things are getting worse, and we are going to have that silver dumped, and another country will be off the silver coin. Since that affects the Treasury definitely, I might remind you of that.

The third deals - there is that - this committee on independent agencies to consider the question of cooperation with American Republics, which Wayne Taylor is on. He wasn't present at the last meeting, and they are having another meeting this week. I spoke to you about Public Health. They are taking care of that, but they also have a memorandum prepared as to how the Treasury Department, through its various agencies, can cooperate. If you want to turn that report over to somebody to take care of it ....

H.M.Jr: Let Gaston have that.

White: Do you want anybody to attend those meetings, or let them just slide?

H.M.Jr: You'd better go. Anything else?

White: That's all.

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

Upham: You want the same people here at two thirty who were here yesterday?

H.M.Jr: (Nods "Yes.") And if possible, let everybody see the revised set-up.

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Upham: Yes. Well, there .....

(Mrs. Betts brings in chart for H.M.Jr.)

Upham: There are some inter-agency conversations going on this morning. Some of them seemed to have discovered they agreed to some things that are illegal, yesterday.

H.M.Jr: That is their bad luck. My lawyer was present yesterday and as we went along he gave each item his blessing.

Oliphant: Who, particularly, raised the legal point?

Upham: I think all three of them have raised one point, which concerns what you do with the impairment of the capital of the bank - whether a certain item can be used.

H.M.Jr: Keep Oliphant informed, because I want an easy meeting this afternoon, because I can't take more than one of those a week.

Upham: I expect a telegram to you from White. The F. D. I. C. wrote a letter not long ago to the National Unit of Economic Research, suggesting a white-collar project - the National Bureau to do the work on bond ratings, which fits into this investment regulations, and the National Bureau has now asked the Comptroller to cooperate with the F. D. I. C., and the Bureau, and the Federal Reserve in that project.

H.M.Jr: Wesley Mitchell is our pal; he comes here once a month, you know that.

Upham: Yes, yes surely. But you have no objection to the Comptroller cooperating on that.

H.M.Jr: No, but I'd like Haas to know about that, because Mitchell is down here about once a month. Well, drop in around a little after two and let me know how you're getting along.

As near as I can tell the boys did keep their mouths shut after they left here yesterday.

Upham: Apparently. I saw nothing.

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H.M.Jr: George.

Haas: I've just got one minor thing, as a matter of information, if you don't already know about it. The President sent a letter to the Chairman of the Statistical Board, and I'll read a couple sentences:

"I am concerned over the large number of statistical reports which Federal agencies are requiring from business and industry."

And it goes on .... The next paragraph:

"Specifically, I am interested in the approximate number of financial and other statistical reports and returns regularly required from business and industry and from private individuals by agencies of the Federal government under existing law, and the authority under which each is collected, specific indications of the extent and kinds of duplication existing among them and the diversity of accounts and records which they necessitate."

He says finally:

"I should like to have the complete report of the Board by January 1, 1939."

That includes all the tax forms and all that sort of thing, so they will be around in the Treasury on that - several people - Mac, and Harold Graves, and so on.

H.M.Jr: All right. Maybe they will improve them.

Haas: Let's hope so.

H.M.Jr: What else?

Haas: That's all.

Bell: How about the receipts? I thought you were going to bring up that this morning.

H.M.Jr: Come on boys, let's go. What about receipts?

Bell: Well, I've asked for an estimate for revenue in 1939, by the twenty-fifth of this month. George said he talked to you yesterday.

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- H.M.Jr: Well, I think for us to give one until after the Fourth of July is plain silly.
- Bell: The President is leaving on the sixth, and that means I can't get out a summation until late in August.
- H.M.Jr: Listen, have a heart! We're right in a period now - give you an estimate - I mean, give me until the week after the Fourth of July and I may be able to give you something that is worth something. Now it wouldn't be worth the paper on which it is written.
- Bell: It wouldn't change much.
- H.M.Jr: It might.
- Gaston: Let the President see a few more rain drops.
- H.M.Jr: I saw him last night, and said, "Did you use Henry's version?" He said, "No," - he didn't.
- Oh Dan, the President doesn't leave the continent of North America until the sixteenth of July, so you could get it to him.
- Bell: I suppose so, but it rushes me a little.
- H.M.Jr: I mean, it makes an awful lot of difference to me. I could get - give you a better version than than I could this week. Put it on me; I'm willing to take it, but give me until after the Fourth of July.
- Bell: Well, the press is expecting it.
- H.M.Jr: You can get it to him before the sixteenth. That is very confidential. But I really wish you would give me until after the Fourth. Is that all right?
- Bell: Well, you've got the whip-hand; I can't go until you get your figures.
- H.M.Jr: I know. I haven't done it on that basis. If you say you've got to have them, we'll give you a figure this week.

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Bell: I haven't got to have it; I wanted to get it out right after June 30.

H.M.Jr: If these rain drops don't stop I might be able to give you a little more cheerful picture. If I've got to give it to you this week it will be a pretty black picture. If you say to me you've got to have it, you can have it.

Bell: I haven't got to have it; it all depends on the President. He may want it.

H.M.Jr: Is it all right if I take the responsibility - I mean ....

Bell: Yes, I think we ought to talk to him and see what he wants to do.

H.M.Jr: I'll talk to him Friday when I see him.

Harold, you are going out to California to set up this West Coast - the whole business?

Graves: Yes sir.

H.M.Jr: When are you going to start, in New York?

Graves: The first of August.

H.M.Jr: And in Chicago?

Graves: The first of September.

H.M.Jr: Getting full cooperation?

Graves: Couldn't possibly be better.

H.M.Jr: When you are in San Francisco, I wish you'd try something you've never done before, and that is to call on the newspapers - didn't we used to do that in the alcohol days? Will you talk it over with Gaston?

Graves: Yes, I'd be very glad to.

H.M.Jr: I wish you'd call on the publishers and explain to them what you are doing out there. Is there anything you want to ask them?

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Graves: Nothing, thank you.

H.M.Jr: Anything you want to contribute?

Graves: I think I've said the most important thing, and that is, we're getting the finest cooperation from the Commissioner and his people in what we're trying to do down there.

H.M.Jr: O. K. Talk to Gaston about that.

Graves: Yes, I will.

H.M.Jr: Mac, I don't suppose it would be necessary for Herbert to go along?

McReynolds: It may.

Gaston: Very desirable, but not essential.

H.M.Jr: What do you have?

Gaston: I got a telegram from the Committee for the Nation.

H.M.Jr: Yes, I read about it.

Gaston: I was just going to acknowledge it and tell them what they say isn't so.

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

Oliphant: You asked me for a memorandum on grade crossings. I sent that in to you yesterday. I had some typing trouble on it; otherwise we'd have had it at 9:30 yesterday.

H.M.Jr: Yes.

Oliphant: Yesterday, mention was made about Ed Foley going around on the Hill.

McReynolds: Well, Herman wanted to report, apparently, there was no - there was no verification of this business of Ed going up on the Hill, because he and the Senator from New York were not on friendly

- 20 -

terms, is all I know about it.

Oliphant: Well, I made further inquiry and satisfied myself.

H.M.Jr: O. K. Now, Haas, you're going over with me to Wallace's. We leave here about five minutes past eleven.

June 22, 1938.  
11:04 A.M.

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Operator: Just a second.

H. M. Jr: Hello.

Operator: Calling Secretary Morgenthau.

H. M. Jr: Hello.

J<sup>(M)</sup>: Hello, Henry.

H. M. Jr: Hello, Jesse.

J: How are you?

H. M. Jr: I'm fine.

J: Well, I caught a 7 o'clock train last night and I'm in New York so I won't join you this afternoon.

H. M. Jr: Well, that's all right. What job -

J: I wondered why you're having another meeting, unless --

H. M. Jr: Because, to give them these that we've written. I want them to see them so they won't say afterwards well, they didn't know this or that was in the thing.

J: I see.

H. M. Jr: See?

J: Of course, you're not going to do it, but I wouldn't let them get in to any more arguments.

H. M. Jr: I'm not going to. I've told them that already.

J: And, so they'll keep you there all afternoon?

H. M. Jr: No they won't.

J: I mean they would if you'd let them.

H. M. Jr: No, no, but I just didn't want them to later on say well we didn't know that was in and then kick the traces.

- 2 -

J: That's all right, I'm for it. I think it got very good publicity.

H. M. Jr: Excellent. Excellent.

J: So I just didn't want you to let them worry you any more about it.

H. M. Jr: No. They're not going to.

J: All right, fine.

H. M. Jr: What are you going to get, 107 for those?

J: Most I can get. I think that's well settled, don't you?

H. M. Jr: Well, I don't know whether 106, 107, or 108 is good because I haven't figured it, but I think it's a good time to sell bonds.

J: Yes. Well, that's the most I can squeeze them up, Henry.

H. M. Jr: Well -

J: I think maybe - I'd hate like the devil for them to go down, don't you see?

H. M. Jr: Well, as I say, I haven't studied the market, but I can tell you it's a good time to sell.

J: What I'm really doing - what I'm - if I do it -- I haven't started yet -- I'm still negotiating -- I told them that we would sell them, that is, if they're making me a definite written proposition which I will receive in the next hour.

H. M. Jr: Yes.

J: And that is of 107 and they agree in that they will re-offer them as not exceeding 109.

H. M. Jr: I see.

J: That limits me to two points, you see.

H. M. Jr: O. K.

- 3 -

J: And that's pretty fair protection.

H. M. Jr: All right, Jesse.

J: All right. Thank you very much.

H. M. Jr: Thanks for the help.yesterday.

J: Well, I was delighted. I'm very much pleased with it.

H. M. Jr: Right.

J: Goodbye.

H. M. Jr: Goodbye.

June 23, 1938.  
10:22 A. M.

H. M. Jr: Hello.

Operator: Mr. Madison. Go ahead.

H. M. Jr: Hello.

M: Hello.

H. M. Jr: Mr. Madison.

M: Good morning, Mr. Secretary.

H. M. Jr: Good morning. How is that issue of those water bonds going?

M: Funny thing, Mr. Secretary, I can't get any real dope on it yet. The early expectations were that it was real good but I can't find enough to hang my hat on  
I'm going the rounds now to see if I can't get some information. Up till now I haven't been able to get any.

H. M. Jr: Will you give me a call if you get any?

M: Yes, I'll give you a call.

H. M. Jr: I thank you.

# Spending Act Signed, President Minimizes Slump; to Go on Radio

**Asserts '38 National Income Will Be 5  
Billion Above Spring Estimates;  
Plans Fireside Chat Friday.**

**SEES PWA UNDER WAY IN 60 DAYS;  
APPROVES 45 BILLS, VETOES BUT 7**

**Rail Chiefs Call Unions to Pay Parley;  
July 1 Cut Delayed; Borah Urges  
Slash in Bond Interest.**

## On the Business Fronts.

*Business is not and has not been as bad as many people have believed, President Roosevelt said yesterday, and the prospects for business this year have definitely improved.*

*Railway executives called for rail union leaders to meet with them in Chicago June 28 to negotiate toward a settlement of the dispute over the proposed 15 per cent wage cut.*

*Senator Borah called for rail bondholders to accept a drastic slash in interest to assist the roads in their present financial difficulties.*

*Securities were given a brisk boost in the most active stock trading in 12 weeks as Wall Street took a more hopeful view. See Page 22.*

*The Business Advisory Council of the Commerce Department has begun a series of meetings with business leaders, designed to reassure them the monetary investigation will be conducted on a high plane. Page 21.*

## Spending Bill Signed.

*By the Associated Press*

Hyde Park, N. Y., June 21.—President Roosevelt signed the \$1,750,000,000 lending and spending bill today and asserted that business is not and has not been as bad as a lot of people believed it to be.

At the same time he announced he would deliver a fireside chat to the Nation from Washington at 9:30 p. m. (E. S. T.) Friday.

He told his press conference the talk would be general and would be broadcast over all major radio networks.

Informed persons expected him to discuss, among other things, the lending-spending bill and probably other phases of his program enacted by Congress.

## Commerce Report Noted.

The President gave as backing for his statement on business a department of Commerce estimate that the national income for this year would be slightly above \$60,000,000,000. Earlier Government estimates were \$55,000,000,000.

The President was asked if he thought business had scraped bottom in its downward trend.

On his request, he let the following reply be quoted directly:

"As somebody remarked the other day, there have been a few rain-drops coming from the heavens, and possibly they will be followed with much-needed shower."

He parried a question as to when the shower would come.

## Work to Start in 60 Days.

With a sheaf of papers in his hand and notes, he said:

First—Dirt would fly on \$350,000,000 of Public Works Administration projects within 60 days, now that the big \$1,750,000,000 bill has been signed.

Second—The prospect for business during 1938, based on national income figures for the first three months of the year, was definitely

improved. The President added his assertion that business is not as bad as some people believed applied to both industry and agriculture.

Third—He had signed 45 bills and vetoed 7 since coming to his Hyde Park home, and would set on 10 more before he went to bed tonight, but still would have 37 to pass upon after that.

Mr. Roosevelt also took occasion to say that referenda to the last Congress as a \$12,000,000,000 Congress were ridiculous in view of the fact that a large portion of the money appropriated was for loans which the Government would be repaid.

Moreover, he added, the sum under discussion represented in part authorizations for which no appropriations had been made.

On international affairs, he asserted that he could say no more than that he had talked of general international affairs with Joseph P. Kennedy, Ambassador in London, who visited him today.

Asked whether Kennedy's visit made him cheerful, the President replied that it made him feel the same way he had felt for the last two or three years. The general international picture, he said, was not particularly a bright one, that all we could do is hope for the best.

Mr. Roosevelt's very busy day included receipt of a \$1,010,000 check for use of the National Foundation for Infantile Paralysis.

Mr. Roosevelt said he wished to call attention to the Commerce report's disclosure that 1937 national income—the income of all the people who earn money in the United States—was slightly higher than had been estimated last fall.

**47 Income 69.8 Billion.**

He said the report showed this income actually was \$69,800,000,000, compared with estimates of between \$66,000,000,000 and \$69,000,000,000.

The document also reported, the President said, that while the average wage of the full-time employed person was down last year 9 per cent below the 1929 average, the cost of living index in 1937 was 15 per cent below 1929.

That, he declared, was another way of saying that prices had not lost a wage-earner's purchasing power in 1937 as in 1929 and, therefore, the country was relatively better off in that respect.

Then, after quoting the new figure on national income, he said the figure for 1937 would have been \$72,000,000,000 instead of \$69,800,000,000 if it had not been for the slackening of business toward the end of the year.

**Reads Relief Statement.**

He began reading slowly to the perspiring newsmen a two-page statement on the finally approved relief bill.

Mr. Roosevelt said it was generally recognized today that economic and social welfare ought to go hand in hand.

The relief bill, he said, covers both forms of welfare. He said, adding that it permits a great program to get under way immediately.

If permits, he continued, a large amount of money to be spent for many different forms of assistance, not only to the unemployed and in getting wages out but also to agriculture, industry and to business.

**Partnership Held Basic.**

The program is carried out, the President declared, on the principle of Federal participation in partnership with State and local agencies, almost wholly a partnership basis.

Practically all WPA work is that, all of WPA is that and so is the work of the National Youth Administration and others, he added.

Mr. Roosevelt said, the \$3,750,000,000 measure was a partnership bill.

On the public works end, he asserted, PWA was created as an experiment in 1933. He said the Administration recognized PWA's power but had not measured it at that time. Since then, he asserted, he and his aids had been gauging its merits.

**Says Improvements Needed.**

That is a new line, he added, declaring that in following it two things had been discovered—that cities and other public bodies still need a large volume of permanent improvements and that these localities are glad and able to assess themselves for more than half of the total cost of the improvements by going into partnership with the Federal Government.

The President added that it also had been determined that on PWA projects two and half workers are given employment in mines, mills, streets and transportation for every worker on the project site. Another illustration, he said, was that 18 cents out of every dollar goes to the construction pay roll on the job and 64 cents for producing and fabricating materials, generally at distant points.

Noting that last Thursday was PWA's fifth anniversary, Mr. Roosevelt said that in those years that agency had added all over the country 25,000 useful projects thus releasing to industry over \$2,000,000,000 for the purchase of materials.

**Many Projects Approved.**

He disclosed that he had been approving PWA projects for three weeks, in every case subject to signing of the bill and that on almost every project so approved, actual work would begin inside of 40 days. A total of \$350,000,000 of projects have been signed by the President.

Sixty days, the President declared, would be the earliest since the contracts for work must be advertised 30 days and certain other routines followed to insure that the work will be done properly.

He added that the remainder of PWA's \$360,000,000 provided in the pending and spending bill—or a good deal of it—would be allocated within the next two weeks.

Thus, he asserted, the bulk of PWA's money goes to work in the shortest possible time.

The President said that the same thing about Federal-local partnership on PWA holds true for the Works Progress Administration's \$1,425,000,000.

**WPA to Start July 1.**

WPA is now in gear, he said, and ready to go ahead July 1.

WPA projects, he concluded, will take care of, as far as possible, all available employable unemployed.

Answering questions after he finished reading the statement on relief the President said that all he knew or had thought about a special session of Congress to meet railroad legislation was what he had read.

The President said his preside chat will be made from the old diplomatic room in the White House following his appearance at a dinner given in his honor by the "Little Cabinet"—the assistant secretaries and principal subordinate officers of Government departments.

## ROOSEVELT SIGNS \$3,753,000,000 BILL TO SPEED RECOVERY

President Declares New Works  
Program Will Be Under  
Way in Sixty Days

ANNOUNCES FIRESIDE CHAT

He Also Raises Estimates of  
National Income This Year  
to \$60,000,000,000

By FELIX BELAIR Jr.

Special to The New York Times.

HYDE PARK, June 21.—President Roosevelt signed the \$3,753,000,000 Recovery-Spending Bill today and signalled the occasion with a prediction of an upswing in business activity, which he said would be implemented by a flood of Federal funds for public works and relief.

At the same time he increased estimates of the national income this year with a preliminary official figure of not less than \$60,000,000,000.

Shirt-sleeved and apparently in excellent spirits as he received correspondents in the tiny office of his Hyde Park home, the President declined an invitation to fix a date for the beginning of the business expansion of relief expenditures contemplated with the beginning of the following observation for the publication of which he removed the usual White House ban on direct quotation of the Chief Executive:

"As somebody remarked to me the other day, a few rain drops have been coming from the heavens and probably will be followed by a much-needed shower."

Up to that time President Roosevelt had been discussing Commerce Department estimates of the national income for 1937 and the current year. He first called attention to the final official estimate on the 1937 total, saying it had reached \$59,800,000,000, or somewhat more than earlier estimates.

See Benefits Over 1937.

The President then pointed out that compared with the famous year 1929 the annual average wage of full-time employees last year was 8 per cent less than during the boom year. On the other hand, living costs last year were about 15 per cent below the 1929 average.

Mr. Roosevelt said, drawing from the comparison the conclusion that the less well-to-do classes were actively better off last year than

As for this year's national income, the President noted that the preliminary calculated preliminary estimate put the amount at \$60,000,000,000. He was not sure, he said, what agency had made the estimate, but made it clear he referred to Commerce Department estimate based on the first quarter of 1938 which put the annual income figure at slightly more than \$60,000,000,000.

In other words, President Roosevelt explained, business is not and has not been as bad as a lot of people believed it to be. He went on to say, in answer to a question that had it not been for the slackening of business activity during the last quarter of 1937, the national income for that year probably would have reached \$72,000,000,000.

The President said further that the \$60,000,000,000 preliminary estimate of national income for 1938 had not taken into account the expansion of relief expenditures contemplated with the beginning of the fiscal year July 1. Neither did it make allowance for Federal contributions for public works projects on which he said the dirt would

begin to fly in not more than six days.

Evidencing a change of attitude as to the efficacy of public works projects as a factor toward recovery since he abruptly closed the PWA program more than a year ago, President Roosevelt said that since the beginning of that experiment in 1933 the Federal Government had been metering its efforts.

Today he said with some emphasis that for every man employed on a public works project two and a half other workers received private employment in mines, mills, factories, transportation, etc. In addition, out of every PWA dollar, 38 cents went to defray the construction payroll and 64 cents went for the producing and fabricating materials at points far distant from the project site.

President Roosevelt said at the outset of his discussion of the Recovery-Spending Bill that he had thought of issuing a formal statement about it. Instead, he read from the paper in front of him and amplified on his intended remarks as he went along.

It is generally recognized today that economic and social welfare ought to go hand in hand, the President said, a principle on which the recovery measure has been based throughout.

Plans for Quick Action

Designed both to alleviate want by providing jobs for the unemployed and to stimulate business and industrial activity, the President said, the measure would make it possible to get a great program under way immediately. Many different forms of assistance were provided and every economic segment would be benefitted.

Throughout the new law and the program it authorized ran the principle of Federal participation in a partnership with State and local agencies, the President continued. He said that practically all of the WPA work was based on that kind of a partnership, while the PWA program gave to the principle complete recognition.

Recalling the start of the PWA program in 1933, the President said it was regarded then as an experiment, an undertaking with known powers and recuperative effects, but the exact value of which had not been measured. Since that time he had been metering the merits of

into partnership with the Federal Government.

There was also the matter of the distribution of the PWA dollar as between the construction payroll and the wage bill of factories engaged in fabricating the needed materials.

President Roosevelt remarked that it was just five years ago last Thursday that the PWA program was first started. Since then, he said, 25,000 useful projects all over the country had been undertaken with the resultant release of more than 12,000,000 of public funds for priming the pump of private industry. Mr. Roosevelt termed the amount thus used two billion dollars worth of money.

For the past three weeks, the President said, he had been busy passing on proposed PWA construction projects, looking forward all the time to this day of signing of the recovery-spending measure. In each case, however, approval of a project had been conditioned on the ultimate signing of the bill, he explained.

Thus, with signing of the Presidential signature all such projects went into the finally approved status and the Federal Government had been formally committed to expenditures of several hundred million dollars as its contribution toward the partnership between the Federal, State and local governments.

#### Wants a Minimum of Delay

Congratulating his administration on its foresight in getting so many public works projects past the exploratory stage before funds for their undertaking had been provided, he said the period for advertising bids, letting of contracts and beginning of work would be held to the necessary sixty-day minimum.

Rocking back in his swivel chair and reflecting obvious satisfaction at the status of the preliminary spadework the President said it was quite a record. A good deal of the uncommitted part of the money earmarked for the PWA would be similarly allocated during the next two weeks before his departure for the West Coast and a Pacific cruise, and the balance would be entirely used up in the coming two or three months, he said.

As for the other provisions of the bill under which most of the spend-

ing program is authorized, President Roosevelt said most of them followed the same partnership principle which he had explained in connection with the PWA problem. The Works Progress Administration would be ready to expand its relief rolls on July 1 to take care of as many employable jobless workers as possible, the President said.

#### Work Halted Year Ago

It was about a year ago that the public works program under Secretary Ickes was cut short by an executive order after a protracted intra-administration argument as to the relative merits of PWA and WPA spending for recovery. The debate divided the Administration into opposing schools of economic thought which still continue.

On the side of Harry L. Hopkins, Works Progress Administrator, who won in the argument, were a number of economists who contended that public works expenditures could not bring back complete recovery because of the length of time required to get the projects into operation, with resulting improvement of purchasing power.

There was the further argument that permanent improvements throughout the nation were only secondary to the more important thing of keeping money circulating by continuing relief expenditures, a theory that had as a corollary principle the levying of compensating taxation.

While they did not completely challenge the argument of the Hopkins school of believers in a permanent public works program, they contended that the PWA staff should not be disbanded as was done under the President's executive order. Their chief point was that the staff should be retained to maintain a back log of worthy projects which could be undertaken in times of declining business activity.

Under Title 2 of the recovery-spending measure, in which funds are provided for approved projects of the PWA, \$265,000,000 is made available until June 30, 1940, for financing such undertakings. Not more than \$750,000,000 of the amount may be used for direct grants, but in addition to the principle sum appropriated, \$400,000,000, from the proceeds of State and local securities acquired under the title, may be used for further loans.

Title 1 of the law sets aside \$1,000,000,000, together with certain balances for work and direct relief, of which not more than \$25,000,000 is to be available for allocation by the President for direct relief.

#### Announces Fireside Chat

Looking forward to his political stump tour of the Pacific Coast two weeks hence, the President announced that he would make a fireside radio chat to the nation next Friday night on his return to Washington.

He mentioned the scheduled address at his press conference, saying he would speak on subjects of general interest to the country and that the talk would be in line with his past practice of addressing the nation soon after the adjournment of each Congress. The message would be carried over all major broadcasting chains, the President said.

Coming within a short time before his departure for the trip West, during which he has promised to speak for a number of Democratic candidates in the primary elections, the President's announcement was accepted as the beginning of his active participation in the Congressional campaign.

The President said he would entertain for Washington Thursday night and after a day at the White House would attend the "Little Cabinet" dinner given for him each year by assistant secretaries and subordinate officials of the Federal establishments. Immediately afterward, he said, he would return to his desk in the Executive Office, where microphones and sound cameras would be set up for the broadcast.

Until his announcement today, the President's Summer plans for sponsoring loyal New Deal adherents and opposing antagonists of his ill-fated plan to reorganize the Federal judiciary during the coming months called for his first appearance at Covington, Ky., on July 8, where he intends to ask for the return to the Senate of Alben W. Barkley, majority leader in the upper chamber.

The President sought to minimize the importance of his radio address by pointing out that it had been his practice to address the nation not long after the Congressional adjournment. There came from official sources, however, the intimation that the talk would be not only a restatement of New Deal objectives, but a definite bid for loyal supporters for his policies in Congress.

Federal Surplus Commodities Corporation  
 Summary of Commodities Procured -  
 July 1, 1937 to June 22, 1938  
 (Figures in thousands)

Commodity	Unit	July 1, 1937 to April 29, 1938	April 28, 1938 to May 4, 1938	May 5, 1938 to May 11, 1938	May 12, 1938 to May 18, 1938	May 19, 1938 to May 25, 1938	May 26, 1938 to June 1, 1938	June 2, 1938 to June 8, 1938	June 9, 1938 to June 15, 1938	June 16, 1938 to June 22, 1938	Total July 1, 1937 to June 22, 1938		
Apples (Dried)	Pounds	14,450	144	180	-	-	-	-	-	-	14,774	(1)	
Apples (Fresh)	Bushels	5,604	46	8	2	-	-	-	-	-	5,660	(2)	
Apricots (Dried)	Pounds	2,990	-	-	-	-	-	-	-	-	2,990	(3)	
Beans (Dried)	Pounds	52,990	450	400	100	2,090	60	-	670	120	56,880	(4)	
Beans (Snap)	Bushels	-	-	-	-	9	6	-	-	10	25	(5)	
Butter	Pounds	8,320	918	754	514	663	1,451	1,734	887	192	15,433	(6)	
Cabbage	Pounds	10,167	7,020	5,808	7,272	1,294	1,968	96	-	54	33,625	(7)	
Cane syrup	Gallons	-	-	-	-	-	-	-	-	-	54	(8)	
Celery	Crates	166	7	20	3	-	-	-	-	-	196	(9)	
Cotton fabric	Yards	630	26	-	92	-	-	238	-	12	998	(10)	
Cottonseed oil	Pounds	9,780	-	-	-	-	-	-	-	-	9,780	(11)	
Eggs (Shell)	Cases	270	-	-	-	7	3	-	915	-	270	(12)	
Flour	Barrels	-	-	-	48	38	42	19	10	-	1,050	(13)	
Grapefruit	Boxes	155	48	69	5	-	-	-	-	444	429	(14)	
Grapefruit juice	Cases	-	-	40	5	-	-	-	-	-	469	(15)	
Grapes	Tons	8	-	-	-	-	-	-	-	-	8	(16)	
Milk (Dry skim)	Pounds	8,642	-	-	-	-	7,940	-	-	5,000	21,582	(17)	
Milk (Fluid)	Quarts	8,082	459	472	482	495	478	497	510	514	11,989	(18)	
Onions	Pounds	3,000	-	-	-	-	-	-	-	54	3,000	(19)	
Oranges	Boxes	1,564	87	79	50	31	14	10	11	-	1,900	(20)	
Paper bags	Bags	-	-	-	-	-	8,400	-	-	-	5,250	13,650	(21)
Peaches (Dried)	Pounds	2,534	-	-	-	-	-	-	-	8	2,534	(22)	
Peaches (Fresh)	Bushels	-	-	-	-	-	-	-	-	-	8	(23)	
Pears (Fresh)	Boxes	318	-	-	-	-	-	-	-	-	318	(24)	
Peas (Canned)	Cases	927	-	-	-	-	-	-	-	-	927	(25)	
Peas (Dried)	Pounds	6,000	-	-	-	-	-	-	-	-	6,000	(26)	
Potatoes (Sweet)	Bushels	440	-	-	-	-	-	-	2	-	440	(27)	
Potatoes (White)	Bushels	4,150	117	64	7	-	-	-	-	-	4,340	(28)	
Potato starch & flour	Pounds	2,562	280	-	-	-	-	960	-	-	2,842	(29)	
Prunes (Dried)	Pounds	45,106	-	1,400	-	-	-	-	-	-	47,466	(30)	
Rice (Milled)	Pounds	70,550	3,360	2,080	560	1,000	-	1,600	-	-	76,550	(31)	
Tobacco	Pounds	-	-	-	-	-	-	-	67	170	2,600	(32)	
Tomatoes (Canned)	Cases	50	-	-	-	-	-	-	-	-	50	(33)	
Tomatoes (Fresh)	Bushels	-	-	-	-	-	-	-	-	-	237	(34)	

June 25, 1938.

Treasury Department, Division of Research and Statistics.

Data shown are those reported by Federal Surplus Commodities Corporation. Actually, however, no purchases have been counted twice because of this discrepancy.

June 28, 1958.

Dear Mr. Roberts:

Just after I wrote you yesterday the weekly memorandum which you were so good as to send me, came to my desk.

I appreciate your letting me see this inter-office summary of business conditions and the commodity market, and shall be interested to see further copies if you care to send them to me.

Sincerely,

Henry Morgenthau, Jr.

Mr. George E. Roberts,  
Vice-President, The National City  
Bank of New York,  
New York, New York.

GW/ds

8 1958

Please thank him.

The National City Bank  
of New York

ESTABLISHED 1812

New York June 20, 1938

CABLE ADDRESS "CITIBANK"

IN REPLYING PLEASE QUOTE INITIALS

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

My dear Secretary Morgenthau:

I take pleasure in sending you herewith  
our weekly memorandum on business conditions and the com-  
modity markets prepared for inter-office use.

Respectfully,



Geo. B. Roberts  
Vice-President

OFFICE  
SECRETARY OF TREASURY  
1938 JUN 21 AM 9 05  
TREASURY DEPARTMENT

The week's business news has contained a few more cheering items than in other recent weeks. First, the weekly indexes of business activity themselves make a little better showing; second, commodity prices continue firm with further advances in enough commodities to raise price indexes again. Moody's index of staple commodity prices is now above 135 compared with 130 two weeks ago.

Among the weekly indexes car loadings, especially merchandise and miscellaneous, showed more than the seasonal rebound after Memorial Day, and the percentage decline under last year, 26.2, was the narrowest since last March. Electric power production in the same week rebounded more than seasonally. Steel mill operations picked up to 27 per cent of capacity and apparently will be well maintained this week as preliminary reports say both Youngstown and Chicago will be up slightly which should offset any declines elsewhere. The steel trade reviews say that June business is under way and price uncertainty causes buyers to hold off particularly as galvanized sheets were cut \$3 a ton last week, recognizing the concessions that some sellers had been making. What is holding the operating rate at present is the volume of miscellaneous orders which indicates that small consumers' inventories are low. The trade reviews are also expressing slightly more hopeful opinions for Fall than heretofore, pointing to shipbuilding and construction demand as well as the new automobile season.

The automobile news also is hardly as bad as some feared it would be by this time. Sales reports for the first ten days of June showed less than the usual seasonal decline and assemblies last week were a shade higher than the previous week, the pickup being in Chevrolet, Dodge and Studebaker. Bulk sales in the first ten days of June were 9.3 per cent higher than in the same period of May. It looks now as if the industry will assemble 170,000 cars during June, while at the beginning of the month the expectation was 168,000. The trend is expected to be sideways until the end of this month, downward through the first half of July and on a very low level at the end of July and most of August, with most of the major plants shut down for the change-over period.

Textile industries are generally sluggish but the cotton goods markets seem to be working into better shape. Sales of gray goods probably equaled the present restricted production last week. Manufacturing margins continue very unfavorable. There is not much change in other textiles. The decision of the W.P.A. to purchase \$10 million worth of men's clothing is significant of the general Government policy of making purchases now for the purpose of saving inventories and should be helpful both to the clothing and piece goods industries. It is estimated that about one-half of the Government distribution will be competitive with the retail market, while the other half will be non-competitive. The Government is buying goods more freely than is perhaps realized. The Surplus Commodity Corporation is buying food products where surpluses exist; the Commodity Credit Corporation is financing 50 million pounds of butter; the W.P.A. has already bought large orders of cotton piece goods, and will be in other markets for manufactured goods this Fall.

Applications for F.H.A. mortgage insurance are holding up during this month. Farm implement business is now lagging and International Harvester is cutting down sharply.

Department store sales in the week ended June 11 were 15 per cent below a year ago over the country and 11.5 in New York and Brooklyn. This is a smaller decline than in other recent weeks. We find, however, that merchants are anticipating somewhat larger declines during the Summer but they will be buying more goods during the Fall than they did last Fall when they were cutting inventories heavily. This is one of the bases for expectation of a pickup in consumer goods industries in the Fall.

Alan H. Temple  
Statistician

## SPOT COMMODITY PRICES

Commodity	June 18	Week Ago	Month Ago	Year Ago	Since Jan. 1, 1936	
					High	Low
Ant	\$0.81	\$0.78 3/8	\$0.80 3/8	\$1.21	\$2.15	\$0.45 3/4
Atom	8.51¢	8.24¢	8.52¢	12.44¢	23.90¢	5.00¢
ilk	\$1.82	\$1.55	\$1.63	\$1.86	\$6.91	\$1.06
ubber	12.25¢	12.00¢	11.15¢	19.75¢	88.50¢	2.58¢
in	40.75¢	39.37¢	36.00¢	55.25¢	72.50¢	18.35¢
Meal Scrap	\$11.00	\$10.75	\$11.50	\$15.25	\$23.75	\$6.25
en						
8¢	8.77	8.84¢	8.45¢	11.20¢	15.00¢	1.82¢
ears	9.11¢	9.26¢	9.07¢	12.41¢	18.23¢	2.97¢
orn	\$0.57 1/2	\$0.58 3/4	\$0.59	\$1.18	\$1.38 3/4	\$0.21
ard	8.80¢	8.90¢	8.80¢	11.65¢	19.23¢	4.10¢
ottonseed Oil	6.50¢	6.75¢	6.75¢	8.30¢	10.88¢	2.58¢
ugar, Raw	1.80¢	1.84¢	1.78¢	2.55¢	3.50¢	0.57¢
oods	4.80¢	4.65¢	4.55¢	7.40¢	17.75¢	3.55¢
offee	8.30¢	8.40¢	8.40¢	11.65¢	24.57¢	6.00¢
unchanged						
ides	8.50¢	8.50¢	8.75¢	15.25¢	26.50¢	5.75¢
ool	\$0.64	\$0.64	\$0.66	\$1.02	\$1.28	\$0.585
opper	9.00¢	9.00¢	9.00¢	14.00¢	23.87¢	4.87¢
ead	4.00¢	4.00¢	4.50¢	8.00¢	9.50¢	2.85¢
sc	4.00¢	4.00¢	4.00¢	6.75¢	8.75¢	2.30¢
ody's Index	136.2	133.5	135.0	196.9		

**Copper** - May statistics showed an increase of 14,148 tons in domestic refined copper stocks and 1,776 in blister stocks, total increase of 15,922. The unfavorable figures had no effect on the market, since they do not reflect the sharp additional curtailment of mining operations which is now taking place. Domestic mine production from now through July, at least, will be some 22,000 tons per month lower than the May rate while the cut in the Cartel quotas, which were reduced from 105% to 95%, effective July 1, will lower mine output abroad some 7-8,000 tons monthly. If consumption holds up close to the present rate a balance between supply and demand is in sight in the domestic market by the end of the Summer even though exports are very low. Meanwhile the evidence is that fabricators are making good outs in their copper stocks, although their forward orders are getting rather slim with little new business coming in.

Exports, as expected, dropped during May to 5,110 tons from 11,100 tons in both March and April. The export price has been firmer since the cut in the Cartel quotas, and stands this morning at 8.72 - 8.83¢. The foreign statistics showed a rather sharp drop in deliveries to 108,600 tons from 129,600 in April. The drop wiped out a March and April export and brought deliveries back to the February level, where they are slightly below the monthly average of 112,090 tons for 1937. The cut in the quotas strongly implies that the authorities believe the foreign consumption trend is now downward. Foreign mine output was up slightly from April. Refined production was off slightly so that refined stocks abroad declined to 184,560 tons from 185,918 in April. They are less than a 2 months' supply based on current deliveries compared with a 15 month supply here.

As long as the foreign price holds it relieves pressure on the domestic market by giving customs smelters a foreign outlet for their copper refined from scrap, at a price which gives them their normal converting charges. The chief threat to the domestic market is that some of this secondary copper which has been moving abroad may begin to back up here. If this happens a further cut in the price would probably be made. However, the amounts involved would not be large, as present prices for scrap are low, and unquestionably the curtailment by the primary producers is putting the overall domestic position in better shape than it has been for some time.

Pine - Production for June is expected to show a reduction of from 5,000 to 4,000 tons.

Hogs - With the peak of the marketing season on last Fall's pigs probably here, it seems likely that the Dept. of Agriculture's estimate for the 1937-38 season ended next Sept. 30 will have to be revised downward. Inspected slaughter for the first 8 months of the present season (Oct.1-May 31) was 24,654,000 compared with 26,774,000 last season during the same period. If slaughter for the season is equal to last season's slaughter (as predicted by the Department) it will have to reach 9,495,000 during the next 4 months (June 1-Sept.30) against 7,375,000 last season, a gain of 29%. This seems unlikely.

Pork consumption in April was slightly above a year ago and only 5% below the 5-year April consumption, a much better showing than in March when consumption was 15% below a year ago and 18% below the 5-year average. The lower prices are apparently stimulating consumption of pork products. May pork production is estimated to have been slightly greater than in April but as storage stocks of pork products on June 1 were lower than on May 1 it is apparent that consumption during May showed an increase over April.

During the past month, hog prices have recovered \$1.00 of the \$1.50 decline which they experienced from the March peak of \$9.50. With the seasonal decline in slaughter impending, storage stocks on the small side, and fairly good packer demand likely for hogs, prices should remain steady to firm during the Summer, declining as usual in the Fall when the Spring pigs come to market.

Lard - Lard production in May was well above the small production of a year ago and moderately greater than in April but both domestic and export demand continued good, the latter well above a year ago. Lard stocks showed a small increase, rising to 123,738,000 lbs. on June 1 from 121,880,000 on May 1 but were below the 5-year June 1 average of 135,450,000 lbs. Stocks, however, are much smaller than a year ago and the Dept. of Agriculture expects little further weakness in lard prices this Summer with some advance not unlikely. Basis for this view is the export demand, prospects for a smaller supply of cottonseed oil next year, and seasonal decline in hog slaughter in July and August.

Cottonseed Oil - May consumption was 287,000 barrels, up slightly from the 278,000 barrels consumed a year ago. Consumption of imported oil (included above) was 13,500 barrels compared with 98,500 a year ago. With 2 months left in the present season, consumption for the 12 months may be estimated between 4.2 and 4.3 million barrels, including about 150,000 barrels of imported refined oil. Carryover on August 1 will be around 1.6 million barrels, or between 400,000 and 500,000 more than a year ago. A carryover of this size is about 200,000 barrels above the average for the past 6 years. With cotton acreage reduced for next season, the new crop of oil will be much smaller, probably somewhat under 3,000,000 barrels, so that the total domestic supply, say 4,600,000 barrels, will be 22% below the 5,900,000 total supply for the present season. However, increased production of the two other domestic food fats, lard and butter, together with increasing stocks of imported oils, chiefly coconut and palm oils, will probably more than offset the smaller prospective cottonseed oil supply. We should expect cottonseed oil consumption next season to drop off considerably. The average 1932-33 through 1936-37 was 3,265,000 barrels annually.

June 20, 1938

Alan H. Temple,  
Statistician

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 22, 1938

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Meeting held in Secretary Wallace's office on  
June 22, 1938, 11:15 a.m.

Subject: Means for securing adequate food for those on  
relief

Present: Secretary Morgenthau; Secretary Wallace;  
Mr. Hopkins; Dr. Parran; Mr. Tapp; Mr. Wilcox,  
Vice President, Federal Surplus Commodities  
Corporation; Miss Chatfield, Bureau of Home  
Economics; Miss Lonigan; Mr. Haas

Dr. Parran opened the discussion by calling attention to the widespread deficiency in diets of relief and low income families. He said that general information on this subject was available but that more specific information was needed. He suggested a plan which would move forward on two fronts:

- (1) A study to ascertain the deficiencies in food consumption, to be conducted jointly by the Public Health Service and the Bureau of Home Economics; and
- (2) Modification of the purchasing policy of the Federal Surplus Commodities Corporation so as to keep in view not only the agricultural surplus situation but also the nutrition requirements of the consumers.

Dr. Parran pointed out that in order to accomplish the latter a rather substantial change in policy in the Federal Surplus Commodities Corporation would be necessary. The conditions which must be met to bring about an orderly distribution of foods are as follows:

- (1) Local relief agencies should know in advance the amount and kinds of food which will be available for distribution.

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- (2) The products will need to be in utilizable form. For example, families cannot use dried skimmed milk supplied in bulk. There is great difficulty even in utilizing white flour because of the lack of other ingredients and of cooking facilities.
- (3) There should be continuity of food distribution.
- (4) The amounts of food to be distributed should approximate the additions to the relief diet of the particular locality which are necessary to maintain health.
- (5) To accomplish the above purposes, it would seem desirable that a medical officer and a person familiar with relief mechanics be attached to the Federal Surplus Commodities Corporation with authority to influence policy and organize procedure in the directions indicated.

Miss Chatfield, of the Bureau of Home Economics, commented on the nutritional needs of the people on relief. A short time ago she visited Cleveland with Dr. Palmer, of the Public Health Service, and Miss Lonigan. While there, she visited ten families who were on relief and found conditions very bad. The only food these families had was that which they received from the Federal Surplus Commodities Corporation. The assortment of commodities supplied did not at all meet the requirements of adequate nutrition. She stated further that more surplus commodities were available in the warehouses; but, in spite of all the unemployment, the reason given for not moving these commodities out to the relief families was the shortage of labor.

Miss Lonigan pointed out that one of the difficulties in the surplus commodities food distribution was the regulation of the Corporation which fixed the amount of maximum distribution per family.

Secretary Wallace asked Mr. Wilcox to explain this regulation or rule.

Mr. Wilcox said the regulation was based on the principle of supplying to relief families as large an amount of surplus commodities as possible, but, at the same time, avoiding substitution of surplus commodities for commodities which

Secretary Morgenthau - 3 -

relief families would otherwise have purchased, the effort being to secure a net increase in the consumption of particular foods. He mentioned that the Cleveland situation could not be used as an illustration, as the situation there was not "normal." He also expressed the opinion that Dr. Parran's proposed study was a very worthy project, and described a study that the Federal Surplus Commodities Corporation has been in the process of making. This study relates to two main problems:

- (1) What are people buying with relief funds; and
- (2) What changes are made in such purchases when these people receive surplus commodities.

Mr. Wilcox suggested enlarging this study to include the nutritional aspect of the problem, in which Dr. Parran was very much interested, and mentioned that the two studies would tie in very well together.

Mr. Tapp called attention to the fact that the statutory provisions covering the disposition of surplus commodities did not provide for consideration of relief aspects but only of conditions surrounding agricultural surpluses. A few years ago the question of giving agricultural surpluses to people on relief was taken up with the Comptroller General and he turned the proposal down. Since then legislation had been passed which permitted the purchase and distribution of surplus commodities to families on relief. Mr. Tapp agreed that Dr. Parran's approach to the problem was desirable, but said it was not the agricultural surplus approach.

Secretary Morgenthau stated his reason for interest in the situation was that he knew there were many people who were not getting enough food to eat or clothes to wear, and that the problem was to find out what could be done with the available funds to relieve this situation. He added that the Federal Surplus Commodities Corporation was only one of the agencies involved, and further that it would be difficult to explain to the people why tobacco was being purchased by the Federal Surplus Commodities Corporation when people were hungry. He suggested that the Federal Surplus Commodities Corporation program could be adjusted to stay within the law, and, at the same time, to meet the relief situation more adequately. He reported that considerable progress had been made since May 13, 1938, when he first brought the matter to the attention of the President, but unless something was done to greatly improve the situation the President would be open to severe criticism. He pointed out that Dr. Parran would

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need \$40,000 to make his proposed study jointly with the Bureau of Home Economics.

Secretary Wallace replied - "All right, we will consider the question of raising the \$40,000."

Dr. Parran stated that the only free funds available for this purpose under Secretary Wallace's jurisdiction were those provided in the \$175 million item in the Recovery Act.

Secretary Wallace mentioned that Dr. Parran probably referred to the item for the Farm Security Administration, and that offhand it appeared rather unusual to him to consider that these funds could be used for the purpose of the proposed study.

Mr. Wilcox intimated that he thought the study could be made by having the various agencies contribute in the form of personnel, and that the necessary extra cash could be raised, but he didn't think the \$175 millions, which Dr. Parran mentioned, was the source which should be used.

Mr. Wallace suggested that the study could be financed partly by the W. F. A. and the Federal Surplus Commodities Corporation.

Secretary Morgenthau then asked Secretary Wallace and Mr. Hopkins if they approved of the study's being made; if they did, then the funds could be found. He also inquired whether if the study were made they would make use of it.

Mr. Hopkins replied that there was already a great deal of information on the subject of nutrition; that there was nothing new in the idea; but that, of course, information was not at hand which applied to the present situation. He stated further he thought the project was a good one, and added that if Dr. Parran, the Surgeon General, said it was required, he believed that settled that question.

Secretary Wallace said he approved of the study, but indicated that it should be made in such a way so as to get straight facts and not made with the intention beforehand of attempting to prove anything.

Secretary Morgenthau said, "Now we can look for the money."

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Mr. Hopkins suggested that the first place he would look would be in the Public Health Service; that he knew of some funds which were over there.

Dr. Parran pointed out that it was true they did have funds but they were W. P. A. funds. Further, he had inquired of the W. P. A. whether or not these funds would be available for this purpose and was informed they would not be.

Mr. Hopkins said that was where he made the mistake, he shouldn't have inquired.

Dr. Parran mentioned that the important thing now was to agree on the principle of the study; the money could no doubt be provided from some source.

Secretary Wallace suggested that the W. P. A. should participate in the project along with the Bureau of Home Economics, the Public Health Service, and the Federal Surplus Commodities Corporation.

Secretary Morgenthau added that representatives of these agencies might serve as a committee, with Dr. Parran as the head, and also that they might not only be a study group but an action group.

Mr. Hopkins hesitated on the action part of the suggestion, and mentioned that he would like to discuss the matter with Dr. Parran before committing himself.

Mr. Wilcox, in reply to a question from Secretary Wallace, stated that he would be glad to have all the help he could get from that group or any other, but was not in favor of any arrangement which would hold up progress for the Federal Surplus Commodities Corporation.

Secretary Wallace, paraphrasing Mr. Wilcox's statement, said "If it is help, you are in favor of it."

Mr. Wilcox then indicated some improvements which have been made in the Corporation's operating policies:

- (1) "Grouping," as he called it - for example, the starch foods are considered as one group, and deficiencies in some of the commodities are made up by increasing the amounts of other commodities;

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- (2) The States are now being advised in advance as to what commodities are being shipped to them; and
- (3) Products are being kept as near as possible to the form in which they leave the farm. This was being done on the assumption that people who received the products could convert them into useable form; also, if processed commodities were purchased, such as canned goods, etc., the funds available for the purchase of surplus commodities would be used up more quickly.

Secretary Wallace agreed that he was very much in favor of the purchase of commodities in the form outlined by Mr. Wilcox.

Dr. Parran pointed out that from a relief standpoint it presented a major problem, since many relief families didn't have gas to cook bread with, for example.

Secretary Wallace added that he thought it was exceedingly important not to go beyond a certain point in supplying food products; that otherwise there would be constant danger of being pushed further and further along.

Secretary Morgenthau expressed the opinion that it was difficult to compare what has been done before and what should be done now, since the Government has never before spent \$9 billions. He continued that in the five weeks some progress had been made, but as yet we are not really facing the situation, and we have no policy with regard to it.

Secretary Wallace suggested that the proposed committee might make a report, and suggest what policies should be modified or adopted.

Mr. Hopkins objected strongly to the committee's having anything to do with policy. He approved of the committee only as a study group, and added that as far as he was concerned the policy had already been fixed.

Secretary Wallace inquired of Mr. Hopkins if he thought the press statement which he (Mr. Wallace) gave out recently in connection with the surplus commodities disposal was a fair statement of the Administration's policy.

Mr. Hopkins replied that he had not read the statement, and added that he thought the relief policy of the President was clear.

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Mr. Hopkins suggested that the policy of the Federal Surplus Commodities Corporation might not be clear, or might need to be changed. Should the Federal Surplus Commodities Corporation, for example, buy tobacco when people were hungry, or should the policy be simply one of purchasing agricultural surplus commodities only so far as they could be used to improve the diet of people on relief.

Secretary Morgenthau stated that he was not criticizing any policy; that that question was not being raised. He did, however, raise the broad question, which the President had frequently brought up, that is, that one third of the people of the country are ill-fed, ill-housed, and ill-clothed. It was the solution of this problem that he was interested in. He agreed with Mr. Hopkins that the proposed committee of experts should not deal with policy, but that questions of policy should be left to the heads of the organizations concerned.

Secretary Morgenthau continued that he thought the members of the present conference should take a look at the whole problem, and give the President the advantage of questions which might be raised.

Mr. Hopkins commented that if it were not for the problem of agricultural surpluses, the group would be opposed to distributing food to people on relief; that the handing out of groceries by the Federal Government was the most degrading practice possible - it was a reversion back to the days of Queen Elizabeth.

Secretary Morgenthau remarked, "What would you do, just let the people starve"?

Mr. Hopkins continued, saying that only Secretary Morgenthau and probably 200,000 other socially minded people in the country are really interested in this situation. He went on to state that the number of people on direct relief in Cleveland was the lowest in the past five years; that the difficulty there was the fact the City and State would not handle the relief problem; that unless he should get direct orders from the President he would not touch that situation; and that he intends to fight Governor Davey and his handling of the relief problem publicly.

Mr. Hopkins stated further that the people of America today have more and better food than at any time in the past twenty-five years; that the problem is one of poverty; and

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that large masses of the people are not getting their share of the national income. He added that the problem as he saw it was a practical and a political one. These agricultural surpluses exist and something must be done about them - they should be given to people who need food, and that issue should not be ducked. The situation in Cleveland is not due to unemployment, as the W. P. A. has given employment to all who seek it. The cause of the difficulty is the City and State handling of the relief problem.

Mr. Hopkins continued further by stating that the first question of policy is whether more should be spent for food or for tobacco when people are hungry. He added that the problem of the wheat surplus might be dealt with in a large way, and the reason be announced as the food needs of the people. He reported, however, that Congress did not intend that all the money for surplus commodities purchased should be used for food items alone.

Secretary Wallace mentioned that the first legislative proposal passed by Congress was to dispose of the surpluses outside the country, and later through his suggestion legislation was enacted which provided for the disposal of food surpluses among the needy at home. He added that the Federal Surplus Commodities Corporation gets into difficulties in the disposal of surplus commodities after it goes beyond a certain point. He used as an illustration the case of the mattresses and the difficulty encountered with private trade. He indicated also that if attempts were made to dispose of 250 million bushels of wheat, the millers would immediately protest.

Mr. Hopkins suggested that Secretary Wallace might buy all the flour every relief family could use, etc., and so dispose of the poverty and abundance dilemma. He strongly advised the Secretary not to get into the actual relief distribution, as it is a "hot potato."

Mr. Hopkins suggested further that the Federal Surplus Commodities Corporation might buy all the wheat that it could distribute to the needy, provided the replacement would not exceed 10 percent.

Secretary Wallace added, he believed Mr. Hopkins had something there.

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Mr. Hopkins continued by saying that to the wheat item might be added as many other products as possible on the same basis and then the States be given the responsibility for distribution to relief families. He thought there might be seven items on which an announcement could be made; that all that could be utilized for the people on relief would be provided for them, on the condition that the replacement would not exceed 10 percent. With a program such as that for the Federal Surplus Commodities Corporation, he felt that no one could put them on the spot.

Dr. Farran stated that an adequate diet might be provided by making a fortified cereal, consisting of wheat flour, ~~plus the~~ wheat germ and skimmed milk.

Mr. Hopkins said the problem of providing an adequate diet depended upon how much money was available.

Mr. Tapp reported that \$70 millions was available for this purpose.

Mr. Hopkins added that \$70 millions was not sufficient to provide the poor with a balanced diet.

Mr. Hopkins mentioned that these meetings would continue just as long as any of that money was used for tobacco, etc., rather than for food.

Miss Lonigan pointed out that the situation in Cleveland called for an increase in food in the diet of the relief people.

Mr. Hopkins replied that we are lloked if we increase the food distribution in Cleveland - what should be done there is to hit the Governor on the head.

Secretary Wallace asked Mr. Tapp if his committee could proceed or if it needed more instructions with regard to policy.

Mr. Hopkins inquired further of Mr. Tapp what he thought of the seven or so items on which all that could be used would be supplied, provided the replacement would not exceed 10 percent.

Mr. Tapp said he thought such a plan could be followed.

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Secretary Wallace mentioned he thought it was an excellent political play, but was not so sure just how it would actually work out, adding that 10 percent was not high enough.

Mr. Hopkins stated that the criticism of the Federal Surplus Commodities Corporation was that it had been niggardly.

Secretary Wallace said he hadn't heard of that criticism.

Mr. Hopkins pointed out that there could not be a return to direct relief; that direct relief could not be run decently no matter who runs it.

Dr. Farran commented that the immediate problem was to correlate the purchase of surplus commodities with the nutrition requirements of relief families.

Secretary Wallace suggested that the Cleveland situation be left to Secretary Morgenthau and Mr. Hopkins.

Mr. Hopkins replied that the relief situation is always bad, but it is better now than formerly.

Mr. Tapp indicated he would like to turn over the relief part of the surplus commodities to Mr. Hopkins.

Mr. Hopkins replied, "Not if I can help it."

Secretary Wallace closed the meeting, saying he would like the study which is to be made to include some information as to how the present situation compared with others in the past.

## RE BANK EXAMINATIONS

June 22, 1938.  
2:30 p.m.

Present: Mr. Oliphant  
Mr. Upham  
Mr. Diggs  
Mr. Crowley  
Mr. Draper  
Mr. McKee  
Mr. Szymczak  
Mr. Eccles

H.M.Jr: You got a statement I could be looking at?

Upham: Yes. Well, this is a statement of the revised agreement.

Draper: That was good business.

H.M.Jr: It was a good business.

Draper: That was wonderful, one of the best meetings I have ever attended.

Upham: I tried my hand at a statement for the President, which I don't like, but you may ...

(McKee, Szymczak, and Eccles come in)

H.M.Jr: Hello.

Eccles: How are you today?

H.M.Jr: Oh, I'm all right. Everybody seems all right.

Oliphant: Hello, Marriner, how are you?

H.M.Jr: Well, teacher, where are we now?

Upham: Well, this is the only change in that first page.

McKee: One word.

Upham: Two words. Left out "reasonably" in One, and we changed a word or two in Two. And on the second page, it's a - the second page is rewritten to take care of that putting all the Group Ones in Group One and all the

Group Twos in Group Two, and taking 50 percent of the depreciation.

Now, if Marriner will agree to leave off those last five words - he and Mr. Crowley will agree to leave out those last five words, I think we'll feel a good deal better.

- Crowley: Wait a minute, Cy, don't go too fast.
- Upham: "And in determining capital impairment."
- Eccles: Fine.
- Crowley: What do you mean "fine"?
- Eccles: What is it?
- Crowley: What was that deal yesterday?
- Eccles: He asked me if I objected to leaving it off.
- Crowley: You said you couldn't do it - your lawyers said they wouldn't permit you to do it.
- Eccles: No, what I said ....
- H.M.Jr: No, Leo.
- Szymczak: Come, come.
- Crowley: Let's have this understood, fellows. Here's what happens in our "Doubtful" column. The examiners get in the habit of throwing "Loss" assets in the "Doubtful" column. That's the reason why we started out with the idea of tightening up that doubtful. Now, as long as we have an understanding we don't do that monkey business, it's O.K.
- Eccles: You mean tightening up the doubtful.
- Crowley: Here's what they've always done. Where they didn't want to impair a bank's capital or show insolvency, in place of deducting from the loss, they've taken it from the loss and put it over - classified it in the doubtful.
- McKee: How you going to be penalized ....

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H.M.Jr: You're going to argue yourself out of this in a minute. Marriner's all agreed. And my father once said - he was a lawyer up to 1900 - he said, "When you win your case before the bar, quit arguing."

Diggs: Save a lot of ....

Crowley: I agree to - with Cy to let it go. It's all right with me.

Upham: Mr. Oliphant was looking into this this morning, and I think we ought to ....

H.M.Jr: What's the five words?

Upham: ... ask him.

Oliphant: Well, I just looked into that general question of law raised. I think it's pretty clear that the law is that when it comes to giving the notice, that would start the 30 days running, put them under duty to repair an impairment of capital,....

Crowley: That's right.

Oliphant: ... that you've got to be talking about everything.

H.M.Jr: Well, what's the point? How do you want it changed, Herman? What do you suggest?

Oliphant: Well, as I see it, not having time - it seems to me that if you just left out the five words ....

Upham: It seems so to me.

Oliphant: Well then, I'm giving him another reason for doing it.

H.M.Jr: Oh, you're ...

Eccles: Just giving us another reason.

H.M.Jr: But I mean you're not arguing it should be left in, and it's legal if you leave it out. Fine. Not going too fast, Herman?

Oliphant: No.

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- H.M. Jr: No.  
Now, what else?
- Upham: I concocted just in the last half hour this statement. Marriner thought the President ought to have a statement to issue along with this.
- H.M. Jr: Well now - excuse me - before we go on this - on purposes, is everybody satisfied?
- McKee: I'm just too dumb to go that fast. I'm sorry, but a lot of the things that we talked about yesterday - I don't know whether they're in here.
- Upham: Well, we better go slow.
- H.M. Jr: That's our purpose.
- McKee: Excuse me. I'm a little thicker than some of you, but I have to ...
- Szymczak: Just sarcastic now.
- McKee: No, no.
- H.M. Jr: The purpose of this meeting is to read that stuff.
- Upham: I put them all down here yesterday as we went along, but you take your time.
- Eccles: How would it be to have Upham - as easy just to take and read it ourselves or read it one at a time and go through it?
- Oliphant: Why doesn't Upham just mention the changes and point them out?
- Upham: On the first page, the only changes are, in One, to leave out the word "reasonably," so that it now reads "Loans or portions thereof, the repayment of which appears assured"; and in Two, "Loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the bank by reason of certain..." - replace "certain unfavorable" with "an unfavorable" and replace "trends" with "record"; so it reads "by reason of an unfavorable record or certain other unfavorable characteristics."

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And at the bottom of the page, the last paragraph, instead of reading "Present practice will be continued under which the totals of Three and Four are deducted," will read, "Fifty percent of the total of Three above and all of Four above will be deducted in computing the net sound capital of the bank." That's 50 percent of the doubtful.

- McKee: And all loss.
- Upham: And all loss.
- McKee: That's on your note portfolio.
- Upham: That's right. That's on loans.
- Crowley: Wait a minute, Cy, when you got down to your low bracket bonds you agreed .....
- McKee: We're not talking about that. You stay in the right school room.
- Szymczak: Class room.
- Diggs: That means it will be carried out as before, your loss column will be charged off in so far as taking out your capital impairment is concerned.
- Upham: That's on the next page.
- McKee: Does everybody understand that now? Mr. Secretary, I think we can get an agreement. Does everybody understand what's included in that?
- Crowley: Just a minute, we understand that on the loans. When you get down to it on bonds ....
- McKee: That's not on this page, Leo. That's all you're talking about, is loans.
- Upham: That's right.
- McKee: And what you're talking about is, instead of the present practice, that 50 percent of the total of your Number Three and all of your Number Four in classifications of loans will be deducted in determining net sound capital.

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Upham: Right.

McKee: That's clear to me, Mr. Secretary.

Upham: Now, on the second page, instead of saying that neither appreciation nor depreciation in Group One minus the fourth grade of general obligations will be shown, we say that neither appreciation nor depreciation in Group One will be shown, and that includes the fourth grade. So we don't pay any attention to appreciation or depreciation in Group One securities.

Eccles: Well now, why shouldn't we have, if this is a report, the definition of Group One securities? For instance, we take over here Group One loans and Group Two loans, and we define them. And it seems to me that to say Group One in and of itself ... I think it would be very much better, if this is to go to the President, that Group One - he understand what Group One and Two means. It's all spelled out here, you see. When you get over to Group One securities, it doesn't mean a damn thing.

McKee: Say, "From Baa up, and Governments."

Crowley: Say, "From Baa bonds and up."

Eccles: Well, I know, but it does ...

Upham: Would you list Governments direct and indirect?

Eccles: It does act as a release to the public, and it means everything that banks and public ....

H.M.Jr: It's all right with me.

Upham: It's difficult to define them.

Szymczak: Where's that photostat that shows that?

McKee: I've got it.

Szymczak: Have you got it?

McKee: Well, I'm the bookkeeper.

Crowley: We've cleared all this thing with the State Commissioner fellows and everything else; let's not go back. We've

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agreed.

- McKee: Well now, Leo, listen, we're talking about spelling something out here that nobody can take any exception to. It's a question of what is Group One, so that we don't have any misunderstandings. You wouldn't have any objections to saying, the first four highest grades of bonds, as found by these various ....
- Eccles: Any two.
- McKee: Spell it out. All across that line, that's what you're talking about - Group One. Now, the rest of us sitting around here - maybe somebody in this conference hadn't known what classifications come in that Group One. I ask you, General Counsel, had you that in your mind?
- Oliphant: Well, I hadn't looked at that, no. Now ...
- McKee: So he's been here all the time we've been here.
- Crowley: He's not in the banking business.
- Oliphant: Now wait a minute.
- McKee: It isn't going to be hard to say.
- Crowley: All right. Tell me what you want.
- McKee: "Neither appreciation nor depreciation in Group One ...."
- Draper: "... consisting of ..."
- McKee: Parenthesis - "being the first four grades - the highest four grades of corporate bonds..."
- Upham: Of course, it's complicated by this, John, that we say that a bond which is good can be included in Group One even though it has a low rating, and that a bond with a high rating may be put down into Group Two if the examiner of the bank thinks that it's a poor bond.
- McKee: You don't say that there.

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Crowley: Let's not get into so much detail that we get to contradicting ourselves.

Eccles: You got into detail on Number Two loans here, Leo.

McKee: When you wrote this Number Two, it looked to me like you were thinking about writing that girl a love letter.

Eccles: I think we ought to try our hand. I don't think we can do it now, but we can - I'd like to just sit down ....

Crowley: Well, for God's sake, you going to carry this on all summer?

Eccles: No, no. Write this in very easily.

H.M.Jr: When you going to do it?

Crowley: I don't see ....

Eccles: I'm perfectly willing to leave it up to Cy to go ahead and write it.

Crowley: No, whatever we're going to ....

McKee: Mr. Chairman, I'd like to see some reference to what Group One is confined to.

Crowley: What do you want to say, the first four grades?

McKee: All right, I'll be - any of your language is acceptable to me.

Crowley: Give me yours. You're the guy that wants it in.

McKee: Mention the first four high grades of corporate ....

Eccles: Of course, you've got more than that. You've got Governments.

Upham: State obligations.

McKee: That's something else.

Mr. Secretary, I think there ought to be a separate

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paragraph here for Government bonds. Now, I think it's sufficiently important that they should be treated separately.

- H.M.Jr: Well, listen, you fellows are getting down now - I mean do you mind, let's run through this thing. I mean we're getting down to language, and if a couple of you fellows want to stay behind, it's all right with me. But I mean is there anything - those five words, that's the thing that Cy was worried about. Now you've agreed to leave it out, for two reasons. Is there anything else?
- Eccles: Try to define Group One.
- H.M.Jr: Let's come back to that.
- Upham: I left off the last paragraph on Page 2, which read yesterday, "Present practice of listing and pricing all securities will be continued." Now, I left that out; I didn't know clearly what you were going to do about listing.
- Crowley: What we agreed to, Marriner - we would take and list at price and cost all securities of the bank. And take an average and show the depreciation, or whatever we determine, to determine your doubtful.
- H.M.Jr: In the second group.
- Crowley: One thing that all the examiners have insisted on, Marriner, is that they list in the examination the entire list of securities.
- Eccles: There is no objection to making an entire list. But don't show the market on Group One.
- Crowley: We don't disagree on that, Marriner.
- Eccles: O.K.
- Diggs: You left it out, Cy.
- Crowley: You'll add that too now, Cy.
- Upham: Can't say listing and pricing of all securities; don't price all securities.

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- Crowley: "Listing and showing the cost of all securities," with your exception that you get down to in the bracket we talked about yesterday.
- One other thing, Marriner. We understand that for our own offices we take the market as the date we get in there to ...
- McKee: You mean for your confidential reports? I don't give a damn what you say.
- H.M.Jr: Now, what else?
- Upham: That's all.
- H.M.Jr: Do I understand you're going to leave it with Cy to define those ....
- Crowley: I want to work with him.
- Szymczak: I think Cy and Leo and ....
- H.M.Jr: You want to go ....
- Upham: We ought to determine whether we want the President to say anything, whether we want him to say anything in addition to this.
- Eccles: Listen, I've got one or two other questions to raise here. We haven't said - first, we got Group Two securities. Now, I think that it's just as important to define Group Two as it is Group One, that what we've got to do here is to say what go into Group One, what go into Group Two; that you've got to do it anyway to your examiners, and inasmuch as this becomes a public report, let's have it complete, so there can be no misunderstanding of it.
- Now, there is this thought that occurs to me. In the modification of the Comptroller's regulation, it permits making sound investments in local securities that are not rated and not listed, see, and they would go into Group One.
- Crowley: That's right, if they're ....
- Eccles: You can't do otherwise, because immediately you do ....

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- Crowley: Unless they make a bad buy.
- Eccles: Then we want to say in Group Two, see, that these securities - that the credit information available indicates that they are of inferior quality, see?
- Crowley: Listen, Marriner - but the local bond issues are going to be classified in Group One so long as the financial statement warrants that classification.
- Eccles: That's right.
- Crowley: Now, I have no objection to your saying that, but you stop right there.
- Eccles: And that those local securities, where the financial condition as shown by the credit files would indicate, see, a question of doubt, inferiority, they'll go into Group Two.
- Crowley: I don't see any reason for adding all that on it, if you just say that if the financial statement warrants that, they're in Group One. That's all there is to it.
- Szymczak: I don't think you'll have any trouble.
- Eccles: We haven't covered those securities that ....
- McKee: This will have to be magnified. It doesn't cover it, Cy.
- Crowley: Let me say this now to you, fellows. You're trying to do a technical job. Gus Folger is out of town, John Nichols is out of town. We've agreed to the principle of this thing. That, Mr. Secretary, is what you want.
- H.M. Jr: Aren't you going to get out technical regulations subsequently? I think all that will go to the President - he will release - will be a statement something like this. He may not even release this, and say that the agencies responsible subsequently will turn over to the technical ....
- Diggs: I think it would be much better than his releasing all this.
- Upham: I don't like him to make a statement/<sup>at</sup>all.

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- H.M.Jr: I don't think - don't know how he's going to do it, but personally what I had in mind was the possibility of simultaneously getting a technical statement from the Comptroller's office and one from the F.D.I.C. and whoever else is changing, and releasing these things, these instructions, plus an explanatory one by the President.
- Draper: I'm wondering, if he's going to talk on Friday, if there would be any opportunity for him to put in a few words in that speech.
- H.M.Jr: Possibly. I imagine it's on Congress, though - the speech is. It's legislation.
- Eccles: It does seem to me that we've got to define these groups, and we can do it now in the general terms, because when it comes to getting out instructions to the supervisors they're going to be possibly extended, and so forth, whereas here it will be in general terms.
- H.M.Jr: But there's not going to be any trouble on these definitions, will there?
- Crowley: But we don't want to agree to something that our men out of town - that is purely a technical thing, as you're finding out, Marriner.
- Eccles: Why should it be technical, Leo?
- Upham: I think we can satisfy you on that.
- Crowley: We didn't agree to sit down here and write this damn thing out in every detail.
- McKee: We're agreeing to a lot of substance here that's just not - that's a little fast stuff, too, here.
- Crowley: It's been six weeks. I wouldn't call that fast. We started in February.
- McKee: Just insert - where is that copy - I want to see the word "net" put in here. "Present practice will be continued under which net depreciation ..." and so on.
- Crowley: Wait a minute here.

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Eccles: That's what we're doing now.

Upham: You don't have any appreciation.

McKee: Yes, you do, young man.

Upham: Where?

McKee: You may have a charge for a dollar.

Eccles: In other words, you treat your defaults ....

Upham: Then it's a recovery.

McKee: I want "net" here, Leo, right after that - you price all of these things....

Crowley: That's all right.

McKee: ... against the book, and you take the net, see? Now, a fellow has them all charged down. You don't allow him to write them up. So you want to give him credit for those capital dollars.

Crowley: Sure.

Upham: Well, any statement by the President will take a good deal of working over.

Draper: It's going to be pretty hard.

Upham: That will be the most difficult thing to agree on.

Crowley: May I suggest this?

H.M.Jr: Go ahead!

Crowley: Work out whatever you're going to give the President. After you've given it to the President and got his release on the thing, take this thing that you've agreed on and give it to the press. Then the definitions we agree with you to work out when the technical men get back.

Eccles: The press will immediately say, "Now, what does Group One include?" See?

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Crowley: All right, then we'll get a fellow ....

Eccles: You know that as well as we do.

Crowley: Hell, the public are tired of hearing this thing.

McKee: Not for me.

Eccles: Group One also includes Governments, it includes municipals, it includes some ....

H.M.Jr: What do you want to do, Leo?

Upham: That's what will take the time.

H.M.Jr: What do you want to do? I mean what's left undone in this thing before we come to this explanation?

Crowley: Nothing at all, but just that definition.

Draper: Definition of the Groups One and Two, isn't that right, Marriner?

Eccles: That's right.

Draper: All right, got the definition of Groups One and Two.

McKee: Like to see those last five words omitted, is that right?

Now, will counsel give a little consideration to another word that's in that, and that's the word "sound."

Upham: Where?

McKee: Just prior to that - the second from the last word - whether we can't think of something else beside the word "sound."

Upham: Where's that?

McKee: It's the thing used ...

Crowley: This is just like amending a bill until all you have left is the number.

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- H.M.Jr: I wouldn't start getting down to the thing ....
- McKee: Now wait a minute, there's substance in what I'm talking about: that we assume a lot of responsibility in telling somebody that your conclusions are sound.
- H.M.Jr: Well, if you're going to begin to rewrite this thing ...
- McKee: The supervising authorities here in Washington stand behind a lot of men in the field and can be accused - and God knows the Department got plenty of it in 1932.
- H.M.Jr: Well, what do you suggest in place of it?
- McKee: I don't know, I'm just putting it on the table for what it's worth. I don't like the word "sound," and it's been used right along.
- Szymczak: Well, what it really means is net adjusted capital.
- McKee: That's right.
- Upham: What does that mean?
- Draper: Net sound capital.
- Szymczak: It's a picture of the opinion .....
- Eccles: It's not certified that it's sound at any time, when we get right down to it.
- Szymczak: Net adjusted capital.
- Diggs: But don't you think about the net sound as the net adjusted? Isn't it common usage?
- McKee: Mr. Comptroller, you haven't been sued yet for keeping a bank open that's insolvent, and you may have to stand on some of these figures to keep out of jail. That's what I'm thinking about. It means more to you than it does to anybody else.
- Oliphant: Has any question ever been raised about the word "sound"? In your experience in the examination, etc.

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Eccles: How long is it since you started to figure - '35 or '36.

McKee: Nobody figured net sound capital prior to the Holiday.

Crowley: You mean for a year or two; but they certainly did back in the '20s, John.

Upham: On what basis did the Comptroller levy an assessment for net impairment of capital?

McKee: That was on special examination, but not in regular examination.

Upham: You mean he didn't put it in the report.

McKee: You're putting it in all regular examinations.

Eccles: When you levy an assessment ....

McKee: Well, I - it's just something that I'd like Herman to think about.

Oliphant: Well, my curbstone opinion is that you'll find that it's been used so long that it has acquired a customary meaning that the courts would respect.

Diggs: Common usage.

Oliphant: It's common usage.

Crowley: Well, are you through, John?

McKee: Well, I'm willing to leave it with the Secretary's counsel to determine whether it should be changed or ....

Oliphant: All right, I'll be glad to look into that.

H.M.Jr: O.K.

Eccles: Whether it should be "adjusted" or "sound."

H.M.Jr: No changes after midnight tonight.

Upham: Sit up late tonight.

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H.M.Jr: By God, she's through at midnight tonight.

Draper: Oh, we'll be through long before then.

H.M.Jr: I'm through now.

Oliphant: Well, that won't take long. I'll have the books out on it.

H.M.Jr: I'm serious. No changes after midnight tonight. Now, are we ready to read the statement of Upham's? McKee, you ready?

McKee: Yes.

H.M.Jr: I'll wait till you say you're ready.

McKee: I'm ready, go ahead.

H.M.Jr: All right, read this.

Upham: Well, this is - they'll want to do a job on this.

"A greater degree of uniformity in bank examination procedure by examining agencies of the Federal Government and of the State governments has been made possible through an agreement reached by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Board of the Federal Deposit Insurance Corporation, and concurred in by the National Association of Supervisors of State Banks.

"Coordinated with this agreement as to the bank examination practices is a revision of the investment regulations which govern the securities purchases which may be made by National Banks and state banks which are members of the Federal Reserve System.

"The program of the coordination which has been agreed upon concerns itself with the loans and investments which banks may make and their treatment in bank examination and supervision. It is believed that the interest of depositors will be protected as in the past, and that the sound banks that were opened following the Banking Holiday of

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1933 will continue to be soundly conducted and adequately supervised in the public interest. At the same time it is hoped that some impetus will be given to the flow of bank credit into business and industry in the interest of economic recovery for with a permanent and enduring prosperity will come an added assurance and safety for bank depositors.

"It has been said frequently in the past few years that the practice of classifying certain loans made by banks as 'Slow' has deterred banks from making sound and profitable advances to business. The agreement which has been reached completely eliminates the word 'Slow' from the loan classifications by examiners and clearly defines the types of loans which are subject to criticism.

"The agreement minimizes the importance of market price or day-by-day fluctuation in the quoted value of investment securities in the portfolio of the bank and thus encourages the acquisition of securities of investment grade for continued retention until maturity, and discourages speculation in securities. The treatment of profits from appreciated securities will be such as to further give encouragement to sound investment practices by banks."

"The revision of the investment regulation governing purchase of investment securities by national banks and state banks which are members of the Federal Reserve System will make possible an expansion of bank credit in the field of sound local security issues. It is believed also that elimination in this regulation of reference to the ratings of securities will bring about an improved practice in the testing of the quality of bonds in the banks."

Crowley: I'm going to ask you a question. What do you mean in the last paragraph - "It is believed that elimination in this regulation of reference to the ratings of securities ...."

Upham: That's that footnote in the regulation which requires that if there is any question ...

Crowley: I got you.

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- Upham: .. it must be supported by at least two rating agencies.
- Crowley: I got you.
- Draper: I think you could possibly in that last paragraph insert another sentence which might put the emphasis upon the assistance which small business will receive from banks being able to purchase securities of that type.
- Upham: Well, I don't think they'll get much. I don't think the banks will buy them.
- Draper: Well, I'm not so sure.
- Szymczak: That may be true, but I'm afraid ....
- McKee: Mr. Secretary, I think you're able to give the President all the guidance he needs. I'm sure that he's got his own position to make, and tell the public that. I don't know of any man on God's green earth that is better able to tell the public in simpler language than he is. So I'm not going to put myself up against him.
- Eccles: What I think - I think this is a very, very important and a constructive move to make, and I think that the President can use this at the present time in connection with his whole recovery program to meet an awful lot of criticism that has been directed toward the administration by small business, by business people generally. And it seems to me that this doesn't do it so well.

I think that he should say - refer to his message at the time of his recovery program - that he says thus and so with reference to the releasing of gold and the action of the Reserve Board in decreasing reserve requirements in order to make funds more abundant, see; that the purpose of financing sound business, etc., - and in order to bring this about, that he asked at that time that there be an effort made on the part of the banking people to coordinate. Now, that's the beginning of the thing. And that for the purpose of making this effective, he asked the Secretary of the Treasury, see, to bring together

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these agencies, and that they, as a result of these conferences - that the present rules and regulations governing investments, as well as examinations, have been modified in this particular.

Then he can say with reference to the investment regulation that it now permits such and such, you see, which tends to meet a criticism that has been growing for a period of two years.

He can say that with reference to this "Slow" classification, that that has been eliminated, and that that is a recognition that banks will not be criticized for making working capital or fixed capital loans so long as they are sound.

That this then - what it does, it puts the banks on the spot if it doesn't make the loan, and not the Government, not the examining authorities, you see; that so far as we're concerned we've done this and they now can do that, see?

And then, in the case of the investment securities, that what we have done in that is to ignore the ticker tape, the Wall Street quotation thing, where investment securities, including Governments, are an investment type, and that they will be considered at cost and not at the market; and that other securities which are inferior will be taken, not at the day to day ticker tape prices, but at an average which more truly reflects the intrinsic value over a period of 18 months, see; and that the depreciation on these lower grade non-investment securities, and I would put in the percentage of the investment securities, which would be somewhat - now we can put the triple B's in there - be something over 90 percent; and that the inferior is a small amount and that only they will be treated in this manner, and then over an average period. Now, it's important because it gets away from Wall Street determining what is intrinsic value in this thing.

And that in estimating the sound - in estimating capital of the banks, that the loss showing - the determined loss would be deducted; that both on the defaulted securities, as well as on the loans that are classified as loss... In the case of the

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doubtful, that one-half of that, which is based upon experience - is that about half of that may be developed into loss - that one-half of that will be included, and one-half of depreciation in the speculative or inferior securities.

Now then, he - it seems to me that he's given to the country something that will tend to put the bankers in a position here that, now, so far as the authorities are concerned - "that we have made it possible for you to make sound loans without regard to the maturity as the final determination, and that we have detached your investments, or your securities, from a ticker tape, the Wall Street proposition, ~~and~~ that we have opened up the field here in this modification of the regulations so that the banks now can help to finance small ..."

Crowley: Say, Marriner, what in the hell are you running for?

Eccles: I'm just telling you what seems to me terribly important.

McKee: Mr. Secretary, if you prepare the facts in this case of what they were, what they are in the new approach, the President, no matter if we sit here for a week - he's a better master of the English language than all of us put together; he'll make a better job of it.

H.W. Jr: If what you people would do is this - I'm glad to - very glad to hear what Marriner has to say, and I listened carefully - if between now and midnight you can dot the last "i" and cross the last "t" as to regulations, then tomorrow I'll sit down myself with Upham and get this thing, not trying to interpret it but simply say in the very simplest language what is in it, and what the President always calls - so the man on the street can understand it. Then I'll give it to him. I mean I'm simply trying to say what this is, what is in it.

McKee: You (Eccles) can have that memorandum to the Secretary by tomorrow morning.

Eccles: Do you mind if I jot down the suggestions, so that if the President asks me what is my suggestion ....

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- H.M.Jr: If you will give it to me, I'll send it along.
- Eccles: All right, I'll do that.
- Upham: Do you mind if I say one thing, Mr. Secretary?
- H.M.Jr: No.
- Upham: I should like to avoid as much as possible any impression that this is done by the President, or that he is directing these agencies to do it, and if he doesn't make any statement I think it's a good deal better.
- Draper: Yes, but he doesn't have to be the sponsor and still it can contain good provisions for the benefit of the country.
- Oliphant: I've watched this town get excited over a recovery measure and then have it fall flat.
- H.M.Jr: There's been so much leakage on this - to be very frank with you people, I never saw so much leakage.
- McKee: By the way, Mr. Comptroller, I still have the copy of your regulation, so I'm not guilty.
- H.M.Jr: So he may simply say, "Well, that's fine, let them get it out."
- Upham: Hope he does.
- Draper: It's up to him.
- H.M.Jr: I don't know, but in view of this - it's so terribly technical, I just want to digest this thing for him and give him an explanation of what it is. Now, if Eccles wants to attach his letter, why, anything he's got - he can send it direct or I'll send it along with it - either way.
- Upham: Leave out Wall Street; that's been done too much.
- Eccles: It's not necessary to say Wall Street; say market quotations.

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- H.M.Jr: Well, I'm not at all sure but what he doesn't want to let the thing go out.
- Oliphant: Just look at all the ballyhoo about the recent recovery measure; then it falls flat. Then Washington is quiet three days ago, and the whole picture turns around three days ago, and you don't know why.
- H.M.Jr: We understand each other. We'll get this thing. As to the final crossing the "t's" and dotting the "i's," there is still some work to be done, isn't there?
- Upham: These definitions.
- H.M.Jr: Where do you want to do those?
- McKee: I think Mr. Crowley wants to wait until his man is back.
- Crowley: If you want to include it - if you want to accept this memorandum as it is, that's agreeable with me, with the definition Monday or Tuesday; or if you want to sit down now and try to work it out, we'll try and do it.
- Szymczak: Wouldn't you prefer to wait?
- Eccles: I'd like to work it out.
- Crowley: Come on, let's go to Cy's room.
- Eccles: I think it needs to be worked out, because the press will say, "What do you mean here?" Well, say that what you think he means ....
- McKee: Now understand that - is there anybody going to give this out until you see the President?
- H.M.Jr: No.
- McKee: Let's be sure of that.
- H.M.Jr: Let's say again, nothing here - as I said yesterday, this is now White House material.
- Draper: That's right.

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H.M.Jr: And I'm not even seeing them, because I made the statement last night, and what I said yesterday goes and I've got nothing to add to it. But the material which is here is the property of the President.

Upham: Well, I've been guilty of adding something to what you said yesterday. They asked me who won, and I said, "The country did."

H.M.Jr: Tch! tch!

McKee: Well, I made my remark because the Comptroller - the Wall Street Journal carried his revised regulation, and he gave me very kindly a copy of it. So I've still got my copy.

H.M.Jr: Well, this is White House material.

Diggs: Did they carry it today? I haven't seen it.

Eccles: There isn't the Comptroller's analysis of the Comptroller's regulation that we discussed yesterday and all agreed to. That should be put on here.

H.M.Jr: That's a separate document.

Eccles: I know it's separate, but what I meant is in connection with what goes to the President, and the thing we're all approving - we approve that as well.

H.M.Jr: That's right.

Eccles: See?

Upham: It isn't here.

Eccles: Because there isn't any question ....

McKee: You have my promise that I'll talk to no newspaperman.

H.M.Jr: I don't worry about you.

Upham: Did you have copies of that regulation made?

Diggs: I don't have any.

Upham: I have one, but I'm not going to give it away.

## GROUP MEETING

June 23, 1938.  
9:45 A. M.

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

H.M.Jr: (Over telephone.) Please tell the operator I talked with her this morning at a quarter past seven, and wanted to talk to Mr. Upham at eight o'clock, and she got poor Mr. Upham out of bed and over at my house at eight o'clock, instead of which he lost about three pounds, had no breakfast, and is terribly up-set. Thank you.

Klotz: It's good for him, as a matter of fact.

H.M.Jr: Professor McReynolds.

McReynolds: This. (Hands H.M.Jr. a letter.)

H.M.Jr: Boil it down - what do I do?

McReynolds: Of course, they've given instructions with respect to the man in Italy. Feis had an acknowledgment of it - the papers were in his office but he didn't know it. Incidentally, it was ten days too late - yet, should have had it long before.

H.M.Jr: What do I do with this?

McReynolds: Well, I don't know whether you do anything about it.

H.M.Jr: I'll read it. Would you call up Feis?

McReynolds: Feis' office had already called - he called Ballinger before, inside of fifteen minutes. When he found-he made some inquiry - he found .....

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- H.M.Jr: Feis had to have an excuse to come over and see me.
- Oliphant: May I suggest that .....
- McReynolds: Here's a letter about the same problem. The State Department isn't involved, but it's a protest from one of these Wage-Earners Protective Conference groups of the union people, against the methods now used in determining foreign value, and I only mention it - this letter is addressed to you. That, incidentally, came in yesterday at three fifty-seven p. m., and Steve had it in to my office before the day was over. But I don't think it's .....
- H.M.Jr: Well, you take care of it - don't leave it on my desk.
- McReynolds: That (a letter) is the Executive Order providing for the place for the Coast Guard.
- H.M.Jr: Have we finally got a place?
- McReynolds: Up at the Fort Hunt place.- we are declaring a surplus, and then Peoples can give it to them. Take it out of the jurisdiction of this.
- H.M.Jr: You mean we get the location - the whole thing?
- McReynolds: No, just the part we want.
- Bell: How did you get by the National Park and Planning?
- McReynolds: The boys find that there is authority in the President, regardless of the jurisdiction of the Planning Board, to declare that plot as surplus, available for distribution, available for reassignment by the Procurement Division, so that the President is here declaring that as surplus and Peoples will proceed immediately to assign it to Coast Guard.
- H.M.Jr: Anyway, you did it. I'm not asking any questions; it sounds like a phoney to me.
- McReynolds: (Laughing.) I didn't work it out; it was Herman's bright boys who worked it out.

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- Bell: Must have gotten Uncle Frederick out of town and put it across. I agree with you.
- Oliphant: God moves in mysterious ways, wonders to perform, Dan.
- McReynolds: It's ridiculous to work the whole thing out, because they want the ninth hole of the golf course - that's what they want to use it for.
- H.M.Jr: All right, Mac, O. K.?
- McReynolds: Yes.
- Oliphant: In connection with what Mac said, if there is any further discussion about the lay of the Treasury, I'd like to give it to Mac.
- H.M.Jr: Feis explained to me - "Now I may be all wrong, but I wanted an excuse to come over here on a very important matter, unofficially." He said, "Now what I am saying - maybe it's all fixed up, but I've got to have a reason to come over."
- McReynolds: Well, maybe he knew the letter was in his office.
- H.M.Jr: No, no. Feis is all right. Feis is all right.
- McReynolds: Sure he's all right; I think he's a swell guy.
- H.M.Jr: So do I. Dan.
- Bell: R. F. C. is going to sell sixty million today.
- H.M.Jr: (Over telephone.) Get Dr. Burgess - New York.
- Bell: They got six million dollars yesterday and they will get the balance sometime between the twenty-ninth of June and fifth of July, depending on the deliver of the obligations. They are R. F. C. obligations. They are offering today, for payment about the fifteenth, between twelve and fifteen million dollars of P. W. A. securities.
- H.M.Jr: Ah - good.

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Bell: So .....

H.M.Jr: That forty million of Home Owners' Loan - was that a turnover or was there any new money?

Bell: There will be about thirteen million dollars of new money.

H.M.Jr: How much?

Bell: Thirteen million dollars.

H.M.Jr: (Telephone.) Hello.

Operator: Dr. Burgess will be there at 11:30, our time. Mr. Sproul is there.

H.M.Jr: Sproul?

Operator: Yes.

H.M.Jr: No. No. Burgess is the one - I'll take Burgess when he comes.

Operator: All right.

H.M.Jr: Thanks.

Lochhead: There is nothing new in the exchange market. The silver market has been quiet. I noticed the Cuban House passed the bill for another silver coin - a silver peso. Probably the President will sign that and it will start right away.

H.M.Jr: Harry, I'd like to see you at eleven thirty.

White: (Nods "Yes.") You've noted, probably, the purchase and sales of foreign securities. The only thing I'd like to call your attention to is the rather startling absence of results from both your statements with respect to gold, which was very reassuring, according to foreign prices, and was certainly so here, plus the upper movement in the foreign market last week, notwithstanding that there is practically no net movements. The only response that there appears to be to those favorable circumstances is a substantially increased purchase and sales

which reflects the increased purchase and sales of domestic matters, but no net movements at all. I've raised this question with Archie. He doesn't think there is much in it; I am not sure, and I want to call it to your attention.

With respect to the copper companies. The Kennecott Copper Company, and the big copper companies have already laid off most of their help, and they are contemplating shutting down their mines very soon. There produce - thirty per cent of the copper companies produce a portion of the silver. I was wondering whether there is any thought in your mind whether an informal discussion with the key men in those industries to the effect that they have received subsidies and the chief argument against the reduction in price of silver has been the unemployment which it has caused. They are shutting down all the plants. Might it not be possible they would repropotion them, with the implied suggestion that the price of silver may not remain where it is if they are going to cut the price down.

H.N.Jr: Talk to me about it at eleven thirty, and bring in those little books you have on world trade.

White: Here's something on world trade that brings out one of the interesting things, if you want it.

H.M.Jr: I'd rather wait until then. Incidentally, .....

White: There is a couple other things. For the first time, we have been able, in our examination of these injury cases which come to us, have we been able to find a case of injury. We have had quite a few lengthy reports.

Oliphant: Injury being one of the necessary elements of dumping.

White: I'd like to raise the question here as to who is going to determine for us whether our criteria of injury which we have been applying, on an economic basis - we've gone through the history of it and have a document prepared, setting forth our findings. We find it very difficult to find a case of injury. This is the first case of

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injury we have found in the application of dumping duties, and it may be at some time the Secretary may be subjected to criticism, that he is not carrying out the intent of the act because so many cases are being determined.

H.M.Jr: Injury to whom and by whom?

White: The law reads that there must be injury to a domestic industry or likely to be an injury to a domestic industry as a consequence of dumping goods, so in many cases we find dumping.

H.M.Jr: Who is dumping?

White: This particular "horse-shoe" case is dumping from Germany.

H.M.Jr: Well, look .....

White: There's a lot of cases been around. (Laughter.)

H.M.Jr: I'll talk to you more about it at eleven thirty. I've got a half hour, and I'd like to talk to you about it.

Oliphant: I'd like to say something on that.

H.M.Jr: You would?

Oliphant: Because I won't be here at eleven thirty.

H.M.Jr: All right.

Oliphant: The statute - the law is, there must be injury, and my interpretation of the law is there must be injury in fact, and I know of no better way to determine injury in fact than to refer to the economic situation to determine whether there is an injury in fact. If you find that there rarely is injury, that is just the way it works out. There's no mystery about it - nothing to defend - nothing to be worried about.

Well, the decisions refer those cases to you for that determination, which is based - made after careful determination - made, maybe before you got ahold of it.

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H.M.Jr: This is too big and important a subject to do this morning. We'll talk to them and I'll sit down with you and the legal section.

(Side conversation with Mrs. Klotz.)

What else, Harry?

White: That's all. I didn't know that Schmeling was knocked out last night.

H.M.Jr: Another injury case. (Laughs) Injury in fact.

White: Injury and dumping.

H.M.Jr: I not only heard my own radio but I heard about five radios in the neighborhood.

White: It's quite an economic blow to Germany, I think.

Klotz: Ah, it's terrible - this is too much.

H.M.Jr: Is this a question of blocked exchange? (Laughter.) All right.

Now, - Professor Upham.

Upham: I talked to Jesse. He's all right.

H.M.Jr: And White?

Upham: He's out of town and his secretary doesn't know where he is and won't know until he comes in. We've been on him right along, but I am sure he'll have no objection.

H.M.Jr: Well, then have a couple copies made. I'll take care of it; I think it's nice to use it, don't you think so? Just use this; would you say, "Mr. Upham?"

Upham: No, I'd say, "I've just learned."

H.M.Jr: Anything else?

When are you going to be ready to let me see the statement, so I can write a letter. How about three o'clock this afternoon?

Upham: Oh, fine.

H.M.Jr: Mrs. Klotz, Upham at three o'clock.

Upham: You said it was all right for Mr. Diggs to make a speech?

H.M.Jr: I went over it with him and there was no controversy.

Upham: You went over his speech with him?

H.M.Jr: No, but he's going to talk to you.

Upham: He's talking next Tuesday ~~night~~ --.

H.M.Jr: No, he should wait for the President - wait and see. But nothing - there wasn't anything that is controversial.

Upham: This is tomorrow night, and he's leaving this afternoon.

H.M.Jr: Incidentally, the Washington Herald gave us a nice editorial and so did the Times, but I just suggest you people read Mr. Krock, two columns removed, and then read it to me, and you wouldn't - they don't seem to know what my name is when they write an editorial. They always refer to me as the Secretary of the Treasury. It's all very interesting - they have forgotten my name.

(Nods to Mr. Haas.)

Haas: I'll send in the notes on that meeting yesterday.

H.M.Jr: Did anything happen after I left? Did they get down to brass tacks?

Haas: No. They were just - were you there when Hopkins made the suggestion - how to offer all the wheat?

H.M.Jr: The last thing said was he thought they ought to buy enough wheat to give every person all the wheat they could eat.

Haas: He reiterated that at the close - not only that but several other items. Tapp thought it could be done; Wallace was skeptical as to how it would

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work out. I am not so sure Wallace didn't agree he would do that, and finally, at the end Wallace asked Tapp if he had enough instructions with regard to policy and Tapp said he had.

Wilcox went over and told what they were doing, and sort of made a talk about the criticism Parran made on the distribution. They are going ahead on the study.

H.M.Jr: Incidentally, if you could get Tapp, who is going to use wheat - use this wheat, on which is a mixture of wheat and milk and something else - Cornell has a formula of wheat and milk, see, which is almost a balanced diet. See?

Haas: Yes sir.

H.M.Jr: They have some trade name for it which they use, but I mean the formula is available, and it's so much better than just the straight wheat. Why don't they take that formula and - take the whole wheat flour, plus the skimmed milk, using the formula of the college - home economics.

Haas: Were you there when Dr. Parran suggested that combination, plus the germ of the wheat?

H.M.Jr: But the college and Cornell's got that formula; it's so much better.

The most amazing statement made there yesterday was by Hopkins. He said-I was talking about buying food - "They bought a million six hundred thousand pounds of tobacco; five million boxes of grapefruit juice, which was the principal purchase for these starving people." Hopkins said, "There may be about two hundred thousand who worry about that besides you." He said, "There's nobody else in the country who's worrying about it." Me and two hundred thousand social workers. This is Hopkins putting me down with the social workers. (To Mr. Haas) Is that statement correct?

Haas: That's what he said.

H.M.Jr: That's what he said.

White: But he said it with a smile, didn't he?

H.M.Jr: There was no smile there yesterday. It was all serious.

Haas: He was really more excited than I have seen him in a long time.

H.M.Jr: "You say there are forty million people - what you say is 'Let them starve.'" There were no smiles there yesterday. He said, "Well, you and two hundred thousand social workers worry about this thing." There were no smiles - get George to tell you. It was one of the most amazing meetings I have ever attended.

White: It doesn't check with his general character - his general philosophy.

Bell: It does check up with the last two years of the W. P. A.

H.M.Jr: Yes. We've got stenographic notes of meeting after meeting here with Hopkins. There are two Christmases that Bell and I are responsible for putting on more people to work, and we are solely responsible for two years - on two Decembers. Is that right, Dan?

Bell: Yes. I don't know whether I told you or not but maybe you know that Wallace withdrew his cotton letter.

H.M.Jr: No. I did not.

Bell: And asked that four million be authorized to purchase wheat.

H.M.Jr: Grand. Grand.

Bell: That's been approved.

White: Are they going to create a post of Public Welfare?

H.M.Jr: No.

White: I mean, in the Reorganization bill they were considering it; but just what does that mean?

- H.M.Jr: Well, look, Harry, get George to tell you what happened at that meeting yesterday. It's the most amazing thing. Here I am, Secretary of the Treasury, with Wallace and Hopkins, urging them to take care of these people .....
- Loelhead: In that connection, did you see Franklin's column on distribution?
- H.M.Jr: (Side conversation with Mrs. Klotz.)  
(Nods to Mr. Haas.)
- Haas: I've got a couple other small things. On this trip that Miss Lonigan would like to take, when the note went in to you on it originally, I thought it was well for any of these people to go out and attend these meetings; she might pick up a good deal, but in the meantime you, over the week-end, came back with the idea of this study, and I held it up, thinking she might be involved, and I held her up. You are going on your vacation, so I feel this way about it, that I'd be inclined to keep her here working on this steadily.
- H.M.Jr: What? What is that group?
- Haas: The social workers are having a meeting. Representatives all over the United States will be there; she'd pick up some gossip.
- H.M.Jr: This is more important. Let her take her vacation whenever she wants to go, but - I mean, this thing here they approved yesterday - Parran and Home Economics made a study, costing around forty thousand dollars, as to what the situation today is as to malnutrition. They agreed to that. Now I don't know of anything more important than that.
- Haas: That's right.
- H.M.Jr: She can take her vacation any time she wants to.
- Haas: The other question is, Dr. Parran noticed I was taking some notes and he asked if he could have a copy of the notes.
- H.M.Jr: Yes.

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- Haas: On this question Harry raised on copper, I think it is important from the point of view - I am not going into a whole economic discussion - I think it is important, from the economic situation, that the production of the copper be cut down. It would be ideal if you could cut the production down and still pay the men, but I think it is a very involved question as to whether you should advise them to continue the production of copper.
- H.M.Jr: I agree with you, but that is all right. The purpose of these things is to raise the questions and, as I say, out of ten suggestions we all make, if we get one good idea that one idea is worth while. The purpose is to raise them, and I can do - Haas and I agree with Harry's point, not to throw the men out of work. The only thing that surprises me about Harry's remark is that it sounds dictatorial. "You do this thing and you drop the price of silver." The threat of the arm.
- O. K., you win.
- Haas: I'll help you out, Harry.
- H.M.Jr: Well, why go through the motion? What else, George?
- Haas: You probably have noticed in the last few days the prices of metals have been moving up nicely, which is more important from the industrial outlook picture than the price of wheat.
- Oliphant: Does that include copper?
- Haas: Copper with heavy volume, and lead, and zinc, and tin.
- H.M.Jr: Another rain drop.
- Haas: That's all.
- H.M.Jr: Weren't you going to give me the European crop picture?
- Haas: Friday.

- H.M.Jr: I see, Friday. All right, George.
- Haas: I'm a little skeptical about these notes I take. I try to repeat almost exactly what people said. I wonder if I couldn't generalize on those things for Dr. Parran.
- H.M.Jr: Oh, let Parran make his own notes. If you start handing out these notes you set a precedent. Give it to me just the way you did it - with all the dirt in it.
- McReynolds: If the rain drops keep coming fast, don't let Marriner raise an umbrella.
- H.M.Jr: Herman Oliphant said something very smart last night. Do you mind if I repeat it?
- Oliphant: If you put in all the adjectives.
- White: He wants to stop you.
- H.M.Jr: He said, "Let me remind you what you said, that if we ever came out of this thing - and Marriner Eccles came in .... " You repeat it - with the dashes.
- Oliphant: If we ever get this thing started up again - says the first dash - including Marriner Eccles coming around and talking about raising reserves, I'm going to throw the blank, blank, blank right out of my window.
- H.M.Jr: And I told Herman that Marriner will come in before I go - about in the middle of the job - and he will be worrying about prices and things going too fast, and he's going right out that window - feet first.
- Upham: Picked your window?
- H.M.Jr: Or anybody else. Remember, George, last January, in '38 when I said we were just beginning to get a new taste in prosperity and I wasn't used to the taste and that they would take it away from me - and they did.

Oliphant:

Just this piece of gossip. Two days before Congress closed the Utah Copper Company closed down, and the day Congress closed, Congressman Robertson, of Utah, came in to tell me goodbye. He's a former classmate of mine. As I say, two days before the session adjourned the Utah Copper Company closed, and they came in to thank him - the officers - for what he had done for them by way of legislation. He said, "I am going out to Utah. The Republicans are going to say this close-down - they're going to say - is due to the Democrats, and I'm not going to take it; I'm going to make one speech, and none other. I'm going to make it all summer." "Last year you paid fifteen per cent dividend, and yet you have to close down the mine and throw people out of work. In '34 and '35 you made copper pay - you don't really own that stuff, you know; those are natural resources."

They said, "Wait a minute; we don't want to raise that issue. We think we'll have that mine open again in a couple days."

H.M.Jr:

The other - it is interesting. Burgess sends me a report every week, and the first three months of this year, much to my amazement, the new issue - the issue sold to raise new money - was slightly in excess of the first three months of '36, which amazed me. The stock sold to raise new money the first three months of this year was slightly in excess of new money raised in the first three months of '36.

Bell:

Is that due to the liberalization of the banking laws.

Upham:

Perhaps we won't have to do that.

H.M.Jr:

All right.

June 23, 1938.  
11:46 A. M.

H. M. Jr: Hello.

Mr. Madison stepped out of his office, but  
Dr. Burgess is there now.

H. M. Jr: O.K. Thanks..

Go ahead.

Burgess: Hello, Henry.

H. M. Jr: Hello, Randolph.

B: How are you? Sorry not to be available. I'm  
a professor, you know, these two weeks.

H. M. Jr: You've been what?

B: I'm a college professor.

H. M. Jr: Good for you.

B: I'm teaching at this Graduate School of Banking.

H. M. Jr: Lucky man.

B: I go over there in the morning and come back in  
the afternoon sometime.

H. M. Jr: How's that water works thing going?

B: Well, fair. The insurance companies didn't come  
in quite as heavily as they expected.

H. M. Jr: I see.

B: But they're gradually getting a pretty good  
distribution.

H. M. Jr: When will they close the books?

B: Just a second, I'll see if - I've got Maddy  
right here with me - when they expect to close  
them up. -- They don't know just when they will  
close it up. They're finding it a little slow  
distributing it among leaders. It came out  
pretty rapidly, you know.

- 2 -

- H. M. Jr: I think it's the silliest performance I ever heard - I mean why they had to bring it out today - why I thought surely they wouldn't bring it out till Monday.
- B: They never wait quite long enough before they shoot on these things.
- H. M. Jr: No. I think it was a very stupid performance.
- B: Yes. Well, I think it will go all right, Henry.
- H. M. Jr: O.K.
- B: The prices of the long ones are attractive and the terms are long, of course, some of them, but I think it's going to work out all right.
- H. M. Jr: All right. Thank you.
- B: All right.

June 23, 1938.  
2:34 P.M.

H. M. Jr: Hello.

Secretary Hull is at lunch. He'll be back in about fifteen minutes.

H. M. Jr: Well, I can't talk to him, and leave word I called.

All right.

MEMORANDUM

Conference held in Secretary's Office at 2:45 p.m.  
June 23rd, 1938.

Present: Secretary Morgenthau  
Harry Hopkins  
Admiral Peoples  
Mr. McReynolds

Mr. Hopkins stated that he has 12 million dollars given him by the President for the purchase of supplies. He stated that they knew what supplies they needed and where they wanted them delivered, but it would be necessary to purchase them prior to July 1st, because the availability of the money would expire on that date. The items of supplies required are cement, gravel, stone, lumber and crushed rock. He asked whether the Procurement Division would undertake to purchase these supplies for them within the time limit. Mr. Hopkins said that the Procurement Division had today purchased \$400,000 worth of material which Hopkins' office requested only four days ago. He did not state what material it was, but did say it was a very difficult purchase to make and complimented the Procurement Division on accomplishing the purchase.

Mr. Hopkins stated that there were seven items of material which would be purchased with the 12 million dollars and that they would be willing, if any one or two of those items were too complicated to handle, to have such items eliminated and a proportionate increase made in the quantity of other items.

Mr. Hopkins said he could have on Admiral Peoples' desk within an hour a signed requisition for the material to be purchased and the points to which deliveries are to be made, with a statement granting discretion to the Procurement Division to modify the items and quantities as might be necessary. He stated that the points of delivery might not exceed three and would under no condition exceed six.

The Secretary stated the Procurement Division would undertake to make the purchases requested.

Mr. Hopkins stated he would have his Mr. Holmes bring the requisition to Admiral Peoples within the hour and stay with him such time as might be required to clear up any points that might be raised.

The Secretary asked Mr. Hopkins whether he had the money and

- 2 -

Hopkins assured him that he had the 12 million dollars.

Admiral Peoples assured the Secretary that Procurement would complete the purchases as requested and the Secretary directed that the Admiral communicate with him before 12 noon tomorrow if he found he was unable to comply with the request, otherwise the Secretary would take it for granted that the project would be completed.

o o o o o

*Mr*

DEPARTMENT OF THE INTERIOR  
UNITED STATES HOUSING AUTHORITY  
WASHINGTON

92

*Levitt June 22, 1938*

MEMORANDUM for Honorable Henry Morgenthau, Jr.:

Outlook in Respect to Loan Contracts and  
Disbursements, June 20, 1938.

The upper part of the attached chart shows our outlook for the making of loan contracts and for disbursements as it appears today. The lower part shows the outlook as it appeared on February 20, 1938, and incorporates the estimates presented by me to the White House on that date. The outlook as it appears today contemplates a much larger volume of loan contracts and disbursements than that which appeared possible on February 20. For example, it is now estimated that by the end of 1938, loan contracts will total \$461,000,000 and disbursements total \$67,000,000 as compared with prospects on February 20 for loan contracts of \$175,000,000 and disbursements of \$41,000,000 by the end of 1938.

The graphs on both charts show the monthly amount of loan contracts and of disbursements. The legends attached to the graphs at semi-annual intervals show the cumulative amounts of loan contracts and of disbursements to the respective dates.

The upper chart is based on the making of loan contracts at the rate of \$50,000,000 per month. If we continue at this rate, we will have exhausted our present authorization of \$800,000,000 by June 1939. At this time, additional authorizations must be made by the Congress if we are to continue at the rate shown in the upper chart.

The graph for disbursements by months shown in the upper chart has been computed on the assumption that the average project will be completed and final payments made in the twentieth month after the approval of loan contract.

- 2 -

It is estimated that the following percents of the total loan will be disbursed in each of the successive months:

<u>Months after Approval of Contract</u>	<u>Percent of Total Loan Disbursed</u>
1	1%
2 (First Land Payment)	4%
3	6%
4	5%
5 (Complete Plans and Spec.)	3%
6 (Contract for Construction)	2%
7	2%
8	2%
9	3%
10	4%
11	6%
12	7%
13	8%
14	8%
15	8%
16	8%
17	7%
18	5%
19	3%
20 (Final Payment)	8%
	<u>100%</u>

Our expected rate of progress, as shown above, may be compared with the actual record of the PWA Housing Division which built under direct contract and hence had complete control of its projects. The PWA record is as follows:

<u>Average Elapsed Time from Date of "Proceed Order" to:</u>	<u>Average of 48 Projects</u>
Completion of Land Acquisition	6.7 months
Commencement of Demolition	7.3 "
Completion of Demolition	9.1 "
Commencement of Construction	11.2 "

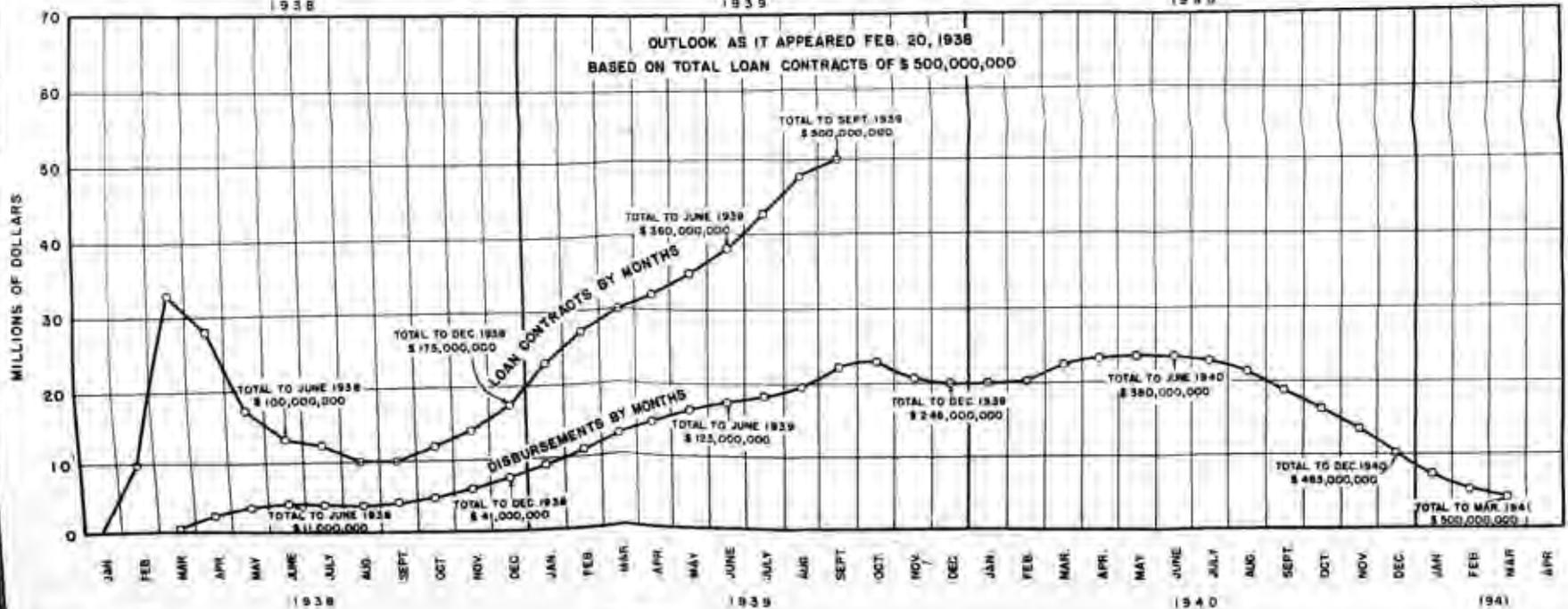
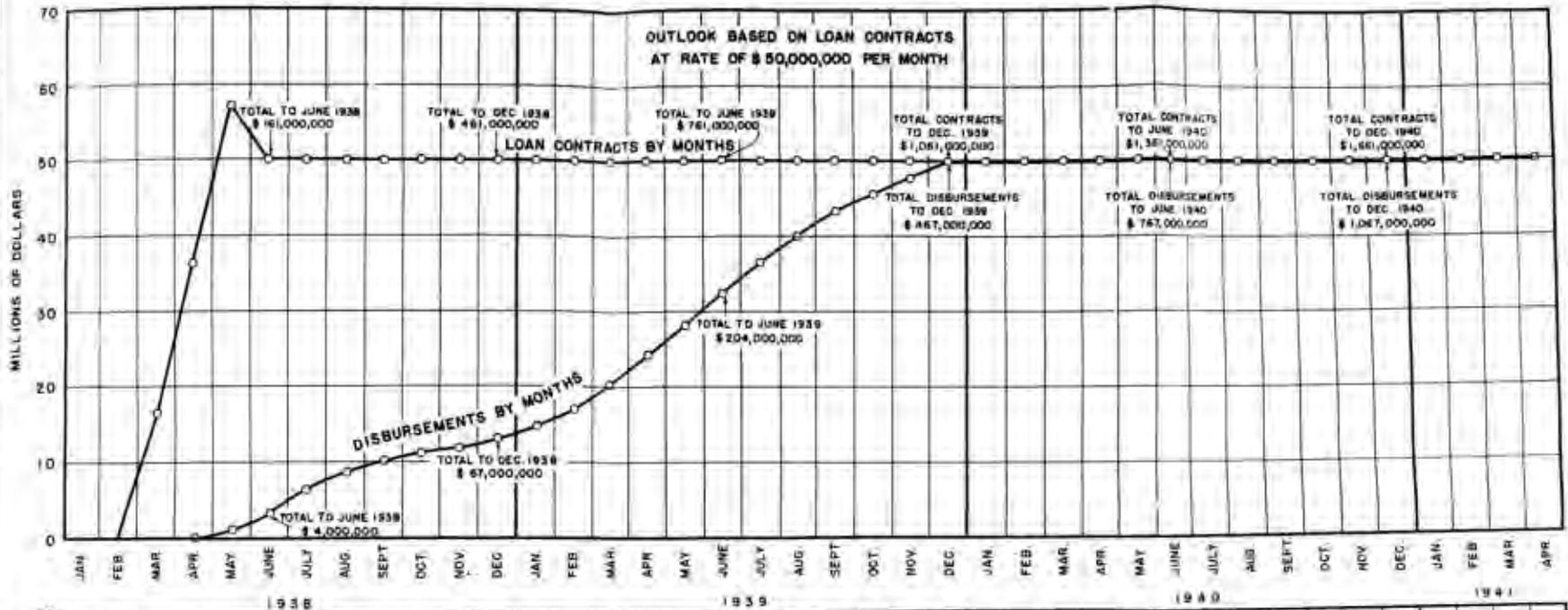
The PWA thus took on the average project about twice as long to reach the construction stage as is contemplated in our schedule at the top of the page.

*Nathan Straus*  
NATHAN STRAUS,  
Administrator.

Attachment

UNITED STATES HOUSING AUTHORITY  
**OUTLOOK IN RESPECT TO  
 LOAN CONTRACTS & DISBURSEMENTS**

JUNE 20, 1938



THE COMPLETE LIST OF TOTAL COMMITMENTS BY THE UNITED STATES HOUSING AUTHORITY (INCLUDING EARMARKINGS OUTSTANDING, TODAY'S EARMARKINGS, AND LOAN CONTRACTS SIGNED) FOR 95 LOCAL HOUSING AUTHORITIES IN 23 STATES AND THE TERRITORY OF HAWAII IS AS FOLLOWS:

<u>State and City</u>	<u>Earmarkings Outstanding</u>	<u>Loan Contracts Signed</u>	<u>State Total</u>
<u>ALABAMA</u>			
Anniston	\$540,000		
Birmingham-- May Group	672,000	\$3,828,000	
Gadsden	900,000		
Mobile	1,400,000		\$7,340,000
<u>CALIFORNIA</u>			
Los Angeles County	5,000,000		
Oakland	5,000,000		
San Francisco	15,000,000		25,000,000
<u>CONNECTICUT</u>			
Bridgeport	6,500,000		
Norwalk	450,000		6,950,000
<u>FLORIDA</u>			
Jacksonville-April Group		1,027,000	
Miami	2,250,000		
Orlando	450,000		
Pensacola	900,000		
St. Petersburg	900,000		
Tampa	1,500,000		7,027,000
<u>GEORGIA</u>			
Athens	270,000		
Augusta-April Group		1,369,000	
Columbus	850,000		
Rome	540,000		
Savannah	2,700,000		5,729,000
<u>HAWAII</u>			
	2,400,000		2,400,000
<u>ILLINOIS</u>			
Chicago	16,000,000		
East St. Louis	1,500,000		
Peoria	1,500,000		19,000,000
<u>INDIANA</u>			
Anderson	750,000		
Decatur	50,000		
Delaware County	400,000		
Fort Wayne	1,500,000		

(more)

<u>State and City</u>	<u>Earmarkings Outstanding</u>	<u>Loan Contracts Signed</u>	<u>State Total</u>
<u>INDIANA</u> - Continued			
Kokomo	\$600,000		
Marion	500,000		
Muncie	900,000		
Richmond	600,000		
Vincennes	270,000		\$5,570,000
<u>KENTUCKY</u>			
Covington	2,700,000		
Frankfort	450,000		
Lexington	1,350,000		
Louisville - April Group	4,000,000	\$4,261,000	12,761,000
<u>LOUISIANA</u>			
New Orleans - March Group	10,000,000	8,411,000	18,411,000
<u>MARYLAND</u>			
Annapolis	400,000		
Baltimore - May Group	6,384,000	16,616,000	23,400,000
<u>MASSACHUSETTS</u>			
Boston	9,000,000		
Lowell	2,700,000		11,700,000
<u>MICHIGAN</u>			
Detroit-May Group	10,743,000	14,257,000	25,000,000
<u>MONTANA</u>			
Billings	270,000		270,000
<u>NEBRASKA</u>			
Omaha	2,100,000		2,100,000
<u>NEW JERSEY</u>			
Elizabeth	2,500,000		
Montclair	900,000		
Newark	12,600,000		
North Bergen	900,000		16,900,000
<u>NEW YORK</u>			
Buffalo - May Group	1,257,000	3,643,000	
New York City - April Group		30,000,000	
Schenectady	1,400,000		
Syracuse - March Group		3,930,000	
Utica	900,000		
Yonkers	2,200,000		43,330,000
<u>NORTH CAROLINA</u>			
Wilmington	630,000		630,000

(more)

<u>State and City</u>	<u>Farmings Outstanding</u>	<u>Los. Contracts Signed</u>	<u>State Total</u>
<u>OHIO</u>			
Akron	\$1,800,000		
Cincinnati	10,500,000		
Cleveland - May Group	8,847,000	\$9,153,000	
Columbus - May Group	2,612,000	1,888,000	
Dayton	3,000,000		
Toledo	1,800,000		
Warren	1,000,000		
Youngstown - March Group	765,000	2,835,000	
Zanesville	1,350,000		\$45,550,000
<u>PENNSYLVANIA</u>			
Allegheny County	1,800,000		
Allentown - May Group		1,446,000	
Chester	1,250,000		
Harrisburg	1,500,000		
McKean County	400,000		
McKeesport	900,000		
Philadelphia	22,000,000		
Pittsburgh - May Group	6,754,000	6,746,000	
Reading	1,500,000		
Scranton	1,000,000		45,296,000
<u>SOUTH CAROLINA</u>			
Charleston - March Group	2,000,000	1,017,000	
Columbia	1,500,000		
Spartanburg	800,000		5,317,000
<u>TENNESSEE</u>			
Johnson City	300,000		
Knoxville	1,800,000		
Memphis	5,000,000		7,100,000
<u>TEXAS</u>			
Austin - March Group		643,000	
Brownsville	500,000		
Corpus Christi	750,000		
Dallas	3,000,000		
El Paso	900,000		
Fort Worth	2,000,000		
Houston	2,250,000		
San Antonio	3,600,000		
Temple	180,000		
Waco	900,000		14,723,000
<u>WEST VIRGINIA</u>			
Charleston	2,500,000		
Huntington	2,250,000		
Morgantown	270,000		
Wheeling	1,350,000		6,370,000
TOTALS	\$246,804,000	\$111,070,000	\$357,874,000

LOAN CONTRACTS WITH LOCAL HOUSING AUTHORITIES

<u>CITY</u>	<u>AMOUNT OF CONTRACT</u>	<u>APPROVED BY PRESIDENT</u>
Austin, Texas.....	\$ 643,000 .....	March 17, 1938
Charleston, South Carolina.....	1,017,000 .....	" " "
New Orleans, Louisiana.....	8,411,000 .....	" " "
Syracuse, New York.....	3,930,000 .....	" " "
Youngstown, Ohio.....	2,835,000 .....	" " "
Augusta, Georgia.....	1,369,000 .....	April 19, 1938
Jacksonville, Florida.....	1,027,000 .....	" " "
Louisville, Kentucky.....	4,261,000 .....	" " "
New York City, New York.....	30,000,000 .....	" " "
Allentown, Pa.....	1,446,000 .....	June 2, 1938
Baltimore, Maryland.....	16,616,000 .....	" " "
Birmingham, Alabama.....	3,828,000 .....	" " "
Buffalo, New York.....	3,643,000 .....	" " "
Cleveland, Ohio.....	9,153,000 .....	" " "
Columbus, Ohio.....	1,888,000 .....	" " "
Detroit, Michigan.....	14,257,000 .....	" " "
Pittsburgh, Pa.....	6,746,000 .....	" " "
TOTAL .....	\$111,070, 00 (17 contracts)	

STATUS OF PAYMENTS BY USHA UNDER LOAN CONTRACTS

<u>CITY</u>	<u>Date Authorized To Make Payment</u>	<u>Amount Authorized</u>	<u>Date of Actual Payment</u>
<u>MARCH CONTRACTS</u>			
New Orleans, La. ....	4-20-38 .....	\$ 279,000 .....	4-22-38
Syracuse, N. Y. ....	4-19-38 .....	114,000 .....	4-20-38
Youngstown, Ohio .....	4-19-38 .....	53,000 .....	4-20-38
	6-8-38 .....	37,000 .....	6-10-38
Charleston, S. C. ....	5-12-38 .....	14,000 .....	5-20-38
Austin, Texas .....	4-29-38 .....	19,000 .....	5-2-38
	6-9-38 .....	22,500 .....	
<u>APRIL CONTRACTS</u>			
Jacksonville, Fla. ....	6-14-38 .....	23,500 .....	
Augusta, Georgia .....	5-17-38 .....	13,500 .....	5-23-38
Louisville, Ky. ....	5-3-38 .....	127,000 .....	5-6-38
	5-24-38 .....	600,000 .....	5-26-38
New York City .....	6-13-38 .....	375,000 .....	6-16-38
<u>MAY CONTRACTS</u>			
Birmingham, Ala. ....	.....	.....	.....
Baltimore, Md. ....	6-15-38 .....	400,000 .....	.....
Detroit, Mich. ....	.....	.....	.....

STATUS OF PAYMENTS BY USHA UNDER LOAN CONTRACTS  
(Continued)

<u>CITY</u>	<u>Date Authorized To Make Payment</u>	<u>Amount Authorized</u>	<u>Date of Actual Payment</u>
Buffalo, N. Y. ....	6-14-38 .....	\$ 60,450 .....	6-23-38
Cleveland, Ohio .....	.....	.....	.....
Columbus, Ohio .....	.....	.....	.....
Allentown, Pa. ....	.....	.....	.....
Pittsburgh, Pa. ....	.....	.....	.....

ACTUAL PAYMENTS UNDER CONTRACTS

Total Amount of Payments Authorized to Date .....	\$2,137,950
Total Amount Actually Paid to Date .....	1,691,950

PROJECTS COVERED BY LOAN CONTRACTS APPROVED BY PRESIDENT

Total Amount of Approved Loan Contracts .....	\$111,070,000
Total Estimated Project Cost Covered by These Contracts .....	123,410,049

LOAN CONTRACTS APPROVED BY PRESIDENT MARCH 17, 1938.CITYAMOUNT OF CONTRACTAUSTIN, TEXAS

\$ 643,000

USHA payment on Advance Loan - \$19,000 - April 29, 1938  
 22,500 - June 9, 1938  
 \$41,500

Architects' contracts about to be executed.

Land acquisition progressing satisfactorily, and early closing expected on sites for Negro and Mexican Projects. Demolition will be begun immediately upon such land acquisition.

Final plans in preparation, and bids are expected to be taken about August 1st.

CHARLESTON, SOUTH CAROLINA

\$ 1,017,000

USHA payment on Advance Loan - \$14,000 - May 12, 1938

A requisition is pending for an additional advance loan in the amount of \$106,000 for acquisition of lands. Architects are proceeding with the work on preliminary plans.

Land for the site of the Project is under contract. However, part of the land is in litigation and it may be some time before this litigation is cleared. We are advised that the Housing Authority expects to take a short cut by bringing condemnation proceedings to acquire this land which is in litigation.

A test suit has been instituted and has already been heard by the Supreme Court and we expect a favorable decision within a few days. This test suit involves the constitutionality of the South Carolina Housing Authorities Law.

Project Adviser describes Charleston as moving slowly, but we are prodding them.

LOAN CONTRACTS APPROVED BY PRESIDENT MARCH 17, 1938 (Continued)CITYAMOUNT OF CONTRACTNEW ORLEANS, LOUISIANA

\$8,411,000

Advance Loan Payment Made By USHA - \$279,000 - April 21, 1938

Test suit pending before Louisiana Supreme Court to establish constitutionality of state housing legislation. Expect favorable decision within next ten days.

Appraisals reviewed but no land acquired yet.

Architects' preliminary drawings received and advisers from Technical and Project Planning now in New Orleans to assist in unit plan revision.

SYRACUSE, NEW YORK

\$3,930,000

Advance Loan Payment Made By USHA - \$114,000 - April 16, 1938

Local authority expects to acquire site by blanket condemnation and to take up options for approximately 50 percent of the land which is now under option. Title search and examination expected to be completed by the end of this week and surveys to be completed by the middle of next week. Local authority expects to obtain title to at least one block of the site (less isolated parcels which may be found to be titled in non-residents) by July 15. A requisition for \$1,250,000 will be filed within the next few days, all for land purchase purposes.

Preliminary drawings reviewed and suggestions made for revisions. Architects proceeding now with working drawings.

CITY

AMOUNT OF CONTRACT

YOUNGSTOWN, OHIO

\$2,835,000

Advance Loan Payments Made By USHA - \$53,000 - April 18, 1938  
  37,000 - June 8, 1938  
  \$90,000

Almost all land under option. Some land has been acquired. Proceedings authorizing advance loan notes for acquisition of remaining land have been adopted by Authority.

Formal and final submittal of preliminary drawings will be received here in approximately two weeks, when instructions will be issued to proceed with working drawings.

Proposed form of demolition contract under examination and demolition can begin when land is acquired, which will be in about two or three weeks.

LOAN CONTRACTS APPROVED BY PRESIDENT APRIL 19, 1938CITYAMOUNT OF CONTRACTAUGUSTA, GEORGIA

\$1,369,000

Advance loan - \$13,500 May 17, 1938

Local Authority will file within a few days a requisition for additional advance loan funds.

A test suit is being instituted to establish the constitutionality of the Housing Authorities Law of Georgia. Actual filing of the suit has been delayed pending negotiations with local attorneys, but suit will be filed in a few days.

Architects' contracts: Local Authority has negotiated for architects' contracts and we expect preliminary drawings and specifications for the project to be submitted shortly.

The project site is under option and demolition presents no problem as site principally vacant.

JACKSONVILLE, FLORIDA

1,027,000

Advance of Loan Funds by USHA - \$23,500 June 14, 1938

A test suit has been instituted to test the constitutionality of the Florida Housing Authorities Law. The suit has been heard by the lower Court and is now pending on appeal in the Supreme Court. The Supreme Court has set July 5 for the date of hearing of arguments. Members of the Court have indicated an early decision will be rendered.

The architects for the Authority were in Washington recently for a conference and have returned to Florida for further work on the preliminary plans.

The Local Authority has renewed options for the purchase of Project site.

LOAN CONTRACTS APPROVED BY PRESIDENT APRIL 19, 1938 (Continued)CITYAMOUNT OF CONTRACTLOUISVILLE, KENTUCKY

\$4,261,000

Advance of Loan Funds by USHA - \$127,000 May 4, 1938  
   600,000 May 24, 1938  
   \$727,000

Most of site is under option and title to the 392 parcels is being acquired as quickly as title examinations are completed. Condemnation will have to be resorted to for part of the site.

Plans and specifications being prepared by architects.

Demolition of existing buildings will start as soon as sufficient amount of the site is acquired.

Local authority is expediting all phases of the project to the fullest extent possible.

## LOAN CONTRACTS SIGNED APRIL 19, 1938 (CONTINUED)

<u>CITY</u>	<u>AMOUNT OF CONTRACT</u>
<u>NEW YORK CITY, NEW YORK</u>	
<u>Red Hook Project</u>	(Est.cost) \$16,592,800
Advance loan - \$280,000 June 13, 1938	
Land acquisition complete.	
Architects' preliminary drawings approved and working drawings are scheduled for completion about July 15, 1938.	
Demolition scheduled for completion around July 10th or 15th.	
On July 1, New York City Authority expects to receive bids for foundations and excavations.	
<u>Queensbridge Project</u>	(Est.cost) 16,740,200
Advance loan - \$95,000 June 13, 1938	
Title to property rests with city.	
Demolition has not begun but presents no problem since site is between 85% and 90% vacant.	
Preliminary drawings have been approved and working drawings scheduled for completion July 15, 1938.	
Total for New York City	\$30,000,000 (Amt. of contract)

LOAN CONTRACTS APPROVED BY PRESIDENT JUNE 2, 1938CITYAMOUNT OF CONTRACTALLENTOWN, PENNSYLVANIA

\$ 1,446,000

Legal questions have arisen in Pennsylvania due to the fact that housing projects are subject to a school tax. Test suit now pending before the Supreme Court to determine validity of this tax, as well as to establish constitutionality of state housing legislation. Meanwhile we have been proceeding with contracts on the theory that the school tax will be upheld and we are making arrangements for local contributions in an amount sufficient to offset the effect of the school tax.

Preliminary drawings due July 15.

BALTIMORE, MARYLAND

Advance Loan - \$400,000 - June 15, 1938

\$ 16,616,000

Advance of funds awaits action by City Council of Baltimore City with respect to statutory requirements. Action anticipated June 27.

Plans and specifications being prepared by architects.

Title examination and acquisition of site (over 4000 separate parcels) will start as soon as funds are advanced.

Local authority expediting all phases of project.

LOAN CONTRACTS APPROVED BY PRESIDENT JUNE 2, 1938 (Continued)CITYAMOUNT OF CONTRACTBIRMINGHAM, ALABAMA

\$ 3,828,000

Difficulties had arisen in negotiations between the City of Birmingham and the Local Authority with respect to payment in lieu of taxes and equivalent elimination. The Mayor of the City had refused to cooperate unless the Authority agrees to pay the City the same amount of taxes as would be paid if the Project were privately owned. However, the Chairman of the Local Authority now feels that the negotiations are proceeding more satisfactorily and an adjustment of these differences is anticipated very soon.

BUFFALO, NEW YORK

\$ 3,643,000

Advance of Loan Funds by USHA - \$60,450 - June 14, 1938

Buildings demolished on land which city is donating to project and private property is now being appraised.

Preliminary drawings have been approved subject to certain revisions agreed upon by Buffalo architects here. Architects have been authorized to proceed with working drawings.

Under the Loan Contract no funds may be advanced for land purchase until commitments have been obtained from the City with respect to the closing of certain streets in the Project and the donation of the bed of the streets to the City. Negotiations on these matters are proceeding favorably.

LOAN CONTRACTS APPROVED BY PRESIDENT JUNE 2, 1938 (Continued)CITYAMOUNT OF CONTRACTCLEVELAND, OHIO

Local authority now working on requisition for advance of loan funds by USHA, such funds to be used for appraisals, taking options, negotiating with architects, etc. Believe that appraisal will start within next week or ten days. Local Authority geared to go, since its work is well organized.

\$ 9,153,000

COLUMBUS, OHIO

Local authority negotiating with architects and land appraisers and is working on preparation of requisition for advance of loan funds by USHA.

1,888,000

DETROIT, MICHIGAN

Legal obstacle re tax exemption. No funds can be advanced until this question is settled.

14,257,000

Appraisals have come in but are questioned by Land Review Division as they are lower than the estimates of acquisition costs and may delay project.

Architects have been selected but preliminary drawings not started because of legal questions to be settled.

LOAN CONTRACTS APPROVED BY PRESIDENT JUNE 2, 1938 (Continued)CITYAMOUNT OF CONTRACTPITTSBURGH, PENNSYLVANIA

\$ 6,746,000

Legal questions have arisen in Pennsylvania due to the fact that housing projects are subject to a school tax. Test suit now pending before the Supreme Court to determine validity of this tax, as well as to establish constitutionality of state housing legislation. Meanwhile, we have been proceeding with contracts on the theory that the school tax will be upheld and we are making arrangements for local contributions in an amount sufficient to offset the effect of the school tax.

Project Advser now in Pittsburgh. Land acquisition man en route to Pittsburgh.

June 23, 1938.  
2:51 P.M.

H. M. Jr: Hello.

B: Yes sir.

H. M. Jr: Randolph?

B: Yes.

H. M. Jr: How did that issue of Jesse Jones' go?

B: Well, I ducked out of the meeting, Henry, and I haven't any more recent report. Let me see if I can get it and call you back, may I?

H. M. Jr: If you please.

B: Right.

H. M. Jr: Thanks.

H. M. Jr: Hello.

B: Yes.

H. M. Jr: I see they've sold a few of our Governments today.

B: Yes. I'm glad to see one week ahead

H. M. Jr: What?

B: I think it's - it's a reaction to a strong stock market.

H. M. Jr: Well, that's natural isn't it?

B: Very natural, yes.

H. M. Jr: You can't expect the market to quote some stocks that way and not have Governments go off.

B: That's quite right, yes.

- 2 -

H. M. Jr: What?

B: It was an orderly market so everything was all right.

H. M. Jr: Yes.

B: I'll call you back shortly.

H. M. Jr: Yes.

June 23, 1938.  
2:58 P. M.

Operator: Go ahead.

H. M. Jr: Hello.

B: Hello, Henry.

H. M. Jr: Yes, Randolph.

B: The latest reports from that are better.

H. M. Jr: Good.

B: The Coast apparently is taking some.

H. M. Jr: Good.

B: There's no quotation yet available.

H. M. Jr: Oh, that's nothing.

B: So while it's moving slowly - they're rather hopeful about it.

H. M. Jr: Will they announce the closing of the books tonight?

B: No.

H. M. Jr: No.

B: Well, I don't think there is any closing, Henry, you see --

H. M. Jr: But it wasn't one of those "out of the window" things, eh?

B: No, they've sold the whole thing to these two syndicates.

H. M. Jr: I see.

B:

H. M. Jr: Uh huh. Well, let's hope it's no pure oil anyway.

B: Well, I think it will go. The other stuff has been "going out of the window" here.

H. M. Jr: All right.

B: Beautiful market.

H. M. Jr: O.K.

B: Very good.

H. M.Jr: Good bye.

FEDERAL RESERVE BANK  
OF NEW YORK

115

OFFICE CORRESPONDENCE

**CONFIDENTIAL FILES**DATE June 23, 1933.SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.TO  
FROM J. W. McKee

I called Mr. Bolton at 11 o'clock today. As regards the French franc, Bolton stated there had been a strong movement in favor of the franc for the past two or three days due to the belief in Europe that the Spanish question might be settled shortly. Bolton was rather hesitant in expressing his views on this matter stating he did not agree. He stated that Cariguel had gained a little over a million pounds in gold and exchange Monday. With reference to Japan, I stated that there was reported to us this week another gold shipment of approximately \$5,000,000. Sweden had reported about \$11,500,000 in gold on the water or presently to be shipped to us to be earmarked for their account. Bolton stated that although conditions appeared brighter with us due to the upward turn of stocks in the past few days, the dollar was a shade weaker. There still was a good demand for gold in London.

JWcK:KW

RECEIVED  
JUN 23 1933  
FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 23, 1938.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

FROM J. W. McKeen

BANK OF FRANCE.

I called Cariguel at 12:10 today. I mentioned that although Foreign exchanges had been very quiet during the past week, French francs showed a very firm undertone against all exchanges on Monday and Tuesday. I mentioned the fact that Monday there had been rumours to the effect that the Spanish situation had been settled. Cariguel said he had also heard similar rumours but stated definitely there was nothing to it. After gaining considerable exchange Monday he was forced to supply "plenty of Exchange" both Tuesday and Wednesday with the result he gained nothing on balance. I asked him what he thought about the rest of the Continental currencies and he said they were strong and believed they would remain so for some little time as he thought the dollar looked slightly lower. There was a good demand for gold on the London market.

JMcK:KW

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 23, 1938, 5 p.m.

NO.: 990

FROM GOCHRAN.

Paris exchange market quiet today. French control apparently sold a little sterling at 177.95 this morning and acquired sterling at .92 this afternoon, with a fair gain of foreign exchange for the day. Bank of France statement as of June 16 showed no new advances to the state. With fairly important declines in discounts, circulation and deposits, coverage rose from 46.83 to 47.41. Press today carried an official denial that Treasury is arranging the issue of a new loan but rentes continue irregular. Paris brokers report fairly active demand on the part of French customers for American shares following pickup on New York exchange this week.

At four o'clock this afternoon I visited Rueff at the Ministry of Finance. The German commercial mission is still in Paris, he said, and Rueff's group had met with them three times. An effort is being made by the Germans to tie in the Dawes and Young loans with the question of Austrian loan service. Almost no progress had been made, Rueff said, and the French, before terminating any agreement here, were disposed to await the outcome of negotiations in London.

With regard to telegram No. 377 of June 17, 11 a.m., I sought from Rueff and his assistant Gande, as I did yesterday

- 2 -

terday from Governor Fournier of the Bank of France (all without mentioning the Department's telegram) such data as they have upon blocked balances in Germany under clearing arrangements and otherwise. All of them promised to give me within the next few days whatever information may be available to them.

BULLITT.

EA: LWW

RECEIVED  
JUN 24 1938  
TREASURY DEPARTMENT  
Office of the Secretary  
Internal Security - Foreign Affairs

DEPARTMENT OF STATE  
WASHINGTON

June 24, 1938.

My dear Mr. Secretary:

I enclose for your confidential information a copy of a cable received from London regarding the possibilities of loans to the Chinese Government.

Sincerely yours,

Herbert Feis

Herbert Feis,  
Adviser on International  
Economic Affairs.

Enclosure:

No. 551 of June 23  
from London.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

RECEIVED  
10:45 AM  
JUN 24 1938TREASURY DEPARTMENT  
Office of the Secretary  
Technical Assistant to the Secretary

Only 1 copy received

120

IS ANSWER NECESSARY:

ANSWERED BY:

Distribute to:

Secretary	Mr. White
Mr. Taylor	Mr. Harrison
Mr. Oliphant	

REB

GRAY

London

Dated June 23, 1938

Rec'd 2:04 p. m.

Secretary of State,  
Washington.

551, June 23, 6 p. m.

Embassy's 528 of June 17, 6 p. m.

In the course of a conversation, the British Treasury referred to the desirability of making funds available to China and confidentially described the position here as follows:

The Foreign Office was strongly in favor of a loan but the Cabinet had not been able to make up its collective mind. The Chancellor of the Exchequer was not in favor of taking any action which would offend the Japanese and yet would not have important benefits for China. Simon, therefore, recommended the making either of a substantial loan or none at all. But any large sum would have to have a British Government guarantee and there lay the stumbling block.

The British Treasury felt that not less than pounds 10,000,000 and preferably pounds 20,000,000 would  
constitute

REB

2-#551, From London, June 23, 6 p. m.

constitute a sum sufficient to facilitate food and other purchases and strengthen the Chinese exchange position.

The British Treasury did not conceal its chagrin at the delay in facing up to this situation and took the line that until the British Cabinet made up its mind it could not appropriately approach the United States regarding joint action.

Asked about the reaction in Japan to any such project the British Treasury stated that it would no doubt be hard to explain but since the Japanese had always maintained that they favored the bringing of stability to China's exchange, it might be defended on that score though the defence would certainly be weak and transparent.

The British Treasury mentioned that Russia had accorded China some pounds 8,000,000 of barter credits.

WVC

DDM

HERBERT S. JOHNSON  
 TRINITY COLLEGE  
 HARTFORD, CONNECTICUT

June 24, 1938

My dear Mr. President:

In your message to the Congress of the United States, on April 14, 1938, you said "As a part of better administration I hope that federal banking supervision can be better coordinated."

You asked me to bring this about through getting an agreement by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Board of the Federal Deposit Insurance Corporation for uniformity in bank examinations and revision of the regulation governing purchase of securities by banks.

I am pleased to be able to report to you that after two months of conferring, we are able to send you a unanimous report. I am attaching hereto the following:

1. Agreement on classification of loans in bank examinations.
2. Agreement on the appraisal of bonds in bank examinations.
3. Agreement on the treatment of securities profits in bank examinations.
4. Revision of the investment securities regulation of the Comptroller of the Currency.

The agreements and the revised regulation meet with the approval of the Chairman of the Reconstruction

-2-

Finance Corporation and the National Association of Supervisors of State Banks.

I feel that this is a constructive step and should be most helpful in carrying out your recovery program.

Yours respectfully,

~~\_\_\_\_\_~~  
The President,  
The White House.

June 23, 1938

**The Classification of Loans in Bank Examinations**

The present captions of the classification units, namely, "Flow," "Doubtful," and "Loss" are to be abandoned;

The classification units hereafter will be designated numerically and the following definitions thereof will be printed in examination reports:

I. Loans or portions thereof the repayment of which appears assured. These loans are not classified in the examination report.

II. Loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the bank by reason of an unfavorable record or other unsatisfactory characteristics noted in the examiner's comments. There exists in such loans the possibility of future loss to the bank unless they receive the careful and continued attention of the bank's management. No loan is so classified if ultimate repayment seems reasonably assured in view of the sound net worth of the maker or endorser, his earning capacity and character, or the protection of collateral or other security of sound intrinsic value.

III. Loans or portions thereof the ultimate collection of which is doubtful and in which a substantial loss is probable but not yet definitely ascertainable in amount. Loans so classified should receive the vigorous attention of the management with a view to salvaging whatever value may remain.

IV. Loans or portions thereof regarded by the examiner for reasons set forth in his comments as uncollectible and as estimated losses. Amounts so classified should be promptly charged off.

Present practice will be continued under which the totals of II, III, and IV above are included in the recapitulation or summary of examiners' classifications.

Fifty per cent of the total of III above and all of IV above will be deducted in computing the net sound capital of the bank.

June 22, 1938

The Treatment of Bonds in Bank Examinations

Neither appreciation nor depreciation in Group I securities will be shown in the report. Neither will be taken into account in figuring net sound capital of the bank.

Group I securities are marketable obligations in which the investment characteristics are not distinctly or predominantly speculative. This group includes general market obligations in the four highest grades and warranted securities of equivalent value.

The securities in Group II will be valued at the average market price for eighteen months just preceding examination and fifty per cent of the net depreciation will be deducted in computing the net sound capital.

Group II securities are those in which the investment characteristics are distinctly or predominantly speculative. This group includes general market obligations in grades below the four highest, and warranted securities of equivalent value.

Present practice will be continued under which net depreciation in the securities in Group III and Group IV are classified as loss.

Group III securities: Securities in default.

Group IV securities: Stocks.

Present practice will be continued under which premiums on securities purchased at a premium must be amortized.

Present practice of listing all securities and showing their book values will be continued.

June 22, 1933

**The Treatment of Securities Profits in Bank Examinations.**

Until losses have been written off and adequate reserves established, the use of profits from the sale of securities for any purpose other than those, will not be approved.

Present practice will be continued under which estimated losses must be charged off.

Present practice will be continued under which the establishment and maintenance of adequate reserves, including reserves against the securities account, are encouraged.

Present practice will be continued under which speculation in securities is criticized and penalized.

TREASURY DEPARTMENT  
Comptroller of the Currency  
WASHINGTON

INVESTMENT SECURITIES REGULATION  
Issued by the Comptroller of the Currency

By virtue of the authority vested in the Comptroller of the  
Currency by paragraph Seventh of Section 5136 of the Revised Statutes,  
the following regulation is promulgated:

SECTION I

(1) An obligation of indebtedness which may be purchased for  
its own account by a national bank or State member bank of the Federal  
Reserve System, in order to come within the classification of "investment  
securities" within the meaning of paragraph Seventh of said Section 5136,  
must be a marketable obligation, i.e., it must be salable under ordinary  
circumstances with reasonable promptness at a fair value; and with respect  
to the particular security, there must be present one or more of the  
following characteristics:

(a) A public distribution of the securities must have  
been provided for or made in a manner to protect or insure  
the marketability of the issue; or,

(b) Other existing securities of the obligor must have  
such a public distribution as to protect or insure the  
marketability of the issue under consideration; or,

(c) In the case of investment securities for which a

- 2 -

public distribution as set forth in (a) or (b) above can not be so provided, or so made, and which are issued by established commercial or industrial businesses or enterprises that can demonstrate the ability to service such securities, the debt evidenced thereby must mature not later than ten years after the date of issuance of the security and must be of such sound value or so secured as reasonably to assure its payment; and such securities must, by their terms, provide for the amortization of the debt evidenced thereby so that at least 70% of the principal will be extinguished by the maturity date by substantial periodic payments: Provided, That no amortization need be required for the period of the first year after the date of issuance of such securities.

(2) Where the security is issued under a trust agreement, the agreement must provide for a trustee independent of the obligor, and such trustee must be a bank or trust company.

(3) All purchases of investment securities by national and State member banks for their own account must be of securities "in the form of bonds, notes, and/or debentures, commonly known as investment securities"; and every transaction which is in fact such a purchase must, regardless of its form, comply with this regulation.

#### SECTION II

(1) Although the bank is permitted to purchase "investment securities" for its own account for purposes of investment under the provisions

of R. S. 5136 and this regulation, the bank is not permitted otherwise to participate as a principal in the marketing of securities.

(2) The statutory limitation on the amount of the "investment securities" of any one obligor or maker which may be held by the bank, is to be determined on the basis of the par or face value of the securities, and not on their market value.

(3) The purchase of "investment securities" in which the investment characteristics are distinctly or predominantly speculative, or the purchase of securities which are in default, either as to principal or interest, is prohibited.

(4) Purchase of an investment security at a price exceeding par is prohibited, unless the bank shall:

(a) Provide for the regular amortization of the premium paid so that the premium shall be entirely extinguished at or before the maturity of the security and the security (including premium) shall at no intervening date be carried at an amount in excess of that at which the obligor may legally redeem such security; or

(b) Set up a reserve account to amortize the premium, said account to be credited periodically with an amount not less than the amount required for amortization under (a) above.

(5) Purchase of securities convertible into stock at the option of the issuer is prohibited.

(6) Purchase of securities convertible into stock at the option of the holder or with stock purchase warrants attached is prohibited if the

- 4 -

price paid for such security is in excess of the investment value of the security itself, considered independently of the stock purchase warrants or conversion feature. If it is apparent that the price paid for an otherwise eligible security fairly reflects the investment value of the security itself and does not include any speculative value based upon the presence of a stock purchase warrant or conversion option the purchase of such a security is not prohibited.

(7) As to purchase of securities under repurchase agreement, subject to the limitations and restrictions set forth in the law and this regulation:

(a) It is permissible for the bank to purchase "investment securities" from another under an agreement whereby the bank has an option or a right to require the seller of the securities to repurchase them from the bank at a price stated or at a price subject to determination under the terms of the agreement, but in no case less than the value at the time of repurchase.

(b) It is permissible for the bank to purchase "investment securities" from another under an agreement whereby the seller or a third party guarantees the bank against loss on resale of the securities.

(c) It is not permissible for the bank to purchase "investment securities" from another under an agreement whereby the seller reserves the right or the option to repurchase said se-

- 5 -

curities itself or through its nominee at a price stated or at a price subject to determination under the terms of the agreement, notwithstanding the fact that the bank may also, under such agreement, have the right or option to compel the seller to repurchase the securities at a price stated or at a price subject to determination under the terms of the agreement.

(8) As to repurchase agreements accompanying sales of securities,

(a) It is permissible for the bank selling securities to another to agree that the bank shall have an option or right to repurchase the securities from the buyer at a price stated or at a price subject to determination under the terms of the agreement, but in no case in excess of the market value at the time of repurchase.

(b) It is not permissible for the bank selling securities to another to agree that the purchaser shall have the right or the option to require the bank to repurchase said securities at a price stated or at a price subject to determination under the terms of the agreement, notwithstanding the fact that the bank may also, under such agreement, have the right or option to repurchase the securities from the buyer at a price stated or at a price subject to determination under the terms of the agreement.

In view of the fact that some banks may have bought or sold securities under a form of agreement which is prohibited by this regulation, the bank should either terminate or modify same so as to conform to this regulation, where such action may lawfully be taken. Existing agreements of the pre-

- 4 -

hibited type must not be removed.

#### **EXCEPTION**

The restrictions and limitations of this regulation do not apply to securities acquired through foreclosure on collateral, or acquired in good faith by way of compromise of a doubtful claim or to avert an apprehended loss in connection with a debt previously contracted, or to real estate securities acquired pursuant to Section 24 of the Federal Reserve Act, as amended.

This regulation supersedes prior regulations governing the purchase of "investment securities" and is effective from and after

Signed and promulgated this

---

Acting Comptroller of the Currency

June 23, 1938

Classification of LoansOld

Loans are classified by bank examiners as

"Loss" if it appears pretty certain that the borrower can not pay;

"Doubtful" if it appears "very doubtful" that he can repay; and

"Slow" if the loan is inferior in quality and likely to become doubtful unless watched.

New

These classes of loans will be designated by number rather than name with specific definition of the kind of loan to be included. The word "Slow," which has been alleged to deter bankers from making many sound loans, will be completely eliminated.

June 25, 1938

Valuation of BondsOld

All securities for which there are quotations are valued at market price.

The net amount by which depreciation of securities (other than defaulted issues and stocks) has brought them below book value (amortized cost) is deducted from capital account in computing the "real" capital of the bank.

The full amount of depreciation in defaulted issues and stocks is deducted in computing "real" capital.

By minimizing the importance of day-by-day quotations, emphasis is placed on quality of investment, and speculation is discouraged.

New

Market quotations on securities of investment quality will be disregarded.

Securities of inferior or distinctly speculative quality (other than defaulted issues and stocks) will be valued at an eighteen-month average and fifty per cent of their depreciation below book value will be deducted in computing the "real" capital of the bank.

No change.

June 23, 1938

Treatment of Securities ProfitsOld

Some banks are inclined to sell securities when they have appreciated in price and use the so-called "profit" for paying dividends or for similar purposes, without adequate provision having been made for writing off losses sustained and for establishing reserves against future losses.

New

Use of securities profits for dividends, and similar purposes, will be disapproved until and unless losses have been written off and adequate reserves provided.

Securities Eligible for Purchase by Banks

	<u>Now</u>
They must be marketable obligations:	They must be marketable obligations:
1. Sales at intrinsic values readily available.	1. Salable with reasonable promptness at fair values.
They must meet minimum requirements:	
1. The issue must be of a sufficiently large total to make marketability possible.	1. Reference to size of issue eliminated.
2. Unless exempt, must be registered with SEC.	2. No registration requirement.
3. If issued under trust agreement, trustee must be bank or trust company.	3. Same requirement.
4. Such public distribution of the issue or of other existing securities of the issuer must have been made or provided for as to protect or insure the marketability of the issue under consideration.	4. Such public distribution of the issue or of other existing securities of the issuer must have been made or provided for as to protect or insure the marketability of the issue under consideration.
	OR
	Public distribution is not necessary in the case of certain securities issued by established commercial or industrial businesses or enterprises that can demonstrate the ability to service such securities. These must mature within ten years and be of such sound value or so secured as reasonably to assure payment, and must provide for amortization to extinguish at least 75% of the principal by the maturity date.
5. Purchase of investment securities in which the investment characteristics are distinctly or predominantly speculative, is prohibited. Purchase of securities in default is prohibited.	5. Same.
3. Where there is doubt as to the eligibility of a security for purchase, such eligibility must be supported by not less than two rating manuals.	6. This requirement has been eliminated.

## GROUP MEETING

June 24, 1938.  
9:30 A. M.

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

H.M.Jr: This is a letter I am sending to the President this morning:

"My dear Mr. President:

"In your message to the Congress of the United States, on April 14, 1938, you said 'As a part of better administration I hope that federal banking supervision can be better coordinated.'

"You asked me to bring this about through getting an agreement by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Board of the Federal Deposit Insurance Corporation for uniformity in bank examinations and revision of the regulation governing purchase of securities by banks.

"I am pleased to be able to report to you that after two months of conferring,..."

and perspiring,

"..... we are able to send you a unanimous report. I am attaching hereto the following:

1. Agreement on classification of loans in bank examinations.
2. Agreement on the appraisal of bonds in bank examinations.

3. Agreement on the treatment of securities profits in bank examinations.
4. Revision of the investment securities regulation of the Comptroller of the Currency.

"The agreements and the revised regulation meet with the approval of the Chairman of the Reconstruction Finance Corporation and the National Association of Supervisors of State Banks.

"I feel that this is a constructive step and should be most helpful in carrying out your recovery program."

Love and kisses.

I think it's quite an impressive document.

White: One minor suggestion. I understood you said "after two months of conferring."

H.M.Jr: Yes.

White: Does that suggest to you it is merely a question of arguing among yourselves and coming to agreement? Do you think you might include "after conferring and investigation?" The other words sound as though there's been a scrap and it took two months to iron it out.

H.M.Jr: That's right.

McReynolds: He wants you to be honest about it.

Oliphant: Is it "meets with the approval" or "meet with the approval?" I think it ought to be "meet."

H.M.Jr: I don't know where it is.

Upham: Bottom of the page - last paragraph.

H.M.Jr: "Meet."

Oliphant: Right.

H.M.Jr: Well, well, well! Old "Two-Minute" Gaston.  
Gaston: And four seconds.  
H.M.Jr: How many times was he down?  
Gaston: I don't know. I saw about thirty seconds of it.  
H.M.Jr: It was funny - Hanes went up with a crowd, and at the fight ran into a fellow he knew, turned around to talk to him - "Hello, how are you? Glad to see you" - and the bell rang; he turned back around and the fight was over. He didn't see a thing. He turned around and the fight was over, and he never saw a thing.  
Bell: One fellow said he stopped to light a cigar and it was over.  
McReynolds: One of these fellows .....

Gaston: I saw enough in about thirty seconds to know it couldn't last very long.  
H.M.Jr: Where are we starting? Mr. Oliphant?  
Oliphant: Nothing.  
H.M.Jr: I've got something for you.  
Oliphant: I hope it's easy and not hard.  
H.M.Jr: I think Mayor LaGuardia is a swell fellow. Who's handling this inspection that Mayor LaGuardia wants?  
McReynolds: Never heard of it.  
H.M.Jr: Tell Parran to prepare an answer for him. I took it up at Cabinet because he wanted a particular kind of inspection with regard to Puerto Rico, and Mr. Hull said they are going to have more stringent inspections. They should have them where the people leave and not have them come up to New York and have to send them back. See, Mac? I'd like to have the Mayor get an answer.  
Herman?

Oliphant: He didn't mention Post Office.

Nothing this morning.

H.M.Jr: Swell.

Bell: Mr. Secretary, I'm supposed to go to the White House in a few minutes. May I be excused? We have twenty-three million dollars in the banks.

H.M.Jr: Twenty-three million dollars?

Bell: Yes.

(Mr. Lochhead and Mr. Bell talk low.)

There's one other question I think you ought to discuss in the next few days, and - and that is the question of delegating the authority to disburse to foreign countries to the State Department. General Counsel has ruled that in delegating this authority to the Ambassadors they should give bond under the general disbursing officers law, and they are pretty high officers in the Government. I think maybe that might be discussed with the President before that order goes forward to the Secretary of the State.

H.M.Jr: Oh, don't let's bother the President with a thing like that.

Bell: Well, they have never been bonded before.

H.M.Jr: Who said they did?

Bell: Mr. Oliphant, or somebody in his office.

H.M.Jr: Oh, let's talk about it.

Bell: I thought you might want to take - discuss it with the President.

Oliphant: You want to talk to me about it.

Bell: I'm not questioning the decision; I am questioning the bonding of high Government officials. You might get a recussion from it.

H.M.Jr: You fellows talk about it. Have you got an appointment?

- 5 -

Bell: Yes. I didn't have one; I was called and told to be there at ten o'clock. Why, I don't know.

H.M.Jr: I've got one at twelve thirty, and I'm waiting for another one at two.

Bell: I don't know what this one is about.

H.M.Jr: I mean - I've got one at twelve thirty.

Bell: Well, I'll go.

H.M.Jr: Ten o'clock?

Bell: Yes sir.

H.M.Jr: You've got lots of time. You don't like us?

Bell: Yes, I'm very fond of you. I'll be back if you want me to. It will take me a few minutes to get some things together.

H.M.Jr: Goodbye.

Herbert, are you finished?

Gaston: Casey Hogate sent his regards. I had a long talk with him and Tom Phillips and Henry Grimes. I also learned something funny about the arrival of Secretary Ickes.

H.M.Jr: His arrival?

Gaston: Yes. He presented a declaration which didn't show anything but a handfull, and they said to him, "Mr. Secretary, you are really entitled to official immunity, but unfortunately it hasn't been arranged - they haven't sent the letter up, so we'll have to make the regular examination, unless you were on official business." He said, "Oh no, I just went over there to get married." They started to make the inspection and he said, "Well, wait a minute - give me back that," and he gave them another declaration which showed \$38.50 duty.

Klotz: Oh, that's a cute one.

McReynolds: Did they give him the card that I told them to give him when he got on - his excuse at being

- 6 -

held up at customs? I only gave him a card of "old and infirm."

Gibbons: Mac wanted me to write a letter.

H.M.Jr: As a matter of fact, he isn't entitled to any immunity.

Gaston: If he had been on official business and had a letter to that effect, Harry told me he would have been entitled to passage without inspection.

H.M.Jr: Yes, but he would have had to pay duty.

Gaston: But they would have taken his word for what he had.

Gibbons: He's entitled to free entry.

H.M.Jr: (Speaks aside to Mrs. Klotz.)

Gaston: They have a rather unusual situation about the examination of the baggage of refugees from Austria. Saunders told me about his experience. It seems as though people coming in with very large percentages - loaded down with cameras and other things; weren't allowed to take money out. What they are doing now is giving these people a private examination, going through their baggage and not assessing penalties but requiring them to pay duties on everything they have not declared. Saunders told me he was very much surprised that they took him - went with him to his hotel room, two Customs inspectors and two Customs agency men, and just took his luggage completely apart and examined everything he had. He wondered why it was, but that's the reason - because he had just come out of Austria.

H.M.Jr: You think that's fair?

Gaston: I think they are handling it very fairly.

Gibbons: They are trying to face the situation. The theory of the law is, if they've got household effects they've got to own them for a year. Of course, that's a very hard thing to prove. The people who have two thousand dollars can't

bring it out of Austria or Germany; they've got to convert it into goods.

McReynolds: No penalties assessed - just duties.

Gibbons: Yes - it's nothing to get excited about - just a small duty.

H.M.Jr: Anything else?

Gaston: Nothing else.

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

Haas: Just a couple things. I talked to Jesse Tapp about that Cornell formula and yesterday they sent out bids - asked for cracked wheat, or whatever the wheat component of cereal is, and they are mixing it in accordance with that formula. He said that they at one time, in '35, used the G. L. F. to mix, and they are using work relief project workers to do the mixing in the various states.

H.M.Jr: I don't have to do anything more about it?

Haas: We'll watch <sup>it</sup> on that sheet each week.

H.M.Jr: The last chart in that book, if you will look at it, is a year old. The one on American exports and imports.

Haas: (Looks at book.) Yeah.

H.M.Jr: Couldn't that be brought up to date?

Haas: Yes sir.

H.M.Jr: Huh?

Haas: Yes sir, that can be brought up to date. I'll see Harry about that. That's your (Mr. White's) World Trade Chart.

H.M.Jr: See, I look at those things.

White: And you just noticed it was a year behind?

Haas: We'll both share that.

Gibbons: They probably just worked for the Department of Commerce.

H.M.Jr: Very good - very good.

Gibbons: Their statistics are about a year old.

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

Upham: (Nods "Nothing.")

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

White: Nothing.

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

Gibbons: (Nods "Nothing.")

H.M.Jr: I'm not asking for Mr. Eccles' letter, or anything, but I haven't got a letter from Mr. Eccles?

Upham: (Nods "No.")

H.M.Jr: O. K. (Nods to Mr. White.)

White: (Nods "Nothing.")

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

Gibbons: (Nods "Nothing.")

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

Lochhead: Nothing.

H.M.Jr: Mac?

McReynolds: This question has been up with Interior - between Interior and Public Health.

H.M.Jr: You handle it.

All right, gentlemen.

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McReynolds: Dr. Parran called me up yesterday evening and told me he had heard, through Wolman that Danny was going to recommend disapproval of the stream pollution and he was quite excited.

H.M.Jr: I don't see why.

McReynolds: I told him to go see Danny, if he wanted to. He called back while I was out of the office and told my secretary he had taken this up with Senator Barkley and Barkley was going to see the President.

H.M.Jr: Which way?

McReynolds: He was in favor of the bill. He was going to build it up. I thought I'd suggest to Doc (Parran) that he should confine his inquiries to the Treasury and the Budget.

June 24, 1938

My dear Mr. President:

In your message to the Congress of the United States, on April 14, 1938, you said "As a part of better administration I hope that federal banking supervision can be better coordinated."

You asked me to bring this about through getting an agreement by the Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Board of the Federal Deposit Insurance Corporation for uniformity in bank examinations and revision of the regulation governing purchase of securities by banks.

I am pleased to be able to report to you that after two months of conferring, we are able to send you a unanimous report. I am attaching hereto the following:

1. Agreement on classification of loans in bank examinations.
2. Agreement on the appraisal of bonds in bank examinations.
3. Agreement on the treatment of securities profits in bank examinations.
4. Revision of the investment securities regulation of the Comptroller of the Currency.

The agreements and the revised regulation meet with the approval of the Chairman of the Reconstruction

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Finance Corporation and the National Association of Supervisors of State Banks.

I feel that this is a constructive step and should be most helpful in carrying out your recovery program.

Yours respectfully,

The President,  
The White House.

June 24, 1938.  
10:50 A.M.

H. M. Jr: Hello.

Secretary Swanson's secretary is out and he says there is no one in there right now. The gentleman in the office said he'd talk to you if he could help you.

H. M. Jr: All right.

Go ahead.

H. M. Jr: Hello.

Y: Yes, Mr. Secretary.

H.M.Jr: Who is this, please?

Y: This is Mr. Yager.

H. M.Jr: Well, Mr. Yager, who's going to come over this afternoon to cabinet for the Navy Department, do you know?

Y: Mr. Edison, I understand. That was the word this morning.

H. M. Jr: Well, will you get this word to him?

Y: Yes sir.

H.M.Jr: When he comes over I wish that he would tell me verbally if the Navy Department has made any recent tests on the Sykorsky S-43 plane.

Y: S-43?

H. M. Jr: Yes. Because we've got their bidding on that plane for Coast Guard, you see?

Y: Yes sir.

H. M. Jr: I was told that you people last couple weeks have made some very extensive tests on that plane.

Y: Uh huh.

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H. M. Jr: And I'd like to know if Mr. Edison would tell me when he comes to Cabinet whether he feels that he could recommend the Coast Guard buy that plane or not.

Y: Uh huh.

H. M. Jr: Of course, we need it for rough water and all that sort of thing, you know.

Y: Uh huh. That's the Sykorsky S-43?

H. M. Jr: Yes. I'd rather him to tell me verbally. I don't want it in formal report.

Y: No. I see.

H. M. Jr: Will you get that word to him?

Y: Whether the Navy has made any tests on it.

H. M. Jr: Yes.

Y: Yes sir.

H. M. Jr: What they know.

Y: Yes sir.

H. M. Jr: Thank you.

June 24, 1938.  
11:04 A.M.

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Operator: Go ahead.

H. M. Jr: Hello.

J: Hello.

H. M. Jr: Hello, Jesse.

J: Hello Henry, how are you?

H. M. Jr: I'm fine.

J: Are you going to  
be down there, or are you coming up this way?  
I'm in New York.

H. M. Jr: Well, I'm going to come up this afternoon. I'm  
going to fly up to the farm.

J: Yes. When are you going to be back in Washington?

H. M. Jr: Tuesday morning.

J: Tuesday morning. Well, all right I just wanted to  
-- I want to see you.

H. M. Jr: Yes.

J: But that's plenty of time.

H. M. Jr: I was surprised, Jesse, that they offered those  
water bonds so quickly.

J: They were itching.  
They've been working on them, you see, a long time.

H. M. Jr: Yes. Yes. There was a little confusion about  
them yesterday, as you know most likely.

J: No, I didn't, what do you mean?

H. M. Jr: Well, up to last night there was no quotation on  
them in the market.

J: Yes.

H. M. Jr: I don't know whether they're quoting them today.

J: Well, the bankers are pretty well satisfied.

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H. M. Jr: Are they?

J: Yes. They - and I didn't want them to go up -  
I didn't want them to Henry.

H. M. Jr: Yes.

J: Because I didn't think it was best for us.

H. M. Jr: Yes. Well, it seems to me that they didn't  
give the usual advance publicity so the people  
knew

J: They've been working on it, Henry,

H. M. Jr: Yes.

J: Ghe bankers for months and months and months.

H. M. Jr: Yes.

J: And they're both comparatively satisfied.

H. M. Jr: Yes.

J: They're happy about it.

H. M. Jr: Well, maybe they are today, but I talked to  
Burgess yesterday and I got the impression  
that --

J: Dr. Burgess?

H. M. Jr: Yes. There was considerable --

J: Well, we got our money and they - and they're  
both happy about it.  
about an hour ago and told me how well they had  
gone - how well the market had gone.

H. M. Jr: Yes.

J: And they were all very pleased.  
came by the hotel this morning and came in and  
told me about it.

H. M. Jr: Uh huh.

J: And so it's worked out all right.

H. M. Jr: Good. I'm glad to hear it.

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J: Yes.

H. M. Jr: What - anything new on the railroad?

J: No. That's one thing I want to talk to you about.

H. M. Jr: Yes.

J: I mean, I don't want to get too far on with them, I want to have some sort of a plan set.

H. M. Jr: Yes. Well, I was surprised to see by the paper that Ickes is sort of getting into that thing too.

J: Yes.

H. M. Jr: I didn't know he had any authority.

J: Well, I don't believe he has.

H. M. Jr: Well, here he is back for one day and he begins talking about stuff that - why doesn't he say well 'I don't know'?

J: Yes.

H. M. Jr: What?

J: Well. -

H. M. Jr: Can't you control him better than that?

J: Well, I'll have to speak to the redhead. Well, then I'll look forward to seeing you Tuesday then.

H. M. Jr: Oh, you're going to stay up there and help put that stock market up, eh?

J: No. I'm going to come down there, I think. Too hard to

H. M. Jr: Well, those two minutes of the fight must have been thrilling.

J: Yes, it was, but then

H. M. Jr: I see.

J: Everything is straightened out with the boys I notice.

H. M. Jr: Yes. And - Eccles has got to write his own interpretation of what the President should or -- should say.

J: Uh huh.

H. M. Jr: I haven't seen it yet.

J: I see.

H. M. Jr: What I'm going to recommend to the press - see if this sounds good to you --

J: Yes.

H. M. Jr: Just let these agencies give it out.

J: What?

H. M. Jr: Let the agencies give it out.

J: Yes.

H. M. Jr: And no big statement at all.

J: No. You mean let Diggs - yes - that's right.

H. M. Jr: Let Diggs give out his - just let the things be given out.

J: As a matter of course.

H. M. Jr: Yes.

J: Matter of routine business.

H. M. Jr: Why big thousand-word statements and all that stuff. - and I don't --

J:

H. M. Jr: I think it's had all it deserves.

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H. M. Jr: Well, the others - the Board members all feel that Eccles ought to be willing to let the President make up his own mind but he doesn't think so. But I've got this thing and it's all right and I think - aren't the people that you talked to - aren't they pleased? That we got together?

J: Very much. Tickled to death. And there's a good deal better feeling up there, naturally, because of the stock market.

H. M. Jr: Naturally.

J: I talked to \_\_\_\_\_ this morning and George Webster and Aldrich, they all -- well -- you know how a few points on the market does go to your head.

H. M. Jr: I know.

J: I think

H. M. Jr: Right. Well, I'll see you Tuesday.

J: All right.

H. M. Jr: Good bye.

June 24, 1938.  
3:58 p.m.

H.M.Jr: Hello.

Thurman  
Arnold: Hello, Mr. Secretary.

H.M.Jr: Arnold.

A: Yes.

H.M.Jr: This morning I didn't know who I'd have on so I told Bob Jackson to ask them to put off that meeting from Monday to Tuesday - Hello.

A: Yes. -

H.M.Jr: But I talked to <sup>the</sup> President after Cabinet, and he asked me to put Oliphant on.

A: I see.

H.M.Jr: So that's settled.

A: All right then, we can go ahead Monday.

H.M.Jr: You can go ahead Monday.

A: Thank you very much.

H.M.Jr: You're welcome.



**TREASURY DEPARTMENT**

**INTER OFFICE COMMUNICATION**

**DATE June 24, 1938**

**TO Secretary Morgenthau**  
**FROM Mr. Haas**

Attached are two memoranda from Miss Lonigan:

- (1) A report on a conference in Mr. Wilcox's office concerning Dr. Parran's proposed study.
- (2) A memorandum regarding the distribution of "surplus commodities" in the District of Columbia.

**Attachments**

June 24, 1938

To: The Secretary  
From: Miss Lonigan *et*

A conference on the proposed diet and health study was held in Mr. Wilcox's office on Thursday, June 10.

Those present were Dr. Parran and Dr. Palmer of the Public Health Service, Miss Monroe and Miss Chatfield of the Bureau of Home Economics, Mr. Wilcox and Mr. Brickett of Surplus Commodities, Miss Barrett from WPA, and myself.

Mr. Wilcox discussed first the question of funds. It was decided that WPA should be asked to provide clerical help and possibly nurses and dietitians, as a WPA project. The FSCG would provide the cash up to \$25,000, on formal approval of the project by Dr. Parran and Dr. Stanley.

Mr. Wilcox submitted estimates of the total amount and kind of commodities which he expected to be able to buy with his funds next year, in so far as probable surpluses could be forecast. Mr. Wilcox estimated tentatively that this would be about equal to half of the maximum quotas if the number of families receiving commodities remains at about 2,500,000 relief families. He will submit average amounts per family per year at the next meeting.

Dr. Monroe and Miss Chatfield are to prepare an approved grouping of commodities by nutritional classes, for use in setting family maximum quotas. Formerly if a family was entitled to get 25 pounds of flour and ten pounds of rice, as a maximum,

and only rice was available, they got a maximum of ten pounds of rice. Under the group system they can get a maximum of 35 pounds of cereals, whatever cereal is available. This will greatly increase the amount of food families receive when items are few or scattered, as in Cleveland. It represents a fundamental change in policy by FSCC.

FSCC steadfastly refused even to consider the question of increasing the maximum quota allowed per family, from a surplus consumption to an emergency consumption basis, in places where no relief check is being issued. This is partly due to their fear that higher quotas will permit purchases of smaller amounts by relief families. Obviously this danger is non-existent where relief families are getting no relief checks or grocery orders. The Corporation must, however, face the antagonism of grocers, whether it is based on real or imaginary loss or orders.

Dr. Parran suggested the importance of giving commodities to families with tuberculosis. This raises the very important question of giving commodities on the basis of other needs than the relief test, in order to avoid danger of encouraging more families to seek relief, or penalizing families at the lowest level of the self-supporting group, who carry the heaviest burden with no community assistance.

The next meeting is to be held on Tuesday of next week.

June 24, 1938

To: The Secretary  
From: Miss Lonigan *et al*

I recently visited the surplus commodity distribution office for the District of Columbia.

The District has three types of commodity distribution  
food distributed by truck to aged persons or families with illness who are on relief  
food distributed at the storage headquarters to employable workers, certified as eligible for relief if relief were available, or to WPA families certified as in need of extra allowances  
distribution of clothing at headquarters. In all about 250,000 garments have been distributed, at an approximate retail value of \$125,000.

About 12,000 families are now receiving surplus food in the District. They received 1,222,000 pounds of food in May, or about 102 pounds of food per family. This is a very much higher food allowance than obtains in Cleveland.

Apparently the surplus commodities agency in the District makes emergency distributions of food to needy families who cannot get relief checks. This was one of the recommendations that was made for Cleveland. Such distributions are made, on order of the relief authorities, as often as four times

a month. I was told in the District office that this was done with approval of the Federal office, but I was told by FSCC that this emergency distribution in the District was not additional commodities, but only early distribution of the regular monthly quota. I did not think it advisable to tell them what I had learned in confidence in the District office.

Storage, refrigeration, packaging and record-keeping seemed in excellent shape. It was indicated that the surplus commodities unit has always had a difficult job to survive because of the limited interest of relief officials in commodity instead of cash relief. This year the commodities section has specific authorization in the budget for warehousing and truck hire. Labor is provided as a WPA project.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 24, 1938

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: The foreign crop situation.

Summary

The foreign crop outlook, which appeared rather unfavorable a month or two ago, has improved materially as a result of beneficial weather over important areas, though crops will be short in a few countries.

No important European wheat shortage is now in prospect. Despite short crops in Italy and Spain, the total wheat crop in Europe is expected to be near that of last season. The European demand for wheat will be influenced by the much better outlook for rye in Central Europe than at this time last year, as a result of which the European supply of bread grains should definitely exceed last year's supply and probably the 1931-35 average. The next few weeks, however, constitute a critical period for the maturing of the crops, and substantial changes in prospects may yet occur.

Corn is of relatively small importance in production areas outside of the United States except in the Danube Basin and in Argentina. A very short Argentine crop this year sharply curtails the world's major source of export supplies.

The foreign wheat crop outlook

The world wheat crop, outside of Russia and China, is estimated by the Department of Agriculture on the basis of recent prospects at about 4,050 million bushels, or 225 million bushels above the 1937 total. With the world carryover of old wheat on July 1 expected to total about 650 million bushels, or about 95 millions more than last year, an increase of 320 million bushels in the world's wheat supply is indicated for the 1938-39 season.

The foreign wheat crop, outside of Russia and China, is expected to show an increase of about 65 million bushels above last year, totaling about 3,015 million bushels. Earlier prospects of severe damage to the European crops by drought,

Secretary Morgenthau - 2

and an uncertain Canadian prospect due to moisture deficiency, have been changed by beneficial rains over important wheat areas in Europe and Canada. The Canadian crop outlook has substantially improved, though more moisture is needed in certain areas. In Italy, however, the drought has reduced the crop to the smallest in many years, and the prospect in Spain continues very poor.

In the attached chart we show data by regions, and by important countries so far as available, comparing this year's wheat prospect with the crop harvested last season and with the 1931-35 average. Definite estimates in most cases are not yet available, since the critical growing period in many countries is now at hand, and prospects may be changed by weather developments.

#### European requirements may be increased

The Department of Agriculture estimates that import requirements for Europe as a whole may be about 50 million bushels greater than last year because of the slightly smaller crop. If war reserves are built up, however, following the announced policy of Great Britain and the Netherlands, this figure would need to be increased accordingly. The International Institute of Agriculture, on the other hand, estimates that the European wheat crop may be slightly larger than last year.

Russia and China are important wheat countries for which adequate statistics are not available. In the U.S.S.R. a large wheat crop provided an export surplus in 1937, and an increased crop has been planned for this year. Generally good prospects are indicated, and new-crop Russian wheat is reported as being sold in the British markets. China is expected to harvest a crop about the same as last year's small crop, estimated at 640 million bushels.

In Argentina and Australia winter wheat is just being planted, with moisture conditions generally favorable for germination. Some increase in acreage is expected in Argentina, while the Australian acreage may be unchanged or slightly decreased.

#### European rye prospects

An increased rye crop in Europe, as indicated by present prospects, will tend to reduce the demand for wheat this season, since the two are used interchangeably as bread grains by a large section of the population of Central Europe. An increased acreage, a much smaller amount of winter killing,

Secretary Morgenthau - 3

and more favorable growing conditions in the principal rye growing countries indicate a substantially larger crop than in 1937-38. Taking the rye crop into account, the total European supply of bread grains should definitely exceed last year's supply, and probably the 1931-35 average, according to Department of Agriculture estimates.

The world rye crop last year, outside of Russia and China, is estimated at 899 million bushels, of which the United States produced 49 millions. In addition, Russia normally produces about as much as the rest of Europe combined, between 800 and 900 million bushels.

#### The foreign corn situation

Corn is ~~used~~ to some extent as a bread grain in the Danubian countries, but outside of these countries and Argentina it is not an important foreign crop.

In the attached table we show the production and exports of corn in recent years for the six principal countries, including the United States. Argentina provides by far the major part of the world's exports of corn in normal years. During the 1937-38 season the Argentine crop was reduced to 179 million bushels, the smallest crop in 14 years, which is expected to materially reduce exports from that country in 1938. Data are not yet available on the progress of the 1938 corn crop in the Danubian countries.

Production and Exports<sup>1/</sup> of Corn  
by Principal Countries

Countries	Production				Exports			
	1934	1935	1936	1937	1934	1935	1936	1937
	(Millions of bushels)							
United States	1,478	2,292	1,524	2,645	4	1	1	6
Argentina	452	396	360	179	215	278	330	358
Rumania	191	212	221	187	21	25	30	2/
Yugoslavia	203	119	204	210	27	15	4	29
South Africa	66	53	100	63	13	24	1	2/
Indo-China	20	19	24	2/	19	16	19	2/

1/ Production is for crop years beginning in year mentioned; exports, for calendar years.

2/ Figures not available.

JUNE 24, 1938.  
4:05 P. M.

H. M. Jr: Hello.

Peoples: Yes, Mr. Secretary.

H. M. Jr: Admiral, after cabinet, I stayed behind and asked the President who he wanted to have to represent the Treasury, on this monopoly study.

Peoples: Yes.

H. M. Jr: Said he wanted Oliphant.

Peoples: He wants Oliphant.

H. M. Jr: And he wanted you as the alternate. So there you are.

Peoples: I see. All right Mr. Secretary.

H. M. Jr: Those are the Presiden't wishes.

Peoples: Yes indeed.

H. M. Jr: All right.

Peoples: Thank you, for you're very kind to let me know.

H. M. Jr: All right.

Peoples: Thank you Mr. Secretary.

H. M. Jr: All right.

Peoples: Thanks.

MEMORANDUM

June 25, 1938.

To: The Secretary  
From: Herbert E. Gaston



The President called me on the telephone at my home at about 10:30 p.m. Friday night, June 24.

He said: "Herbert: About this mass of stuff I have here on bank examinations; do you know about it?"

I said: "Yes, sir; do you mean the material from Eccles?"

He said: "No, I mean the stuff Henry handed me yesterday. There's a letter to me (part of which he read) and some other material. What is Henry planning to do with it? Was he going to hold a press conference?"

I replied that you had gone to the farm and that you had instructed me to hold a press conference to give out the material if he approved.

He said: "For political reasons whatever you put out ought to be put out as a joint statement by Eccles, the F. D. I. C., the Comptroller and the Secretary of the Treasury. I want you to call up all the others and fix up a joint statement. It should be a joint release by the Secretary of the Treasury, the Chairman of the Federal Reserve, the Chairman of the F. D. I. C., and the Comptroller of the Currency."

- 2 -

I said: "That can be done very easily, because one of the documents you have is an agreement on bank examinations in which all of them participated. It is a statement by all of them."

He said: "Well, that's all right; but whatever is put out should be a joint statement, as a matter of good politics."

I said: "Is it all right, then, for me to give it out at a conference tomorrow for publication Monday, in the form of a joint statement?"

He said: "Yes, that's right; for publication Monday."

This was proposed press release to accompany the press release on revision of procedure in bank examinations, but it was not used. 6/25/38

An agreement on uniformity of examination practice by bank supervisory agencies and a revised regulation as to the securities which member banks of the Federal Reserve System are permitted to purchase were released today by Henry Morgenthau, Jr., Secretary of the Treasury, after approval by the President. Mr. Morgenthau acted as chairman of a committee made up of the Acting Comptroller of the Currency, the Board of Governors of the Federal Reserve System and the Board of the Federal Deposit Insurance Corporation, who were asked by the President to coordinate their policies.

The agreement as to bank examinations includes methods of classifying bank loans, valuing securities, and treatment of security profits. The revision of the regulation with respect to securities eligible for purchase by banks is promulgated by the Acting Comptroller of the Currency, since that office has the responsibility under the law of determining what investment securities may be acquired by national banks and state bank members of the Federal Reserve System.

The Chairman of the Board of the Reconstruction Finance Corporation and the officials of state governments that supervise state-chartered banks were consulted and have given their approval to the agreement.

The text of the agreement and of the revised investment regulation are attached.

For Release to Morning Newspapers of Monday, June 27, 1938.  
6/25/38.

REVISION OF PROCEDURE IN BANK EXAMINATIONS AS AGREED TO BY THE SECRETARY OF THE TREASURY, THE BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, THE DIRECTORS OF THE FEDERAL DEPOSIT INSURANCE CORPORATION, AND THE COMPTROLLER OF THE CURRENCY.

#### The Classification of Loans in Bank Examinations

The present captions of the classification units, namely, "Slow," "Doubtful," and "Loss" are to be abandoned;

The classification units hereafter will be designated numerically and the following definitions thereof will be printed in examination reports:

I. Loans or portions thereof the repayment of which appears assured. These loans are not classified in the examination report.

II. Loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the bank by reason of an unfavorable record or other unsatisfactory characteristics noted in the examiner's comments. There exists in such loans the possibility of future loss to the bank unless they receive the careful and continued attention of the bank's management. No loan is so classified if ultimate repayment seems reasonably assured in view of the sound net worth of the maker or endorser, his earning capacity and character, or the protection of collateral or other security of sound intrinsic value.

III. Loans or portions thereof the ultimate collection of which is doubtful and in which a substantial loss is probable but not yet definitely ascertainable in amount. Loans so classified should receive the vigorous attention of the management with a view to salvaging whatever value may remain.

IV. Loans or portions thereof regarded by the examiner for reasons set forth in his comments as uncollectible and as estimated losses. Amounts so classified should be promptly charged off.

Present practice will be continued under which the totals of II, III, and IV above are included in the recapitulation or summary of examiners' classifications.

Fifty per cent of the total of III above and all of IV above will be deducted in computing the net sound capital of the bank.

The Appraisal of Bonds in Bank Examinations

Neither appreciation nor depreciation in Group I securities will be shown in the report. Neither will be taken into account in figuring net sound capital of the bank.

Group I securities are marketable obligations in which the investment characteristics are not distinctly or predominantly speculative. This group includes general market obligations in the four highest grades and unrated securities of equivalent value.

The securities in Group II will be valued at the average market price for eighteen months just preceding examination and fifty per cent of the net depreciation will be deducted in computing the net sound capital.

Group II securities are those in which the investment characteristics are distinctly or predominantly speculative. This group includes general market obligations in grades below the four highest, and unrated securities of equivalent value.

Present practice will be continued under which net depreciation in the securities in Group III and Group IV are classified as loss.

Group III securities: Securities in default.

Group IV securities: Stocks.

Present practice will be continued under which premiums on securities purchased at a premium must be amortized.

Present practice of listing all securities and showing their book value will be continued.

The Treatment of Securities Profits in Bank Examinations

Until losses have been written off and adequate reserves established, the use of profits from the sale of securities for any purpose other than those, will not be approved.

Present practice will be continued under which estimated losses must be charged off.

Present practice will be continued under which the establishment and maintenance of adequate reserves, including reserves against the securities account, are encouraged.

Present practice will be continued under which speculation in securities is criticised and penalized.

TREASURY DEPARTMENT  
Comptroller of the Currency  
WASHINGTON

INVESTMENT SECURITIES REGULATION

Issued by the Comptroller of the Currency

By virtue of the authority vested in the Comptroller of the Currency by paragraph Seventh of Section 5136 of the Revised Statutes, the following regulation is promulgated:

SECTION I

(1) An obligation of indebtedness which may be purchased for its own account by a national bank or State member bank of the Federal Reserve System, in order to come within the classification of "investment securities" within the meaning of paragraph Seventh of said Section 5136, must be a marketable obligation, i.e. it must be salable under ordinary circumstances with reasonable promptness at a fair value; and with respect to the particular security, there must be present one or more of the following characteristics:

(a) A public distribution of the securities must have been provided for or made in a manner to protect or insure the marketability of the issue; or,

(b) Other existing securities of the obligor must have such a public distribution as to protect or insure the marketability of the issue under consideration; or,

(c) In the case of investment securities for which a public

- 2 -

distribution as set forth in (a) or (b) above can not be so provided, or so made, and which are issued by established commercial or industrial businesses or enterprises, that can demonstrate the ability to service such securities, the debt evidenced thereby must mature not later than ten years after the date of issuance of the security and must be of such sound value or so secured as reasonably to assure its payment; and such securities must, by their terms, provide for the amortization of the debt evidenced thereby so that at least 75% of the principal will be extinguished by the maturity date by substantial periodic payments: Provided, That no amortization need be required for the period of the first year after the date of issuance of such securities.

(2) Where the security is issued under a trust agreement, the agreement must provide for a trustee independent of the obligor, and such trustee must be a bank or trust company.

(3) All purchases of investment securities by national and State member banks for their own account must be of securities "in the form of bonds, notes, and/or debentures, commonly known as investment securities"; and every transaction which is in fact such a purchase must, regardless of its form, comply with this regulation.

#### SECTION II

(1) Although the bank is permitted to purchase "investment securities" for its own account for purposes of investment under

- 3 -

the provisions of R. S. 5136 and this regulation, the bank is not permitted otherwise to participate as a principal in the marketing of securities.

(2) The statutory limitation on the amount of the "investment securities" of any one obligor or maker which may be held by the bank, is to be determined on the basis of the par or face value of the securities, and not on their market value.

(3) The purchase of "investment securities" in which the ~~invest~~ ment characteristics are distinctly or predominantly speculative, or the purchase of securities which are in default, either as to principal or interest, is prohibited.

(4) Purchase of an investment security at a price exceeding par is prohibited, unless the bank shall:

(a) Provide for the regular amortization of the premium paid so that the premium shall be entirely extinguished at or before the maturity of the security and the security (including premium) shall at no intervening date be carried at an amount in excess of that at which the obligor may legally redeem such security; or

(b) Set up a reserve account to amortize the premium, said account to be credited periodically with an amount not less than the amount required for amortization under (a) above.

(5) Purchase of securities convertible into stock at the option of the issuer is prohibited.

(6) Purchase of securities convertible into stock at the option of the holder or with stock purchase warrants attached is prohibited

- 4 -

if the price paid for such security is in excess of the investment value of the security itself, considered independently of the stock purchase warrants or conversion feature. If it is apparent that the price paid for an otherwise eligible security fairly reflects the investment value of the security itself and does not include any speculative value based upon the presence of a stock purchase warrant or conversion option the purchase of such a security is not prohibited.

(7) As to purchase of securities under repurchase agreement, subject to the limitations and restrictions set forth in the law and this regulation:

(a) It is permissible for the bank to purchase "investment securities" from another under an agreement whereby the bank has an option or a right to require the seller of the securities to repurchase them from the bank at a price stated or at a price subject to determination under the terms of the agreement, but in no case less than the value at the time of repurchase.

(b) It is permissible for the bank to purchase "investment securities" from another under an agreement whereby the seller or a third party guarantees the bank against loss on resale of the securities.

(c) It is not permissible for the bank to purchase "investment securities" from another under an agreement whereby the seller reserves the right or the option to repurchase said se-

- 5 -

curities itself or through its nominee at a price stated or at a price subject to determination under the terms of the agreement, notwithstanding the fact that the bank may also, under such agreement, have the right or option to compel the seller to repurchase the securities at a price stated or at a price subject to determination under the terms of the agreement.

(8) As to repurchase agreements accompanying sales of securities,

(a) It is permissible for the bank selling securities to another to agree that the bank shall have an option or right to repurchase the securities from the buyer at a price stated or at a price subject to determination under the terms of the agreement, but in no case in excess of the market value at the time of repurchase.

(b) It is not permissible for the bank selling securities to another to agree that the purchaser shall have the right or the option to require the bank to repurchase said securities at a price stated or at a price subject to determination under the terms of the agreement, notwithstanding the fact that the bank may also, under such agreement, have the right or option to repurchase the securities from the buyer at a price stated or at a price subject to determination under the terms of the agreement.

In view of the fact that some banks may have bought or sold securities under a form of agreement which is prohibited by this regulation, the bank should either terminate or modify same so as to conform to this regulation, where such action may lawfully be taken. Existing agreements of the pro-

- 6 -

hibited type must not be renewed.

EXCEPTION

The restrictions and limitations of this regulation do not apply to securities acquired through foreclosure on collateral, or acquired in good faith by way of compromise of a doubtful claim or to avert an apprehended loss in connection with a debt previously contracted, or to real estate securities acquired pursuant to Section 24 of the Federal Reserve Act, as amended.

This regulation supersedes prior regulations governing the purchase of "investment securities" and is effective from and after July 1, 1938.

Signed and promulgated this 27th day of June, 1938.

MARSHALL R. DIGGS  
Acting Comptroller of the Currency

June 27, 1938

(Dictated over the telephone to Mrs. Klotz  
by the Secretary from the farm)

Oliphant read to me over the telephone the statement as to the Treasury's policy, in regard to the monopolies study, which he wanted to announce at the meeting this afternoon. I said I was very sorry that I could not O.K. it over the telephone; that I did not get its significance and that he had had plenty of time to work on this statement and how could he expect me, at a snap of the finger, to give him a "Yes" or "No" and that he would have to wait until tomorrow morning.

June 27, 1938.

MEMORANDUM

TO: Secretary Morgenthau  
FROM: Mr. Gaston

SUBJECT: Timing of Eccles' letter and your comments on Federal Reserve Board's attitude in press conferences.

The Eccles letter to Senator Vandenberg was dated June 14th and stories on it and extracts from it appeared first in the late afternoon papers of June 16th and it was quite extensively covered in the morning and afternoon papers of the following day, Friday, June 17th. You did not hold any press conference on Thursday, the 16th, since that was the day you were making your speech at Temple University.

The bank examination matter was touched upon in your conference of the preceding Monday, June 13th. I am attaching a separate transcript of what you said at that and other conferences. Specifically, however, the references to the Federal Reserve Board were as follows:

"Q. Mr. Secretary, the Reserve Board people say that they haven't gotten a report and aren't drawing up a report.

A. Well, for background, I have reason to believe that they are showing much more — I wouldn't say much more — a spirit of cooperation and I have hopes that there is a chance that maybe there will be a unanimous report — there is such a chance.

Q. Can we use that — you may have such a report?

A. This is for background. No, no. I have hopes now that, having been patient and giving everybody time, why it looks as though, plus Upham's very careful handling, it looks as though we may get something from everybody.

Q. Well, they must have made an aboutface.

A. I don't know. This is all for background. But it looks now as though we may all get together and I sincerely hope they will."

- 2 -

On Thursday, the 5th, there were some questions about when the report would be finished, but no reference to the Reserve Board. On Monday, the 9th, you said that "for the first time I see daylight on it; we are going to have something; I think it is going to be all right." Asked if you meant that you saw a chance of an agreement among all three agencies you said you saw a chance for a step toward uniform bank examination.

In response to a "hypothetical" question you said that the Federal Reserve Board "could go along on their own" if they didn't agree to the report of the other agencies and in response to a question whether the Board could be required by legislation (to go along) you said "Yes, but again on that same hypothetical basis, if you happen to have the Federal Reserve Board, and if the Federal Deposit and the Comptroller decide on joint action it doesn't leave many banks as far as the Federal Reserve is concerned. If the State examiners and Federal Deposit and Comptroller all agreed on an action it would take in most of the banks."

It was at the conference on Monday, June 20th, after the appearance of the Eccles letter, that you said that the interest of the Treasury, the Comptroller of the Currency and the F.D.I.C. was in protecting the depositor and you added "Mr. Eccles has expressed his opinion — whether the Board has expressed theirs, I don't know." You also said you would wait until Wednesday night to see if you couldn't get them all together.

June 27, 1938.

MEMORANDUM

TO: Secretary Morgenthau

FROM: Mr. Gaston



Mr. Oliphant called me at my home about 6:30 Saturday evening. He asked me if the President had talked to me. I told him that the President had talked to me Friday night about handling the bank examination story, but he said no, he didn't mean that. He asked if the President had talked to me about steel. I said, No. He said that he had understood from Tom Corcoran that the President would talk to me or had talked to me about getting together some data on possible steel purchases by the Government. He said Tommie's impression was that the President had already talked to me. I repeated that I had heard nothing. He asked me if I had noticed the President's statement that the reduction in steel prices was not to involve any cut in wages. He said the President had agreed that it was important that Stettinius be given some support in his effort to keep prices down and wages up. To do that the Government should make a canvass to find out what steel orders could be placed right away. He had been trying to get hold of McReynolds, with the idea that Mac could get things started. He asked me if I would speak to Mac, in which case he would cancel his call. I told him I would do that.

After Oliphant had hung up the operator called me and asked if I thought Mr. Oliphant still wanted to talk to McReynolds. I told her I thought not, since I had agreed to pass on his message to McReynolds. A little later in the evening Mac called me, having been told by the Treasury operator that I wanted to talk to him, although I had not put in a call for him. I explained what Oliphant had told me and added that of course we would not want to do anything about it on the basis of any such indirect request; that if the President or the Secretary called me it would be a different matter and I added that if the President wished to give any instructions he would undoubtedly get in touch with the Secretary.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 27, 1938

TO Secretary Morgenthau  
FROM Herman Oliphant

Late Saturday afternoon Tom Corcoran called me at the Bay with Jerome Frank and Ben Cohen on the telephone. The connection was very bad, but, in substance, Tom said that the President had been considering what could be done to prevent other steel companies from cutting wages after cutting prices; that the President, knowing you were out of town and not being able to reach Peoples, said he would call Gaston and state the policy; and that they said call me. Cohen said they wanted to let the maximum number of contracts for steel as soon as possible and to let them to companies that did not cut wages, but do so without any public announcement.

I told them I would call them back. I then tried to reach McReynolds, Peoples, Gaston, and Captain Collins. They were all out. I later reached Gaston and repeated what had been said, asking him to advise McReynolds. He said that the President had not called him. We agreed that nothing could be done before Monday. I then called Cohen and so reported.

About noontime on Sunday, Cohen called me again and said there had been a misunderstanding as to what Stettinius had suggested to the President. All he wanted was that contracts be let as early as possible, without discrimination among the companies, so that wage cuts could be avoided by an improvement in the steel business generally. I told Cohen that I would pass this on. I was not able to reach McReynolds or Gaston by telephone Sunday, but gave this further message to McReynolds this morning.



June 27, 1933.

Dear Mr. Roberts:

I know that your letter of June 24th, with its comment upon the upturn in the market, will interest the Secretary very much. He is away from the office and I am acknowledging the letter in his absence, but I shall bring it to his attention just as soon as he is back.

Sincerely yours,

H. S. Klets,  
Private Secretary.

Mr. G. B. Roberts,  
Vice President, The National City  
Bank of New York,  
New York, New York.

GZF/dbs

# The National City Bank of New York

ESTABLISHED 1818

New York June 24, 1938

CABLE ADDRESS: CITIBANK

IN REPLYING PLEASE QUOTE INITIALS

GBR

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

My dear Secretary Morgenthau:

I take pleasure in giving you our regular week-end resume to Mr. Rentschler, as follows:

Business sentiment cheered by sharpness of stock and commodity market uptown. While short covering undoubtedly a great factor in speeding advance, basic cause probably improved showing of business indexes which are holding better than expected. Steel operations usually drop during June but have risen slightly on miscellaneous orders reflecting reduced inventories. Steel men see no great improvement, but are more cheerful. Cotton print cloth sales this week equal to a month's production or more; rayons also better. We feel this improvement, together with reduced retail inventories, and government spending, indicates Fall pickup in consumer goods lines practically certain. Situation, however, still cloudy in fundamental respects. Caution desirable until ability this improvement to hold fully demonstrated. Automobile people feeling better than month ago but not very optimistic. Sales trend about seasonal. Shutdowns for change-over to new models in July and August will average three weeks longer than last year. Building figures first half June up contra-seasonally from May but 17 per cent under last year. Think residential awards will make encouraging comparisons from here on. Bond prices firmer all sections though Government's slightly easier. Bank earning assets still declining, but turn probable next month.

Respectfully,



G. B. Roberts,  
Vice President

## TREASURY DEPARTMENT

## INTER OFFICE COMMUNICATION

DATE June 27, 1938

TO Secretary Morgenthau

FROM Mr. White

Subject: Plan to promote the monetary and industrial use for silver and to make important use of some of our silver assets.

1. We are faced with the following combination of circumstances with respect to silver:

(a) One by one countries whose monetary stocks consisted in part of silver are gradually disposing of their silver holdings. The United States will eventually be the only country (aside from Cuba) having silver as a significant part of its monetary stock.

(b) The United States is accumulating a stock of silver in which there is absolutely no prospect of disposal of any large portion of it in the foreseeable future.

(c) There is agitation that we cease buying foreign silver. This agitation can be expected to increase as our silver stocks grow and as the poor prospects for getting rid of any of our stocks becomes more apparent to the public.

(d) The attainment of the objectives of the Silver Purchase Act is more remote than ever: (1) We are doing nothing to promote the monetary use of silver among other nations in the world. On the contrary, we are helping them dispose of their monetary silver. (2) The foreign price of silver will cease to be stable when we stop buying silver. (3) We are not making use of our silver seigniorage. (4) There is no near prospect of reaching the 25 percent ratio called for.

In retrospect, the silver purchase policy of the Roosevelt Administration is in danger of going down in history as a complete fiasco.

Secretary Morgenthau - 2

2. Can we do anything about it now?

We think there is a possibility of evolving a plan which will induce some foreign countries to join with us in an effort to establish silver as a permanent part of their respective monetary reserves. We believe that something like the plan proposed below could be adopted next Spring after the ground had been prepared this year. The essentials of the proposed plan have the following merits:

(a) It would serve to extend the monetary use of silver among nations in the Americas.

(b) It would promote greater use of silver for industrial purposes.

(c) It would provide the machinery through which economic assistance to Latin American countries can be provided without any real cost to us and without further Congressional action, thereby accomplishing the dual purpose of:

(1') Checking the development of commercial and political ties with anti-democratic countries, and

(2') Increasing the foreign trade of those countries with democratic countries.

(d) It would extend and strengthen the dollar bloc.

(e) It would provide some protection of the value of our large silver holdings.

(f) It would stabilize the value of monetary silver.

(g) Its adoption would mean that the Silver Purchase program of this Administration could not be justly regarded as a failure but rather as an instrument in attaining desirable objectives towards which we are now beginning to move.

3. The essentials of the plan are designed to provide:

(a) Certainty that monetary silver can be sold at a fixed price at any time in the future.

(b) Certainty that part at least of the newly mined silver can be disposed of at a fixed and reasonable price.

(c) Facilities through which certain countries can borrow silver, when the need arises, for use as monetary reserves.

(d) Arrangements limiting the amount of monetary silver stocks in the world.

Secretary Morgenthau - 3

4. The proposal consists of the establishment (by Congressional action and through treaties with interested American governments) of a bank to be known possibly as the Inter-American Silver Bank.

Only the essential characteristics of the proposed bank are outlined in the following paragraphs. For obvious reasons, details of the organization, control, and technical details await your preliminary evaluation of the general idea.

For practical and political purposes it would be best to limit participation to countries in the Americas -- at least for the time being.

It is not necessary to have all the American countries participate. Two or three countries would provide a suitable basis for operation.

5. Conditions of participation in the proposed bank:

(a) Each participating government to agree to maintain a pre-determined minimum proportion or a minimum absolute amount - whichever is lower - of its monetary stock (gold, silver, foreign exchange) in the form of silver (valued at the equivalent of say, 50 cents an ounce), the proportions and amounts to be determined in the light of present holdings and present output, etc. of each country. (see Appendix I).

(b) The Treasury of each country to have a monopoly of the purchase and sale of silver. All silver bullion or coin exported to or imported from foreign countries (whether as monetary silver or industrial silver) to be purchased and sold through the bank.

(c) Each country to add to its monetary stock of silver a pre-agreed upon amount each year (e.g. a pre-determined proportion of its previous national output -- see Appendix II).

(d) Each participating government to agree that all silver except amounts designated as monetary silver shall be regarded as non-monetary silver.

(e) Each participating government to agree to accept in unlimited amounts monetary silver in settlement of international accounts.

Secretary Morgenthau - 4

(f) Loans made by the bank to be made only to participants and only at low ratio of interest. The loans to be made in monetary silver (in the most convenient form, i.e., earmarked silver or special silver certificates) and to be repaid in monetary silver.

6. Powers of the bank:

1. To make loans in monetary silver. (Repayments to be made in monetary silver).
2. To maintain a research staff for the purpose of:
  - (a) Promoting industrial uses of silver,
  - (b) Encouraging monetary uses for silver,
  - (c) The collection, compilation and publication of material pertinent to silver.
3. To maintain the necessary accounts which will provide the machinery of control for segregating monetary silver from industrial silver.
4. To organize and maintain a world silver market and to act as the agents for all participating countries for the purchase and sale of silver.
5. To act as a clearing house for the transfer of international payments among participants.

7. This proposal involves the modification of the Silver Purchase Act. It is possible, however, to introduce the proposal without modifying the Silver Purchase Act, but the arrangements suggested above would have to be somewhat altered and the process would become more complicated.

If the general idea has merit, there are several things that should be done while developing the proposal. These preliminary steps include among other things (a) keeping the price of foreign silver from falling, (b) reducing the price of domestic silver as soon as it is politically feasible.

**MEMORANDUM****June 27th, 1938.**

**To: Mr. Cliphart**  
**From: Mr. McReynolds**

The Secretary asks that you prepare and have ready for him tomorrow morning a written record of each conversation you had with the White House boys - Cocksun, Cohen, etc., concerning the relationship with steel companies and the purchase of steel.

REB

GRAY

London

Dated June 27, 1938

Rec'd 2:20 p. m.

Secretary of State,  
Washington.

564, June 27, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Movements on the foreign exchange market were without significance except that the dollar was inclined to be strong on the publication of the May figures showing a substantial American export surplus.

280 bars were dealt in at gold fixing but it is noteworthy that at one time in the course of the fixing 200 bars were on offer with no takers.

JOHNSON

KLP

CSB

RECEIVED

JUN 28 1938

TREASURY DEPARTMENT  
WASHINGTON, D. C.  
DIVISION OF INTERNATIONAL FINANCE

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 27, 1938, 5 p.m.

NO.: 1008

FROM COCHRAN.

French control apparently gained fair amount of sterling today at 177.90 to .91. One Paris American bank operated for control buying belgas presumably required to meet French railway maturities abroad. French rentes up.

Yesterday's JOURNAL OFFICIEL announced increase in rate of interest on two-year national defense bonds from 2.75 to 3%.

Same JOURNAL OFFICIEL published a decree relating to the 2,278,000,000 francs of 4% 1937 one-year Treasury bonds which mature August 5. Under this decree holders may exchange their bonds from June 28 to July 15 into one-year Treasury bonds bearing interest payable in advance at 3%. An official communique stresses that those who present their securities for conversion immediately will thus receive an additional 38 days interest.

Necessity of increasing interest rates on National defense and one-year Treasury bonds suggests that market needs more encouragement to provide the short-term funds which the Treasury requires. Furthermore, the conversion operation reveals reluctance to undertake long-term operation in present circumstances.

I had

- 2 -

I had lunch today with Sir Otto Niemeyer, who understood the French were a little more encouraged over their situation since the adjournment of Parliament. But he interpreted the interest rate changes mentioned above as anything but a bull point. He wondered whether the Treasury might not again be in serious difficulties by October.

BULLITT.

END MESSAGE.

EA: LWW

RECEIVED

JUN 2 1938

TREASURY DEPARTMENT  
Office of the Assistant  
Secretary for the Treasury

## PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: June 28, 1938, 5 p.m.

NO.: 1020

FROM COCHRAN. -

At noon today I talked with the Bank of France. The inactivity of the exchange market was emphasized by my friend. Nothing was being done by the control. He said it was true that very shortly the French Government would issue a decree authorizing open market operations by the Bank of France. The idea had been opposed by the Bank of France, he said, as they did not feel that the present time was propitious to introduce this policy. The Bank said that the Government and the public will be disappointed in its results, and that any lack of success will be blamed on the Bank. However, apparently the Prime Minister is convinced that this plan, the technique of which is new to him, is just what his program has lacked and that the trend will be turned by its inauguration.

This afternoon Paris-American Bank purchased seven million more belgas for French railway payment. Swiss have been selling three months French francs and absorbing sterling which otherwise would have gone to the French control.

I had a talk with Dean Jay of Morgans. He gave me  
the

- 2 -

the following explanation in regard to plans under way for establishing a discount company in Paris. Some months ago Morgans had discussed the need for a second discount bank with the Bank of France; the Banque de Paris et Pays Bas also became interested in this and recently approached Morgans; Lazards was then drawn in. These banks would have drawn in the Bank of Indo-China also, but the envisaged operations would not be permitted under its statutes as a bank of issue. A separate company is being formed by these three banks with a capital of 25,000,000 French francs, perhaps one-half to be paid up. The policies of the new institution will be guided principally by Moreau and Oudot of the Banque de Paris et Pays Bas; the bank's discount man will become the general manager. Morgans' member of the managing committee of three will be Bernhard Carter. The Parisian Rediscount Company is the one other institution of this sort, established ten years ago, and it has been successful. The participants in the new institution believe that the French market should be helped by it.

END MESSAGE.

BULLITT.

EA: LWW

June 28, 1938.  
9:21 A.M.

Admiral  
Peoples: Good morning, sir.

H. M. Jr: How did the meeting go yesterday?

P: Why, Mr. Secretary.

H. M. Jr: Yes.

P: There was no meeting.

H. M. Jr: There was no meeting.

P: No sir, it was postponed until 8 o'clock tonight --

H. M. Jr: Oh.

P: ..... to be held in the home of Judge Arnold out at - well, out near Bethesda.

H. M. Jr: I see.

P: And, so there was nothing to report then.

H. M. Jr: I see. Wonder why they postponed it?

P: I don't know.

H. M. Jr: Well -

P: I had a talk with Mr. Oliphant. He didn't seem to know either.

H. M. Jr: Uh huh.

P: And so in other words there's nothing. They really haven't started yet.

H. M. Jr: Right. Well --

P: I'll be happy and make up this first thing in the morning.

H. M. Jr: Right. That memorandum report. The personal report.

P: Right.

H. M. Jr: I told -

- 2 -

- P: Nobody will know anything about them.
- H. M. Jr: That's right. Now, I told Arnold that - he wanted to know who I wanted at the meetings - and I told him that I wanted both of you. - Hello.
- P: Yes, Mr. Secretary.
- H. M. Jr: And, if there's any - if you find anybody trying to elbow you out - let me know, will you?
- P: Yes, Mr. Secretary. Oh, bless your heart. Thank you. I'll handle it diplomatically.
- H. M. Jr: Well, if there's any elbowing being done, let me know.
- P: I will sir.
- H. M. Jr: All right.
- P: I'll be very happy to, Mr. Secretary.
- H. M. Jr: Well, I'm counting on you to see that I don't get into hot water - I mean the Treasury.
- P: That's right. I quite understand that, sir.
- H. M. Jr: Because, after all, as I see, the Treasury, we're here to collect the revenue, to protect the revenue, and also to be a central purchasing agency.
- P: Exactly so.
- H. M. Jr: But we're not supposed to be a prosecuting agency.
- P: Exactly so.
- H. M. Jr: And I want to keep that in mind at all times.
- P: Yes, Mr. Secretary.
- H. M. Jr: Admiral, how are you getting along with your - as a second-hand clothes man?

- 3 -

P: Why - I gave McReynolds, yesterday afternoon, the form of the circular.

H. M. Jr: Yes.

P: They started from scratch - Collins - and he took over with him to New York --

H. M. Jr: Yes.

P: Three of his best people.

H. M. Jr: Yes.

P: They started from scratch Wednesday morning.

H. M. Jr: Yes.

P: With a clean slate. They had a meeting first of the people who will do the inspecting.

H. M. Jr: Yes.

P: They're selecting men - some practical men from Sears Roebucks, The Hub stores of Minneapolis, and - and Penny and then they -- on Thursday there was a further meeting of about 35 representatives of all of the manufacturers and they - they were - Collins was particularly impressed with the spirit of honest appreciation on the part of all of these people, to play the game and come through and help putting this deal over.

H. M. Jr: Uh huh.

P: And the result of that meeting - the - the circular of the - was prepared. Of course, the pretention of the circular

H. M. Jr: Uh - Well, I don't want

P: Was to find out definitely --

H. M. Jr: Let me interrupt you. I don't want - I just wanted to know whether you're getting along nicely.

P: Oh, bless your heart, Mr. Secretary, we're coming along marvelously well.

- 4 -

H. M. Jr: But on that other thing. On that twelve million that -

P: That twelve million, sir, there has not been a single question so far. We don't anticipate any. The bids are going to be open tomorrow - Wednesday.

H. M. Jr: Yes.

P: We'll get some telephonic reports, etc. and I'll be glad to let you know sometime late tomorrow afternoon.

H. M. Jr: All right. Now, does Hopkins ask for any more rush orders?

P: Oh, I haven't heard that -

H. M. Jr: I mean, there's nothing in addition to that twelve million?

P: Nothing special.

H. M. Jr: All right.

P: This last rush was a mass of odds and ends, Mr. Secretary.

H. M. Jr: I see.

P: Nothing special, sir.

H. M. Jr: I see. All right, Admiral, carry on.

P: Thank you, Mr. Secretary.

H. M. Jr: You're welcome, sir.

## GROUP MEETING.

June 28, 1938.  
9:30 A. M.

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

H.M.Jr: O. K. Mac?

McReynolds: (Nods "Nothing.") Nothing more.

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

White: We've been working on silver ideas. We've got something that I think is pretty original. I'd like to have a chance to talk with you before this man comes here. It may have some bearing. - Supposed to be coming tomorrow.

H.M.Jr: Tomorrow.

White: If you could save five or ten minutes tomorrow ....

H.M.Jr: You wouldn't be ready today? Well, come in at ten o'clock tomorrow, you fellows. Siam. (To Mrs. Klotz:) They want a little time ahead.

White: Then, this Swede is coming tomorrow for lunch. I thought if you could save ten or fifteen minutes sometime tomorrow morning, I'd like to tell you something about it - something about Sweden.

H.M.Jr: You're invited for lunch.

White: I mean, before then.

H.M.Jr: Well, notwithstanding, you're still invited for lunch. I think - let's see - I'm going to the dentist tomorrow - I'll work it in sometime tomorrow. We'll stay after Siam, and I'll give

you a shot at Sweden. How's that?

White: All right.

H.M.Jr: Save you ten to eleven. We'll go from Sweden to Siam and back to Sweden.

(Nods to Mr. Lochhead.)

Lochhead: Speaking of Spain - that shipment of silver will arrive here, probably on Saturday morning - the second shipment. We have everything I think we'll set up on it.

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

Gibbons: I'd like to see you a moment afterward, about Senator Wagner calling about a fellow he's interested in. It will just take a minute.

H.M.Jr: Sure.

(Nods to Mr. Upham.)

Upham: The Export-Import Bank wants to extend a ten million dollar credit to Italian banks, ....

(Mr. Bell comes in.)

..... through Chase Bank, for the financing of shipments of wheat to Italy, and the Export-Import Bank submits it to the Treasury, the State Department, and Agriculture for any objections that they may have, and Mr. Warren Pierson, who has left, asked me to submit it to you, and .....

H.M.Jr: Well, I am amazed at that because Mr. Hull brought that up at Cabinet and it was turned down.

Upham: It was?

H.M.Jr: It was turned down at Cabinet.

Upham: Mr. Whitmore called me last night. He hasn't found out about that yet.

H.M.Jr: I tell you what we'll do - I'd tell them we'll be guided in this matter by whatever the State Department decides. See? We'll be guided by whatever

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the State Department decides. See? Because it was brought up - ah - Wallace said that as a member of the Cabinet he'd vote against it; as Secretary of Agriculture he was for it. I am willing to abide by whatever the State Department decides.

Upham: All right. You have any luncheon plans today?

H.M.Jr: (To Mrs. Klotz:) Have we heard?

Klotz: (Nods "No.")

H.M.Jr: (Over telephone.) Call up .....

(To Mrs. Klotz.) You do it, at ten o'clock. - No hurry. (Mrs. Klotz goes out.)

(Over telephone.) All right - Mrs. Klotz will do it.

(To Mr. Upham:) I'll let you know in a couple minutes.

I have a long five-page letter here from Eccles which I want you and Gaston to analyze and help me answer.

Upham: Better let me answer it for my own signature.

H.M.Jr: I wouldn't answer it - I want notes for the next time I see him - five pages.

Oliphant: He gets started to talking to the stenographers, apparently.

H.M.Jr: Huh?

Oliphant: He must get started talking to the stenographers.

H.M.Jr: Well, there are five pages here.

(Nods to Mr. Haas.)

Haas: Lost some skimmed milk.

H.M.Jr: Any tobacco?

Haas: No, I think they will lay off. Those bags, I suppose, are package material.

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H.M.Jr: What is this latest thing about buying pots and pans?

Haas: I haven't heard anything.

H.M.Jr: It's in the paper.

Lochhead: Yes, it was in the papers, about buying pots and pans and distributing them.

H.M.Jr: Maybe they found they can't bake.

Oliphant: That's to cook the food they don't have.

H.M.Jr: (Nods "Yes.")

Haas: Dr. Parran has made a point that many of them didn't have equipment to handle the stuff.

H.M.Jr: What?

Haas: Dr. Parran has pointed out that many of them didn't have equipment to handle the stuff.

H.M.Jr: What else, George?

Haas: Nothing.

H.M.Jr: How's the weekly report?

Haas: It looks all right.

H.M.Jr: Looks all right?

Haas: ..... based on historical data, we can expect a reaction - and this July Fourth period - usually you get quite a let-down over the week-end, and it looks all right.

H.M.Jr: George, I see in the paper today a release from the Federal Reserve that on inventories of department stores - do we get that?

Haas: Uh huh. Once a month.

H.M.Jr: You throw that into this?

Haas: Uh huh.

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H.M.Jr: Do you have any time for this or not?

Haas: Ah - I don't think we have commented on the rise in the retail sales. That last week was one of the best weeks we have had since back in April. I have included that; I've got a figure there on the analysis of inventories which you will find, I think, very interesting, but it's not taken up separately.

H.M.Jr: At least that's on the good side.

Haas: That's right.

H.M.Jr: What else, George.

Haas: That's all I've got.

H.M.Jr: Huh?

Haas: That's all I've got.

H.M.Jr: Herman?

Oliphant: Here's a memorandum that you can read sometime when you've got plenty of time. There's no hurry about it. It's important, but of no particular hurry.

H.M.Jr: All right.

Oliphant: It's a misconception he's got.

You asked me to hold that letter we had from the Attorney General, passing back that plan for uniform handling of tie bids for a good while. We've held it a good while, and here's a letter which puts it back in his lap, where I think it ought to be. It's his responsibility.

H.M.Jr: I didn't know I asked you to hold it. Did I?

Oliphant: Yes. You said "Take plenty of time." The plan had been worked out; everybody had agreed to it, and everybody was very happy about it. When we went over there we thought it was all finished, and then he makes another suggestion.

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H.M.Jr: Have you seen this, Mac?

McReynolds: No.

H.M.Jr: Supposing you and Peoples take a look at it, and if you can give me twenty-four hour service on it, it's all right. If you can give me a report, I'll sign it tomorrow.

McReynolds: O. K.

H.M.Jr: Dan.

Bell: I just wanted to let you know that we've received from the Secretary of State, about our certification of about nine million dollars in awards to the Mexican Claims Commission, in favor of American nationals, and I don't know what the agreement is, but I believe that Mexico agreed to pay about fifty-seven per cent of those awards, making about five million dollars due to the American people. They've paid two million dollars, which we have in a trust fund and that leaves three million dollars to be paid, over six years, - five hundred thousand dollars a year, and we've got to start working on those claims. We're taking on three or four more people and we've got to put them in the corridor up stairs, so if anybody, walking around and sees some desks in the corridors .....

H.M.Jr: (Laughing.) That was four years ago, when I was young and enthusiastic. Now, I'm a Government employee. I don't mind going along and seeing an inch of dust on the floor. (Laughter.)

Bell: Well, I just wanted to let you know we were having to take on some new people.

H.M.Jr: I haven't seen old Mac laugh like that .....

What else, Dan?

Bell: Can I see you sometime today on those figures?

H.M.Jr: Sure. Let me see - ah - how's eleven o'clock suit you?

Bell: Fine.

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- H.M.Jr: Down at eleven, Mrs. Klotz.
- Klotz: Oh - I was dreaming.
- H.M.Jr: What I'd like to bring up here - I'm sorry Gaston is not here, because this thing kind of disturbs me - is this thing of Corcoran calling up the Treasury and talking for the President. Now after all, I don't know how many other people he called, but as far as I'm concerned, and I should think that as far as you (Oliphant) are particularly concerned, that when Mr. Corcoran or Mr. Cohen call up and say they are talking for the President, the answer is very simple. No matter what the subject is, that as far as we are concerned, Mr. Corcoran and Mr. Cohen are not attached to the White House and I am terribly afraid - I mean, I've read this thing—that you're giving it added weight that somebody might do something which would get me into great difficulty.
- Oliphant: I made it perfectly clear to him - I just commented - I'd be much relieved if there was some way to regularize that.
- H.M.Jr: It's very easy, I think; it's entirely up to you. I think the next time Corcoran or Cohen calls you and says he's talking for the President of the United States, say, "I'm very sorry, but if the President has any message please have him or his secretary communicate with the Secretary.
- Oliphant: I am glad to do that, if it's all right with you.
- H.M.Jr: After five years I think it's perfectly obvious that that's the thing to do. .... if by Friday night .....
- Oliphant: Saturday - late Saturday afternoon.
- H.M.Jr: Yeah. But by Sunday they had changed - supposing we had gone ahead.
- Oliphant: I tried to put them in contact with Mac.
- H.M.Jr: If they should call Mac or Gaston or anybody else - until the President of the United States tells me that Tom Corcoran or Ben Cohen can talk
- (Mr. Gaston comes in.)

for him - I - he's still on the R. F. C. pay roll, and Mr. Cohen is on Mr. Ickes' pay roll, and as far as I am concerned, Herman, I should think after five years you'd recognize the fact that Mr. Corcoran or Mr. Cohen have no authority of any kind to talk for the President of the United States.

When the President wants to talk he calls Herman or Gaston direct - he knows how. When I am in America there isn't anytime within an hour that the President of the United States can't reach me. I take the greatest care to let the White House operator know where I am - always. I can always be reached. There is always somebody at the White House who knows where I can be reached.

I happen to know quite a lot about this business. If we had gone off on what Corcoran and Cohen said, we'd have found ourselves in hot water.

Oligant: From my standpoint, it's a new answer. I've always proceeded on the assumption - aside from yourself, everything from the White House is to clear through McReynolds.

H.N.Jr: I don't know whether Corcoran calls up Dan Bell.

Bell: No, but I get those messages from time to time. I don't act on them. I had one yesterday - a large project came through W. P. A. for setting up a movie project - making moving pictures - and I asked "How come?" They said, "The President wanted it," and there was no indication on this memo that the President wanted it, and we eliminated the project.

H.N.Jr: I should think, after five years, we should know - if we're going to let Tom Corcoran run the Treasury we ought to let him come on in here and run it. Any call from Corcoran or Cohen - as far as I'm concerned, they are working for the R. F. C. and Mr. Ickes. After five years, I don't see why the Treasury should be taking orders from the President via Corcoran or Cohen - or suggestions. If the President wants to reach me, he knows where I am - or, as he did Friday night - call Herbert Gaston.

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Why Corcoran and Cohen should be calling up - and this is the second time - this whole mix-up about two or three weeks ago - and no sooner do they do it than Alsop or Kintner or somebody, or Franklin, knows about it. I don't know how many times it has to happen before we recognize the fact that these two gentlemen, as far as I am concerned, are - just don't exist, and I think whoever they call should be very polite but firm and simply say they were very sorry but we don't recognize Mr. Corcoran and Mr. Cohen as an authority "mouth-piece" for the President. And I think we will all save ourselves a lot of trouble. Don't you (Oliphant) agree with me?

- Oliphant: I certainly agree with you. I want to make it perfectly plain, from my standpoint, it's a new answer to what your outstanding orders were, that any communications from the White House - that contact is all through Mac, and all I've done - everything - anything of that sort, is to try to channelize it to Mac.
- E.E.Jr: But why not simply tell them, when they call up - "I'm sorry - terribly sorry, but ...."
- Oliphant: That is a new order you are setting up now.
- H.N.Jr: We went through the same thing with Franklin when he was doing it. I've just taken it perfectly for granted. When Corcoran calls up, the person just shrugs his shoulders and says, "I'm very sorry." Do you (Gaston) think I'm right?
- Gaston: Yes. The normal thing I would do if any of those people called up - if the request is proper, I'd undertake to give them what they wanted. If they give instructions, I'd tell them, "I'll be glad to tell the Secretary what you have told me."
- Oliphant: That's just the difference - if that's the way to do it - to get it to the man working with you.
- E.E.Jr: No. This clears up - if Tommy Corcoran calls up again, if you can simply say, "If you have any communication, please get in touch with Mr. Morgenthau direct."

Olightant: Well, that's a little diferent - that's fine.

E.H.Jr: What?

Olightant: That's a little different.

E.H.Jr: Herman, I can't put it down - what I'm saying is this, to you or anybody else, and I can't write it out that I'm saying that as far as I am concerned, or anybody connected with me - please don't start anything on the word of Tommy Corcoran or Ben Cohen, as far as the Treasury is concerned. Turn them down any way you want - don't bother Mac or Gaston at night and get them all bothered about something they say is a mistake. Do it very politely, but firmly. I am simply saying they don't exist; that's all. Each person will have to handle it the same way. Bell and I went all through this thing with Jimmy Roosevelt. Bell and I are still here, doing our work, and as far as I am concerned, I don't get any messages from Jimmy. I haven't told Jimmy Roosevelt to go to hell or anything else; I did it very kiddingly and politely, but turned him down. You don't want to say, "Mr. Morgenthau said I am not to talk to you," or something like that. Do we understand each other?

Olightant: I think so.

E.H.Jr: One of these days somebody will fall for one of these things and I'll be the goat. I don't want to be the goat. As a matter of fact, I know a lot about this steel business. One day the United States Steel - and the rest of them - are the enemies of society, and the next day these fellows get down and want to kiss their big toe. And one day they do everything they can to kiss their big toe, and - and they think, on this question of monopoly and prices, the proper place to do it is the Department of Justice, and that's where it's been for five years and they haven't done anything, and I'm just not going to get dragged into it by the back door. They can do all the parties they want to do - think they are going to do something, and think everything - and all - should be done openly and in the courts.

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Herbert, I wonder if you and Cy could sit down now and take this stuff that you have been kind enough to do, plus Eccles' letter ....

Gaston:

Yeah.

H.M.Jr:

.... and the two of you, and then if you'll come back at eleven fifteen, if you could - if that isn't time enough we'll do it this afternoon, see? But I'd like it done the way this thing was done on this bank business - the new and the old - I mean, if you could have a paragraph of what Eccles says and what I said, and then on the other side, it's correct, or it's incorrect. He runs a whole series .....

Gaston:

I think there is more to it than that. I think that whatever is said you need to review the whole history of this thing, leading up to this press conference that he claims about - there is a whole long file of various clippings.

H.M.Jr:

When would you men be ready? This afternoon?

Gaston:

If you want a draft of a letter ....

H.M.Jr:

I am not going to write him. I am not going to write him, but I want it for me - a memorandum for argument.

Gaston:

Well, I think ....

H.M.Jr:

This afternoon about three o'clock?

Gaston:

Very easily; I think we could do it sooner than that.

H.M.Jr:

Let's put it down for three, because I have a young lady for lunch today.

Upham:

(Laughs)

H.M.Jr:

So I thought we'd just let nature take it's course and if they turn on the publicity department all right, and if they don't, all right.

Gaston:

Yeah.

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H.M.Jr: Huh?

Gaston: I think so.

Upham: I think the publicity department is going to remain.

H.M.Jr: No, no. I mean Miss Shirley Temple - she's going to have lunch with me today.

White: Couldn't have her in for staff meeting, could we?

Gaston: What I want to know is who is going to have the publicity, Will Hays, Metro-Goldwyn-Mayer, or the Treasury Department.

H.M.Jr: (Laughs.) All right.  
I want to talk to you, Mac.