by Temple

SHIRLEY TEMPLE SMILINGLY PUT WASHINGTON PHOTOGRAPHERS IN THEIR PLACE TODAY AS THEY SNAPPED PICTURES OF HER FOLLOWING A LUNCHEON WITH SECRETARY MORGENTHAU.

AFTER SEVERAL MOMENTS OF BULB-FLASHING THE PHOTOGRAPHERS ASKED FOR "ANOTHER PICTURE." SHIRLEY TURNED ON HER WINSOME SMILE AND SAID, "CAMERAMEN ARE ALWAYS IMPOSSIBLE, YOU KNOW. THAT'S ALL FOR YOU' I'M AFRAID."

THE CHILD STAR DISPLAYED AN ARRAY OF SHINY, NEW COINS, INCLUDING A NEWLY-MINTED SILVER DOLLAR, GIFTS FROM THE SECRETARY.

SHE LOOKED PUZZLED WHEN REPORTERS ASKED HER IF SHE DISCUSSED THE BUDGET WITH THE SECRETARY, BUT MORGENTHAU CAME TO HER RESCUE WITH THE OBSERVATION THAT EVEN IF THEY HAD, THE REPORTERS "WOULDN'T UNDERSTAND IT ANYWAY."

SHIRLEY SAID SHE HAD A GOOD LUNCH "AND ICE CREAM, TOO."

6/28--CE220P

Confidential

TREASURY DEPARTMENT

PROCUREMENT DIVISION

OFFICE OF THE DIRECTOR

WASHINGTON June 28, 1938

CONFIDENTIAL

Memo. to the Secretary:

Re: Meeting of Executive representatives of Anti-monopoly Committee

A confidential meeting of the Executive representatives was held at the home of Assistant Attorney General Thurman W. Arnold at 8:00 P.M. tonight.

Present:	From Justice	Thurman W. Arnold
	" SEC	W. O. Douglas and J. N. Frank
	" Commerce	R. C. Patterson
	" Labor	I. Lubin
	" Federal Trade	G. S. Ferguson and E. L. Davis
	" Treasury	H. Oliphant and C. J. Peoples

The purpose of the meeting was to discuss in a general way methods of procedure prior to the official meeting with the six legislative members. Mr. Arnold was temporary Chairman.

Justice submitted a lengthy memorandum entitled "Outline for Anti-trust Investigation" to the effect that the part which the anti-trust division of the Department of Justice should play in the investigation conducted by the temporary economic committee primarily concerns the administration of the Sherman Act.

Federal Trade Commission submitted also for the agenda certain subjects suggested to be covered by that Commission in the investigation.

Copies were distributed to each person present for study and later consideration. The Chairman suggested that other agenda should be prepared by any member, each member to be furnished with a copy thereof for preliminary study.

Caucus or Majority Control

The Chairman brought up first the question of unity of action as a solution of which expressed the view that the majority vote should govern. I pointed out to Mr. Oliphant that the Treasury should not commit itself to this view, and he made the suggestion that in a case of disagreement as represented by majority and minority views a matter of policy should be settled by the President inasmuch as the Executive representatives should represent the Administration's point of view. This was a fortunate solution of a matter of major importance in my opinion because it leaves the Treasury freedom of action on matters of primary importance.

Public Statements

It was agreed that no written or oral statements be given by any individual member to the press. Official releases should be made by the Executive Secretary and the Chairman of the Committee.

Witnesses

It was agreed that persons appearing before the main committee should be by subpoena ...y and testimony given under oath. Further, any written or oral statement made by ...each witness should be given to the press by the Committee as such. Witnesses should ...permitted to have counsel, but counsel could suggest questions only to the Committee ...self to be asked.

General counsel for Committee

It was the sense of the meeting that general counsel as such was not necessary; but ...to counsel for any individual member the question was still left open.

Permanent Chairman

It was the sense of the Committee that Senator O'Mahoney would make an appropriate ...permanent Chairman, with Leon Henderson being asked to serve in the capacity of ...executive Secretary.

Publicity

A publicity man should be hired, preferably one acquainted with government, and of ...art, discretion and diplomacy. This being an important detail the temporary chairman ...d to take the matter up with the President.

Space

The Federal Trade Commission offered its two hearing rooms in its new building for ...that purpose.

Staff

It was agreed that the staff should be built up beginning with six experts, one from ...ach department or agency represented on the Committee.

Mr. Arnold and Mr. Douglas are to have luncheon with Senator O'Mahoney tomorrow with respect to the permanent chairmanship. Confidentially, it appears the Senator desires this selection.

It is evident that the scope of the work is to be very broad and extensive on many varied and complex problems. For illustration, while insurance control was not mentioned in the Act it was believed highly desirable at the appropriate time to go into the subject, yet too early to consider specific matters as this first meeting was intended to get together and crystallize the Executive viewpoint before the meeting of the main Committee itself.

The temporary Chairman had a stenographer present to record the minutes of the meeting which will be distributed as soon as ready.

C. S. Ross

Director of Procurement

June 28, 1938

OUTLINE FOR ANTITRUST INVESTIGATION

The part which the Antitrust Division should play in the investigation conducted by the Temporary Economic Committee primarily concerns the administration of the Sherman Act. This covers a broad field and it is difficult to make precise limitations. Combinations in restraint of trade are effected by agreement, and also by the operation of legal privileges given by a variety of laws. The various other Departments of the Government concerned in this inquiry all deal with aspects of the general monopoly problem. The Sherman Act expresses our traditional attitude toward that problem. Therefore, the Antitrust Division is concerned with the broad problem of combination and other Departments are concerned with more particular aspects of that problem. There is no way to avoid overlapping by a general statement or definition. There should be, however, no difficulty in dividing the task when it is worked out in more detail.

In general, the Department of Justice is concerned with the following:

(1) The patterns of industrial combinations. Here the field of inquiry is large and should include in its range tight monopolies, such as farm machinery, aluminum, and foreign cartels, such as newspaper print, rubber, chemicals, etc.

(2) Cases where industrial domination by a few large competitive concerns exists; for example, steel, cement, and rubber.

(3) Industrial bottlenecks; that is, situations where the integration of production and distribution give the dominating group in the industry an arbitrary power to drive out industrial competitors at one or more stages of the industrial process, as, for example, in the oil industry, the movies, chain distribution.

(4) Cases where the control of the distributing system creates arbitrary power over both producers and consumers; i.e., milk.

(5) Cases involving the use of legal privileges, such as patents or copywrites, by a dominant group to effect arbitrary control of prices; i.e., radios, chemicals, glass shapes, electrical appliances, and various materials used in housing.

(6) Situations where a large number of competing firms make alliance against effective competition under the theory of creating an orderly market; i.e., trade associations.

(7) Cases of cut-throat competition, by means of which competitors are destroyed and the groundwork is laid for monopoly conditions; i.e., dresses, waste paper, coal, etc.

These classifications are not mutually exclusive. Each occurs to a certain extent in all industries. We propose, therefore, to do the investigation in terms of industry rather than the above classifications, so that each industry investigated will illuminate a number of the factors listed above; for instance, the tangle of goods which must be used together, as in housing, should be studied as a unit. Here there is a typical situation in which it is useless to bring down the price of one of the component products without bringing down all.

The thread which will tie this story together may be described as "Industrial price policy." Price is the point at which an industry meets its public. In its magnitude all that is order and disorder, control, custom and chaos is caught up. Industries go in for fixed or free, high or low prices. The prices of different commodities lie upon different ~~prices.~~ A number of studies should be made of all the factors - raw materials, technology, corporate structure, remote control, privilege and patent - which converge upon a price to make it what it is. A comparison of price policies should reveal the barriers which in particular cases stand in the way of the production of a good in a quantity and at a price which will insure it a secure place in the American standard of living.

So much for the particular subjects for inquiry by the Antitrust Division. As a preliminary to the entire study, and in order to make the work of the different Departments part of an intelligible whole, it is necessary to first present a general picture of the industrial situation which created the necessity for this investigation. This should be done in terms of industrial capacity as compared with industrial use. The maldistribution of the national income, the general statistics about the size of industrial combinations, the comparative weakness of smaller businesses, the general failure of industrial price policy, will give a general pattern into which the particular industries studies can be fitted. Part of the job is educational. Therefore, it is important that the purpose of each part of the hearing can be explained by press releases in the light of the general introduction.

June 28, 1938

Some subjects suggested to be covered
by the Federal Trade Commission in the
Monopoly Investigation.

1. Make study and report showing the concentration of control in production and distribution in a substantial number of fields of business. This might be illustrated by charts.

2. Determine how this concentration was brought about, whether due to:

(a) Natural growth through reinvestment of surplus.
(b) Through combination, merger or holding companies.
(c) Through destruction of competitors by unfair trade practices or monopoly.

3. Make a study of the rigidity and uniformity of prices in the industries which show the greatest degree of concentration.

4. Study the behavior of the industries showing the highest degree of concentrated control during the depression from the standpoint of:

(a) Percentage decline in production.
(b) Percentage decline in employment.
(c) Percentage decline in prices.

Make a similar study of industries known to be competitive and compare.

5. Select a number of industries where a high degree of concentrated control exists and where basing point systems or where other monopolistic practices are either known to exist or are suspected and find out the rate of return on invested capital and on the common stockholders equity (if possible) for such industries over a period of years.

(6) Study the concentration of natural resources in the United States. This might be illustrated with charts.

7. Study the trade association problem. Should trade associations be forbidden certain practices? An inquiry as to whether trade associations are a factor in repressing competition.

8. Make a study of interlocking directors and intercorporate stockholders among industrial corporations.

9. Study the alleged efficiency of large corporations as compared with small or medium sized corporations. Does the medium size corporations have a greater rate of return on the stated value of its stock plus surplus and surplus reserves, pay better dividends, have lower unit cost of production, more efficient management, better capital structure than the giant corporations? Particularly what are the various inefficiencies of big business?

10. Put into the record pertinent evidence existing in the files of the Federal Trade Commission showing the existence of monopoly and monopolistic practices in industries.

It might be worth while for the Federal Trade Commission to use a part of its allotment of the funds furnished in the Resolution to make a quick investigation of several other important industries which are believed to be thoroughly monopolistic, and which, because of their importance, should be brought to the attention of the National Economic Committee.

11. Study effects of such monopolistic practices as collusive agreements, formula prices including basing point systems, making of identical bids, and of the use of price filing and other informational and statistical services to check competition.

12. Study Federal incorporation or licensing of corporations engaged in interstate commerce.

13. Study speculation of officers and directors in stock of their own corporations.

14. Study the social danger of concentration of power in small groups constituting officers and directors and their separation from stockholder influence.

15. Study the need of responsible accounting methods to insure proper accounting and truthful reporting of financial results.

TREASURY DEPARTMENT
Office of the Secretary
Secret Service Division

MEMORANDUM
June 28, 1938

To: Mrs. Klotz

From: Mr. Murphy

We attach tentative schedule of the President's trip to the Pacific Coast and as soon as we are advised of any changes we will inform you.

The President will arrive Pensecola, Florida about August 7 or 8. He will then go to Warm Springs for one day and may visit Columbus, Athens, and other points in Georgia, proceeding thence to either Washington or Hyde Park.

About August 18 he expects to start on a trip through Canada and visit cities in the United States.

WM3

CONFIDENTIAL
MEMO. FOR SEC. MCINTYRE:

220

Trip of the President to Pacific Coast,
July 7 - - - - - - - - - - 1938.

THURSDAY, July 7

Lv. Washington (B & O)..... 10:30 p.m.

FRIDAY, July 8

Ar. Marietta, Ohio..... 9:00 a.m.
Lv. Marietta..... 10:30 a.m.

Ar. Covington, Ky..... 2:15 p.m. CT

Ar. Latonia..... 2:35 p.m. CT
Lv. Latonia..... 3:35 p.m. CT

Ar. Louisville..... 6:35 p.m.
Rear-end appearance.
Lv. Louisville..... 6:40 p.m.

Ar. Bowling Green..... 9:05 p.m.
Rear-end appearance.
Lv. Bowling Green..... 9:10 p.m.

SATURDAY, July 9.

Ar. Memphis, Tenn..... 3:20 a.m.
Lv. Memphis....(Road)..... 3:30 a.m.

Ar. Oklahoma City, Okla..... 5:00 p.m.
Fair Grounds speech.
Lv. Oklahoma City (Santa Fe)..... 6:00 p.m.

Ar. Fort Worth, Texas..... 11:00 p.m.

MONDAY, July 11.

Lv. Fort Worth (F.W. & D.C.)..... 10:00 a.m.

Ar. Amarillo..... 6:45 p.m.
Drive around city.
Lv. Amarillo..... 8:30 p.m.
Lay-over enroute.

Clayton, N. Mex. Rear-end appearance.

TUESDAY, July 12.

Ar. Pueblo, Colo..... 9:00 a.m. MT
Lv. Pueblo, (D.and R.G.)..... 9:30 a.m.

WEDNESDAY, July 13.

Pass thru Salt Lake City 5:00 a.m.

Ar. Ogden, Utah..... 6:00 a.m.
Lv. Ogden (Southern Pac.)..... 5:15 a.m. P.T.

THURSDAY, July 14.

Lay-over some point during night.

Ar. Crockett, Cal..... 9:00 a.m.

Motor around San Pablo Bay, stopping at Mare Island, thence to Sausalito, across Golden Gate Bridge to San Francisco, thence to Treasure Island (on Oakland Bridge) by following route: Shore Drive via Fort Mason, Van Ness Avenue to Golden Gate Avenue (then street to be supplied)

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Review Fleet

San Fran. continued:

to Bryant Street approach to Oakland-San Francisco Bridge, to Exposition (Treasure Island. Speech, luncheon, inspection. 2:30 p.m. motor to Oakland Pier; spend evening on boat. Return Pier 10:00 p.m. (On arrival train at Crockett, after party has detrained, train equipment with baggage will proceed to Oakland.)

Lv. Oakland, Cal..... 11:00 p.m.

FRIDAY, July 15.

Ar. El Portal.....(Y.V.R.R.)..... 9:00 a.m.(?)
Leave train..... 10:00 a.m.
Motor through Yosemite Park.
Luncheon.
Lv. El Portal..... 7:00 p.m.

SATURDAY, July 16.

Ar. Los Angeles, Cal..... 9:00 a.m.
Leave train..... 10:00 a.m.
Motor through city enroute to San Diego.
Luncheon enroute (place to be selected)
Confidential.

Ar. San Diego..... 3:00 p.m.
Sail..... 4:00 p.m.

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June 28, 1938.
11:07 A.M.

Ransom: Good morning.

H. M. Jr: Hello, Ransom.

R: How are you?

H. M. Jr: Fine. I had a message you called me yesterday.

R: Well, I did. I just wanted to tell you that I was pleased that - after much traveling and suffering we had come out to a point where there was a mutual agreement and I thought that it was a definitely constructed step and that we might hope from this point on that the operation of this complicated examining mechanism might work better.

H. M. Jr: Well, I agree with you and I want to thank you so much for the help you've rendered in bringing us together.

R: Well -

H. M. Jr: I think.

R: I had the objective of trying to -

H. M. Jr: Well, you had it right from the beginning, Ronald, and it was most helpful and well, without knowing the details I imagine some of the troubles that you had.

R: Life isn't simple in Washington, I've found that out.

H. M. Jr: No. And , oh, I don't know that there's much use in hanging over the thing.

R: Not a bit.

H. M. Jr: After all, the President gave us a job to do.

R: Yes.

H. M. Jr: We're all Presidential appointees.

R: Yes.

H. M. Jr: And the only thing that-that got under my skin was that without mentioning any names certain people criticized publicly other people for their bank examinations.

R: Well, now, may I ask you to do this for me sometime at your convenience.

H. M. Jr: Certainly.

R: I'd like to have about a half hour with you - not to discuss big complicated personalities involved but to try to give you something of my own - plurality tax - what are the problems involved in the whole thing of bank examinations.

H. M. Jr: I'd be delighted.

R: And to tell you what I think we are faced with and I think it's a major governmental problem.

H. M.Jr: I'd be delighted.

R: Well, you're going out of town, I know, sometime.

H. M. Jr: Well, I'll be here for the next two weeks.

R: You are. Well, may I call you some time in that two weeks? And take that much of your time?

H. M. Jr: It would be a pleasure.

R: All right, thanks.

H. M. Jr: Now, I'm having a young lady for lunch today, by the name of Shirley Temple.

R: Oh, you are.

H. M. Jr: So I'm going to ask you and Eccles if you'll come around Thursday.

R: All right. Frankly, I think you're very fortunate having Miss Temple dine with you, because I've never met the young lady, but I'd

H. M. Jr: Well, she's old friend of mine.

R: Well --

H. M. Jr: And, if you and Marriner will come around Thursday at one o'clock I'd be delighted.

R: All right. Thank you Mr. Secretary.

June 28, 1938.
11:13 A.M.

H. M. Jr: Hello.

Operator: Chairman Eccles.

H. M. Jr: Thank you.

Operator: Go ahead.

H. M. Jr: Hello - Marriner.

E: Hello.

H. M. Jr: I'm going to ask you if you'll give way to a young lady who I'm having for lunch today.

E: Well, I understand that we've got some pretty tough competition in Shirley Temple.

H. M. Jr: That's right.

E: Well, we'd be delighted of course to give way to any such company as that, both for your sake and for her sake.

H. M. Jr: But mostly for mine. I thought if you and Ronald would come around Thursday at one o'clock I'd be delighted.

E: Thursday?

H. M. Jr: Yes.

E: All right. I'll put that down.

H. M. Jr: Will you?

E: I think Ronald will be here, if he isn't I'll bring one of the other members over.

H. M. Jr: Swell.

E: George Harrison is down and I - I've been talking to him - talked to him yesterday and then last week again with reference to our problem in replacing some of these bills. Suggested that while he's here that if we might come over this afternoon for a few minutes and discuss with you just what the problem is.

H. M. Jr: What time would you like to come?

E: Well, any time. I have any time that's convenient to you will suit me this afternoon and I'm sure it will him.

H. M. Jr: 3:30?

E: 3:30?

H. M. Jr: Yes.

E: All right.

H. M. Jr: Is that too late for him?

E: Well, I don't think so. He's - he said he's going to - he said he's staying down here over the Fourth. He's not going back, so he'll be around here, I imagine.

H. M. Jr: 3:30 all right?

E: 3:30.

H. M. Jr: All right.

E: All right. Well, thank you.

H. M. Jr: Thank you.

E: You're welcome.

June 28, 1938.
3:45 P.M.

Operator: Mr. Oliphant.

H. M. Jr: Yes. Herman -

O: Yes.

H. M. Jr: I have a very difficult telegram here from Gianinni with regard to the Bank of America and the National Labor Relations Board Rulings.

O: Uh huh.

H. M. Jr: I'm sending it back to you.

O: Yes.

H. M. Jr: And I'd appreciate it if you would advise me what I should do and if necessary alternative step or a definite step, but give it to me as - oh, better say tomorrow morning 9:30. You can say well, Henry, you can do one of two things, or this is the only thing - you get me.

O: Yes.

H. M. Jr: In other words I want it as definite as possible.

O: O.K.

H. M. Jr: I think I see something in the papers about this.

O: Yes.

H. M. Jr:

O: Yes. I saw the rulings - one of the first white collar rulings.

H. M. Jr: Yes. Well, didn't they ask also - hasn't this been up before - National Relations Board in connection with the Bank of America?

O: I don't think so.
was over to see you about some gold mining companies out there.

H. M. Jr: No. That was something else. Well, anyway, I'm going to send it in to you.

O: Yes.

O: That meeting that Arnold was having yesterday -

H. M. Jr: Yes.

O: Was postponed till tonight at 8.

H. M. Jr: I see.

O: Admiral and I will go and I think we agreed just to listen tonight and then we can report to you tomorrow.

H. M. Jr: I'd appreciate that.

O: All right.

H. M. Jr: Thank you.

June 28, 1938
4:39 P.M.

H. M. Jr: Hello.

K: Hello, Henry.

H. M. Jr: Hello, Joe?

K: Yes. How are you Henry?

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

K: Well, I just called up to say good bye, and see if you had anything on your mind.

H. M. Jr: No - except that I'm looking forward to seeing the Kennedy family -

K: Well, we're going to be there. I talked with young Jack and I sent a cable to dig up a couple of star boats.

H. M. Jr: Good.

K: So I'll hear from them when I get there next Monday.

H. M. Jr: Good.

K: Now, Henry, I have a - I have a little memorandum - a couple of memorandums here that I think one of them you may be interested in. One of your boys at work for me died over there.

H. M. Jr: Gosh.

K: I don't know that you know that but I'm going to send you a memorandum tonight but it's something I think you might want to interest yourself in.

H. M. Jr: All right.

K: A fellow died over there - one of your boys.

H. M. Jr: Yea

K: And by God this great Government of ours will transport the men back in every other department

H. M. Jr: Yes.

K: or the man's family but they'll bring his body home, but they'll leave his wife and child over there.

H. M. Jr: Terrible.

K: And every other damn department does that. I think it's a damned outrage that they won't let the Treasury do that.

H. M. Jr: Yes -

K: Is that that son of a bitch over there at the comptroller?

H. M. Jr: I wouldn't be surprised.

K: Yes. Well, do you want - I'll send you the memorandum, Henry, because it's really heart-breaking.

H. M. Jr: What about - you said you had a - were going to give me a couple financial reports.

K: Yes. Well, I asked them to send them to you, haven't they?

H. M. Jr: No.

K: Oh, well, God damn them. Well I'll send you mine then. I asked them to send them to you.

H. M. Jr: No. I got nothing.

K: That's cooperation.

H. M. Jr: Where were they to come from?

K: From the State Department. They were the ones who made the photostats. I brought one home of each.

H. M. Jr: They'll come after a while.

K: The hell with it, I'll send you mine now. I've got another copy. One economics and one financial. I'll send it to you now.

H. M. Jr: O.K.

K: Now, and I'll write you when I get back after I talk with Butterworth as to what we need there.

H. M. Jr: Do that.

K: And will you also think about - Henry - about sending an - you've got an income tax man in Paris -

H. M. Jr: Yes.

K: Who gets occasionally to London.

H. M. Jr: Yes.

K: I think there's a hell of a lot more demand now at London and getting to be there -

H. M. Jr: Yes.

K: If you can think - if you ever have one that you can spare would be a good idea would save a lot of dough.

H. M. Jr: Well, that sounds interesting.

K: And I'll send them both to you and we can talk about it when you get aboard.

H. M. Jr: Thank you.

K: Good bye, Henry.

H. M. Jr: Good luck.

K: Good luck to you.

June 28, 1938.
5:21 P.M.

H. M. Jr: Hello.

Operator: Miss Doughton. Go ahead.

H. M. Jr: Hello.

D: Hello. Mr. Secretary?

H. M. Jr: Yes.

D: How are you?

H. M. Jr: I'm pretty well, thank you.

D: I saw my father this morning and he was anxious to see you before he leaves tomorrow evening.

H. M. Jr: Oh.

D: And he felt that it was asking too much, but still you might come down to the hospital.

H. M. Jr: I'd be very glad to.

D: He's not going to be out before tomorrow afternoon sometime, I think. But now, if you'd like me to arrange an appointment, I mean if you can go down there and let me know what you want - you want to do.

H. M. Jr: Well I can go down there about 11:30 if that would be good for him.

D: About 11:30?

H. M. Jr: Yes. Could you let me know in the morning?

D: I will. Or I'll call you back right away if you -

H. M. Jr: I - I'm leaving now, Miss Doughton.

D: You are.

H. M. Jr: You let me know in the morning. I'll be in at nine.

D: You'll be there at nine.

H. M. Jr: I'll be there at nine.

D: All right.

H. M. Jr: If that's not convenient, why I'll try -

D: I think it will be. He might be down at the capital.

H. M. Jr: Oh.

D: You'll understand his condition. He's getting along mighty well and he expects to go home tomorrow night.

H. M. Jr: I see.

D: And he's not going to be able to get around very much, you understand.

H. M. Jr: Uh huh.

D: And if you could do it for him, I'm sure he'd appreciate it.

H. M. Jr: Well I'd be more than pleased to do it.

D: I beg pardon?

H. M. Jr: I'd be delighted to do it.

D: Well, you understand the situation.

H. M Jr: Oh yes.

D: Uh huh. Well, suppose I give you a call early in the morning, then, about nine. I'll call the office and I'll leave word.

H. M. Jr: Thank you, so much.

D: If you're not there. And I thank you so much.

H. M. Jr: Good bye.

D: Good bye.

GROUP MEETING

June 29, 1938.
9:30 A. M.

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

H.M.Jr: George, this business you have been sending me - I want a copy for myself. I'm going to send it up to the President. If you people are right, I think you have made one of the most important discoveries brought to my attention in a long time. That is, Haas' crowd has worked out an inventory chart and it looks as though, starting last November, inventories reached their peak. At the same time commercial loans began to fall off, and the conclusion he draws is that the commercial loans the people - the banks borrowed - the manufacturers borrowed to build up their inventories, and the fact that commercial loans increased is interpreted by everybody as being constructive, seems to have been quite the opposite, and that having reached the peak of the inventories in November, and the inventories rapidly dropping off, why, commercial loans followed right along.

White: That is about the only purpose commercial loans are extended for.

H.M.Jr: But am I correct - I have never seen it pointed out before.

White: I haven't seen the chart, but practically the whole purpose the commercial loans are extended for is to build up inventories - the bulk of the commercial loans are for inventories.

H.M.Jr: Have you seen it anywhere?

White: No, I haven't.

H.M.Jr: Everybody points out when commercial loans increase it is bullish; when they go down it is bearish.

Haas: Sometimes if they increase and inventories are increasing and business is also increasing at that rate, or faster, it is a bullish situation, but a year ago when those increased in '37, that wasn't the case. Orders were falling off, you see, and you are piling inventories up.

H.M.Jr: Well, as far as I know, it hasn't been published anywhere.

Haas: Nobody's attempted - made an attempt to put out an inventory estimate like that. I want to comment a little bit on that estimate. I think you should consider that in the same class of that preliminary chart we had. It seems to check with other inventory figures. It looks pretty good.

H.M.Jr: What I was going to suggest is this, because I think if your inventory picture is correct, and we passed the peak in November, I think it's very important. I know the President remarked to me about a month ago that two things he watched most closely were commercial bank loans - he wondered when they were going to turn up. Now, if they hooked on inventories - I mean to me, anyway, it is something quite new. Maybe everybody knew about it, but I have never seen an inventory figure like this before. You see? Maybe everybody does know it, but .....

White: I didn't say everybody knows about it.

H.M.Jr: But I don't think they have seen it - I've never seen a chart like this.

White: It may be a very helpful chart.

H.M.Jr: Don't you see these figures, Harry?

White: No.

H.M.Jr: I thought copies go to White.

Haas: Copies go to Taylor and Lochhead, and he sends them over to Butterworth, and so on.

H.M.Jr: I think I've mentioned at least twice that White should get a copy - at least twice.

Haas: I don't remember.

H.M.Jr: Yes, definitely - at least twice. This always comes up and White doesn't know what we're talking about. Will you please see that he gets one?

Haas: Yeah.

H.M.Jr: What I thought I was going to do - the reason I'm making this long speech - I am raising the point of my sending this out to the twelve Federal Reserve Presidents, asking them to check this with not only their own staff but with the commercial banks, if it doesn't make sense to them, before I use it.

Haas: They won't be able to check that inventory.

H.M.Jr: They can go to the bank - I don't want to go to the bank - I can go to XYZ Bank and say, "Have your commercial loans been falling off, and your customers reducing their inventories? Do you take a look at all the angles of your commercial loans, and inventories of your customers, and have they been falling? We are sending you this confidential chart and would like to have you talk to the banks and ask them if they would consult or confirm with us - or contradict it."

Haas: Explain that this is an estimate we've worked out.

H.M.Jr: If you'll prepare a letter for me I'll send it out tonight, and ask them to have an answer for me within a week. I want to test it. If I am a banker and I am sitting there and if I've got fifty customers, I can say, "Yes, this is right. Inventories have been falling off and the loans have, since November," or, "This is cock-eyed, and there's another reason for it." I want to take the fellow in Minneapolis and have him call in a half dozen people and have him say, "Now

does this make sense or doesn't it," and I'd like particularly to point out that we think the peak of the inventory passed last November.

Haas: Uh huh.

H.M.Jr: "Will you please talk to some of your commercial banks and ask them will they please check this for us."

If - if this is right it's terrifically important, because everybody is groping for a good inventory chart.

Haas: That's right.

H.M.Jr: Why I am so interested, if this thing is right and we approach that thing again, maybe next time we'll have something - a danger signal.

Haas: Well, that's what we were working on, and we'll have improvements on that thing too.

H.M.Jr: I am still groping for a good explanation of what happened, and this is as good as any, taking other facts into consideration, and if this thing works, plus those figures for industry, and enough industries production exceed their sales, why, we ought to be able, six months in advance to forecast another distorted position. And that is - that is why I've gotten excited about this.

Haas: That's what we're working for.

H.M.Jr: I'd like to put this thing to the acid test and go to twelve banks and if they consult ten commercial banks, say a hundred banks - and they will very quickly say - they will say this is all right.

Haas: Looks reasonable.

White: Be a good contribution if the Treasury could develop a good inventory index. If we have a good one, moreover, I think it ought to be released by the Treasury.

H.M.Jr: I first thought I'd do this, and then thought, "No, I'd rather wait a week and give these fellows that

go out over the Fourth of July - ask them if it isn't rushing them too much, if I could have the answer not later than the eleventh of July. That gives them time to test - see, George?

Haas: Yes.

H.M.Jr: Then, while I'm gone I think you ought to take that figure of consumption and production and test that in the field. See?

Haas: That will be a little more difficult.

H.M.Jr: Well, think it out. Think it out.

Oliphant: I wonder if that took into account the extent of which the inventories by the finance companies on the one hand and the corporations themselves, out of their reserves.

Haas: All it means, if these curves run together, Herman, it means that the increases in that type of financing ran along with the trends of the commercial loans.

Oliphant: Yeah.

H.M.Jr: Well, you get my point?

Haas: I get it - yes. The question about publishing, we'll take that up later.

H.M.Jr: Mac?

McReynolds: I have a letter from Peoples - I didn't bring it in. The Navy wants authority - wants Procurement Division to contract with some outside architectural firms to take care of some of this emergency building activity around at the shipyard plants. They've got allotments for it and their staffs can't take care of it and get it going by August. And they haven't any authority to make the outside contracts. They want to turn the money over to Peoples and have him make the contracts with the architectural firms in those localities, which is a violation of your general rule with respect to that.

H.M.Jr: Say it again, Mac, will you, please?

McReynolds: Navy has a number of very large contracts with respect to construction around their shipyard plants. They haven't the personnel to hurry the job through; they haven't the authority to go out and get them under contract, but Peoples has. They want to allot the funds to him, let him make the contracts with the architectural firms - just to cover a brief period of this particular thing, but since it's a - it is not in accord with your usual practice with respect to trade "resumed" building, he wanted to check with you before he made the contracts.

H.M.Jr: I'll do it if the Secretary of Navy asks me to.

McReynolds: He's already asked you. I've got the letter.

Bell: I think it's the shipbuilding program, isn't it, and they are asking you to do it under "601," where one Department has the authority to do work for another.

H.M.Jr: See any objection to it?

Bell: I think it's a good thing.

McReynolds: I don't think there is any other way he can accomplish it.

H.M.Jr: You both recommend it?

Bell: I haven't seen it, but I think it's a good thing where one organization has the personnel, and ..... - I think it's a good thing.

H.M.Jr: You get the letter ready by tonight and I'll sign it tonight. What else, Mac?

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

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

Bell: Senator Bilbo put through the Senate in the last day, a resolution which requires the Secretary of the Treasury to furnish the Senate, as early as practicable, a statement of all balances standing on the books of the Treasury on June 30,

1938, due from the United States as unpaid, and it supplements a report made on July 28, 1886. That report, at that time, took six months to compile, and constituted two hundred pages. This one, I should say, would take at least a year and probably would be a thousand pages.

H.M.Jr: Have we any funds?

Bell: No funds with which to do it, and this is what I'd like to do, because it says, "At the earliest practicable date." I'd like to make a report to the Senate in January, telling them it's a big job, will cost a lot of money, and it's a very dangerous thing to do, because when you put out all these names, with their addresses, it gives the lawyer - the shyster lawyer - something on which to come into the Treasury and prosecute these claims that are fifty and a hundred years old, and there has been a lawyer in town that's tried to get these names from us for the last six or eight years, and I think he's worked through Bilbo and gotten this resolution introduced.

H.M.Jr: O. K. What else.

Bell: That's all.

H.M.Jr: You write me up what happened.

(Nods to Mr. Gibbons.)

Gibbons: (Nods "Nothing.") Nothing, except Mrs. Klotz talked to you about this fellow in Hoey's office who was there for twenty-three years.

H.M.Jr: Now look, Hoey has talked to my wife, and has said he wouldn't even talk to me if he sees me, and as far as I am concerned,-Mrs. Morgenthau was up there and said he was extremely rude.

Gibbons: That's his natural disposition. It's a savagely desperate thing to do a thing like that - put him out after twenty-three years.

H.M.Jr: Can you give Mac the facts?

Gibbons: He was kept there all during the Republican administration.

H.M.Jr: Give Mac the facts and Mac can handle it just the way he handled the other case.

Gibbons: It's just one of those terrible things.

H.M.Jr: If you will give Mac the facts and Mac will telephone for the man's records and as soon as he gets it, I'll look at it. Give it to him right away and he'll phone for it.

Gibbons: It's none of my business, but it's a question of humanity.

H.M.Jr: I get them every day.

Gibbons: This fellow is terrible young - gets an idea in his head .....

H.M.Jr: You give Mac the facts. I'll get it. Thanks for bringing it to my attention.

McReynolds: Your architect is staying on the roll this month. We could not reach him on the phone.

H.M.Jr: If this fellow is all right keep him on for a week.

Gibbons: I thought I'd talk to Joe Higgins.

H.M.Jr: Leave this fellow on for two weeks - until we can take a look at it.

Klotz: One is as desperate as the other.

Gibbons: He has no Civil Service status, and it's just terrible.

H.M.Jr: Keep him on until the fifteenth of July - until we can take a look at it, Mac.

Gibbons: It's terrible. This fellow's crazy, I think. O. K. That's all.

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

Lochhead: The Water District Bonds enjoyed a good secondary distribution. They have practically settled down. You don't hear anything about them in the market. The trouble with the stock was evidently, due to .....

McReynolds: California District bonds.

Lochhead: After they got that straightened out and managed to allot the proper type of bonds to the secondary dealers - it was the Los Angeles Water District.

H.M.Jr: Southern California Water District is the name of it.

Lochhead: But the point is, in regard to the bonds, they apparently expected the insurance companies to rush in and take the big bonds, which they did not do, and they had to go down to the secondary districts.

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

Upham: I passed the buck to you on that telegram from Giannini - not intentionally, but ..... In the mean time I have drafted a suggested reply.

H.M.Jr: Will you give it to Oliphant, please.

Oliphant: I have one here.

H.M.Jr: Do you want to read it, please?

Oliphant: "In regard to your telegram of June 28, I have given careful consideration to your request that the Treasury Department intervene in the National Labor Relations Board proceeding before Examiner Denham and am unable to accede to your request."

Now the situation on it is that while the Social Security Act exempts the Government and the instrumentalities of the Government, and under that the Bureau's held that these national banks,...

H.M.Jr: What Bureau?

Oliphant: Bureau of Internal Revenue. .....being instrumentalities of the Government, are exempt. The Wagner Act merely exempts the Government and doesn't exempt any instrumentality of the Government. Now, the Government owns no stock in Giannini's bank. It's in no sense, the Government; at most it's an instrumentality of the Government. I don't see any basis at all under which .....

McReynolds: Under Social Security they probably wouldn't have exempted national banks except for the background of the record at the time legislation was passed.

H.M.Jr: Herman, inasmuch as we have started the word "coordinative" bank examinations - is that the word?

Upham: Coordinative.

H.M.Jr: Inasmuch as - if one of the agencies of the examining banks would rule different I'll take your word "coordinative" to tell the attorneys for the F. D. I. C., Federal Reserve, and the Comptroller of the Currency, what is the position, and do they concur.

Oliphant: Well, I didn't want to speak to them until after I talked to you.

H.M.Jr: We don't find that the Giannini telegram is one of these babies, and he says, "You're exempt." I mean, that might perfectly well happen, wouldn't it?

Oliphant: I verified the Comptroller's Office hadn't ruled on it. I think that would be a good plan.

Upham: I'd like awfully well if Mr. Oliphant would give some consideration to a point of view I have on this.

H.M.Jr: He'd be delighted to.

Upham: I have it quite differently in mine.

H.M.Jr: He'd be delighted to. Let's leave it this way: Give Mr. Oliphant what you have; Mr. Oliphant will talk to the other people, but if they concur, why - I mean, he'll give you a chance. Will you, right after this?

Oliphant: Uh huh.

H.M.Jr: To present yours, but if I - if, early this afternoon, I can have an answer from you - if you will give it to Mrs. Klotz for me ....

Oliphant: Sure.

H.M.Jr: I'll send whatever you give me. It seems to be a straight legal matter, but I do think, and I recall - in calling him say, "Carrying out this principle of moving together."

Oliphant: And I'll call the General Counsel himself.

H.M.Jr: Right.

(Points to Mr. Upham.)

Upham: I can give you a report any time on that insurance matter that you spoke to me about on the train.

H.M.Jr: All right. (Laughs) All right. Does he.

Upham: (Laughs) No.

H.M.Jr: O. K. What? He doesn't? All right. (Writes note and hands it to Mrs. Klotz.)

I don't know that I spelled it right.

(Mrs. Klotz laughs.)

George?

Haas: Mr. Secretary, on that matter you spoke about this morning, in addition to this other - about advisory groups - as I wake up I react more favorably towards it - my reaction this morning.

H.M.Jr: George, not to be personal, but when did you wake up?

Haas: You woke me up.

Oliphant: You started to wake him up.

Haas: It's a little bad time, I think; some will be on their vacations; it's a bad week, and I thought maybe we might be working them .....

H.M.Jr: Well, ask them if they don't want to come. This fellow, Bell, you see, I don't want to carry him.

Haas: Would you have any objections? There may be some advantage in this. We have these computations made out - why not have them look over the whole business?

H.M.Jr: Do. I want this advisory group to come down and look over Haas' figures we have after the sixth of July.

Haas: Would you like to have me tell you, in about two sentences, about where it stands now?

H.M.Jr: I know - Bell told me.

Bell: One word will do it.

Haas: That's on the lower range - it's your policy. I think you'd do better.

H.M.Jr: Well, I think I'd ask Wesley Mitchell.

Haas: I've got him. I'm all right. - I'm most awake too.

H.M.Jr: And if you wake up a little later, George, and want to change your mind, you still have a chance.

All right. Harry.

White: You noticed the British sold a block yesterday on net sales of stock notes - about two million dollars net sales in England. Now today again it's another half million, and if you look over the past couple weeks, I think one can draw rather a complexing conclusion that there is every reason - three reasons the stability of the dollar seems greater than it has been for some time. There are prospects of the weakening of sterling, and the stock market has been acting as it has, notwithstanding that there has been no net inflow from stocks; in fact, there's been a net outflow.

I wonder whether the conclusion might not merely be from the point of view of British investors that the upward movement is not going to be sustained. I mean, one might draw that conclusion. That is their view, without considering its merits. That is their view. Otherwise, I don't see how one can explain their actions.

H.M.Jr: Well, I'd like to talk to you and Archie on that. I've got a couple ideas of my own.

White: Secondly, about this Chinese loan that Archie told you about, the thought occurred to me, that is a clear reflection of the grape vine method. They heard what was being considered here and they wanted to make very sure there was no isolated action taken, for several reasons, and I think that idea was sent right back that way.

H.M.Jr: Well?

White: I mean, that is .....

H.M.Jr: You'll have to submit it.

White: Then, Uruguay is getting in trouble, but I think that can wait. We'll pick that up some time later. That's all.

H.M.Jr: You're coming for lunch today, aren't you?

White: Weren't you going to see us at ten about Siam?

H.M.Jr: But you're coming for luncheon?

White: Yes, but I thought you were going to see us before that.

H.M.Jr: Yes - at ten. Herbert.

Gaston: I've been getting several questions about the Budget. I haven't had a chance though to ask Dan about it, but one is for the fiscal year 1938 - are the agencies and departments being asked to impound ten per cent; and the other is for the fiscal year estimate for the fiscal year 1939. The story is that the Budget letter that went out didn't ask them, as it did last year, to hold their estimates within the limits of the previous year's appropriation, but merely asked them to be economical.

Bell: That's right. There are so many of them that have additional duties piled on them, that there wasn't much sense in asking them to stay within the limits of the last appropriation. They didn't stay in it last year.

Gaston: You want to say anything on the ten per cent thing?

H.M.Jr: That's between the President and Bell; I have nothing to do with it.

Bell: I didn't put anything in the letter.

H.M.Jr: I don't even know anything about it.

Bell: When the sheets come in we are going to ask all the Departments to put up reserves.

Gaston: They are - were speaking about this year - 1928 - I mean '38.

Bell: When the apportionments come in we will ask them to put up reserves.

McReynolds: You also asked that reserves be set aside on the administrative expenses.

Bell: On the administrative expenses we did ask for a reserve of ten per cent.

H.M.Jr: I think you and Archie could be thinking, Harry, about the release on the stabilization fund's position as of January 1, 1938 - give out a statement of just what openings, since its inception to January first, '38, and from now on we'll do it every six months, with a six-months delay.

White: In connection with the International Capital Movements Report, which is always at least from six months - three to six months late .....

H.M.Jr: When would be the next one?

White: Oh, very soon - within a few weeks, I think.

H.M.Jr: Well ...

White: For the first quarter.

Gaston: International Capital is going out now. It's released this week.

H.M.Jr: Has it been released?

Gaston: Yes. I forget what the release date is.

Upham: It's day before yesterday.

White: But we are going to raise the question of changing the form of that, if it's not ready yet, into a release. It would be much cheaper and probably equally effective, cutting down the data, and not supplying all the weekly data, but merely the summary data for the quarter.

H.M.Jr: Then we would do it about September 1, wouldn't we? In that connection, it just removes an item that he may use it for campaign or for personal - I don't see any reason in the world for that not to be released.

Gaston: Would that be your release or the President's?

H.M.Jr: I can ask him, but I think it will be mine. Why wait until they demand an investigation, and so forth.

(Telephone.) Hello. Well, he'll have to wai about five minutes. I'm sorry.

But will you people be thinking about that?

Gaston: Yes, and I was just wondering about the legal questions involved, - whether the authority.....

H.M.Jr: Well, everybody will have plenty of time, but it's certainly - I'd like to do it.

Bell: There's certainly nothing in the law to prevent its being done; every six months since its inception.

H.M.Jr: Yes - every six months. What?

Gaston: Yes, I agree it should be gotten out.

McReynolds: It wouldn't be quite so vague when it finally gets out.

H.M.Jr: And September first would be a good time to get it out - two months before the campaign, and just my intuition says it's a good thing, unless somebody can give me a good argument on it.

Gaston: I'd like to see it gotten out before September; I'd like to see it gotten out now - within the next two weeks.

H.M.Jr: All right. Will you people think about it, Herbert?

Herman?

Oliphant: I'd like to discuss this second shipment of silver. Will you be prepared?

H.M.Jr: Sure - good idea.

Oliphant: I'm ready to report on that letting last night, and I'd like to have a chance to talk it over with you.

H.M.Jr: Well, Congressman Doughton asked if I couldn't come and see him, and I told him I could come at eleven thirty. He's at the hospital. I am waiting to hear from his daughter.

Oliphant: He's still in the hospital?

H.M.Jr: Yes. He's leaving this morning, and he wanted to see me this morning.

ooOoo

June 29, 1938.
10:15 A.M.

Gordon Rentschler: Hello.

H. M. Jr: Hello.

R: Hello, Henry, I understand you won a boat race.

H. M. Jr: What?

R: I understand you won a boat race.

H. M. Jr: How are you?

R: I'm pretty good.

H. M. Jr: What do you know?

R: Well, things aren't so bad. We keep them going.

H. M. Jr: Anything on that railroad loan business?

R: That's what I called you about.

H. M. Jr: Yes.

R: There's an enormous amount of stuff packed up.

H. M. Jr: Yes.

R: That could be loosened.

H.M.Jr: Yes.

R: I talked with Jesse when he was up here last Thursday.

H. M. Jr: Yes.

R: And Jesse's hunch was that he wanted to stick to the rate of 4%.

H. M. Jr: Yes.

R: And that he was perfectly willing to waive one or two of the first payments for the first two years

H. M. Jr: Yes.

R: And that he would go along as high as ten years and he didn't talk about fifteen but he said he finally ended up by saying anything that was reasonable.

H. M. Jr: Yes.

R: Now, in the meantime, these are the fellows I've talked to. To the General Electric in reference to the prospective electrical equipment that they could put on the rails if they're on this kind of a basis.

H. M. Jr: Yes.

R: And the darn stuff runs up - I've got these figures here now - runs somewhere between two hundred fifty and three hundred million dollars.

H. M. Jr: For Heaven's sakes.

R: And new stuff that could be self-servicing if it were - if the railraods would buy it.

H. M. Jr: Yes.

R: Now, American Car and Foundry have got - they say that - let's see - three hundred thousand - they've got probably a specific number of cases here - just kind of running my figures over here - representing Diesel engines alone - Diesel locomotives of about a million dollars.

H. M. Jr: Yes.

R: And then they've got - other locomotives - I said American Car and Foundry - I meant American Locomotive Company -

H. M. Jr: Yes.

R: They've got other locomotives that will probably run up to 25 or 30 million dollars more.

H. M. Jr: Yes.

R: Now, American Car and Foundry have at least that much in cars. With probably 12 or 15 different lines. And as far as machine tools are concerned, I only checked with my old company and I find that they've got inquiries now of a little over 2 million dollars. It's two million two hundred and nineteen six eighty-five. Representing about 20 different railroads. Now I think that there's unquestionably a base there if we could get the whole crowd cooperating - of releasing quite a lot of immediate stuff. Now along the line Jesse talked say of a Hello -

H. M. JR: Hello.

R: Say - from a ten to a fifteen year railroad obligation.

H. M. Jr: Yes.

R: Four per cent - the companies - Jesse's hunch was - the companies ought to stay in for at least ten per cent which would represent their supposed profit.

H. M. Jr: Yes.

R: And I think that's perfectly fair. Of course, you'd have the hurdle of no down payment, which, of course, wouldn't put it on the basis of the ordinary equipment cost by the end of 2 or 3 or 4 years where they'd be in that position.

H. M. Jr: Yes.

R: But I think it could be worked out to be sound business.

H. M. Jr: Well, now, where's the log jam?

R: The best way to do this is to say to these companies why don't you go to your specific railroad - tell them that you can - that you're ready to sell them these goods at such-and-such prices and that you will try to get them terms through the R. F. C. or some other Government agency which will enable them to buy as I've just outlined it to you. And then let them submit those specific individual cases to the R. F. C. as they come along.

H. M. Jr: Well, what I'll do is, I'll get hold of Jesse right away, see? Hello.

R: Yes.

H. M. Jr: Ask him whether he won't come over this afternoon and see me and we'll sit down and talk about it. And - I'll tell him I talked to you and just what you've said and see whether we can't break this thing.

R: And now, for instance, specifically, Henry, here's American Locomotive again. They say proposition - suppose you get a few of them in your mind.

H. M. Jr: Yes.

R: Proposition No. 1: - Rock Island.

H. M. Jr: Yes.

R: 20 to 25 Diesels averaging 75 thousand each, total a million five.

H. M. Jr: I see.

R: They would like to offer - they would like to have 15 years' time. No payment for the first 2 years - would be satisfied with the 4%. Now the next one. Minnesota Transfer Company - owned jointly by Northern Pacific and Great Northern. Are in the market for four Diesels total, for three hundred thousand dollars. Terms 15 years and the same as before.

H. M. Jr: Well, then -

R: Northern Pacific one --

H. M Jr: Now - I've got enough of it.

R: You see?

H. M. Jr: Yes, and -

R: My hunch is, that the way to do this is - to get the most good out of it - is to have these very salesmen of these big companies know that they could do it. And after the first deal went through - I think you have every darn one of these companies including the ones we haven't talked with - on Jesse's back trying to get terms and orders and the very desire that they'd have to get business would drag the crowd in to you.

H. M. Jr: I get you.

R: And the broadness of the picture would be that it wouldn't all be done with just one big railroad or one big industry but it would be good with dozens of them all over the country.

H. M. Jr: I get you.

R: And I'd spread them to cars and locomotives and machine tools because they could all be justified on the bais of self-liquidating because the saving they'll make by using this new equipment will let them pay them out in that period.

H. M. Jr: All right. I'm ever so much obliged and you'll most likely hear from me tomorrow.

R: Fine. Now, what else do you know?

R: Your bank examining reports I think are - plan - I think is getting over all right, don't you?

H. M. Jr: Yes.

R: Nobody is objecting to it at all.

H. M. Jr: No. A lot of people seem happy about it.

R: A lot of people seem happy, do they?

H. M. Jr: Yes, they do.

R: What else do you know?

H. M. Jr: Nothing just now. But - if this thing works, I may ask you to come down and sit in with us, you see?

R: All right, fine.

H. M. Jr: I'll see just how it works.

R: Yes. But I think it's - I think the one important thing in our present stage now, is not to let anything come up.

H. M. Jr: Yes.

R: That is going to stop letting fellows feel that they're going to have a good business by fall.

H. M. Jr: That's right.

R: There's been a great deal accomplished.

H. M. Jr: Yes.

R: In this last three or four weeks.

H. M. Jr: Yes.

R: Some of these fellows that followed Alan Temple's turn in this commodity market, for instance, feel very happy about themselves.

H. M. Jr: Yes.

R: Because we've had fellows buying quite a lot of stuff - and - at least on paper they're money ahead now.

H. M. Jr: Well, you'll hear from me most likely tomorrow.

R: All right, Henry. Fine.

H. M. Jr: Thank you.

R: Bye. Bye.

H. M.Jr: Good bye.

June 29, 1938

10:30

(Preliminary to call of Minister of Siam who arrived at 10:45)

Present:

Mr. Lochhead
Dr. White

Mr. Lochhead: Have you had an opportunity t read Harry's memorandum?

Dr. White: No, but I can tell you in a few words what we agreed on.

HM,Jr: Yes, give it to me that way.

Dr. White: The bare facts are, they want to sell 23,000,000 ounces of silver which represents practically all their monetary silver with the exception of some subsidiary coins. They have very adequate sterling reserves. They are tied up very closely with England, financially, economically and commercially. Their balance of trade has been going against them recently, but apparently their foreign exchange position is still very sound; therefore, the only reason they want to get rid of it is, I suspect, their British financial adviser is advising them that silver is not as good as sterling as part of their specie reserve.

Mr. Lochhead: They mentioned they wanted to sell silver and get gold, earmarked gold.

Dr. White: But they have sterling which they could easily convert into gold.

HM,Jr: Why should I buyit?

Dr. White: You shouldn't. No reason in the world, with this possible exception, that you can't turn them down without a good reason, and I think you have one and that is that it runs counter to our silver purchase policy

which is to promote the use of monetary silver. Suppose he responds, Well, you are buying Chinese and Mexican silver. You can say that's different; there are special reasons which are forcing them to sell; they need foreign exchange and you are merely cooperating there.

HM,Jr: Not good enough, Harry. May I say, it is my hunch, I am going to say I am just not interested; very sorry, not interested. I told that to the British attache, you know.

Dr. White: Would you tell him that before .....

HM,Jr: I will listen first.

Dr. White: There is this possible danger, and that is if it gets nosed about that you are not buying silver it may be regarded as an indication that you contemplate a change.

HM,Jr: 'I am not interested, Mr. Minister, but if you ship your silver here our policy is we buy it at the day's price.'

Mr. Lochhead: We are not discriminating against anybody in this market.

HM,Jr: If you want to send it here, all right; I can't refuse to buy it; that's your business.

Dr. White: Then it should be made clear to them that shipments will take months and months and months.

Mr. Lochhead: If the man put up some argument we don't know about that made the Secretary feel that he should do something, I say even if you do get overcome the maximum should be 2,000,000 ounces, which would take several months.

HM,Jr: Let me have a little fun. Let me just try it.

(At this point the Minister of Siam came in. The conversation is recorded separately.)

June 29, 1938

10:45 am

Present:

The Minister of Siam (Phya Abhibal Rajamaitri)
Mr. Lochhead
Dr. White

HM,Jr: Too bad to have to leave Cape Cod to come down here.

The Minister: Ihave to come on business. I suppose you know the subject of the talk.

HM,Jr: I have a little inkling.

The Minister: The sale of silver. My country appreciates greatly the opportunity given by the United States Treasury in leeting me come to discuss the matter with you. With the proceeds of this sale we are going to ask the help of the United States Government to make arrangement for the purchase of gold bullion, to be kept in safe custody here or earmarked at the Federal Reserve Bank of New York, as was done in 1931. Therefore, the proceeds of the sale would be kept in this country in the shape of gold bullion and we would appreciate greatly if the Treasury will take a little in coin instead of good delivery bars. That will help us a great deal.

HM,Jr: Of course, Mr. Minister, that would be impossible. We never do that. We only take delivery in bars.

The Minister: I see.

HM,Jr: When people ship coins here, we test them. Then we would advance 95% of the estimated value pending the smelting of the coins into good delivery bars.

The Minister: I see.

HM,Jr: Do I make myself plain? I mean, supposing your Government shipped us some coins.

The Minister: Yes.

HM,Jr: And they arrived here. Well, we test them and if the test showed that they were all right we would advance you 95% of the estimated value.

The Minister: I see.

HM,Jr: Then they would be smelted into good delivery bars and after they were smelted we would pay you the difference less the cost of smelting.

The Minister: Yes. I see.

HM,Jr: But at present you can't get any smelting done in -- how long does it take?

Mr. Lochhead: Considerable time. If on the West coast, something might be done there, but the smelting capacity of the refineries just now is very limited.

HM,Jr: You see we had this cable so I was a little bit prepared and this would be the position which you may convey to your Government. If your Government should decide that they wanted to send some silver here, they would have to do that entirely at their own risk.

The Minister: Yes.

HM,Jr: Our price of silver is made each day.

The Minister: Yes.

HM,Jr: We have a policy that if any Government wants to send silver here, why we will buy it.

The Minister: Yes.

HM,Jr: At the price that day.

The Minister: Yes.

HM,Jr: But your people just have to make up their mind whether they want to send it, how much they want to send, and all that, but we can't make any promises as to what we pay or what the price of silver will be the day the silver arrives.

The Minister: Yes. And the price of silver will be determined on the day of delivery?

HM,Jr: Yes. Day of delivery.

The Minister: May I ask, will there be any charge for melting?

HM,Jr: No.

Mr. Lochhead: When we speak about the price of silver, for instance, today the price of silver is 43¢ an ounce .999 fine, good delivery bars. When we buy silver we pay that price for these bars delivered at the mints or assay offices in the United States. In other words, these good delivery bars must be delivered to the mints or assay offices and then we buy them at that time. Now, all the other expenses of shipping, of preparing the silver, of melting it, is all for account of the seller. The United States Treasury makes no charge for anything like that because it is not a concern of ours.

HM,Jr: No tax.

Mr. Lochhead: Wait a minute. There is also a tax. Certificates have to be furnished showing the cost of that silver and if there is a profit between the cost and the sale of the silver, a tax of 50% is due, whether it's for the account of an individual or a Government.

HM,Jr: What I would suggest is that if the Minister has time, you can take him, you and Dr. White, into Mr. Magill's office and go into details. I just wanted to explain the policy. As to details or how it can be arranged, Mr. Lochhead will be glad to explain it to you. But I want to ask you if I have made myself plain as to what the policy of our Government is towards buying silver.

The Minister: Yes.

HM,Jr: In other words, it's a day to day proposition.

The Minister: Yes. I don't know how long it would take to come. We think it will take about, at most, six months to ship, for example, to San Francisco.

HM,Jr: Six months?

The Minister: Yes, within six months anyhow.

Dr. White: You mean it will arrive in San Francisco?

The Minister: Yes.

Dr. White: But from that day there is considerable lag until it is in form in which it is acceptable and the price which you obtain for the silver is the one which prevails at the time it is ready, not when it arrives.

The Minister: I will leave it to this Government to decide.

HM,Jr: What I would do, so there is no misunderstanding, I would talk to the Minister and then I would confirm these technical points in writing, this whole question of delivery, but I would give him a memorandum so there can't beany possible misunderstanding. I think he ought to have a memorandum. It's too important.

We will give it to you in the form of a memorandum, what the conditions are under which we buy.

The Minister: Yes.

HM,Jr: And then we could get that to you -- by tomorrow morning?

Mr. Lochhead: Yes, sir.

The Minister: Yes, that's all right.

HM,Jr: Shall we send it to the legation?

The Minister: I can come in.

HM,Jr: If you come back, you (Lochhead) can make an appointment. But I would give that in writing so he thoroughly understands what the conditions are and you can send this to your Government.

The Minister: Very kind of you, indeed.

HM,Jr: It's important and if we give you all the information in advance there can't be anything to argue about afterwards.

The Minister: With the proceeds of the silver we will ask your kindness in giving us gold bullion.

HM,Jr: Well, whatever you wish to do, that would be entirely up to you.

The Minister: We should leave all proceeds of this in this country.

Mr. Lochhead: That would be a separate transaction; that could be taken care of at the time of the sale.

The Minister: Well, sir, I am very much obliged to you for your kindness to me.

oOo-oOo

June 29, 1938.
11:08 A.M.

H. M. Jr: Hello.

E: Hello.

H. M. Jr: Hello, Marriner.

E: Good morning, Henry

H. M. Jr: How are you?

E: I'm pretty good. How are you?

H. M. Jr: I feel all right. I mean, Marriner, I wondered if this suggestion would meet with your approval. You wrote me a letter going over this whole question of what the various people reported that I've said the last couple of months in various - oh - magazines and so forth and so on and papers, see?

E: Yes.

H. M. Jr: I've asked Gaston and Upham to get the extracts actually of my press conferences, you see?

E: Uh huh.

H. M. Jr: And what I'd like to suggest is that at your convenience the two of them come over and show you copies of exactly what I did say, see? And then you can have it.

E: Well - of course the - all I was - what I was referring to is what the - what the press reported and I realize that the press -

H. M. Jr: Well, they didn't quote me correctly.

E: They will take what's said often and put an interpretation on it and that's the difficulty with our situation. For some reason or other they're - you and I, I think, have to be unusually careful because - because these fellows are always glad to bring personalities into a picture when - I suppose it makes more - it makes more interesting public reading as long as they can do that. And -

H. M. Jr: And the other reason is that there seems to be some people who are always anxious to make trouble between the two of us.

E: Well - I - I - I suppose so. The Press just don't help it out. Now, for instance, when you put a deadline on your report to the President -

H. M. Jr: Yes.

E: They make headlines in all the papers here Morgenthau gives Eccles 24-hour ultimatum.

H. M. Jr: Yes.

E: You know that - that's terrible.

H. M. Jr: Well - I'm. -

E: But that's just what the darn - that's just what the fellows do and - well - of course - I understood that you wanted to get this report over to the President and - and it wasn't a question of an ultimatum it was a question of fixing a deadline to-to - of making a report.

H. M. Jr: Well -

E: That's just typical of what - what - what happens and that the public get a terrible impression and that - that - that the administration here are all in a hell of a fight or some other sort and of course it's bad for everybody.

H. M. Jr: Well, I think you'd feel better if you read just what I did say.

E: Well - I'd be glad to see it. I - I'd be glad to see it and I --

H. M. Jr: Supposing I tell Gaston to call you and you come over at your convenience?

E: All right.

H. M. Jr: And - he's got the stuff all dug out.

E: All right. Well - I - I - I didn't mean - I didn't mean to

H. M. Jr: No.

E: Tell you in that letter to prolong anything But if I didn't feel so terribly upset - I - I wrote that last week and I felt upset about the whole damn thing.

H. M. Jr: Well - I - it's much better to let it come out on the surface and-

E: Well, that's right. I - I can't help it, Because I can't live with myself unless I do. I just can't - I just can't - if I feel a thing strongly enough I don't sleep and I get upset about it.

H. M. Jr: Well, I got a bet - that - see I felt - the thing that hurt me was - I felt that you didn't trust me to transmit your letter, you see? And --

E: No, you ought to know better than that. Hell I -

H. M. Jr: And that's what hurt, see? I thought.

E: Did you - did you read - did you read that memorandum of mine?

H. M. Jr: No, I didn't.

E: Well, I wish you'd read it because I'm perfectly sure that -

H. M. Jr: He returned it to you when I wrote my letter. I made no suggestion of any kind to the President what he should or shouldn't say. I just refrained from making any suggestions.

E: Yes.

H. M. Jr: I mean I simply sent a statement, memorandum, I'M enclosing the following stuff, etc., etc., 1,2,3,4 -

E: But, what I said -

H. M. Jr: I simply felt well, now this is funny, here Marriner, he - he wants to make sure that this thing gets to the President and I delayed sending mine, and took it over there at 12:30 on Friday, waiting all the time to get it, you see? Then I come back from cabinet and they tell me here's a memorandum from Eccles, a copy of which he sent the President. I said well, hell, doesn't he trust me enough to send the memorandum over as it's written?

E: Well, it wasn't a question of - of - of the slightest agreement on the memorandum as a technical document, and as I had stated the day before in - at the time we met - I said- I said - I feel that - that this ought to be - that a statement should be made with reference to this because there has been so much discussion and so much misunderstanding and it is of such public importance and - and because of the technical nature of it that I thought that - that a statement should be made and I briefly - as your record will show - outlined to you what I thought might be said. Just -

H. M. Jr: Well - the point -

E: And you said - well, -- if you want to - if you want to make a statement of that sort - prepare something - I'll be very glad to have you send it over to the President, or I'll be glad to take it over.

H. M. Jr: Yes.

E: But now - now that - so - so - I didn't get it prepared as soon as I expected because there is just more work to those things than one thinks. So I didn't get it ready until - until late Thursday night. And I checked it up again Thursday - Friday morning and - and then I sent it over. Well, you- you - you of course were away, you weren't there - it was over there I guess - it must have been there three or four hours before you were there.

H. M. Jr: Well, I only gave my list to the President oh - it was about a quarter of one when I handed it to him.

H. M. Jr: He - he.

E: Well, you see, my, this - this memorandum of mine wasn't - wasn't in any way -- I wish you'd read it because if you'd read that memorandum -

H. M. Jr: I will.

E: You'll find that it was - it was an entirely -- purely - purely an explanation of what this meant, see? The thing that I felt the President would be very much interested in because of the technical nature of the - of the - of our memorandum. Our memorandum was pretty largely technical and only bankers and those working with it would really understand it.

H. M. Jr: Well, now that it's all washed up aren't you satisfied the way it was given out?

E: I feel all right about it.

H. M. Jr: So do I.

E: I feel all right about it and - the - press gave a -- gave a good - pretty good interpretation of it - I would have felt a little better if we could have - all agreed to a statement, but I realize that that would have been practically impossible in the time available for us to agree to another - a public statement, and therefore, about the only thing I'm supposed to do under the circumstances, unless the President himself has chosen to - to give something out, was to do exactly what was done. Now, I mean, as a practical matter I can see that that is the situation.

H. M. Jr: Now, well, I'll --

E: Well, you promise me to read this memorandum I sent to the President because I want you to read that and then I'm sure if you'll read that you'll find that --

H. M. Jr: I'll read it tonight.

E: That - I - I know - Gaston didn't tell me that he was - Thurston said when he was over to the press conference that Gaston had said that he thought the memorandum was excellent.

H. M. Jr: Well, I'll read it tonight. I got it - Now, one other thing. Unless that you've got something special that you want to take up on Thursday, I thought it would be nice to have Digges, and Crowley, and Jesse sat with us.

E: That's fine. I haven't a thing.

H. M. Jr: Well, my thought was that then we could ask them how are they going to put this thing into effect?

E: Uh huh.

H. M. Jr: And have a little follow-up.

E: Well, I can - I can say this that I talked to Crowley - our - our examination boys talked to me the other day - McKee is away - and they talked to me and I said well, one thing we ought to do is to see to it that-that we don't get off on the wrong foot again.

H. M. Jr: Well - I --

E: When I called Leo up day before yesterday and I said - I understood, you see, that he was calling some of his fellows in and I made this suggestion - I said Leo, let me suggest that none of us call anybody in from the field until - your the head of your division and the head of our division and the head of the comptrollers let these technical men sit down and write this thing up they won't have any difficulty now getting along because the questions of policy have been decided. And - but before they bring their people in - it seems to me that they should have a - a - the thing all drawn up and outlined and Leo - Leo agreed 100%. I didn't want him to go out and call them in because they - I thought they might do that. Now, he agreed to that 100% and said he was going to talk to -- he-he'd have his men talk to Gus Folger who's in charge of the comptroller.

H. M. Jr: I've heard a couple little rumblings and - and I think it would be a good hunch if we sat down together and just see what they're doing, see?

E: Well, I think - that - that's O.K. with me and the only reason I called was that I had heard the same thing and I wanted to - I wanted to spike any - any chance of any agency going out with - with the thing all drawn up before they had consulted the other agencies.

H. M. Jr: O.K.

E: And I told our fellows to be damn good and sure that nothing was done until it was checked with the other two agencies.

H. M. Jr: Right. Then I'll see you tomorrow and I'll get the other men here. And I'll have Gaston come over and see you.

E: Well, that's fine. Well, thanks for calling.

H. M. Jr: Thank you.

E: Good bye.

June 29, 1938.
11:21 A. M.

H.M.Jr: Hello.

Operator: Mr. Hanes.

H.M.Jr: Hello.

Hanes: Hello.

H.M.Jr: Hanes.

H: Yes sir.

H.M.Jr: Morgenthau.

H: Yes sir.

H.M.Jr: How are you?

H: Fine, how are you, sir?

H.M.Jr: All right. Well, I'm getting out the bottle of champagne to baptize you on the first of July.

H: Well, have you talked to my boss yet?

H.M.Jr: No, I'm through talking to him.

H: (Laughs) Are you? Well, I don't - I don't know - I think we're going to have a meeting tonight in which I hope to close up my end of this thing and button it up tight with - so far as the exchange is concerned. I've been working like a beaver to try to get the thing closed. And we're having a meeting tonight with the present chairman of the stock exchange.

H.M.Jr: Yes.

H: At Bill Douglas' house - and as soon as I'm through with that meeting I'll know definitely then whether I'm through my work or not. And I think Bill would like to talk with you tomorrow. Tomorrow is the first, isn't it?

H.M.Jr: No. Friday is the first.

H: Friday's the first.

H.M.Jr: Yes.

H: Well, I think Bill will be ready to talk tomorrow morning. We'll know one way or the other whether we're going to - whether we're going to close our deal or not tonight.

H.M.Jr: Yes. Well, now I - see, at that luncheon I left if, as I remember it - you can check my memory - that if there was any question he was to call me.

H: Yes. That's right. And then he went to California.

H.M.Jr: Yes, but ...

H: And that - that ....

H.M.Jr: Yes.

H: Went out there for about two weeks.

H.M.Jr: Yes. And -

H: That's right. Your understanding is correct that he was supposed to call you.

H.M.Jr: Well - well, let's you and I understand each other, because I happen to have my understanding with the President, see ...

H: Yes.

H.M.Jr: ... that - unless Douglas or you call up, why, I - I - I'd like to swear you in on - on Friday morning.

H: Well, that's all right by me, as far as I'm concerned. Now, if - if it - if it isn't all right by him, why, then it's up to him to come to you and talk to you, I think, don't you?

H.M.Jr: I think so. And the suggestion which I made to you, which is purely up to you, that if you want to help them out in the afternoon ...

H: Yes.

H.M.Jr: Why ...

H: I will have to do some - I will have to do some odds and ends here which I haven't finished, and which I did promise him that I'd finish.

H.M.Jr: But, you see - first place, we want you, and I - I don't want to talk to the public - I - I don't want to get - your coming here getting off to a bad foot. And they all expect you over here on the first of July.

H: Yes.

H.M.Jr: And so I'll leave it now today that - that if I don't hear from either you or Douglas I'll expect you over here, say, ten o'clock Friday morning?

H: All right. Fine.

H.M.Jr: What?

H: I'd - I'd like to see you for five minutes some time between now and then.

H.M.Jr: Well, yes. Do you want to see me tomorrow?

H: Yes, sir.

H.M.Jr: 11 o'clock?

H: Well, if you - may I call you in the morning?

H.M.Jr: Absolutely.

H: If - the only thing - the reason I say that is because we're having these people here from the stock exchange and whether they'll be gone in the morning or whether we'll be - up - to - I just don't know what the schedule will be.

H.M.Jr: Right.

H: So may I call you in the morning?

H.M.Jr: Do that.

H: All right.

H.M.Jr: Thank you.

H: That's fine, thank you so much.

TREASURY DEPARTMENT

WASHINGTON

June 29, 1938

CONFERENCE IN THE SECRETARY'S OFFICE
ON JUNE 28, 1938

Those present besides the Secretary were Chairman Eccles of the Board of Governors, Federal Reserve System; Governor Harrison of the Federal Reserve Bank of New York; and myself.

Chairman Eccles said that they had come over to discuss the Treasury bill program and its relation to the investment policies of the Federal Reserve System. He said the Treasury decision to retire $50,000,000 a week in Treasury bill maturities over the next five weeks made it very difficult for the Federal Reserve System to replace its maturities of Treasury bills. They hold a substantial amount of the maturing Treasury bills and under the policy adopted by the Investment Committee of the System the maturities must be replaced by Government securities maturing within a period of not to exceed two years. Their action in the market to replace these maturing Treasury bill issues has run the market up until the two-year notes are now selling on a one-tenth of one per cent yield basis. This will continue until July 27 when the Treasury will begin to sell $50,000,000 a week additional to the maturing Treasury bills, at which time the Federal Reserve will be out of the market, and the market might as a result of the System's inactivity, substantially decline.

They have, therefore, two questions of policy which must be decided, and before they talk to the Investment Committee they want the Secretary's reaction. The first is: Shall the Federal Reserve System continue to replace its maturing Treasury bills by the purchase of Government securities in the market; and the second is: Shall the Federal Reserve System allow the maturities to run off and thereby decrease the investment portfolio. The first case, of course, will run up the market unduly during the next five weeks, while in the second case the banks, unless it is properly explained to them, might misinterpret the action of the System in allowing its portfolio to be decreased. Then, too, if it does not buy other securities and thereby put additional money in the market, it probably would be accused, particularly if there is a summer recession in business, of not cooperating with the Federal program and that the action they have taken has really been responsible for the summer recession.

Governor Harrison said that he is acting on instructions from the Committee to replace the maturing Treasury bills with other securities maturing within two years. Because of these instructions and due to the Treasury policy of retiring $50,000,000 in Treasury bills each week, he has been put in the very embarrassing position of having to ask the banks in New York to let him have this short-term paper as an accomodation to the System. He said

that of course this immediately raises the question in the minds of the bankers as to what kind of a money and credit policy is really being followed. He would prefer to see the bills run off and allow the portfolio to decrease, but he realizes the implications involved in that action and that the Board might be blamed for any summer recession which might occur.

The Secretary told these gentlemen that the Treasury had announced its Treasury bill program and that he did not see how he could change it at this time. If he changed it the public would want to know why, which, to answer, would involve not only the Federal expenditure program but also the policy of the Federal Reserve System. He thought it would be much better to let the Treasury policy regarding Treasury bills stand and the Board change its policy with respect to its investments. He said he realized that if the Board allowed the portfolio to decrease and we have a summer recession it would be blamed. He also realizes that if the Board is required to go in the market and purchase Government securities, the market will go up and when they get out of the market at the end of July that it might also decline.

Governor Harrison then raised the question as to whether, in this decline, the Federal Reserve System would be expected to buy additional Government securities in order to support the

market.

The Secretary said he did not necessarily feel that that would be its responsibility. He is leaving about the middle of July and he expects to leave orders with Mr. Taylor to invest Government funds up to $50,000,000 while he is gone, to support the market if any support is necessary. He also said that he agreed with the statement previously made by Chairman Eccles that the authority of the Federal Reserve Bank of New York should be broadened so as to permit it to buy securities maturing beyond the two-year period. Chairman Eccles suggested authority to purchase securities maturing up to a five-year maturity.

The question was raised as to whether they should not for this period throw off all limits and permit the bank to buy for the System's account long-term bonds in a reasonable amount in order to distract the banks' attention from their buying of the real short maturities.

The matter was left with the understanding that Chairman Eccles and Governor Harrison would discuss it with the Investment Committee and try to get authority to replace the Treasury bill maturities by the purchase of other Government securities with maturities a great deal longer than the two-year period.

LWB

June 29, 1938

To: The Secretary

From: Miss Lonigan

The Work Relief Act of 1938 contains the following items which are important for social policy:

Production for Use

The provision allocating funds for educational and professional projects is extended to include "production - - - and miscellaneous non-construction projects".

This is direct revival of production-for-use on a Government wage basis. (It seems to bar all possibility of production-for-use on a self-help basis, with workers being paid only what they earned, as in any cooperative.)

This revival of production-for-use under the WPA could be used to set up the same Federal control of industry which Mr. Hopkins was working on last Fall in the price and industrial studies for which Mr. Henderson was his spokesman.

Rates of Pay

Rates of pay shall be not less than prevailing rates of pay.

This applies prevailing rates, which are established for workers in industry, to all workers, including agriculture and domestic service. Its effect will be to intensify the displacement of rural labor and its migration to the

cities, like what was reported as happening so rapidly in Texas, and is also happening in rural Iowa and Illinois.

It offsets the normal cyclical tendency for workers to return to rural areas when industrial work is limited in amounts. It transfers workers to sections where maintenance costs are highest. It increases crowding on the land, and the pressure on sub-standard housing. (This is the process which went on for years in Puerto Rico under the Hurricane Relief Commission, and resulted in the deplorable conditions which the President inherited there, and which were quite falsely ascribed to the sugar corporations.)

In comparing prevailing rates in industry and in WPA it is essential to remember that WPA rates are paid for 52 weeks, and virtually no industry can provide work for a full 52 weeks a year. In New York State we found 40 weeks nearer the maximum. That immediately gives WPA a 30 percent advantage.

This raising of the lower wage levels of WPA provides an unlimited reservoir of people for whom WPA employment "must" be provided. The effects on the budget are obvious.

End of Relief Test

Applicants in need whose names have not been placed on relief rolls are eligible for WPA employment equally with workers on relief rolls.

This is excellent if wage rates are kept lower than prevailing wages (security wage principle). Otherwise it is just one more intake pipe through which the reservoir of

applicants for WPA work can be kept full.

Permanent Employment for Emergency Workers

Any relief worker who has been engaged on any Federal or non-Federal project financed in whole or in part by the Federal Government shall not lose his eligibility for restoration to relief rolls or for reemployment on other - - - - projects.

This provision is an excellent device for encouraging workers to leave relief rolls, provided wage-rates are lower than annual rates in private industry. With higher rates, it merely provides permanent eligibility for work on terms which industry cannot meet. It gives the worker on relief or Federal employment preferred status over workers who have tried to maintain themselves in private industry, especially those on part-time.

Quarterly Statement of Earnings

This is excellent if followed through.

Government Employment for Farmers

Farmers "who are in need and who need employment to supplement their farm income but who are not on relief rolls" shall have the same eligibility for WPA projects in rural areas as those on relief.

This again is another intake pipe into the reservoir of those for whom WPA employment "must" be provided, once they get accepted on the rolls. It commits the Federal Government to the policy of creating employment enough to provide farmers with supplementary income, in addition to present

farm benefit programs. Since WPA has complete control of the definition of "need" it can constantly lower that entrance level in rural areas as it has been doing in urban areas.

These farm projects will do little or nothing to help displaced farm labor which is moving to the cities and villages.

Supplement for Private Employment

Any WPA worker who takes private employment shall "at the expiration thereof be entitled to immediate resumption of his previous (WPA) employment status if he is still in need".

This again is excellent if carefully hedged about. But in Cleveland and Detroit where virtually every able-bodied worker is promptly drawn into WPA this gives them unlimited claim to WPA supplemental employment. The definition of "need" is at least twice as liberal for WPA employment as for relief.

WPA Candidates for Office

The bill prohibits "any person in a supervisory or administrative position" from running for office while working for WPA.

It does not prohibit WPA workers themselves from running for office while on WPA rolls. The way in which local politicians sought to nominate WPA workers for local office, in order to increase their connections with WPA, was described in the report on Illinois.

Purchase of Clothing

Mr. Hopkins stated at the conference with Secretary Wallace and Mr. Tapp and Mr. Wilcox (after you had left) that he

had "a good deal more than $25,000,000" to spend in purchases of clothing if he wished. This was a clear and unequivocal statement.

I have been unable to locate any provision in the bill under which he expects to exercise that power.

General Relief Funds in Agriculture

The Secretary of Agriculture has $175,000,000, plus balances available, for "administration, loans, relief and rural rehabitations".

Summary

The Federal Government is now undertaking to provide work, not only for those on relief, but also for those "in need", for workers who have previously been on any part of the Federal program and lost their jobs in WPA, PWA or in private industry, and for farmers who need work to supplement their incomes. Since it is easy to change the definition of need, it is possible to increase constantly the number of people eligible for continuous aid.

The Government is also beginning a program of purchasing marginal supplies of materials in key industries, which will have the usual effect of marginal purchases, in affecting the entire industry.

These two programs together come very close to administered industry.

Outlook

Even if there is no problem of finances, I do not believe that there is skill enough available at present to create centralized emergency employment for so many workers. Emergency

employment can be provided only for a small segment of our population. Overloading projects and calling it "work" does not provide any of the psychological or vocational benefits of work. The social security principle, by which unemployed workers are given small cash allowances and left to their own judgment to spend them, must still be depended upon for the bulk of the unemployed population. The social security principle helps to bolster normal employment, whereas creation of more and more "emergency employment" tends to increase all the elements of instability.

The social program for next year will I assume be prepared next November and December. I shall continue to collect information on the social effects of the present program for your possible use in formulating the program for next year.

JUN 29 1938

My dear Mr. Attorney General:

Responding to your letter of May twenty-first, in which you suggest that the plan for a uniform handling of identical bids throughout the Government should be submitted to the heads of the other Departments for their approval or suggestions, the documents are returned herewith for clearance by you with the other Departments as you suggested, inasmuch as the plan effects purchases by the Departments not made by the Treasury and the Treasury's interest in the matter is not as broad as that of the Government as a whole.

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

The Honorable

The Attorney General.

Enclosures.

JJO'C/Lsw
6-25-38

June 29, 1938.
12:37 P.M.
12:38 P.M.

H.M.Jr: Hello.

Operator: Mr. Montgomery's line is busy. Can you talk to Mr. Oliphant while you're waiting?

* * * * *

H.M.Jr: Hello.

Operator: Mr. Montgomery. Go ahead.

H.M.Jr: Hello.

Robert Mont-gomery: Hello.

H.M.Jr: Mr. Montgomery.

M: Hello, Mr. Morgenthau.

H.M.Jr: My secretary made me talk to you because she's one of your fans.

M: (Laughs) Well, this ....

H.M.Jr: Such is fame.

M: ... has little to do - my call has very little to do with the motion picture business.

H.M.Jr: Good.

M: I'm glad that it worked because of that. I am the - I am the presiding officer out here, Mr. Morgenthau, of an organization known as the Screen Actors Guild.

H.M.Jr: Yes.

M: Which is a large organization comprising around 12,000 members, all of the acting profession out here. This thing that I have to - wanted to talk to you about, incidentally, has nothing to do with taxes; you can put your mind at rest about that.

H.M.Jr: All right.

M: Ah - we have ....

H.M.Jr: Lots of times ...

M: ... some information which we think will be of interest to you and to your Department.

H.M.Jr: Yes.

M: Particularly to you personally.

H.M.Jr: Yes.

M: It's the type of information which - I don't want to appear too "mysterioso" about it, but - I don't think I ought to talk to you about over the phone.

H.M.Jr: Yes.

M: And although I was perfectly willing to come to Washington, try and make an appointment with you, I found that I couldn't get away. They'll call me for a picture in about three days now and I can't fly.

H.M.Jr: Yes.

M: However, I can send down to Washington Mr. Lawrence Beilenson, who is the attorney for this organization.

H.M.Jr: Lawrence ...

M: Beilenson - B-e-i-l-e-n-s-o-n.

H.M.Jr: What's the first letter? I don't get it.

M: Lawrence - oh, Beilenson - B as in Boston.

H.M.Jr: Beilenson. I see.

M: Mr. Beilenson is the - is - is my attorney and attorney for this organization and he has all the facts and - that I wanted to give to you and could present them to you if I could make an appointment with you to see him.

H.M.Jr: Surely.

M: At your convenience.

H.M.Jr: Surely. Will he come by train or air?

M: He will come by air.

H.M.Jr: Well, why not get him here, say, Friday morning?

M: Get him there Friday morning.

H.M.Jr: Yes. 11 o'clock.

M: At 11 o'clock at your office.

H.M.Jr: Yes. I know that the Los Angeles plane will be in by that time.

M: I see. Thank you very much, sir, and I will - I will get in touch with Mr. Beilenson and have him leave so that he will be in Washington at your office Friday morning.

H.M.Jr: Now just a second - this is Treasury business, I take it.

M: This is Treasury business.

H.M.Jr: All right. I'll be glad to see him.

M: Thank you very much. I do appreciate your end taking my call.

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

M: All right.

6/29/38

A copy of the attached letter from Mr. Sproul was sent to the President at Hyde Park today.

FEDERAL RESERVE BANK
OF NEW YORK

June 24, 1938.

Dear Mr. Secretary:

The largest long-term security flotation during the past week was the public offering of $60,000,000 Metropolitan Water District of Southern California bonds, which dealers acquired from the Reconstruction Finance Corporation. The bonds are 4s, due 1946-86, were acquired from the Reconstruction Finance Corporation at 107, and were reoffered to yield 2.65 to 3.65 per cent. According to the incomplete reports available, the issue was well received. Other municipal bond awards during the week totaled about $6,000,000, and corporate issues about $12,700,000, of which $10,400,000 was Consolidated Gas, Electric Light and Power Company of Baltimore 3 1/4s of 1968, placed privately, for refunding.

The two offerings to stockholders--$7,800,000 of Philip Morris and Company convertible preferred stock and $40,000,000 Commonwealth Edison Company convertible debentures--which have been subject to subscription rights during the last two or three weeks were terminated this week, both quoted at substantial premiums and doubtless almost entirely taken up by stockholders. The success of these issues, combined with the recent strong advances in the stock and bond markets, will go a long way toward eradicating the remaining ill effects of the last offerings of this kind, the unsuccessful Pure Oil and Bethlehem Steel issues last fall.

In the field of short-term financing, the Federal Home Loan Banks this week sold $41,500,000 of one-year debentures at a price to yield 0.435 per cent, an issue which was immediately oversubscribed.

Additions have been made to the list of prospective corporate issues in July, so that the expected total is now about $225,000,000, of which slightly over half will be new capital. The final amount may readily surpass the June total of $245,000,000.

Yours faithfully,

Allan Sproul,
First Vice President.

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

June 27, 1933.

Dear Mr. Sproul:

I know that the Secretary will be very glad to have your letter of June 24th telling him of the offerings of last week. I am acknowledging this letter in his absence from the office, and will bring it to his attention as soon as he returns.

Sincerely yours,

H. S. Klotz,
Private Secretary.

Mr. Allan Sproul,
First Vice-President, Federal Reserve
Bank of New York,
New York, New York.

GKF/dbs

June 29, 1938.

Dear Mr. Giannini:

On behalf of the Secretary, I want to acknowledge your letter of June 22nd, which enclosed a copy of a form letter you have distributed to the Managers of the branches of the Bank of America in connection with RFC loans for capital purposes.

We were most interested to see this material.

Sincerely yours,

H. G. Kletz,
Private Secretary.

Mr. A. P. Giannini,
Chairman of the Board of Directors,
Bank of America,
San Francisco, California.

GEF/bj

CABLE ADDRESS—BAMERICAL

13044

Bank of America
NATIONAL TRUST AND SAVINGS ASSOCIATION

SAN FRANCISCO HEADQUARTERS

A. P. GIANNINI
CHAIRMAN OF THE BOARD OF DIRECTORS

SAN FRANCISCO, CALIFORNIA

June 22, 1938

ack for H.J.C.

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

My dear Mr. Morgenthau:

I thought you would be interested in the enclosed copy of a letter we have addressed to the Managers of our 493 branches, which I am sending as further evidence of our cooperation with the Government's recovery program.

Sincerely yours,

Bank of America
NATIONAL TRUST AND SAVINGS ASSOCIATION
SAN FRANCISCO

President to Managers
Policy Letter No. 4

June 21, 1938

L. M. GIANNINI
PRESIDENT

SUBJECT: RFC LOANS FOR CAPITAL PURPOSES

Dear Co-workers:

You are undoubtedly familiar with the recently enacted Glass Act, authorizing the RFC to make loans to business enterprises where such capital or credit is "not otherwise available." You have also received our Circular "C-99" of June 7, stating that we have agreed to cooperate with the RFC in accepting applications for this type of loan.

It is not surprising, perhaps, that because it has not always been made clear that the real need of "small business" is for capital rather than ordinary credit, statements have been made that banks are failing to aid business as they should. If not offset by the facts, such statements might easily provide the basis for a move to establish government credit banks for business and industry.

It is definitely our policy to work along with these small business men and make capital loans if the moral risk is good and if they will work out in a reasonable time. Therefore, the possibility of making a bankable loan out of an apparently unbankable application should be thoroughly explored. But when the application appears to be of the type you cannot handle, regardless of disposition to participate, it is to be forwarded to our Loan Supervision Department at Headquarters in accordance with the procedure outlined in Circular "C-99".

Here, the application will be reviewed and if no way can be found to develop it into a bank loan it will be forwarded to the RFC, where the responsibility of final acceptance or rejection will rest. Meanwhile our Loan Supervision Department will compile a complete detailed record of all such applications. Each will be followed through and final disposition noted. Such a record will not only build useful statistical information for our bank, but will also give us facts with which to refute any future question as to whether this bank has extended itself to meet the legitimate needs of business.

Let us remember that it is our definite policy to have our bank grant a sound constructive and comprehensive credit service in each of the communities in which we are represented. It, of course,

is your duty to carry out this policy in your particular community and if you feel you have any handicap in doing so, please feel free to communicate your problems direct to me. I confidently anticipate your full cooperation.

Best personal wishes.

Cordially yours,

L. M. Giannini,
President.

June 29, 1932.

Dear Mr. Roberts:

On behalf of the Secretary I am acknowledging your note of June 28th, which encloses an inter-office memorandum on business conditions covering the preceding week. The Secretary appreciates your sending him this interesting summary.

Sincerely yours,

H. S. Klotz,
Private Secretary.

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

GEF/dbs

The National City Bank
of New York
ESTABLISHED 1812

New York June 28, 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 commodity markets prepared for inter-office use.

Respectfully,

Geo. B. Roberts
Vice-President

Memorandum on Business Conditions for Week ended June 25, 1938

The sensational improvement in the stock market last week was accompanied by another marked advance in staple commodity prices and by an increase in buying of industrial raw materials to the largest volume in many cases since the beginning of the depression. Moody's commodity price index is up nearly 5 points more, making a total advance of almost 9 per cent since the low point reached around the 1st of the month. Zinc and lead were marked up on expanded business; export copper and copper scrap were raised; steel scrap has risen $1.75 from the low and in the metal markets generally the closing days of last week were the busiest since last August. More business was done in hides, wool and rubber; the most sensational improvement of all was in cotton goods. Print cloth sales of the week are estimated at 5 to 6 weeks' production at the current rate; and business broadened in other constructions, and also in rayon fabrics to a lesser extent.

Accompanying the marked improvement of the past couple of weeks, there are indications that the business indexes are taking a slight turn for the better. The Federal Reserve index of industrial production in May, preliminary figure, was 78. At the beginning of June operations were at a rate which indicated hardly better than 72 for the full month. It now seems apparent, however, that the June index will be at least 74. The upward revision is due principally to the fact that steel mill operations, instead of going through the month at 25 or 26 per cent of capacity, recovered to 28 per cent last week, making three successive weeks of gain, and both Pittsburgh and Chicago will be up further this week, indicating another slight advance. Of course there is not much comfort in a 28 per cent steel rate, but the modest improvement reflects accumulating miscellaneous needs for steel following reduction of inventories, and the price cut is bullish so far as the prospective volume of orders is concerned.

A second element in improvement is that the trend toward cotton mill curtailment has been checked by the huge buying and the improvement in the mill inventory position which was bad. A few cases of increased mill operation have already been noted. If steel mill and cotton mill operations hold up during July the Federal Reserve index will advance because the seasonal expectation is for a drop in both these big industries. Unquestionably the improvement in cottons strengthens the opinion that expansion in consumer goods industries for Fall is indicated, and this should be true whether the present buying spurt and price rise peters out or not, or whether capital goods business improves.

The automobile news is not showing any marked change. Sales are about seasonal in relation to May, a little better in some cases, and production at present is not changing much. The shutdown for changeover will begin in about two weeks and the General Motors shutdown period will be three weeks longer than last year which was the shortest on record. General Motors schedules call for only 215,000 vehicles in the four months July to October.

Building figures for the first half of June show a contra-seasonal increase of 11 per cent over May in total; residential building was off 4 per cent, which is less than seasonal. As compared with a year ago residential off 17 per cent, total off 19. Car loadings had a slight gain due to coal but merchandise and miscellaneous loadings declined. Electric power production was about unchanged.

Retail sales of seasonable goods picked up on the warm weather for the week ended June 18 department store sales over the country were off 10 per cent, the best showing since Easter. In New York the decline was 8 per cent. For the four weeks ended June 18 department stores off 15 per cent; Sears, Roebuck 19.

Government is widening its commodity purchases; also making public works grants on old projects, expected to start within 60 days, to total cost of around $[illegible]. May farm income 2 per cent under last year, five months off 15. May factory payrolls off 24 per cent, largest decline yet. May exports less than year ago for first time; favorable balance was huge again, $[illegible] millions for month, $[illegible] millions for five months. Mid-continent gasoline prices up another 1/8¢, making third advance; Texas will go back to seven-day production of crude July 1.

June 27, 1938

Alan M. Temple,
Statistician

SPOT COMMODITY PRICES

Commodity	June 25	Week Ago	Month Ago	Year Ago	Since Jan. 1, 1928 High	Since Jan. 1, 1928 Low
Oil	8.85¢	8.51¢	7.92¢	12.76	23.90¢	5.00¢
Cotton	$1.70	$1.62	$1.60	$1.87	$5.91	$1.05
Milk	13.67¢	12.25¢	11.29¢	19.67¢	88.50¢	2.56¢
Rubber	42.90¢	40.75¢	35.60¢	57.25¢	72.80¢	18.35¢
Tin	$12.60	$11.00	$11.00	$18.25	$23.75	$8.25
Steel Scrap	4.50¢	4.00¢	4.00¢	6.00¢	9.50¢	2.85¢
Lead	4.50¢	4.00¢	4.00¢	6.75¢	8.75¢	2.30¢
Zinc	5.20¢	4.60¢	4.45¢	7.55¢	17.75¢	3.55¢
Cocoa	8.92¢	8.77¢	8.55¢	11.72¢	15.00¢	1.62¢
Hogs	9.15¢	9.11¢	9.02¢	12.79¢	18.22¢	2.97¢
Steers	9.05¢	8.80¢	8.45¢	12.30¢	19.23¢	4.10¢
Lard	7.00¢	6.50¢	6.87¢	8.00¢	10.88¢	2.56¢
Cottonseed Oil						
Corn	$0.78 1/8	$0.81	$0.74 7/8	$1.30	$2.15	$0.45¾
Wheat	$0.57 3/8	$0.57½	$0.54¾	$1.22	$1.38¾	$0.21
Sugar, Raw	1.76¢	1.80¢	1.76¢	2.55¢	3.50¢	0.57¢
Unchanged						
Wool	$0.64	$0.64	$0.66	$1.02	$1.28	$0.365
Hides	8.50¢	8.50¢	8.75¢	15.25¢	26.50¢	3.75¢
Coffee	6.30¢	6.30¢	6.35¢	11.63¢	24.67¢	5.00¢
Copper	9.00¢	9.00¢	9.00¢	14.00¢	23.87¢	4.87¢
Moody's Index	140.8	136.2	132.0	204.3		

Rubber - During the past 3 months the price of July rubber futures has risen from 10.43¢ to 13.96¢, and the spot market from 10 5/8¢ to 13 7/8¢. Most of this gain has occurred since the 3rd quarter quotas were set at 45% about a month ago. Chief factor back of the rise has been the reappearance of good factory buying. Buyers realize that as long as quotas are kept at 45% world stocks (now at the approximate peak) will decline steadily even if the present low levels of consumption in this country continues, which is the worst that need be expected.

One of the standard evidences of factory buying is the narrowing of price differentials between different grades of rubber. In the past 3 months the spread between the best and poorer grades has been cut in half.

A factor which has perhaps helped the rise is the continued deficiency in rubber shipments below permissable quotas. At the end of the 1st quarter, total deficiency was 17,114 tons. Instead of being made up in the 2nd quarter, it now looks as though deficiencies would increase. In April they increased slightly to 17,488, while preliminary figures for May indicate another rise possibly to about 25,000 tons. Most of this undershipment of rubber is attributable to the Dutch East Indies.

The supply of rubber for the 2nd half will be augmented by making up these deficiencies, but if quotas are kept at 45% for the 4th quarter, the 2nd half supply may be estimated at roughly 375,000 tons which is 75,000 tons below reasonable estimates of 2nd half world consumption, of 450,000 tons. Hence world stocks, which may not rise much over 660,000 by the end of June, due to below-quota shipments in the 1st half, should be reduced close to 575,000 by the end of the year, compared with 614,000 at the end of 1937.

May tire statistics were favorable. Tire stocks declined from 10,316,774 to 9,655,360 and are now 21.7% below a year ago. This is slightly less than a 3 months' supply and close to normal. Shipments increased to 3,372,118 from 3,199,363 in April while production rose slightly to 2,841,549 from 2,705,606. With excess tire stocks absorbed, a moderately better trend in crude rubber consumption is likely. If the Committee holds to the 45% rate continuation of the price advance, over the long pull, is to be expected.

Copper - Domestic sales reached 7,268 tons on Thursday, largest daily volume since last August. This brought June sales through the 23rd to 24,947 tons (highest since last August) compared with 13,731 in May, in the same number of business days.

Seaton smelters on Friday raised their scrap buying price to 7⅞¢ (low was 7¢ 2 weeks ago) and export copper rose to 9.30-9.40¢ compared with a low of 8.20¢ a month ago. The domestic price remained unchanged at 9.00¢. The London market continued strong last week and copper rose to £37⅞ Friday compared with a low of £32⅞ a month ago. This morning London was £37 3/4 and the export price 9.36-9.40¢.

The spurt in domestic copper sales is attributed more to the replenishing of stocks by certain fabricators than to any booking of larger orders for their finished products. The trade feels that there is plenty of copper available at 9¢. Refined stocks on May 31 were 369,809 tons. Actual domestic consumption of copper is estimated to be averaging slightly below 40,000 tons per month.

Lead - Sales have increased sharply. During the first 3 weeks of June, domestic lead sales were 25,345 tons or about at the May rate of mine production which was 31,918 tons. For the same period in May, sales were 8,938. With all consumers buying, (even the battery manufacturers, whose purchases heretofore have been on a most restricted basis) prices were raised 3 times last week, a total of $10 per ton, bringing the New York price to 4.50¢ from 4.00¢ a week ago. Good buying was reported at the higher levels.

Some of the larger mines have now built up refined stocks to about their limit. Unless good buying continues, further curtailment is expected this summer. Lead concentrate shipments to refiners are falling sharply, last week's shipments being the smallest in 3 years. This points to lower lead production.

May lead statistics showed a drop in production to 32,979 tons from 39,291 in April (the peak was 49,561 last December), shipments rose slightly to 26,011 tons from the low April level of 25,952 while stocks rose 7,008 tons to 163,723 tons from 156,715 at the end of April. A year ago lead stocks were 115,842 tons.

Zinc - Sales of prime western zinc for the week ended June 22 were over 8,000 tons bringing the total for the first 3 weeks of June to over 15,354 tons compared with 7,671 for the full month of May. Further heavy sales were reported later in the week.

With sellers unwilling to dispose of large quantities at the unprofitable 4¢ level, prices were raised 3 times during the week, a total of $10 per ton, bringing the price at East St.Louis to 4.50¢, a rise of 1/2¢ for the week.

Tin - The International Tin Committee announced last week that market shipments would be restricted during the 3rd quarter to 35% of basic quotas while 10% of output would go in the Buffer Pool. (Total production is kept unchanged at the 45% rate announced 3 weeks ago). Shipments to market during the quarter will be around 27,000 tons, provided non-quota countries ship 7,500 tons. This means a 9,000 ton monthly supply. Consumption for the first 4 months averaged 13,000. About 1,650 tons monthly will go into the Pool. This forecasts a sharp drop in world stocks and the price has risen sharply to 43¢ from a low of 35¢ reached early in May. With quota shipments during the present quarter at the comparatively high rate of 55%, world stocks dropped 2,594 tons in May. At 26,308 tons they were only a 2 months' supply based on latest consumption figures.

Tin consumption outlook in this country is clouded by prospects of some reduction in the fruit and vegetable pack this year, due to large carryover from last year's heavy pack. Tin plate industry is currently operating at 35-40% of capacity compared with 50-55% a month ago.

Siam has announced that she will not join the Buffer Pool. If she should withdraw from the agreement entirely her market shipments might rise to 1,300 tons monthly (1937 production rate) as against 545 tons monthly allowed her at the 35% rate.

June 27, 1938

Alan H. Temple,
Statistician

June 29, 1938.

My dear Mr. President:

Pursuant to your request, transmitted orally through Mr. Forster, I suggest Admiral Peoples as the representative of the Treasury Department to be a member on the Committee on Purchases of Blind-made products.

It is my opinion, that Miss Helen Keller would be an ideal selection for chairman of that Committee.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,
The White House.

Sent Special
to Mr Forster
June 6/30.

MSL

June 29, 1938

My dear Mr. President:

I am sending you herewith a weekly review of the business situation, prepared by George Haas. I wish to draw your particular attention to page 6, the paragraph headed "Heavy inventory accumulation in 1937" and the accompanying chart No. 4.

Respectfully yours,

The President,

Hyde Park, New York.

June 29, 1938

My dear Mr. President:

I am sending you herewith a weekly review of the business situation, prepared by George Haas. I wish to draw your particular attention to page 6, the paragraph headed "Heavy inventory accumulation in 1937" and the accompanying chart No. 4.

Respectfully yours,

The President,

Hyde Park, New York.

June 29, 1938

My dear Mr. President:

I am sending you herewith a weekly review of the business situation, prepared by George Haas. I wish to draw your particular attention to page 6, the paragraph headed "Heavy inventory accumulation in 1937" and the accompanying chart No. 4.

Respectfully yours,

The President,

Hyde Park, New York.

CONFIDENTIAL

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 27, 1938

TO Secretary Morgenthau

FROM Mr. Haas

Subject: The Business Situation, week ending June 25, 1938

Conclusions

(1)

The spectacular rise in stock prices this week confirms various evidences of improving business, and advertises to the country in a dramatic manner that the tide of business has turned.

Together with the upturn in commodity prices which began several weeks ago, the stock market rise is also becoming an active factor in increasing business activity.

(a) It has forced business sentiment into widespread optimism almost overnight.

(b) It has stimulated industrial buying in numerous lines.

(c) Rising price levels are tending to increase agricultural purchasing power, to increase corporate earnings, and to eliminate the inventory situation as a depressing factor.

(2)

Additional evidences of underlying business improvement have appeared this week:

(a) Further adjustments have been made in the price structure, through increased prices of raw materials and reduced prices of steel products, automobile parts, and certain farm machinery.

(b) Department store sales, adjusted, have increased to the highest level since mid-April.

(c) The Ford Motor Company has increased output this week to the highest rate since April.

(d) Steel scrap prices have risen sharply.

(e) A sensational upturn in cotton textile sales apparently foreshadows a further increase in mill activity.

(3)

Two major factors account for the beginning of a turn in business at this time:

(a) Inventories, which throughout the recession have been an indeterminate bearish factor, have apparently been liquidated to a point where production can again advance. (See discussion, pp. 5-6.)

(b) The recovery program is beginning to take effect. The increase in excess bank reserves has stimulated bond and stock prices, and some preliminary effects of the spending program are already being felt.

* * * * * * * * * * *

The stock market upturn

The nearly vertical rise in stock prices this week on heavy trading volume, coming with dramatic suddenness after a week in which the volume had dried up to a twenty-year low, reflects a previous over-discounting of bearish factors in the current situation. One illustration of this appeared in the unjustified belief a few weeks ago that the automobile companies would close down completely during the summer, and that steel operations might be reduced to 15 percent. As a consequence, a heavy volume of investment buying and short covering, which had been postponed awaiting the expected summer slump, came into the market as soon as business showed signs of turning up instead of down.

Business sentiment has been decidedly changed by the rise in stock prices, particularly since it confirms the upturn in commodity prices which began early in June. Reports from various sections of the country mention an

improved psychology among buyers since the stock market upturn. This has been particularly true among buyers of raw materials.

(1) In the copper market, the American Metal Market says that "There is no denying that the recent change in sentiment toward practically all commodities and markets is proving to be a powerful propelling force in copper."

(2) In the lead market the demand was said to be "too strong to be coped with freely".

(3) In zinc, the "complete transition of the market from a state of dormancy to one of outstanding activity and strength is even more remarkable than in lead".

(4) Steel scrap prices have been marked up three times this week under increased demand.

(5) A sensational expansion in cotton textile buying has occurred, extending to all types of goods and from all classes of buyers, including buyers of cotton goods for industrial purposes.

An important reason for the widespread change in sentiment is that market writers, forced to explain the rising price trend, have brought out and advertised to the country at large the numerous favorable factors in the business situation, and subordinated the unfavorable ones which they had previously been emphasizing.

In addition to serving as a measure of improving business, the upturns in stock and commodity prices are taking an active part in bringing about such improvement by (1) stimulating industrial buying; (2) increasing purchasing power, particularly in agriculture; (3) increasing corporate earnings through working toward higher production rates and increased valuations of inventories; (4) reducing the pressure to liquidate inventories, and thereby tending to remove this factor as a bearish influence.

Further evidence of business improvement

Additional favorable business developments have appeared this week:

(1) Further substantial progress has been made in correcting price disparities through the upturn in raw material prices, which has been combined with reductions in prices of various finished or semi-finished products:

(a) A general reduction in steel prices ranging from 6 to 10 percent at Pittsburgh has been announced by the U. S. Steel Corporation. Greater reductions were made at Chicago and Birmingham, thereby modifying basing point differentials.

(b) The Caterpillar Tractor Company has announced a reduction in prices on certain lines up to 23 percent, which will be followed by other companies.

(c) Automobile parts companies are reported to have cut prices up to 20 percent on some items.

(2) Department store sales have increased for three successive weeks. For the week ending June 18, the seasonally adjusted sales index rose to 83, or 10 percent below last year. This represents the highest actual level and the smallest decrease below last year since mid-April.

(3) The Ford Motor Company this week increased production to the highest level since April. Although other leading companies reduced production somewhat, the total output has held very steady for three weeks, reflecting well-maintained sales levels.

(4) The Buick Company, whose retail sales during the first 10 days of June were higher than in the similar period of May, has begun to buy steel for 1939 models.

(5) An increase in steel operations for the third successive week has been due not only to increased orders, but also to the fact that stocks of finished steel in the hands of steel companies have been greatly depleted.

New orders

Steel orders for last week, preceding the stock market rise, declined to an equivalent of 29 percent of capacity, as compared with the previous figure of 37 percent. (See Chart 1.) Steel orders are strongly influenced by the stock market trend, as the chart indicates. The orders figure to be received next week will reflect only in part this week's stock market upturn.

It is uncertain, as yet, whether the moderate cut in steel prices will lead to increased buying, but the fact that prices for steel scrap and other commodities are rising may well lead steel buyers to increase their purchases on the belief that no further reductions are in prospect.

New orders for products other than steel during the third week of June, not under the influence of the stock market rise, were also somewhat lower, our index declining to 41.3 as compared with the previous week's figure of 45.5. Textile sales since then have increased markedly, and, together with the stimulation to other orders that has doubtless been provided by the stock market upturn, should bring an increase in the next weekly index figure. Any marked improvement in orders would likely be reflected very quickly in increased industrial activity. When unfilled orders are low, as at present, there is very little lag between new orders and production.

Inventories substantially reduced

Trade reports and various statistics indicate that a substantial reduction in inventories has been an important factor back of the recent tendency toward business improvement. The actual size of corporation inventories remains indeterminate, but estimates we have made show that inventories have apparently been reduced sufficiently to allow business again to advance.

In Chart 2 we show (1) industrial production in dollar volume, compared with an estimated trend of consumption in dollar volume, (2) the indicated monthly additions to inventories or reduction in inventories, and (3) an estimate of the cumulated change in inventories since the beginning of 1935.

It will be noted that production consistently exceeded consumption from early in 1936 until October 1937, resulting in successive monthly additions to inventories. It was not until November of last year that production dropped below

consumption, and liquidation of the accumulated inventories began. The rate of liquidation declined somewhat in May, possibly indicating resistance to further inventory reduction.

Our estimate of accumulated inventories shown by the lower curve on the chart indicates that by the end of May 1938 the total had been reduced to about that at the beginning of 1937. Inventories at that time were below normal in terms of prevailing business levels, as were the inventories during 1935. While changes in the distribution of inventories may affect the comparisons, the present inventories should not prove burdensome, particularly since rising prices convert inventories into assets rather than liabilities.

Heavy inventory accumulation in 1937

The extent to which inventories were accumulated during the summer and fall of 1937 is shown in Chart 3. In this chart our estimate of total corporate inventories is compared with the FRB production index and with our composite index of new orders. Production continued at a high rate for some months after new orders had sharply declined, partly to build up stocks in anticipation of labor troubles, and partly because of a widespread belief that new orders would improve after Labor Day.

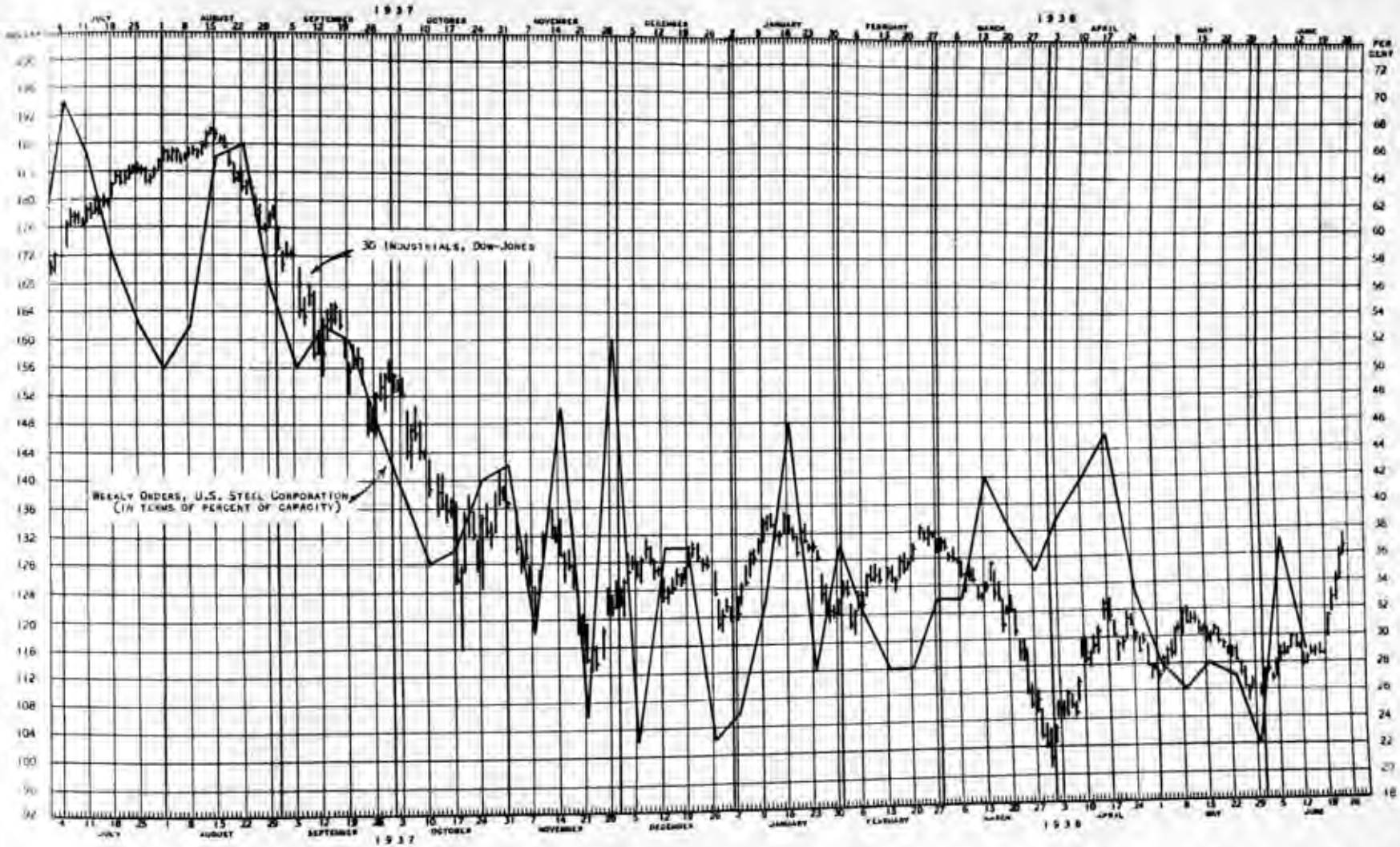
The increase in commercial loans during 1937 was largely for the purpose of carrying inventories. (See Chart 4.) The persistent increase in commercial loans in the summer of 1937 was generally regarded at that time as foreshadowing industrial expansion and therefore bullish. Actually it was a bearish factor. Similarly, the reduction in commercial loans recently has been held as an indication of business contraction, while actually it reflects a liquidation of inventories.

Recovery program becoming effective

A second major factor in the improving business trend is the increasing influence of the recovery program, in both its monetary and its deficit-spending aspects. The increase in excess reserves, first affecting Government bond prices and strengthening the market for new corporate issues, has increased the demand for high-grade stocks, and doubtless helped to bring about a rise in the stock market somewhat earlier than it might otherwise have occurred. A comparison of the timing of the upturns in excess reserves, bond prices, stock prices and commodity prices is shown in Chart 5.

Confidential

STEEL ORDERS COMPARED WITH STOCK MARKET TREND



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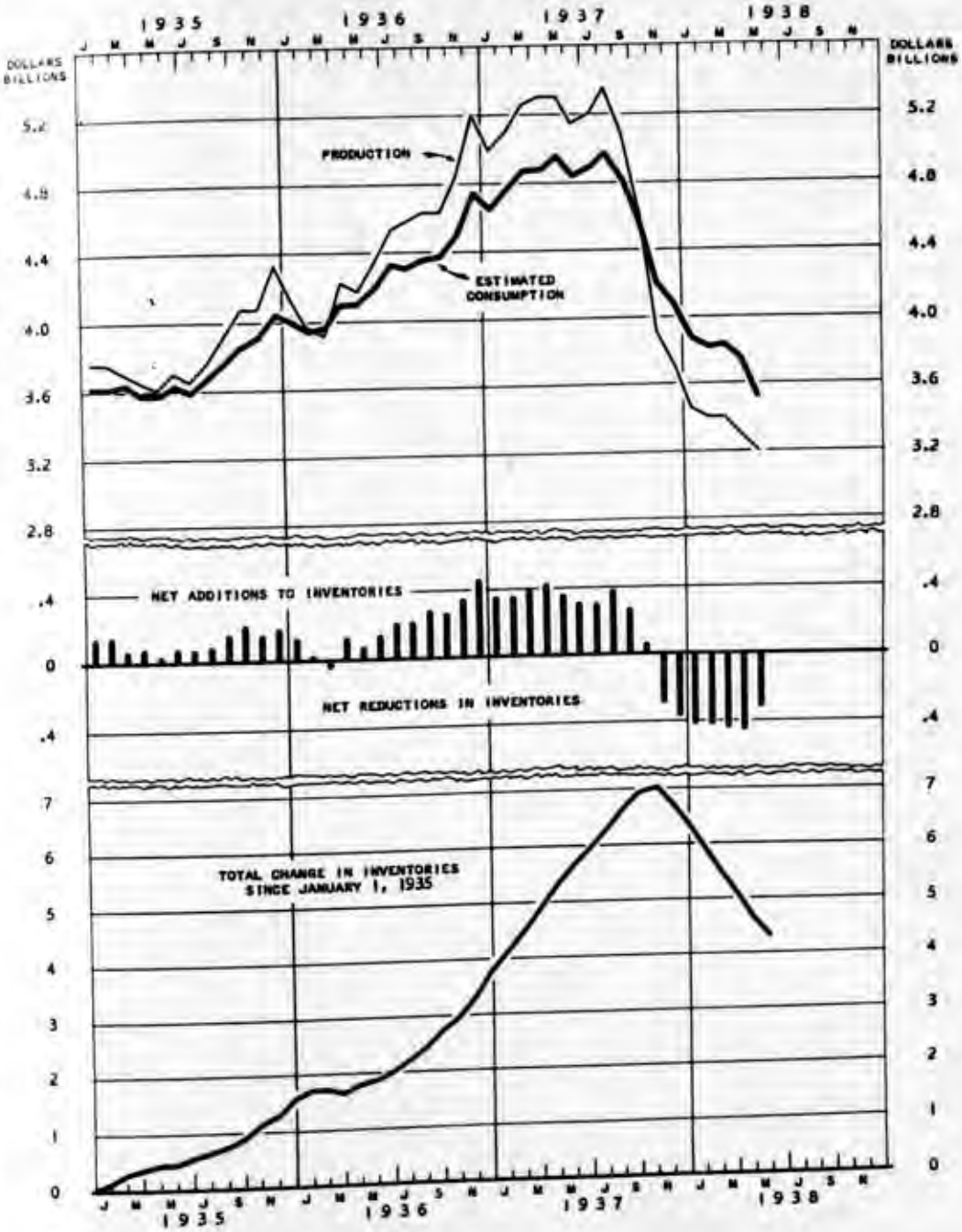
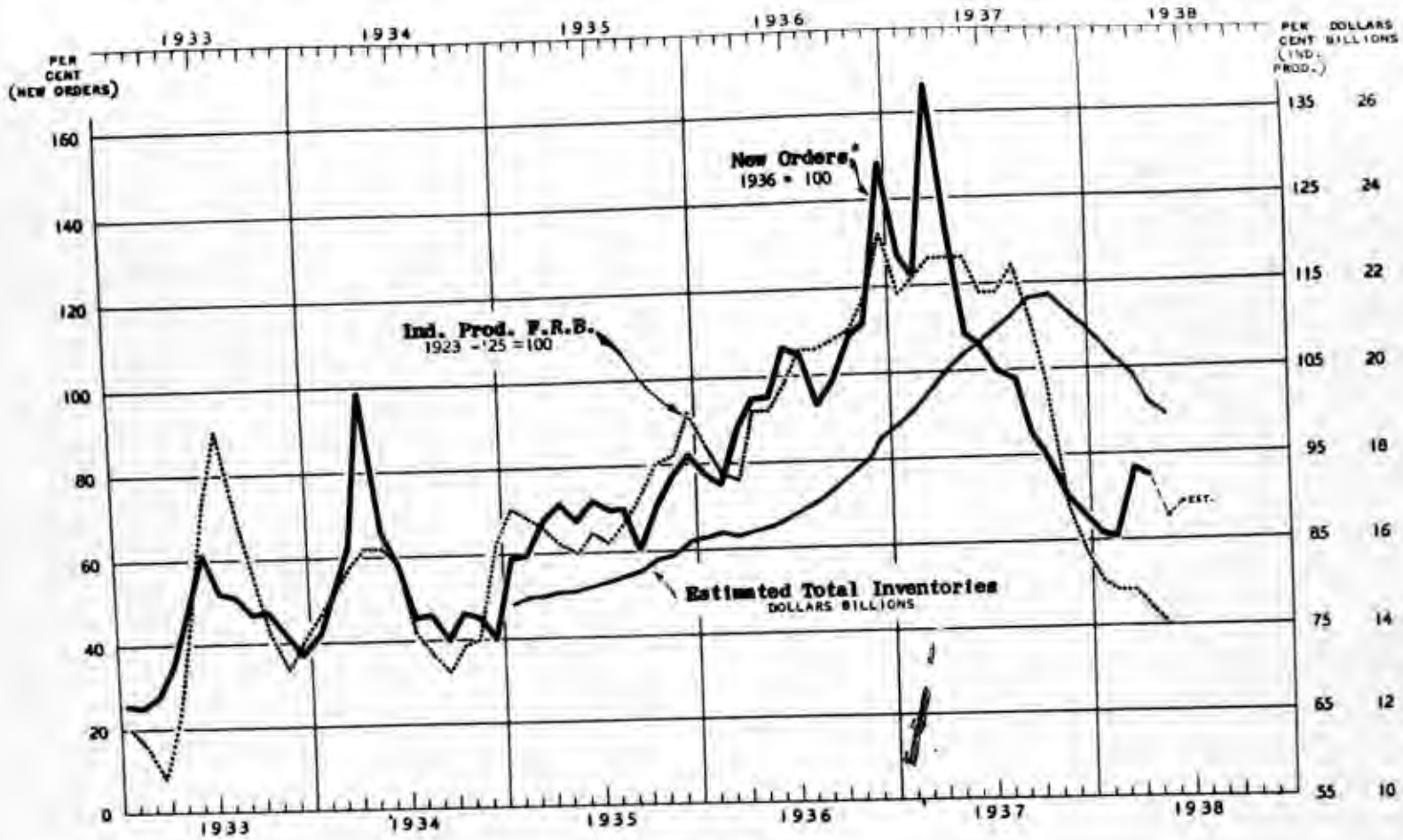
COMPARISON OF PRODUCTION AND CONSUMPTION, AND CHANGE IN TOTAL CORPORATION INVENTORIES 1935 TO DATE

In Dollar Volume



NEW ORDERS, INDUSTRIAL PRODUCTION AND CORPORATION INVENTORIES



*Not adjusted for seasonal.

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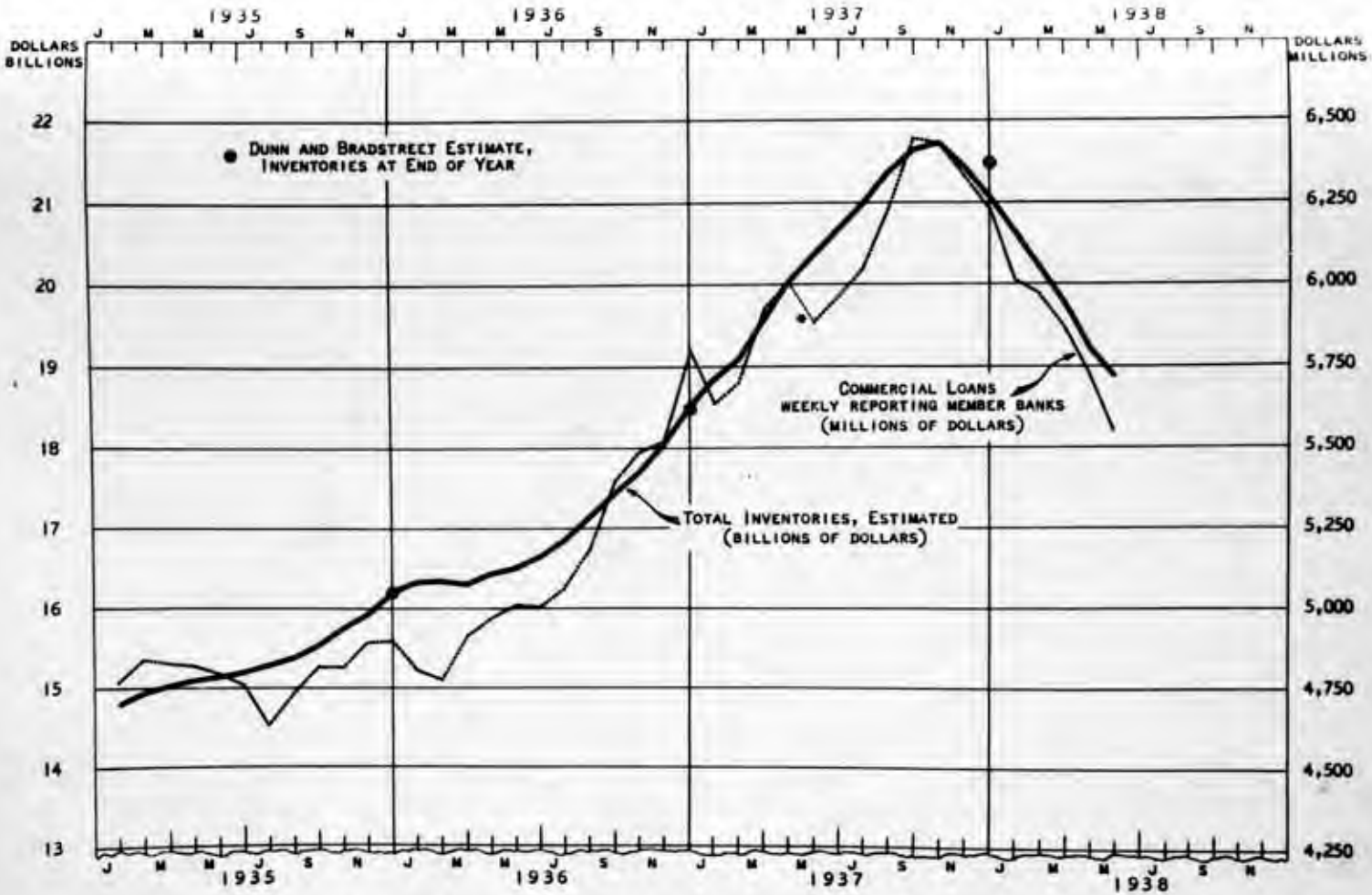
Chart 3

ESTIMATED CORPORATION INVENTORIES AND COMMERCIAL LOANS
At End of Month



*CHANGE IN COMPOSITION OF SERIES ON COMMERCIAL LOANS BEGINNING MAY 1937

Chart 4

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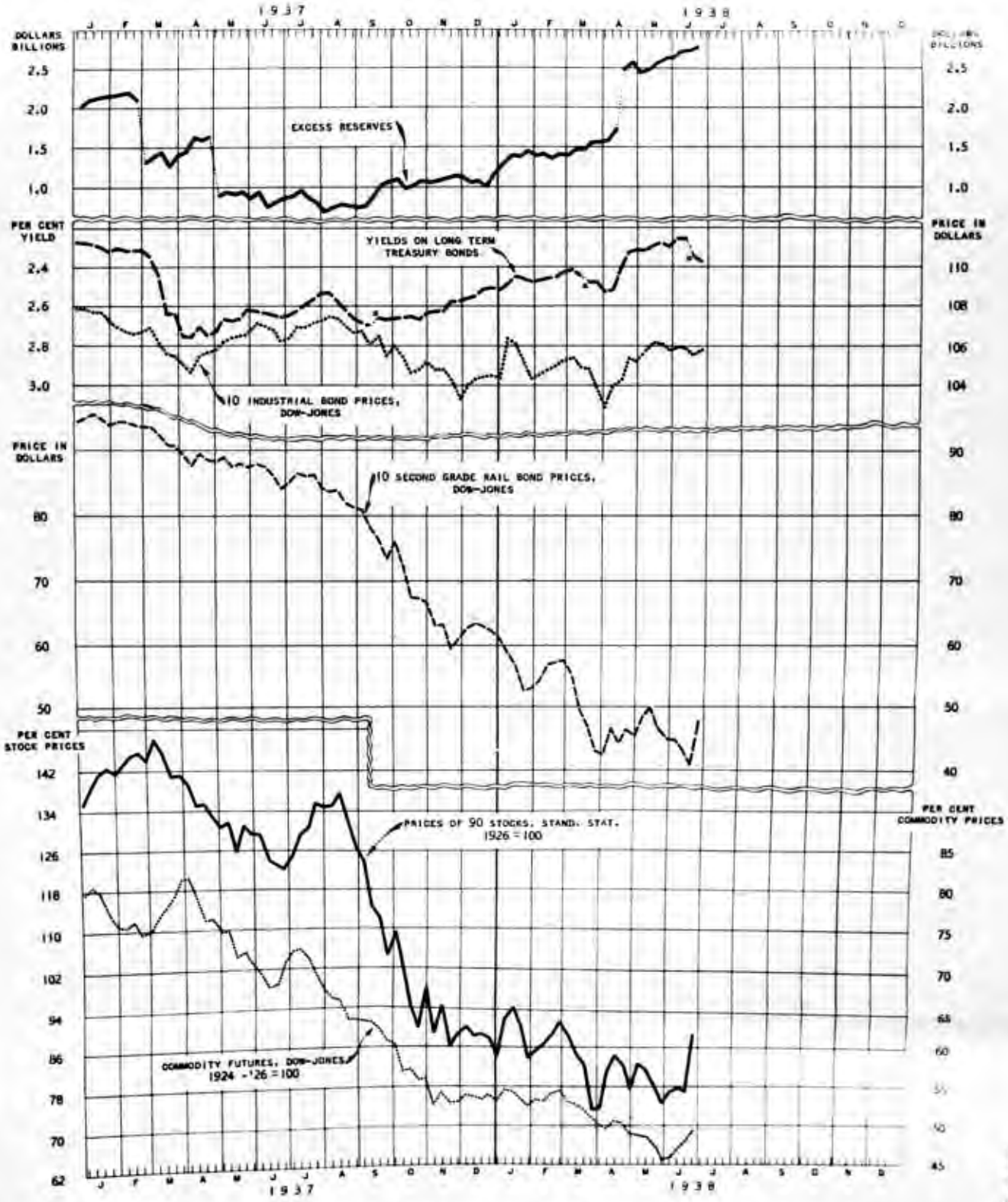
EXCESS RESERVES, SECURITY PRICES AND COMMODITY PRICES
Weekly



*Change in composition of index.

Office of the Secretary of the Treasury
Division of Research and Statistics

P-166

June 29, 1938.

Dear Mr. Butterworth:

I want to acknowledge your letter of June 15th, and thank you for the interesting summary of the British financial position which was enclosed therewith. I shall read this with close attention, and shall see that others in the Treasury have an opportunity to study it also.

As I wrote you recently, we now expect to sail on the 16th, and we are looking forward to our vacation abroad.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable W. W. Butterworth, Jr.,
Second Secretary,
Embassy of the United States of America,
London, England.

800/mr/db

For Harry White to study and return to my files HMJ

316
~~240~~

LONDON, June 15, 1938.

Dear Mr. Secretary:

I thought it might be useful to draw up a summary of the British financial position with a view to evaluating future trends and I venture to send you a copy.

Needless to say, I continue to hope that you may yet find it possible to come over this summer.

With kindest regards,

Sincerely yours,

Walter Runciman

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

MEMORANDUM

American Embassy, 317
London,
June 10, 1938.

THE BRITISH FINANCIAL OUTLOOK.

The United Kingdom, in common with other European countries, is now faced with what might be described as a race in exhaustion or a financial endurance test. In spite of Great Britain's wealth and resources a problem of the first magnitude is rapidly developing.

As its contribution to the armament race now in progress, Great Britain has undertaken a program involving an expenditure of over £1,500 million in the five years beginning April 1, 1937. Over £400 million of this amount is to be borrowed, the remainder to be obtained by taxation. Both these announced figures are already out of date, however, and no limit to the armament program and the expenditure which it will involve, can be envisaged. The task of raising the necessary money by borrowing and by taxation presents difficulties because, on the one hand the national debt is already very high, and on the other taxation is admittedly at a level crushing in its effect.

Up to the present the United Kingdom has been able to maintain almost complete freedom in the financial and economic spheres and any measures of drastic control would be unwelcome. There are, however, disadvantages in economic

and

and financial freedom as compared with a totalitarian system, when a supreme effort is called for, especially if the trade cycle is on the down swing. Circumstances may compel the United Kingdom to face up to the unpalliatable question - is the degree of economic and financial freedom which still prevails a luxury which, in the circumstances, she cannot afford indefinitely?

The trade recession which began to be evident in the United Kingdom in the autumn continues. Up to a few weeks ago there had always been the hope that some stimulus, political, economic or American, might turn the tide, but these hopes are now dwindling and the Stock Exchange, the business man and the Government are evidently beginning to make their calculations on the basis of a continued business decline, with no such quick release from the impasse. Unemployment is mounting and will increase the costs of Government, profits are falling and will curtail tax yields, exports are declining and widening the trade balance deficit, income from invisible exports is declining, and wages remain rigid and industrial costs high. Such advantage as comes from more favorable terms of trade is more than offset by the difficulties of competing in export markets, while such stimulus as the armament program gives to industry is too concentrated in a few trades to counteract the decline in general industrial activity.

The present economic situation bears certain resemblances to that of 1931, when many of the influences enumerated above were operative, so that the question naturally arises whether the United Kingdom can again

employ

employ successfully measures similar to those used in 1931. The answer to this is that in 1931 there were available a number of "resources" which have now been used up and cannot be tapped again. They were:

1. High interest rates then prevailed which allowed the introduction of a cheap money policy. The great conversion of 1932 not only effected a saving of some £50 million in interest charges, thus materially reducing the total Government expenditure, but also acted as a tremendous stimulus to the economic body. The efficacy of the cheap money policy as a stimulant is exhausted and meanwhile its continuance has become an economic necessity. It revived the patient but has now become as a drug habit; remove it and the patient's discomfort will become acute.

2. A building boom was then latent, waiting on cheap money and created by the combination of a war-made housing shortage and an aroused social conscience with regard to decent housing. By means of subsidies the Government had stimulated house building to a point where about 200,000 homes per annum were being constructed. After 1932 the figures increased rapidly to 300,000 and 350,000 per annum, while subsidies were gradually given up. From 1919 through 1937, 3,500,000 houses had been completed. The building boom stimulated many ancillary industries, structural steel, and other building materials, furnishings, etc. etc. The boom has now past its peak and contraction has begun. The housing shortage, though not

not entirely overcome, bears no comparison with that which existed in 1932.

3. An over-valued currency was suddenly depreciated by nearly 30 percent* with no shock to the confidence of British nationals in their currency or in the credit of their country. The advantages to the export trade were enormous while the cost of living in terms of sterling remained almost stationery; the British market was so great that the depreciation of sterling, instead of raising internal prices, pulled down world prices. Resort to further currency depreciation would now carry the danger of dragging other countries into a depreciation race. The world, not excluding the United States, is now depreciation-conscious and the United Kingdom cannot again expose the United States and others to a squeeze such as was submitted to between 1931 and early 1933. The United Kingdom had learned the advantages of currency depreciation without panic from the French experience of 1928 but in turn she has taught the world this lesson and she is not free to try this expedient again with success, except in very gradual and relatively imperceptible doses.

4. A free trade country in a world of protection by adopting a general tariff could gain immediate short-run benefits by handing to British producers the home market, at the same time righting the balance of payments. The long

* i.e. The drop from par ($4.86) to $3.50 which was the average rate in 1932 (as given in the Federal Reserve Bulletin) or 28%.

long-run disadvantages of a high tariff - and the British Tariff is high - are only just beginning to show themselves and resort to a still higher tariff would carry grave disadvantages, because either wages would rise and force up costs to the detriment of the export trade, or real wages would fall and curtail effective consumer demand in the home market. Furthermore, tariff increases breed retaliation and Great Britain depends on overseas markets for the absorption of a very large proportion of her production. It was estimated that in 1924 the United Kingdom exported 27 percent of her production of moveable goods*, (as compared with 30 percent in 1913). Though under the protection of the Tariff Act of 1932 the proportion has fallen to a point between 15% and 20% in 1937**, export markets remain of paramount importance to a number of the major industries of the country. The cotton industry, which still furnishes the largest item in British export trade, cannot enjoy prosperity unless exports expand. In 1924 about 85 percent of the 5,426 million yards of cotton cloth produced in Great Britain was exported, the home market taking only about 800 million yards. The lesser percentage exported today, (66%), is in part a reflection of that industry's acute depression, because the small increase, from 800 million yards to 1,036 million yards between 1924 and 1935, taken by the home market by no means makes up for a drop in exports from 4,627

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* A. W. Flux, in a Paper read before the Royal Statistical Society.

** Rough preliminary estimate of the Board of Trade.

4,627 million yards to 2,013 million yards. About 30 percent of the 267 million tons of coal produced in 1924 was exported and though home consumption has increased from 180 to 185 million tons since that date, the coal industry feels acutely the fall in exports from 84 to 56 million tons in 1937. The Balfour Committee estimated that 30 percent of machinery produced in 1924 was exported and about 34 percent of iron and steel production; though the home market takes more of these products at present it is still true that the difference between prosperity and depression for all these basic industries lies in the condition of export markets.

5. There was considerable scope for the "economy axe" in 1931. There is some scope for economy now, especially in local Government costs, but the greater consciousness of the deflationary effect of contracting public works programs during a business recession stands in the way of any material reduction, while armament needs will heavily outweigh any attempts at economy.

6. A Labor Government had been in power for two years in 1931 and its replacement tended to create a greater degree of confidence. A Cabinet more likely to command confidence in British finance than that now in power is hardly conceivable.

These "resources" have all been used, admittedly with great skill, and together they brought a recovery which in early 1937 exceeded the 1929 levels.

But

But more important than the lack of these used resources is the difference in the outlook. In 1931 the United Kingdom looked forward to peace and in 1938 she looks forward to probable war and certain exhausting armament expenditure. Furthermore, in 1931 the position in the trade cycle was at the bottom with revival on the horizon; today the down-swing of the trade cycle has begun.

In the absence of the expedients, so skilfully used to bring the United Kingdom out of the crisis of 1931, the single task of arresting the present recession or of bringing the country out of a more serious depression would be a difficult one in itself. On the other hand, even if trade were expanding the financing of the rearmament program would place heavy burdens on British financial resources. But with the peak years of crippling armament expenditure falling during a trade recession the acuteness of the present problem for the United Kingdom is manifest. Armament expenditure is thus imposing a financial strain unprecedented in peace-time. The strain may be seen at three points.

1. The burden of taxation in relation to the national income.

2. The growth of the national debt in relation to British credit.

3. The liabilities of London as a short-term borrower in relation to the maintenance of confidence in sterling in the face of an increasing debit in the balance of payments.

To

To predict how soon or on which of these three fronts the strain will reach the danger point would involve assessing a number of imponderables, but an examination of the present status and the certain and probable trends may well be attempted.

1. The Burden of Taxation.

Government expenditure, including local government costs, took over 20 percent of the national income in 1937. What the proportion will be in 1938 it is not possible to estimate because both items in the equation are unknown, but the direction of the trend is certain. National income will be less than in 1937 and expenditure will certainly be more. It seems relatively safe to place the proportion of the national income which will be required for Government purposes at around 25 percent or more in 1938 and it will be much more if, as appears likely, no signs of recovery emerge by the autumn of this year.* In the absence of any recovery this year, tax yields in 1939-40 will fall heavily; unless budgets are further unbalanced, increased rates of taxation, and/or new forms of raising revenue, may have to be considered. But the question arises, what is the psychological limit of taxation beyond which enterprise may be discouraged to an extent that may reduce tax yields?

It seems safe to hazard an opinion that this limit has already been reached. It was logical for the Chancellor

* Table No. 1 in the Appendix gives details of Expenditure and National Income for a number of years.

Chancellor of the Exchequer to raise the income-tax in his recent budget in order to collect at a high rate on the particularly good income of the fiscal year ended March, 1938, and to reserve his borrowing resources to be used more fully in following years when taxable income will fall with falling profits. Because the present rates of taxation may be expected to have an increasingly deflationary effect on enterprise if trade further declines, additional drastic increases would probably defeat their own ends and are unlikely to be imposed except in the event of war. The British standard rate of income tax is now 5s. 6d. in the £, only 6d. less than the highest rate, 6s. which prevailed from 1918 to 1922. When the World War broke out, the rate was 1s. 3d. in the £. It was immediately doubled in the Second Budget of 1914 to 2s. 6d. So far as the level of taxation is concerned, the United Kingdom, now preparing for the next war, stands about where she did at the end of the last war.

2. The National Debt.

The United Kingdom has inherited a national debt of close on £8,000 million from the World War. Some reductions were made by revenue provision for sinking funds and by the use of revenue surpluses in many of the post-war years, but the total has never fallen below £7,400 million, and has been rising again since 1931.*

The

* Table No. II in the Appendix gives particulars of the National Debt in 1924, and 1931-38.

The abandonment of the gold standard in 1931 and the depreciation of sterling did not result in the reduction in the total of the national debt in terms of goods and services which currency depreciation usually affords, because, instead of the expected marked increase in prices, there followed a fall in world prices which equalized any depreciation of sterling and left the level of sterling prices practically unchanged. The United Kingdom, therefore, starts her preparations for the next war about where she left off at the end of the last war so far as the volume of her national debt in terms of goods and services is concerned.

The gross national debt on March 31, 1938, stood at £8,026 million. To this should be added another £1,357 million of local Government debt, making a total of £9,383 million or some £200 per head of population*.

Though the budget estimates for 1938-39 require an addition of only about £65 million in the national debt during the current year, the augmented armament plans announced immediately after the acquisition of Austria by Germany may more than double this figure, and will increase the amounts which must be borrowed in the years immediately following by further substantial sums. The expansion

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* The Economist in its budget supplement to the issue of April 9, 1938, suggests that it is more "realistic" to exclude the external debt (£1,032 million on March 31, 1938), since this is offset by assets in the form of loans to Dominions and former allies, and also to exclude certain other assets estimated at about £500 million on March 31, 1937, (and £700 million on March 31, 1938), consisting chiefly of the funds of the Exchange Equalization Account, Suez Canal shares, etc. Similar deductions might also be made in the case of the debts of local authorities which would reduce the per capita net liability of the State to something like £150.

expansion of the national debt will be further hastened if taxable income shrinks rapidly after 1938-39 as a result of a sharp fall in trade in the autumn and next year.*

Though the taxpayer's burden for interest on the national debt, now placed at £230 million for the current year, is some £57 million less than before the great conversion of 1932**, much of the saving of that conversion (about £30 million) has been absorbed in the growing expenditure on the social services, any material reduction of which may be considered as politically impossible. Moreover, the interest burden on the debt must increase as the total size of the debt grows and though this increase in the burden may not be rapid because of the developed technique in the use of the Treasury Bill together with the Treasury's influence on the gilt-edged market, the substantial growth in the national debt, which must be expected, will necessitate the most careful handling. The maintenance of confidence in the credit of the Exchequer is all important and becomes an increasingly delicate problem with every addition to the total of the debt. It may be asked at what point the national debt may reach a psychological limit where confidence in British credit would begin to deteriorate. For reasons explained on a later page*** there would seem still to be room

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* The raising of £400 million during 1937-42 is already provided for in the Defense Loans Act of 1937. Government spokesmen have stated that substantial further amounts will be borrowed. £100 millions have already been raised on long-term, and the £88 million revenue surplus has been allocated for this purpose.

** Table No. II contains details of National Debt changes and shows the amounts "saved" by the cessation of payments on the United States Government Loan, as well as by the reductions in interest on the internal debt.

room for considerable expansion of the total debt, the interest burden on which could be kept relatively small.

3. London's Liabilities as a Short-Term Borrower.

Although the United Kingdom is a large creditor nation with estimated overseas long-term investments in 1936 (Kindersley) of about £3,364 million (as compared with Paish's estimate of 1911 of £3,715 million) she has changed her position as international banker from one of lender to one of borrower. The amounts loaned in the financing of foreign trade have contracted, increasingly so since the spread of exchange and barter agreements, while in the field of deposit banking she has developed a large and growing liability. Her position as a short-term borrower arises from the fact (a) that London is the center of the sterling area, and (b) that London and sterling command confidence. The short-term position, however, increases, apart from the fluctuations of "hot money" holdings and the London balances of sterling-area countries, because of the persistent passive balance of payments.

What may be called the short-term position of London is impossible to measure. Refugee funds and the sterling balances of sterling-area countries exist in various forms, including Treasury Bills, call and short notice loan money in the discount market, investments in gilt-edged securities and deposits in banks, while in the case of refugee funds there are also gold hoards and large amounts invested in gold mining stocks and other industrial securities, and in foreign and colonial Government loans

issued

issued in London. Though some of these funds are technically long-term investments they are all similar in that they are readily convertable into sterling and immediately withdrawable across the exchanges.

The sterling balances of sterling-area countries may be roughly estimated at about £400 million or upwards* but there is no figure available for the total of refugee funds which make up a large and widely fluctuating proportion of the total short-term position.

Though we cannot estimate London's liabilities on short-term, we can conclude that there has been a secular increase in these funds since 1932 because the balance of payments has shown a constant deficit over this period which could only have been equalised by capital movements either long or short-term. If table No. 3 in the Appendix is studied, in which are shown figures for the balance of payments together with Sir Robert Kindersley's estimates of long-term capital movements, it will be seen that roughly some £876 million unaccounted for capital must have found its way into the United Kingdom between 1932 and 1937 inclusive. Meanwhile, gold imports during that period totalled some £721 million. The total gold in the Bank of England at 140s. per ounce was £537 million on the 30th September, 1937, and that in the Exchange Equalisation Account was £279 million. In addition there were gold hoards in London standing at something like £130 to £200 million.**

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* Bank for International Settlements Eighth Annual Report, p.63.

** This is a very rough approximation based on the figures mentioned in the Bank for International Settlements Eighth Annual Report, pp. 45 and 47. Changes since September 1937, in all these figures render the estimates out of date but no later figures are available. The gold hoard figures are very rough approximations in any case.

with the balance of payments certain to show a deficit in the current year and probably in future years so long as the armament race continues, the question is beginning to be asked, - "will the reserves and technique of the Exchange Equalization Account prove adequate to maintain confidence in sterling?" Some misgivings have recently become evident, especially since the speech of the President of the Board of Trade in the House of Commons on May 24, but because of the skilful handling of the exchange situation up to the present it seems safe to expect that the authorities will be able to maintain confidence in sterling even if the trade recession develops into a major depression. But with the export trades showing no recovery, while the minimum food and raw material requirements and the needed armament materials keep imports at a high level, the strain will increase and the management of the exchange position will become increasingly difficult.

To sum up, the financial situation of the United Kingdom presents an acute problem because the country is confronted with the peak years of crippling armament expenditure at a time when the decline of trade is (a) hastening the arrival of the psychological limit of taxation, (b) thus forcing an expansion in the already high national debt to a level that may threaten the credit of the Treasury and (c) widening the deficit in her balance of payments to a point that may bring a break in the stability of sterling.

What are the factors which are available to help the United Kingdom to keep these three wolves from the door?

1.

1. Probably the greatest asset is the national character. British nationals will bear a greater burden of taxation than could be imposed in any other Democratic country. They have a natural faith in British credit and in sterling. They also have a most valuable capacity of giving a united response to a call for supreme effort when they feel that the interests of their country demand it and their leadership is responsible and skilful.

Two other assets lie in the development which has taken place since 1931 in the Treasury's management of financial and monetary policy. This development gives:

2. The technique and resources of the Exchange Equalization Account recently tested by the withdrawal from London of some £70 million of French funds in about ten days with no appreciable disturbance to the exchange and money markets. This demonstration of skill and strength has fortified the already existing confidence in sterling even in the face of a growing deficit in the balance of payments and

3. The British Treasury's post-1931 development in the control of money rates which enables the authorities to maintain cheap money in the short-loan market which can absorb large issues of Treasury Bills; this empowers the Government to finance its needs cheaply and to wait for the best possible moment to issue such long-term loans as must be floated. This power, together with the growth of various Government Department funds* managed by the national debt commissioners which gives a strong weapon by

* Unemployment and Health Insurance funds, Pensions and Savings Bank funds and the government securities in the Issue Department of the Bank of England, together constitute nearly one fifth of the outstanding internal long-term debt. (Westminster Bank Review, May, 1938).

by which the gilt-edged market can be influenced, renders possible the task of raising further loans, at relatively cheap interest rates.

Though, as mentioned above, the total debt in terms of goods and services was not reduced by a price rise in 1931, the great conversion of 1932 did reduce the interest burden very drastically and though the long-term interest rate has risen irrespective of short-term rates, it is still relatively low. It has been as low as 2 3/4 per cent and today stands at only 3 3/8 percent. Furthermore, the Government can use the Treasury Bill for meeting its needs to a very substantial extent. There is a tradition that the Treasury Bill issue should not go above £1000 million but there is no compelling reason why this limit should not be exceeded. The Treasury Bill issue now stands at £880 million and includes such Treasury Bills as are held by the Exchange Equalization Account. With the short loan rate at one half percent and with the Treasury's powers to maintain the rate down at least to that level, the financing of the rearmament program need not bring excessive burdens in the way of increased interest rates,. No doubt some longer term issues will be floated, but a borrower who can wait for an opportune time and who holds a fifth of the securities in the market, can borrow with great advantage.

4. British nationals still own some £3,700 million of overseas long-term investments*. Though any liquidation of

* Table No. 4 in the Appendix gives Kindersley's estimates of nominal capital, repayments and new overseas issues since 1929.

of these resources tends to curtail the income received from them, (the most important invisible export item), these investments constitute a layer of fat on which the United Kingdom could live for sometime so far as her balance of payments position is concerned.* Though the bulk of these investments are in sterling securities, Kinderaley estimates that some £600 million consisted (December 1936) in securities readily marketable on overseas stock exchanges . Such investments constitute an offset against overseas ownership of sterling securities readily marketable in London. This form of overseas investment is now being allowed to be increased, possibly with a view to the use of such funds in an emergency for obtaining foreign exchange in the manner so successfully carried out during the World war.

As a means of arresting the trade decline these resources are not comparable with those which were available in 1931. Apart from the overseas investments, they are, in short - monetary technique and confidence.

In other words, the British financial ship is a stout and well-found vessel; her rigging and gear are sound and of good quality and her master is a skilled mariner, but she is over-loaded with an excessive burden of expenditure and, since last autumn, she has been sailing, not only without favorable winds, but into the head-winds of a trade recession which threatens to develop into a tempest of deep depression. This storm may prove dangerous in her over-loaded condition and she may have to call

all

* Table No. 5 gives such data as are available of the geographical distribution of British capital invested abroad.

all hands to make a supreme effort and to submit to the discipline essential in an emergency.

The question inevitably arises as to the probable character of such an emergency. There is, of course, the possibility of war, but to predict the course of British financial developments in that event lies beyond the scope of this memorandum. There is the certainty of the burden of the arms race, the end of which is not in sight. This burden will also be conditioned by the trade trend, which in turn depends to a large extent upon developments in the United States during succeeding months. If the beginnings of a real recovery appear in America, the situation in Great Britain will be eased and the day when the financial problems of the United Kingdom become acute will be correspondingly postponed. But if no adequate stimulus comes from the United States, there is every reason to expect a sharp drop in the curve of British business activity which hitherto has been falling only gradually. Unemployment, which now stands at 1,748,000, would rise to say 2,000,000 by the end of the year, (the level of 1934 and 1935). A growing plethora of funds would accumulate and lie idle in the banks, with new industrial investment confined to the narrow field in which armament activity affords a stimulus.

Meanwhile, wage rates would show the usual resistence to reductions, and there would even be a tendency for special key sections of armament workers to press for and obtain higher wages, with resulting further disequilibrium throughout the economic body. High costs would continue to hamper the export trades, and the snowball would roll on.

The

The combination of unemployed workers and unemployed capital would result in growing political pressure for action on the part of the Government, which is now committed against a policy of expanding public works. This political pressure might well become irresistible.

What form of action would be likely? The obvious step is a vast public works program along the lines of the American example. This would provide a certain amount of employment, taking up some of the slack in the construction industries which is developing as housing activity slows down, and it would tend to maintain internal purchasing power to a certain extent. But a public works program would not help the great export industries, where unemployment is extensive: cotton weavers cannot be put to building roads, nor can public works be exported to pay for essential imports. Likewise such a program would not be complimentary to an armament program as a stimulus to general activity, but would at many points interfere with it. The armament program would always have prior claim to funds, and though a plethora of idle money would render the raising of the necessary loans cheaper than in a time of industrial expansion, the rate of growth of national and local debts would have to be carefully watched.

That some expansion in public works would be resorted to is to be expected, but it is likely that any such program would be of a limited character and at the same time be accompanied by other measures.

In general, conditions would tend to emphasize certain disadvantages of a free economy, and the fact that the totalitarian system affords certain outstanding advantages would have to be faced.

The

The Totalitarian state maintains a rigid control of prices and wages. Armament costs can thus be kept at a minimum and also a given standard of living reasonably well maintained, while any powers of increased production resulting from invention or organization can be directed to the development of the military machine. Whatever the consequences may be in the long-run, in the short-run the totalitarian state can prevent an uneconomic policy from producing reactions which are inevitable to the economic and financial fabric of a free economy. Furthermore, because it controls investment the totalitarian state can keep capital employed. By its control of wage rates it relieves the entrepeneur of one of his chief uncertainties, while the whole system of economic control, if skilfully managed, affords a relative stability of purchasing power. Thus a constant and persistent profit margin is virtually assured to any reasonably efficient enterprise. Though profits may be limited by other measures of control to specified levels, the relative certainty of some margin of profit, even if it be small, is a stimulus to productive effort which stands out in contrast to the conditions which prevail in an uncontrolled economy when in the throes of a trade recession with its characteristic snow-balling influences of growing unemployment, declining purchasing power and an accumulating plethora of funds which, by seeking liquidity, tend to avoid the risks of productive investment.

The

The power of the totalitarian state to force available funds into employment constitutes the advantage which would become most striking if a major depression develops in the United Kingdom and it is not inconceivable that in the absence of some recovery in the autumn, the British Government may be forced to consider control in the field of investment before the end of 1939. This might take the form of the establishment of an investment board, or the use of the already existing British Industrial Development Company, which was established by the Bank of England in 1930 to assist the basic industries to raise the necessary capital for rationalization, and later floated the Lancashire Cotton Corporation Loan, and the National Shipbuilders Securities Company loan. The basic problem would be to force idle funds into employment: not only to provide work by means of public works, but also to help the important branches of the export trades. Furthermore, developments along the lines of pool b vies to subsidize certain exports are possible. The coal industry with its central selling scheme, and the b gislation now being drafted for the cotton industry suggest the possibility of developments in this direction.

Whether such developments would be followed by other measures bearing a resemblance to those typical of a totalitarian system is a question which it would be foolish at this time to try to answer. Bearing in mind the magnitude of the task, and the importance of export trade to British economic well-being, the future must be regarded

as holding possibilities which even a year ago would have been unthinkable. In any case "prophesy is a knave's business and a fool's paradise."

W S Bullenwa

TABLE NO. I

RELATIONS BETWEEN NATIONAL INCOME AND GOVERNMENT EXPENDITURE

OF THE UNITED KINGDOM.

£ Millions

Period*	1 National Income	2 Gov't Expedtr.	3 Local Gov't Expen-tre.(g)	4 Total Cols. 2&3.	5 4 as % of 1	6 Exped-tr. on Defence	7 6 as % of 1.	8 Nat-ional Debt Ser-vices.	9 8 as % of 1	10 Social Services (j)
			(1913)					(1913)		
1911-13	2,241[a]	165	79	244	10.9	73	3.3	24	1.1	
1924	4,035[b]	745	160	905	22.4	115	2.9	357	8.8	272 (1930
1929	4,384)	771	176	947	21.6	113	2.6	355	8.1	
1932	3,844)	800	164	964	25.1	103	2.7	309	8.0	
1933	3,962)[c]	719	167	886	22.3	106	2.7	224	5.6	
1934	4,238)	735	174	909	21.5	114	2.7	224	5.2	
1935	4,530)	776	184	960	21.2	137	3.0	224	4.9	327
1936	4,850(d)	830	192	1022	21.0	186	3.8	224	4.6	
1937	5,200(d)	908[e]	197	1105	21.2	270[i]	5.2	227	4.4	345[k]
1938	(5,000)(d)	1034[f]	208[h]	1242	24.8	354[i]	7.1	230	4.6	344[k]

* National income for calendar year. Government expenditure for year beginning April 1st.

(a) Professor Bowley.
(b) Bowley and Stamp.
(c) Colin Clarke - "National Income & Outlay" - as quoted in Economist.
(d) Economist rough estimate - Budget Supplement to April 9, 1938, issue.
(e) Including £64 million of borrowed funds.
(f) Including £90 million to be borrowed. Budget estimate.
(g) Rates collected by local authorities, as shown p.10, of Financial Statement 1938-9.
(h) Estimate of J.S. Johnstone in Daily Telegraph of May 16, 1938.
(i) Including Air Raid Precautions, etc., and borrowed funds.
(j) National and local Government expenditure on Unemployment, Health and Pensions Insurance, Old Age Pensions, Housing, Education, Poor Relief and health Services, etc. (Further sums, not included in these figures, received from contributions, rents, fees, etc., are expended, but measure the degree to which these services are self supporting). These figures have not been compiled for all years on the Table as they involve considerable calculations.
(k) Rough Estimate - figures not yet available.

TABLE NO. II

UNITED KINGDOM NATIONAL DEBT AND CHARGES THEREON.

Millions of £

Year Ended March 31.	1924	1931	1932	1933	1934	1935	1936	1937	1938.
Funded Debt	980.3	1,430.0	1,467.1	3,376.3	3,374.3	3,368.1	3,366.5	3,344.9	3,344.5
Terminable Annuities	13.5	12.0	11.7	11.9	12.1	12.1	12.1	12.1	12.0
Internal Unfunded long-term Debt.	4,786.5	4,431.7	4,375.8	2,508.7	2,677.4	2,671.7	2,719.1	2,806.5	2,892.5
TOTAL INTERNAL LONG-TERM DEBT	5,780.3	5,865.7	5,854.6	5,896.9	6,063.8	6,051.9	6,097.7	6,185.5	6,249.2
Floating Debt	774.5	594.3	612.0	810.5	844.7	853.4	782.2	496.1	541.5
Treasury Bills.	588.3	569.8	604.5	775.9	799.8	799.3	763.1	874.6	828.7
Ways & Means Advances	186.2	24.5	7.5	34.6	44.9	54.1	19.1	23.5	13.1
TOTAL INTERNAL DEBT	6,554.8	6,463.0	6,466.6	6,707.4	6,908.6	6,885.6	6,879.9	6,853.9	7,111.8
EXTERNAL DEBT	1,125.8	1,066.7	1,090.8	1,060.4	1,036.5	1,036.5	1,036.5	1,032.6	1,032.5
TOTAL DEADWEIGHT DEBT	7,680.6	7,529.7	7,557.4	7,767.8	7,945.2	7,922.1	7,916.4	7,916.5	8,144.1
Victory Bonds, etc. held by National Debt Commissioners (deduct)	39.6	116.4	123.5	124.0	122.9	121.7	120.6	119.3	118.0
Accrued Interest on Savings Certificates (add)	80.9	124.5	98.0	90.5	98.5	107.3	116.3	124.0	N.A.
NET TOTAL DEBT	7,721.0	7,537.8	7,531.9	7,734.3	7,920.8	7,907.7	7,912.1	7,921.2	N.A.
Net Indebtedness of the State (as estimated by the Economist by deducting: External Debt	6,483.6	6,308.3.	6,192.5	6,260.5	6,263.6	6,254.1	6,365.5	6,388.9	N.A.
and Estimated Assets, including	1,125.8	1,066.7	1,090.8	1,060.4	1,036.5	1,036.5	1,036.5	1,032.6	1,032.5
Exchange Equalization Account	111.6	168.8	248.5	413.4	620.7	617.1	610.1	499.7	N.A.
Suez Canal Shares	---	33.1	25.0	175.0	375.0	375.0	375.0	375.0	375.0
Other	22.4	42.7	53.9	65.6	68.7	93.2	88.3	78.6	N.A.
	991.8	93.0	170.7	172.8	157.0	48.9	46.8	46.1	N.A.
TOTAL DEBT SERVICES	347.3	360.0	322.0	308.5	224.0	224.0	224.0	224.0	226.7
Interest	305.8	291.8	287.6	280.1	215.2	210.7	210.5	209.8	216.2*
on Saving Certificates	7.2	16.1	15.3**	15.0**	11.1	9.0	8.9	9.4	N.A.
Treasury Bills	17.4	12.5	20.7	5.9	4.1	3.5	3.5	3.8	N.A.
Other Internal	251.6	235.9	238.1	239.3	196.7	198.2	198.1	196.6	N.A.
Total Interest on Internal Debt.	276.2	264.5	274.1	260.2	211.9	210.7	210.5	209.8	216.2
On U.S. Loan	29.6	27.3	13.5	19.9***	3.3****	-	-	-	-
Management and Expenses	1.5	1.3	1.9	2.1*****	1.1	1.0	1.0	1.1	[illegible]
Sinking Fund.	40.0	66.8	32.5	26.3	7.7	12.3	12.5	13.1	10.6

* The £216.2 million includes management. Budget Estimate for this figure for 1938-9 - £230 million.

** Exclusive of £8,430,922 in 1931-2 and £2,655,955 in 1932-3 paid as interest on Savings Certificates in excess of provision in the permanent debt charge.

*** This represents the portion of the total amount paid to the U.S. on December 15, 1932 (£28,956,349) which under normal conditions would be treated as interest. H.M. Government reserved the right to treat the whole sum as capital repayment in any final settlement.

**** Pending revision of debt agreement, this "token" payment was made.

***** Excluding expenses of Conversion of 5% War Loan of £23.2 million.

SOURCE: Compiled from Finance Accounts of the United Kingdom for the various years - and the Economist Budget Supplement to April 9, 1938, issue, and Financial Statement 1938-39.

N.A. Not available

TABLE NO. III

Millions of £

	Board of Trade Estimates			Kindersley's Estimates		
	Balance of payments. Mdse. & Services	Gold Movements Exports & Imports	Balance including Gold	Long-term Capital Movements. Net Exports. - Imports+	Net movement of British Capital Invested in Overseas Stock Exchanges Export of Capital- Import of Capital+	Net balance which must be accounted for by Other Capital Movements (Including Direct Investments)
1929	+103	+15	+118	-47	No Est.	----
1930	+ 28	- 5	+ 23	-59	+-0	- 36
1931	-104	+35	- 69	-14	+10	- 73
1932	- 51	- 15	- 66	+ 11	+ 5	- 50
1933	+- 0	-196	-196	- 16	+ 3	-209
1934	- 7	-133	-140	-21	-18	-179
1935	+ 33	- 70	- 37	+ 30	-50	- 57
1936	- 19	-228	-247	+ 46	-50	-251
1937	- 51	- 79	-130			-130*
				-Estimates Not Available-		
Total 1932-1937 inclusive	- 95	-721	-816	+ 50	-110	-876
				New loans Issued in London, Less repayments.	Securities not quoted on the London Stock Exchange Purchased and sold	

*Assuming that net movement of long-term capital is equalized by net flow of British investments to overseas stock exchanges, in 1937.

TABLE NO. IV

BRITISH OVERSEAS LONG-TERM INVESTMENTS

Sir Robert Kindersley's Estimates. Millions of £

Nominal Capital	1 Government & Municipal Loans.	2 British Companies Operating abroad.	3 Companies Registered Abroad.	4 Total of Columns 1, 2 & 3.	5 Unquoted Securities.*	6 Total of Columns 4 and 5.
1907**				2,700		
1911	1,107	--- 2,608	---	3,715		
1929	1,412	1,187	839	3,438	300	3,738
1930	1,437	1,205	783	3,425	300	3,724
1931	1,441	1,210	759	3,410	290	3,700
1932	1,432	1,204	719	3,355	285	3,640
1933	1,479	1,210	695	3,386	282	3,668
1934	1,499	1,228	688	3,410	300	3,714
1935	1,503	1,236	698	3,437	350	3,788
1936	1,441	1,220	703	3,364	400	3,764
Repayments.					Net Change.	
1929	30.4	8.5	9.6	48.5	(No estimate)	
1930	19.7	9.5	9.7	38.9	No net change	39
1931	16.3	4.9	5.6	26.8	-10	37
1932	39.7	4.5	5.6	48.1	-5	53
1933	49.4	7.8	9.6	66.8	-3	70
1934	23.2	13.3	5.5	42.0	+18	24
1935	56.2	12.4	12.5	81.1	+50	31
1936	87.5	12.5	6.5	106.5	+50	57

	New Overseas Issues.	Repayments	Net Increase +, or decrease -, in British Investments Overseas.
1929	96	49	+47
1930	98	39	+59
1931	41	27	+14
1932	37	48	-11
1933	83	67	+16
1934	63	42	+21
1935	81	81	-30
1936	61	107	-46

* Rough Approximations only.

** Paish's estimates. Statist, February 14, 1914.

Source. Articles by Sir Robert Kindersley in the Economic Review, June 1933, September 1934 and 1935, December 1936 and 1937.

TABLE NO. V.

Geographical Distribution of £3,185 million in 1930, and £3,240 million in 1936 of Nominal British Capital Invested Abroad.*x

	Millions of £	
	1930	1936
British Dominions and Colonies	1,987	1,981
Europe*	248	236
South America	645	667
Argentina	360	372
Brazil	151	160
Chile	49	50
Other	83	85
Mexico** and Central America	50	52
United States***	31	81
Cuba	(Not shown separately)	27
Japan	63	53
China	40	41
Rest of the World****	76	102
Foreign Countries	1,198	1,259
Total	3,185	3,240

*x "The total nominal amount of U.K. Capital invested in Overseas Government and Municipal loans and in all securities quoted in London of companies operating abroad is estimated to have amounted to £3,364 million at the end of 1936.

A number of important British companies operating abroad possess assets widely spread in various forms throughout the world. In consequence, a territorial classification of these assets is not readily possible. Companies of this description are therefore excluded from the geographical table given (below,) which deals with a nominal capital of £3,240 million

Companies registered abroad have in the main been assigned to the countries in which they are registered." (Kindersley).

* Turkey as a whole included.

** Total for Mexico would be considerably more if capital long in default were included.

*** The total British long-term capital in the U.S., including subsidiaries and branches of British Companies, and securities not dealt in in the U.K., was roughly estimated at £200 million in 1930, and probably about £245 million in 1936.

**** Chiefly Dutch Malaya, Iran, Egypt, Iraq and Portuguese East Africa

SOURCE. Sir Robert Kindersley's article in Economic Journal, June 1933, and December 1937, p. 657.

EG

GRAY

Paris

Dated June 29, 1938

Rec'd 1:45 p.m.

Secretary of State,

Washington.

1025, June 29, 4 p.m.

FROM COCHRAN.

A further installment of about one hundred decree laws is published in the Journal Official of today's date as part of the fourth and last series. The most important of the financial measures provide for "open market" operations for an increase from 20 to 30 billion francs of the Treasury advance account at the Bank of France and for an increase from 3 to 4 billion francs of the limit of issue of the Bank of France.

In its accompanying report to the President of the Republic the Government recalls that for many years past the Central Banks in certain countries have been authorized to practice "open market" operations. It points out that capital movements on the Paris market during the last few years have revealed the utility of providing the Bank of France with greater freedom of action and more effective possibilities of intervention on the market. To this end the report continues

the

-2- #1025, June 29, 4 p.m. from Paris

the decree modifies the statutes of the Bank of France "to permit it to buy and sell negotiable short term bills and securities such as bank acceptances, government securities, national defense bonds, promissory notes, and short dated bills, issued by public collectivities."

(END SECTION ONE)

BULLITT

RR:WWC

RE.

GRAY

Paris

Dated June 29, 1938

Rec'd 3:35 p. m.

Secretary of State,

Washington.

1025, June 29, 4 p. m. (SECTION TWO)

In concluding its report the Government stresses that while this measure should substantially strengthen the efficacy of the discount policy on the money market, the purchase of negotiable securities by the Bank of France can not in any case be made for the benefit of the Treasury or public collectivities issuing those securities. The General Council of the bank is to fix the limits and conditions for open market operations.

It is explained that the decree relating to the increase of 10 billion francs in the advance account of the Treasury at the Bank of France ratifies a convention concluded between the bank and the Government following the granting of full powers to the Daladier Government on April 13 last. At that time the Government indicated that this additional facility

would

REB

2-#1025, From Paris, June 29,4p.m.
(Sec. Two)

would be utilized only to the extent "that normal loan operations did not provide necessary funds".

Other decrees of interest provide for the modernization and overhauling of hydro electric power plants and the creation of a "gold office" with a capital of 100,000,000 francs with the object of exploiting the gold production of the colonies notably Guiana.

BULLITT

WWC

KLP

PARTIAL PARAPHRASE, SECTION THREE, NO. 1025
of June 29, 1938, from Paris

According to press reports the "International Committee on Exchange" which met at Luxemburg last Saturday and Sunday voted the following recommendations:

(1) Maintenance of the most-favored-nation clause with a general exception permitting multilateral economic rapprochement.

(2) Active pursuit of the Anglo-American trade negotiations, embracing as many tariff items as possible.

(3) Practical application of the Van Zeeland report by the Governments at whose invitation it was made.

(4) General monetary cooperation on the basis of the Tripartite Agreement.

(5) Consolidation of clearing arrangements with the cooperation of states whose nationals hold blocked claims.

(6) Development of commercial credits either directly by central banks or through the B.I.S.

(7) Early removal of foreign exchange restrictions and replacement of clearings by direct payments.

(8) Extended use of multilateral compensation pending the removal of foreign exchange restrictions.

(9) Resumption of foreign investment by countries with capital reserves, guarantee syndicates being set up in the creditor countries.

L'INFORMATION, Paris remarks that the fact that Secretary Morgenthau is coming to Europe on a holiday should give the death blow to the declining rumor that serious

developments are facing the dollar.

At four o'clock this afternoon I had a talk with the Bank of France. Today a small amount of sterling around 177.88 was gained by the French control. However, it had to yield all this to purchase belgas for French railway maturities on the fourth of July; 8,000,000 more belgas were purchased for the Bank today by Guaranty. According to my friend, the story in the London FINANCIAL TIMES today that the new Paris discount company would attend to investing the short term funds of the French control is not true (reference my telegram No. 1020 of June 28).

END MESSAGE.

BULLITT.

EA:LNW

The memo which came with the financial report was detached and turned over to McReynolds, for the Legislative Section, on November 4, 1938. It was entitled "Transportation of Dependents and Effects of US Customs officers dying abroad"; dated 6/14/38, a memorandum to the Ambassador from Kennedy, Treasury Attache.

350

July 14, 1938.

10932

Dear Joe:

I find that your letter of June 30th, enclosing two memoranda and a financial report, has never been acknowledged.

The material you enclosed has had careful consideration, and I wanted to let you know that it had all been received here.

Sincerely,

Honorable Joseph P. Kennedy,
Ambassador Extraordinary and
Plenipotentiary,
Embassy of the United States of America,
London, England.

GMF/dbs

JOSEPH P. KENNEDY
30 ROCKEFELLER PLAZA
NEW YORK, N. Y.

June 30, 1938

Dear Henry:

Pierpont Morgan has the economic report which they are mimeographing. I am enclosing financial report and two memoranda which I spoke to you about.

Very sincerely yours,

Joseph P. Kennedy

JPK/b
Enclosures

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

Should be acknowledged by Jay or Haas - what let read jpk

MEMORANDUM

American Embassy,
London,
June 10, 1938.

THE BRITISH FINANCIAL OUTLOOK.

The United Kingdom, in common with other European countries, is now faced with what might be described as a race in exhaustion or a financial endurance test. In spite of Great Britain's wealth and resources a problem of the first magnitude is rapidly developing.

As its contribution to the armament race now in progress, Great Britain has undertaken a program involving an expenditure of over £1,500 million in the five years beginning April 1, 1937. Over £400 million of this amount is to be borrowed, the remainder to be obtained by taxation. Both these announced figures are already out of date, however, and no limit to the armament program and the expenditure which it will involve, can be envisaged. The task of raising the necessary money by borrowing and by taxation presents difficulties because, on the one hand the national debt is already very high, and on the other taxation is admittedly at a level crushing in its effect.

Up to the present the United Kingdom has been able to maintain almost complete freedom in the financial and economic spheres and any measures of drastic control would be unwelcome. There are, however, disadvantages in economic

and

and financial freedom as compared with a totalitarian system, when a supreme effort is called for, especially if the trade cycle is on the down swing. Circumstances may compel the United Kingdom to face up to the unpalliatable question - is the degree of economic and financial freedom which still prevails a luxury which, in the circumstances, she cannot afford indefinitely?

The trade recession which began to be evident in the United Kingdom in the autumn continues. Up to a few weeks ago there had always been the hope that some stimulus, political, economic or American, might turn the tide, but these hopes are now dwindling and the Stock Exchange, the business man and the Government are evidently beginning to make their calculations on the basis of a continued business decline, with no such quick release from the impasse. Unemployment is mounting and will increase the costs of Government, profits are falling and will curtail tax yields, exports are declining and widening the trade balance deficit, income from invisible exports is declining, and wages remain rigid and industrial costs high. Such advantage as comes from more favorable terms of trade is more than offset by the difficulties of competing in export markets, while such stimulus as the armament program gives to industry is too concentrated in a few trades to counteract the decline in general industrial activity.

The present economic situation bears certain resemblances to that of 1931, when many of the influences enumerated above were operative, so that the question naturally arises whether the United Kingdom can again

employ

employ successfully measures similar to those used in 1931. The answer to this is that in 1931 there were available a number of "resources" which have now been used up and cannot be tapped again. They were:

1. High interest rates then prevailed which allowed the introduction of a cheap money policy. The great conversion of 1932 not only effected a saving of some £50 million in interest charges, thus materially reducing the total Government expenditure, but also acted as a tremendous stimulus to the economic body. The efficacy of the cheap money policy as a stimulant is exhausted and meanwhile its continuance has become an economic necessity. It revived the patient but has now become as a drug habit; remove it and the patient's discomfort will become acute.

2. A building boom was then latent, waiting on cheap money and created by the combination of a war-made housing shortage and an aroused social conscience with regard to decent housing. By means of subsidies the Government had stimulated house building to a point where about 200,000 homes per annum were being constructed. After 1932 the figures increased rapidly to 300,000 and 350,000 per annum, while subsidies were gradually given up. From 1919 through 1937, 3,500,000 houses had been completed. The building boom stimulated many ancillary industries, structural steel, and other building materials, furnishings, etc. etc. The boom has now past its peak and contraction has begun. The housing shortage, though not

not entirely overcome, bears no comparison with that which existed in 1932.

3. An over-valued currency was suddenly depreciated by nearly 30 percent* with no shock to the confidence of British nationals in their currency or in the credit of their country. The advantages to the export trade were enormous while the cost of living in terms of sterling remained almost stationery; the British market was so great that the depreciation of sterling, instead of raising internal prices, pulled down world prices. Resort to further currency depreciation would now carry the danger of dragging other countries into a depreciation race. The world, not excluding the United States, is now depreciation-conscious and the United Kingdom cannot again expose the United States and others to a squeeze such as was submitted to between 1931 and early 1933. The United Kingdom had learned the advantages of currency depreciation without panic from the French experience of 1928 but in turn she has taught the world this lesson and she is not free to try this expedient again with success, except in very gradual and relatively imperceptible doses.

4. A free trade country in a world of protection by adopting a general tariff could gain immediate short-run benefits by handing to British producers the home market, at the same time righting the balance of payments. The long

* i.e. The drop from par ($4.86) to $3.50 which was the average rate in 1932 (as given in the Federal Reserve Bulletin) or 28%.

long-run disadvantages of a high tariff - and the British Tariff is high - are only just beginning to show themselves and resort to a still higher tariff would carry grave disadvantages, because either wages would rise and force up costs to the detriment of the export trade, or real wages would fall and curtail effective consumer demand in the home market. Furthermore, tariff increases breed retaliation and Great Britain depends on overseas markets for the absorption of a very large proportion of her ~~production~~. It was estimated that in 1924 the United Kingdom exported 27 percent of her production of moveable goods*, (as compared with 30 percent in 1913). Though under the protection of the Tariff Act of 1932 the proportion has fallen to a point between 15% and 20% in 1937**, export markets remain of paramount importance to a number of the major industries of the country. The cotton industry, which still furnishes the largest item in British export trade, cannot enjoy prosperity unless exports expand. In 1924 about 85 percent of the 5,426 million yards of cotton cloth produced in Great Britain was exported, the home market taking only about 800 million yards. The lesser percentage exported today, (66%), is in part a reflection of that industry's acute depression, because the small increase, from 800 million yards to 1,036 million yards between 1924 and 1935, taken by the home market by no means makes up for a drop in exports from 4,627

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* A. W. Flux, in a Paper read before the Royal Statistical Society.

** Rough preliminary estimate of the Board of Trade.

4,527 million yards to 2,013 million yards. About 30 percent of the 267 million tons of coal produced in 1924 was exported and though home consumption has increased from 180 to 185 million tons since that date, the coal industry feels acutely the fall in exports from 84 to 56 million tons in 1937. The Balfour Committee estimated that 30 percent of machinery produced in 1924 was exported and about 54 percent of iron and steel production; though the home market takes more of these products at present it is still true that the difference between prosperity and depression for all these basic industries lies in the condition of export markets.

5. There was considerable scope for the "economy axe" in 1931. There is some scope for economy now, especially in local Government costs, but the greater consciousness of the deflationary effect of contracting public works programs during a business recession stands in the way of any material reduction, while armament needs will heavily outweigh any attempts at economy.

6. A Labor Government had been in power for two years in 1931 and its replacement tended to create a greater degree of confidence. A Cabinet more likely to command confidence in British finance than that now in power is hardly conceivable.

These "resources" have all been used, admittedly with great skill, and together they brought a recovery which in early 1937 exceeded the 1929 levels.

But

But more important than the lack of these used resources is the difference in the outlook. In 1931 the United Kingdom looked forward to peace and in 1938 she looks forward to probable war and certain exhausting armament expenditure. Furthermore, in 1931 the position in the trade cycle was at the bottom with revival on the horizon; today the down-swing of the trade cycle has begun.

In the absence of the expedients, so skillfully used to bring the United Kingdom out of the crisis of 1931, the single task of arresting the present recession or of bringing the country out of a more serious depression would be a difficult one in itself. On the other hand, even if trade were expanding the financing of the rearmament program would place heavy burdens on British financial resources. But with the peak years of crippling armament expenditure falling during a trade recession the acuteness of the present problem for the United Kingdom is manifest. Armament expenditure is thus imposing a financial strain unprecedented in peace-time. The strain may be seen at three points.

1. The burden of taxation in relation to the national income.

2. The growth of the national debt in relation to British credit.

3. The liabilities of London as a short-term borrower in relation to the maintenance of confidence in sterling in the face of an increasing debit in the balance of payments.

To

To predict how soon or on which of these three fronts the strain will reach the danger point would involve assessing a number of imponderables, but an examination of the present status and the certain and probable trends may well be attempted.

1. The Burden of Taxation.

Government expenditure, including local government costs, took over 20 percent of the national income in 1937. What the proportion will be in 1938 it is not possible to estimate because both items in the equation are unknown, but the direction of the trend is certain. National income will be less than in 1937 and expenditure will certainly be more. It seems relatively safe to place the proportion of the national income which will be required for Government purposes at around 25 percent or more in 1938 and it will be much more if, as appears likely, no signs of recovery emerge by the autumn of this year.* In the absence of any recovery this year, tax yields in 1939-40 will fall heavily; unless budgets are further unbalanced, increased rates of taxation, and/or new forms of raising revenue, may have to be considered. But the question arises, what is the psychological limit of taxation beyond which enterprise may be discouraged to an extent that may reduce tax yields?

It seems safe to hazard an opinion that this limit has already been reached. It was logical for the Chancellor

* Table No. 1 in the Appendix gives details of Expenditure and National Income for a number of years.

Chancellor of the Exchequer to raise the income-tax in his recent budget in order to collect at a high rate on the particularly good income of the fiscal year ended March, 1938, and to reserve his borrowing resources to be used more fully in following years when taxable income will fall with falling profits. Because the present rates of taxation may be expected to have an increasingly deflationary effect on enterprise if trade further declines, additional drastic increases would probably defeat their own ends and are unlikely to be imposed except in the event of war. The British standard rate of income tax is now 5s. 6d. in the £, only 6d. less than the highest rate, 6s. which prevailed from 1918 to 1922. When the World War broke out, the rate was 1s. 3d. in the £. It was immediately doubled in the Second Budget of 1914 to 2s. 6d. So far as the level of taxation is concerned, the United Kingdom, now preparing for the next war, stands about where she did at the end of the last war.

2. The National Debt.

The United Kingdom has inherited a national debt of close on £8,000 million from the World War. Some reductions were made by revenue provision for sinking funds and by the use of revenue surpluses in many of the post-war years, but the total has never fallen below £7,400 million, and has been rising again since 1931.*

The

* Table No. II in the Appendix gives particulars of the National Debt in 1924, and 1931-38.

The abandonment of the gold standard in 1931 and the depreciation of sterling did not result in the reduction in the total of the national debt in terms of goods and services which currency depreciation usually affords, because, instead of the expected marked increase in prices, there followed a fall in world prices which equalized any depreciation of sterling and left the level of sterling prices practically unchanged. The United Kingdom, therefore, starts her preparations for the next war about where she left off at the end of the last war so far as the volume of her national debt in terms of goods and services is concerned.

The gross national debt on March 31, 1938, stood at £8,026 million. To this should be added another £1,357 million of local Government debt, making a total of £9,383 million or some £200 per head of population*.

Though the budget estimates for 1938-39 require an addition of only about £65 million in the national debt during the current year, the augmented armament plans announced immediately after the acquisition of Austria by Germany may more than double this figure, and will increase the amounts which must be borrowed in the years immediately following by further substantial sums. The expansion

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* The Economist in its budget supplement to the issue of April 9, 1938, suggests that it is more "realistic" to exclude the external debt (£1,032 million on March 31, 1938), since this is offset by assets in the form of loans to Dominions and former allies, and also to exclude certain other assets estimated at about £500 million on March 31, 1937, (and £700 million on March 31, 1938), consisting chiefly of the funds of the Exchange Equalization Account, Suez Canal shares, etc. Similar deductions might also be made in the case of the debts of local authorities which would reduce the per capita net liability of the State to something like £150.

expansion of the national debt will be further hastened if taxable income shrinks rapidly after 1938-39 as a result of a sharp fall in trade in the autumn and next year.*

Though the taxpayer's burden for interest on the national debt, now placed at £230 million for the current year, is some £57 million less than before the great conversion of 1932**, much of the saving of that conversion (about £50 million) has been absorbed in the growing expenditure on the social services, any material reduction of which may be considered as politically impossible. Moreover, the interest burden on the debt must increase as the total size of the debt grows and though this increase in the burden may not be rapid because of the developed technique in the use of the Treasury Bill together with the Treasury's influence on the gilt-edged market, the substantial growth in the national debt, which must be expected, will necessitate the most careful handling. The maintenance of confidence in the credit of the Exchequer is all important and becomes an increasingly delicate problem with every addition to the total of the debt. It may be asked at what point the national debt may reach a psychological limit where confidence in British credit would begin to deteriorate. For reasons explained on a later page*** there would seem still to be room

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* The raising of £400 million during 1937-42 is already provided for in the Defense Loans Act of 1937. Government spokesmen have stated that substantial further amounts will be borrowed. £100 millions have already been raised on long-term, and the £38 million revenue surplus has been allocated for this purpose.

** Table No. II contains details of National Debt changes and shows the amounts "saved" by the cessation of payments on the United States Government Loan, as well as by the reductions in interest on the internal debt.

*** Pages 15 and 16.

room for considerable expansion of the total debt, the interest burden on which could be kept relatively small.

3. London's Liabilities as a Short-Term Borrower.

Although the United Kingdom is a large creditor nation with estimated overseas long-term investments in 1936 (Kindersley) of about £3,364 million (as compared with Paish's estimate of 1911 of £3,715 million) she has changed her position as international banker from one of lender to one of borrower. The amounts loaned in the financing of foreign trade have contracted, increasingly so since the spread of exchange and barter agreements, while in the field of deposit banking she has developed a large and growing liability. Her position as a short-term borrower arises from the fact (a) that London is the center of the sterling area, and (b) that London and sterling command confidence. The short-term position, however, increases, apart from the fluctuations of "hot money" holdings and the London balances of sterling-area countries, because of the persistent passive balance of payments.

What may be called the short-term position of London is impossible to measure. Refugee funds and the sterling balances of sterling-area countries exist in various forms, including Treasury Bills, call and short notice loan money in the discount market, investments in gilt-edged securities and deposits in banks, while in the case of refugee funds there are also gold hoards and large amounts invested in gold mining stocks and other industrial securities, and in foreign and colonial Government loans

issued

issued in London. Though some of these funds are technically long-term investments they are all similar in that they are readily convertible into sterling and immediately withdrawable across the exchanges.

The sterling balances of sterling-area countries may be roughly estimated at about £400 million or upwards* but there is no figure available for the total of refugee funds which make up a large and widely fluctuating proportion of the total short-term position.

Though we cannot estimate London's liabilities on short-term, we can conclude that there has been a secular increase in these funds since 1932 because the balance of payments has shown a constant deficit over this period which could only have been equalized by capital movements either long or short-term. If table No. 3 in the Appendix is studied, in which are shown figures for the balance of payments together with Sir Robert Kindersley's estimates of long-term capital movements, it will be seen that roughly some £876 million unaccounted for capital must have found its way into the United Kingdom between 1932 and 1937 inclusive. Meanwhile, gold imports during that period totalled some £721 million. The total gold in the Bank of England at 140s. per ounce was £537 million on the 30th September, 1937, and that in the Exchange Equalization Account was £279 million. In addition there were gold hoards in London standing at something like £130 to £200 million.**

With

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* Bank for International Settlements Eighth Annual Report, p.63.

** This is a very rough approximation based on the figures mentioned in the Bank for International Settlements Eighth Annual Report, pp. 45 and 47. Changes since September 1937, in all these figures render the estimates out of date but no later figures are available. The gold hoard figures are very rough approximations in any case.

With the balance of payments certain to show a deficit in the current year and probably in future years so long as the armament race continues, the question is beginning to be asked, - "will the reserves and technique of the Exchange Equalization Account prove adequate to maintain confidence in sterling?" Some misgivings have recently become evident, especially since the speech of the President of the Board of Trade in the House of Commons on May 24, but because of the skillful handling of the exchange situation up to the present it seems safe to expect that the authorities will be able to maintain confidence in sterling even if the trade recession develops into a major depression. But with the export trades showing no recovery, while the minimum food and raw material requirements and the needed armament materials keep imports at a high level, the strain will increase and the management of the exchange position will become increasingly difficult.

To sum up, the financial situation of the United Kingdom presents an acute problem because the country is confronted with the peak years of crippling armament expenditure at a time when the decline of trade is (a) hastening the arrival of the psychological limit of taxation, (b) thus forcing an expansion in the already high national debt to a level that may threaten the credit of the Treasury and (c) widening the deficit in her balance of payments to a point that may bring a break in the stability of sterling.

What are the factors which are available to help the United Kingdom to keep these three wolves from the door?

1.

1. Probably the greatest asset is the national character. British nationals will bear a greater burden of taxation than could be imposed in any other Democratic country. They have a natural faith in British credit and in sterling. They also have a most valuable capacity of giving a united response to a call for supreme effort when they feel that the interests of their country demand it and their leadership is responsible and skillful.

Two other assets lie in the development which has taken place since 1931 in the Treasury's management of financial and monetary policy. This development gives:

2. The technique and resources of the Exchange Equalization Account recently tested by the withdrawal from London of some £70 million of French funds in about ten days with no appreciable disturbance to the exchange and money markets. This demonstration of skill and strength has fortified the already existing confidence in sterling even in the face of a growing deficit in the balance of payments and

3. The British Treasury's post-1931 development in the control of money rates which enables the authorities to maintain cheap money in the short-loan market which can absorb large issues of Treasury Bills; this empowers the Government to finance its needs cheaply and to wait for the best possible moment to issue such long-term loans as must be floated. This power, together with the growth of various Government Department funds* managed by the national debt commissioners which gives a strong weapon

by

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* Unemployment and Health Insurance funds, Pensions and Savings Bank funds and the government securities in the Issue Department of the Bank of England, together constitute nearly one fifth of the outstanding internal long-term debt. (Westminster Bank Review, May, 1938).

by which the gilt-edged market can be influenced, renders possible the task of raising further loans, at relatively cheap interest rates.

Though, as mentioned above, the total debt in terms of goods and services was not reduced by a price rise in 1931, the great conversion of 1932 did reduce the interest burden very drastically and though the long-term interest rate has risen irrespective of short-term rates, it is still relatively low. It has been as low as 2 3/4 per cent and today stand at only 3 3/8 percent. Furthermore, the Government can use the Treasury Bill for meeting its needs to a very substantial extent. There is a tradition that the Treasury Bill issue should not go above £1000 million but there is no compelling reason why this limit should not be exceeded. The Treasury Bill issue now stands at £830 million and includes such Treasury Bills as are held by the Exchange Equalization Account. With the short loan rate at one half percent and with the Treasury's powers to maintain the rate down at least to that level, the financing of the rearmament program need not bring excessive burdens in the way of increased interest rates. No doubt some longer term issues will be floated, but a borrower who can wait for an opportune time and who holds a fifth of the securities in the market, can borrow with great advantage.

4. British nationals still own some £3,700 million of overseas long-term investments*. Though any liquidation of

* Table No. 4 in the Appendix gives Kindersley's estimates of nominal capital, repayments and new overseas issues since 1929.

of these resources tends to curtail the income received from them, (the most important invisible export item), these investments constitute a layer of fat on which the United Kingdom could live for sometime so far as her balance of payments position is concerned.* Though the bulk of these investments are in sterling securities, Kindersley estimates that some £ 400 million consisted (December 1936) in securities readily marketable on overseas stock exchanges. Such investments constitute an offset against overseas ownership of sterling securities readily marketable in London. This form of overseas investment is now being allowed to be increased, possibly with a view to the use of such funds in an emergency for obtaining foreign exchange in the manner so successfully carried out during the World war.

As a means of arresting the trade decline these resources are not comparable with those which were available in 1931. Apart from the overseas investments, they are, in short - monetary technique and confidence.

In other words, the British financial ship is a stout and well-found vessel; her rigging and gear are sound and of good quality and her master is a skilled mariner, but she is over-loaded with an excessive burden of expenditure and, since last autumn, she has been sailing, not only without favorable winds, but into the head-winds of a trade recession which threatens to develop into a tempest of deep depression. This storm may prove dangerous in her over-loaded condition and she may have to call all

* Table No. 5 gives such data as are available of the geographical distribution of British capital invested abroad.

all hands to make a supreme effort and to submit to the discipline essential in an emergency.

The question inevitably arises as to the probable character of such an emergency. There is, of course, the possibility of war, but to predict the course of British financial developments in that event lies beyond the scope of this memorandum. There is the certainty of the burden of the arms race, the end of which is not in sight. This burden will also be conditioned by the trade trend, which in turn depends to a large extent upon developments in the United States during succeeding months. If the beginnings of a real recovery appear in America, the situation in Great Britain will be eased and the day when the financial problems of the United Kingdom become acute will be correspondingly postponed. But if no adequate stimulus comes from the United States, there is every reason to expect a sharp drop in the curve of British business activity which hitherto has been falling only gradually. Unemployment, which now stands at 1,748,000, would rise to say 2,000,000 by the end of the year, (the level of 1934 and 1935). A growing plethora of funds would accumulate and lie idle in the banks, with new industrial investment confined to the narrow field in which armament activity affords a stimulus.

Meanwhile, wage rates would show the usual resistence to reductions, and there would even be a tendency for special key sections of armament workers to press for and obtain higher wages, with resulting further disequilibrium throughout the economic body. High costs would continue to hamper the export trades, and the snowball would roll on.

The

The combination of unemployed workers and unemployed capital would result in growing political pressure for action on the part of the Government, which is now committed against a policy of expanding public works. This political pressure might well become irresistible.

What form of action would be likely? The obvious step is a vast public works program along the lines of the American example. This would provide a certain amount of employment, taking up some of the slack in the construction industries which is developing as housing activity slows down, and it would tend to maintain internal purchasing power to a certain extent. But a public works program would not help the great export industries, where unemployment is extensive: cotton weavers cannot be put to building roads, nor can public works be exported to pay for essential imports. Likewise such a program would not be complimentary to an armament program as a stimulus to general activity, but would at many points interfere with it. The armament program would always have prior claim to funds, and though a plethora of idle money would render the raising of the necessary loans cheaper than in a time of industrial expansion, the rate of growth of national and local debts would have to be carefully watched.

That some expansion in public works would be resorted to is to be expected, but it is likely that any such program would be of a limited character and at the same time be accompanied by other measures.

In general, conditions would tend to emphasize certain disadvantages of a free economy, and the fact that the totalitarian system affords certain outstanding advantages would have to be faced.

The

The Totalitarian state maintains a rigid control of prices and wages. Armament costs can thus be kept at a minimum and also a given standard of living reasonably well maintained, while any powers of increased production resulting from invention or organization can be directed to the development of the military machine. Whatever the consequences may be in the long-run, in the short-run the totalitarian state can prevent an uneconomic policy from producing reactions which are inevitable to the economic and financial fabric of a free economy. Furthermore, because it controls investment the totalitarian state can keep capital employed. By its control of wage rates it relieves the entrepeneur of one of his chief uncertainties, while the whole system of economic control, if skilfully managed, affords a relative stability of purchasing power. Thus a constant and persistent profit margin is virtually assured to any reasonably efficient enterprise. Though profits may be limited by other measures of control to specified levels, the relative certainty of some margin of profit, even if it be small, is a stimulus to productive effort which stands out in contrast to the conditions which prevail in an uncontrolled economy when in the throes of a trade recession with its characteristic snow-balling influences of growing unemployment, declining purchasing power and an accumulating plethora of funds which, by seeking liquidity, tend to avoid the risks of productive investment.

The

The power of the totalitarian state to force available funds into employment constitutes the advantage which would become most striking if a major depression develops in the United Kingdom and it is not inconceivable that in the absence of some recovery in the autumn, the British Government may be forced to consider control in the field of investment before the end of 1939. This might take the form of the establishment of an investment board, or the use of the already existing British Industrial Development Company, which was established by the Bank of England in 1930 to assist the basic industries to raise the necessary capital for rationalization, and later floated the Lancashire Cotton Corporation Loan, and the National Shipbuilders Securities Company loan. The basic problem would be to force idle funds into employment: not only to provide work by means of public works, but also to help the important branches of the export trades. Furthermore, developments along the lines of pool levies to subsidize certain exports are possible. The coal industry with its central selling scheme, and the legislation now being drafted for the cotton industry suggest the possibility of developments in this direction.

Whether such developments would be followed by other measures bearing a resemblance to those typical of a totalitarian system is a question which it would be foolish at this time to try to answer. Bearing in mind the magnitude of the task, and the importance of export trade to British economic well-being, the future must be regarded

as

as holding possibilities which even a year ago would have been unthinkable. In any case "prophesy is a knave's business and a fool's paradise."

TABLE NO. I

RELATIONS BETWEEN NATIONAL INCOME AND GOVERNMENT EXPENDITURE

OF THE UNITED KINGDOM.

£ Millions

Period*	1 National Income	2 Gov't Expedtr.	3 Local Gov't Expen-tre.(g)	4 Total Cols. 2&3.	5 4 as % of 1	6 Exped-tr. on Defence	7 6 as % of 1.	8 Nat-ional Debt Ser-vices.	9 8 as % of 1	10 Social Services (j)
			(1913)					(1913)		
1911-13	2,241[a]	165	79	244	10.9	73	3.3	24	1.1	
1924	4,035[b]	745	160	905	22.4	115	2.9	357	8.8	
1929	4,384)	771	176	947	21.6	113	2.6	355	8.1	272 (1930)
1932	3,844)	800	164	964	25.1	103	2.7	309	8.0	
1933	3,962)	719	167	886	22.3	108	2.7	224	5.6	
1934	4,238)[c]	735	174	909	21.5	114	2.7	224	5.2	
1935	4,530)	776	184	960	21.2	137	3.0	224	4.9	327
1936	4,850(d)	830	192	1022	21.0	186	3.8	224	4.6	
1937	5,200(d)	908[e]	197	1105	21.2	270[i]	5.2	227	4.4	345[k]
1938	(5,000)(d)	1034[f]	208[h]	1242	24.8	354[i]	7.1	230	4.6	344[k]

* National income for calendar year. Government expenditure for year beginning April 1st.

(a) Professor Bowley.
(b) Bowley and Stamp.
(c) Colin Clarke - "National Income & Outlay" - as quoted in Economist.
(d) Economist rough estimate - Budget Supplement to April 9, 1938, Issue.
(e) Including £64 million of borrowed funds.
(f) Including £90 million to be borrowed. Budget estimate.
(g) Rates collected by local authorities, as shown p.10, of Financial Statement 1938-9.
(h) Estimate of J.C. Johnstone in Daily Telegraph of May 10, 1938.
(i) Including Air Raid Precautions, etc., and borrowed funds.
(j) National and local government expenditure on Unemployment, Health and Pensions Insurance, Old Age Pensions, Housing, Education, Poor Relief and health services, etc. (Further sums, not included in these figures, received from contributions, rents, fees, etc., are expended, but measure the degree to which these services are self supporting). These figures are not [illegible] compiled for all years on the Table as their inclusion [illegible] calculations.
(k) Rough estimate - figures not yet available.

TABLE NO. II

UNITED KINGDOM NATIONAL DEBT AND CHARGES THEREON.

Millions of £

Year Ended March 31.	1924	1931	1932	1933	1934	1935	1936	1937	1938.
Funded Debt	980.3	1,425.0	1,467.1	3,376.3	3,374.3	3,368.1	3,366.5	3,364.9	3,364.8
Terminable Annuities	13.5	12.0	11.7	11.9	12.1	12.1	12.1	12.1	12.6
Internal Unfunded long-term Debt.	4,786.5	4,431.7	4,375.8	2,508.7	2,677.4	2,671.7	2,719.1	2,808.8	2,892.5
TOTAL INTERNAL LONG-TERM DEBT	5,780.3	5,868.7	5,854.6	5,896.9	6,063.8	6,051.9	6,097.7	6,185.8	6,269.9
Floating Debt	774.5	594.3	612.0	810.5	844.7	833.4	782.2	696.1	841.8
Treasury Bills.	588.3	569.8	604.5	775.9	799.8	799.3	763.1	674.8	828.7
Ways & Means Advances	186.2	24.5	7.5	34.6	44.9	34.1	19.1	23.5	13.1
TOTAL INTERNAL DEBT	6,554.8	6,463.0	6,466.6	6,707.4	6,908.6	6,885.6	6,879.9	6,882.9	7,111.8
EXTERNAL DEBT	1,125.8	1,066.7	1,090.8	1,060.4	1,036.5	1,036.5	1,036.5	1,032.6	1,032.5
TOTAL DEADWEIGHT DEBT	7,680.6	7,529.7	7,557.4	7,767.8	7,945.2	7,922.1	7,916.4	7,916.5	8,144.1
Victory Bonds, etc. held by National Debt Commissioners (deduct)	39.6	116.4	123.5	124.0	122.9	121.7	120.6	119.3	116.0
Accrued Interest on Savings Certificates (add)	80.0	124.5	98.0	90.5	98.5	107.3	116.3	124.0	N.A.
NET TOTAL DEBT	7,721.0	7,537.8	7,531.9	7,734.3	7,920.8	7,907.7	7,912.1	7,921.2	N.A.
Net Indebtedness of the State (as estimated by the Economist by deducting: External Debt	6,483.6	6,308.3	6,192.5	6,260.5	6,283.6	6,354.1	6,365.5	6,388.9	N.A.
and Estimated Assets, including	1,125.8	1,066.7	1,090.8	1,060.4	1,036.5	1,036.5	1,036.5	1,032.6	1,032.5
Exchange Equalization Account	111.6	168.5	248.5	413.4	520.7	517.1	510.1	499.7	N.A.
Suez Canal Shares	---	33.1	25.0	175.0	375.0	375.0	375.0	375.0	375.0
Other	22.4	12.7	52.9	35.6	88.7	93.2	88.3	78.6	N.A.
	991.8	33.0	170.7	172.8	157.0	48.9	46.8	46.1	N.A.
TOTAL DEBT SERVICES	347.3	360.0	322.0	308.5	224.0	224.0	224.0	224.0	226.2
Interest	305.8	291.8	287.6	280.1	215.2	210.7	210.5	209.8	216.2*
on Saving Certificates	7.2	16.1	15.3**	15.0**	11.1	9.0	8.9	9.4	N.A.
Treasury Bills	17.4	12.5	20.7	5.9	4.1	3.5	3.5	3.0	N.A.
Other Internal	251.6	235.9	238.1	239.3	196.7	198.2	198.1	196.6	N.A.
Total Interest on Internal Debt.	276.2	264.5	274.1	260.2	211.9	210.7	210.5	209.8	216.2
On U.S. Loan	29.6	27.3	13.5	19.9***	3.3****	-	-	-	-
Management and Expenses	1.5	1.3	1.9	2.1*****	1.1	1.0	1.0	1.1	-
Sinking Fund.	40.0	66.8	32.5	26.3	7.7	12.3	12.5	13.1	10.5

* The £216.2 million includes management. Budget Estimate for this figure for 1938-9 - £230 million.

** Exclusive of £8,430,922 in 1931-2 and £2,855,955 in 1932-3 paid as interest on Savings Certificates in excess of provision in the permanent debt charge.

*** This represents the portion of the total amount paid to the U.S. on December 15, 1932 (£28,955,349) which does not conditions would be treated as interest. H.M. Government reserved the right to treat the whole amount as capital repayment in any final settlement.

**** Pending revision of debt agreement, this "token" payment was made.

***** Excluding expenses of Conversion of 5% War Loan of £23.2 million.

SOURCE: Compiled from Finance Accounts of the United Kingdom for the various years - and the Economist Budget supplement for April 9, 1938, issue, and Financial Statement 1938-39.

N.A.

TABLE No. III

Millions of £

	Board of Trade Estimates			Kindersley's Estimates		
	Balance of payments. Mdse. & Services	Gold movements Exports & Imports -	Balance including Gold	Long-term Capital Movements. Net Exports.- Imports+	Net movement of British Capital Invested in Overseas Stock Exchanges Export of Capital- Import of Capital+	Net balance which must be accounted for by Other Capital Movements (including Direct Investments)
1929	+103	+15	+118	-47	No Est.	----
1930	+ 28	- 5	+ 23	-39	+-0	- 36
1931	-104	+35	- 69	-14	+1	- 73
1932	- 51	- 15	- 66	+ 11	+ 5	- 50
1933	+- 0	-196	-196	- 16	+ 3	-209
1934	- 7	-133	-140	-21	-18	-179
1935	+ 33	- 70	- 37	+ 30	-50	- 57
1936	- 19	-228	-247	+ 46	-50	-251
1937	- 51	- 79	-130			-130*
				-Estimates Not available-		
Total 1932-1937 inclusive	- 95	-721	-816	+ 50	-110	-876
				New loans Issued in London, Less repayments.	Securities not quoted on the London Stock Exchange purchased and sold	

*Assuming that net movement of long-term capital is equalized by net flow of British investments to overseas stock exchanges in 1937.

TABLE NO. IV

BRITISH OVERSEAS LONG-TERM INVESTMENTS

Sir Robert Kindersley's Estimates. Millions of £

	1 Government & Municipal Loans.	2 British Companies Operating abroad.	3 Companies Registered Abroad.	4 Total of Columns 1, 2 & 3.	5 Unquoted Securities.*	6 Total of Columns 4 and 5.
1907**				2,700		
1911**	1,107	- - -	2,608	- - -	3,715	
1929	1,412	1,187	839	3,438	300	3,738
1930	1,437	1,205	783	3,425	300	3,724
1931	1,441	1,210	759	3,410	290	3,700
1932	1,432	1,204	719	3,355	285	3,640
1933	1,479	1,212	695	3,386	282	3,666
1934	1,499	1,228	683	3,410	300	3,714
1935	1,503	1,236	698	3,437	350	3,787
1936	1,441	1,220	703	3,364	400	3,764
Repayments.					Net Change.	
1929	30.4	5.5	9.6	48.5	(No estimate)	
1930	19.7	9.5	9.7	38.9	No net change	39
1931	15.3	4.9	5.6	26.8	-10	37
1932	39.7	4.3	3.2	48.1	-5	53
1933	49.4	7.3	9.6	66.3	-3	70
1934	23.2	15.3	5.5	42.0	+18	24
1935	56.2	12.4	12.5	81.1	+50	31
1936	87.5	12.5	6.5	106.5	+50	57

	New Overseas Issues.	Repayments	Net Increase +, or decrease -, in British Investments Overseas.
1929	96	49	+47
1930	98	39	+59
1931	41	27	-14
1932	37	48	-11
1933	87	67	+16
1934	63	42	+21
1935	51	81	-30
1936	61	107	-46

* Rough [illegible]

** Paish's [illegible]

Source. [illegible] and [illegible]

TABLE NO. V.

Geographical Distribution of £3,185 million in 1930, and £3,240 million in 1936 of Nominal British Capital Invested Abroad.*

	Millions of £	
	1930	1936
British Dominions and Colonies	1,987	1,981
Europe	245	236
South America	643	667
Argentine	360	372
Brazil	151	160
Chile	49	50
Other	83	85
Mexico** and Central America	50	52
United States***	81	81
Cuba	(Not shown separately)	27
Japan	63	53
China	40	41
Rest of the World****	76	102
Foreign Countries	1,198	1,259
Total	3,185	3,240

* "The total nominal amount of U.K. Capital invested in Overseas Government and Municipal loans and in all securities quoted in London of companies operating abroad is estimated to have amounted to £3,364 million at the end of 1936.

A number of important British companies operating abroad possess assets widely spread in various forms throughout the world. In consequence, a territorial classification of these assets is not readily possible. Companies of this description are therefore excluded from the geographical table given below, which deals with a nominal capital of £3,240 million

Companies registered abroad have in the main been assigned to the countries in which they are registered." (Kindersley).

* Turkey as a whole included.

** Total for Mexico would be considerably more if capital long in default were included.

*** The total British long-term capital in the U.S., including subsidiaries and branches of British Companies, and securities not dealt in the U.K., was roughly estimated at £200 million in 1930, and probably about £248 million in 1936.

**** Chiefly Dutch Malaya, Iran, Egypt, Iraq and Portuguese East Africa

SOURCE. Sir Robert Kindersley's article in [illegible] 1936 and December [illegible], p. 587.

Paris, June 30, 1938.

Dear Mr. Secretary:

When I saw Governor Rooth of the Swedish Central Bank at Basel earlier in the month, he mentioned to me that Governor Eccles had sent him a copy of one of his speeches. Governor Rooth said that he disagreed widely with some of Governor Eccles' views expressed therein. He did not intend to endeavor to refute these ideas directly but did propose to set forth in his acknowledgment certain practices followed in Sweden which were in direct opposition to the practices or views of Governor Eccles. Governor Rooth has been kind enough to give me confidentially a copy of his letter of June 28 to Governor Eccles, and I am enclosing this for your purely personal information.

I have to-day received from Mr. Gaston a few copies of your address delivered at Temple University, and am happy to be able

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

to forward one of these to Governor Rooth at this time.

Your letter of June 15 in regard to the contemplated visit of Mr. and Mrs. Werner Josten came this morning, and I shall, of course, be delighted to do anything possible to make their visit pleasant when they arrive in Paris.

We are looking forward with much pleasure to your arrival in France and hope that you may have a fine crossing.

Faithfully yours,

STOCKHOLM, 28th June, 1938.

(_C_O_P_Y_)

Marriner S. Eccles, Esq.,
Governor,
Federal Reserve Board,
Washington, D. C.

U.S.A.

Dear Mr. Governor,

Many thanks for your letter and for the address, which I have read with great interest. Many of your problems have also been our problems, but there are also great differences. As you may perhaps be interested in hearing about our policy in this country I take the liberty of mentioning some of the principles which we have tried to follow.

As a general observation with regard to differences between American and Swedish economists it is interesting to note that we in Sweden have not taken a purely monetary view of the reasons for the depression and the possible ways out of it as some of your economists have done.

When embarking upon the public works policy in the hope thereby to a certain extent to equalize activity during depressions and booms the Swedish government from the very beginning took the view that provisions should be made for the repayment of the unproductive debt incurred for the public works programme. An increase of death duties was set aside and later a special income tax was levied for this purpose. The whole unproductive debt thus incurred, which should have been repaid within seven years, was in fact repaid within . . .

within four budget years after the policy had been entered upon.*

The principles for unbalancing the budget during a depression have afterwards been studied by a Royal commission. Some rules have been laid down and have been accepted by Parliament. In order not to deteriorate the financial position of the Government it was decided that amounts spent in a depression should be repaid in the subsequent period of increasing activity thus avoiding an accumulation of the liabilities of the state which might endanger confidence and ultimately perhaps also the currency.

We are, of course, aware that such a policy is open to abuses, if the programme is not followed, but we do hope that the principles will be followed. In this connection I will mention that there were no dissensions among the different parties in Parliament when the bill was passed.

When Sweden was forced off the gold standard in 1931 some of our economists suggested that the new policy of Sweden should be to keep prices stable. There were differences of opinion between economists as to which price index should be followed. The Bank of . . .

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* I should perhaps mention here that the interest on the Swedish government debt was about Kr. 92 million in the financial year 1936/1937, whereas the income of the State railways, the Post Office, the Telegraph Office, the Water Power Board, and the State Forests totalled Kr. 146 million in the same year, and the income of the different State loan funds was about Kr. 44 million.

of Sweden started a new consumption-price index (the old one calculated by a government body was out of date). Parliament drew up a programme in 1933 which was to a certain extent based upon price stability. The Bank of Sweden has the whole time more stressed the important of stable exchanges especially for a country like Sweden with a great external trade. It has been said that we in the Bank have been following old central bank principles but with an eye all the time on the price indices. The general principles now agreed upon in this country are practically the same as those stated by the Governors of the Federal Reserve Board in 1937.

As you may have seen from Professor Montgomery's book the rapid change in Sweden's position after the 1931 crisis was mainly due to the demand for our export products. I believe, however, that the stability of the leading exchanges has played an important part chiefly for exporters but also for the maintenance of confidence in general.

In order to make industry remunerative we had after 1931 wage reductions in the most important industries. Later on the wages have been raised. The trade unions are strong, and we have as a rule agreements for two years between the employers and the trade unions, roughly half of these agreements terminating at the end of this year and the other half at the end of next year.

We . . .

We have also had a substantial reduction in the rate of interest on all sorts of loan. Perpetual government bonds, which at the end of the twenties were quoted on a 4 1/2% basis, are now below 3%. 3% perpetual government bonds are at present quoted at 105 1/4%.

The building activity in Sweden has been and still is very great. This is undoubtedly to a large extent a consequence of the reduction of the rate of interest on mortgages. It is now possible to find a first mortgage up to 60% on a farm or a house in a town for a period of 60 years at the rate of about 3%. Insurance companies are prepared to lend on first mortgages up to 67% for ten years at the rate of 3%. Seventy years' 2 1/2% bonds issued by the Town Mortgage Bank of Sweden are at present quoted at 94 1/2% giving a net yield of about 2.7% to which has to be added, however, 1/10 of 1% as commission for the Mortgage Bank.

In the present situation there is a very keen competition among the mortgage institutions, insurance companies, and savings banks for investments in mortgages.

I also enclose three notes which have been written in the Bank and which might interest you.

Permit me to take this opportunity of introducing my intimate friend.

Generaldirektör Herman Eriksson

who is one of the most prominent members of the Swedish Delegation . . .

Delegation for Delaware.

Mr. Eriksson who was formerly Under-Secretary of the Treasury, is President of the Board of Trade. The Swedish Board of Trade is not exactly the same as the British institution. It is a central authority originating from about 1650 which directly under the Department of Commerce deals with practically all economic matters. The Board of Trade issues regular publications on different matters and calculates our wholesale-price index.

Mr. Eriksson is at the same time chairman of the Committee for Commercial Treaties with other countries and chairman of the Board of our Institute for Economic Research.

Mr. Eriksson will arrive in Washington one of the first days of July.

With kind personal regards,

I remain, dear Mr. Governor,

Sincerely yours,

(sgd) Ivar Rooth.

Encl.

/ws

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

TO CONFIDENTIAL FILES

FROM J. W. McKee

DATE June 30, 1932.

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF ENGLAND.

In the absence of Mr. Bolton I called Mr. Hawker at 10:15. We both agreed that during the past week all foreign exchanges had been exceptionally quiet. Hawker was very much interested in the phenomenal rise in our stocks during the past 10 days and I gave him the following resume: Since June 20 some of our leading stocks advanced $24 a share and according to available figures the buying came from within our own country. Hawker said that it was quite obvious that Europe was not buying stocks as a quick review of the exchange market for the past two weeks showed very little activity. I stated that capital movements of short term banking funds and security transactions for the week ending June 22 showed a further outflow of funds of about $15,000,000. There were no further gold shipments since my last conversation with Bolton. Hawker stated that for the past three weeks Japanese operations had been very quiet. Russian gold continued to come into the London market in dribs and drabs. During the past two weeks about £1,500,000 of gold had arrived, of which about half had been sold and the balance held in stock. Russian sterling balances were reasonably large at present, but he would not be surprised to see them sell a large part of their balance the beginning of next week. Continental currencies also remained quiet, with belgas strongly bid.

JWMcK:KW

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE June 20, 1928.

TO CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH BANK OF FRANCE.

FROM J. W. McKeon

I called Cariguel at 11:50. He stated that continental exchanges had been very quiet during the past week with the result that on balance he had neither gained nor lost exchange. He was very much interested in the strength shown in our stock market during the past ten days which, as he stated, "Has all Europe guessing." He stated that this is the first time in quite a few years that Europe had not been a strong buyer of stocks here when an upward swing occurred. I stated that the advance of some of our leading stocks had been very rapid, some gaining as much as $24 a share with a general advance in most of the stocks. He asked about the capital movement of funds and I told him that during the week ending June 22 there had been an outflow of about $15,000,000.

JWMcK:KW

EG

GRAY

London

Dated June 30, 1938

Rec'd 2:20 p.m.

Secretary of State,

Washington.

578, June 30, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The statement of the position of the exchange equalization account issued last night indicates that in the six months period ending March 31 the account added only 2,692,000 ounces of gold to its stock and that the Bank of England account remained unchanged. This increase is of course very moderate in relation to the activity of the equalization account and reflects the extent of the opposing cross currents encountered during that time. The total of the equalization account amounted to 42,546,000 ounces as compared with 26,674,000 ounces a year ago (my 412, June 28, 7 p.m.) and the total in the Bank of England stock amounted to 76,843,000 as compared with 73,842,000 a year ago, the grand totals being 119,389,000 ounces as compared with 100,516,000 ounces of a year ago. Incidentally the net imports of gold into the United Kingdom during the six month period ending

ending March 31, 1938 and September 30, 1937, were 64,766,000 and 39,480,000 respectively. The extent and character of the rise in Wall Street while gratifying is frankly perplexing to the city. However, commodities have reflected this movement and also the London stock market today was very strong, nevertheless skepticism is still the order of the day.

The exchange market continues relatively inactive.

JOHNSON

KLP:WWC

June 30, 1938.
11:51 A. M.

H.M.Jr: Hello.

Operator: Mr. Hanes. .

H.M.Jr: Yeah.

Operator: Go ahead.

H.M.Jr: Hello.

John Hanes: Hello, Mr. Secretary?

H.M.Jr: Talking.

H: John Hanes. Could I come over to see you?

H.M.Jr: Ah - now?

H: Well - ah - the reason I say now is because I'm - I'm - I'm just - we're just running between meetings here.

H.M.Jr: Oh.

H: So, if you're not busy I'd like to see you as soon as I can.

H.M.Jr: Well, could you come right over?

H: Right this minute.

H.M.Jr: O. K.

GROUP MEETING

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

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

H.M.Jr: Mac, you'd better get Ed Kilby or Broughton on the part of the building they have under their jurisdiction.

McReynolds: See, Hall doesn't have jurisdiction on that.

H.M.Jr: Go out side and get a party organized and have them waiting for me at ten o'clock and we'll go over there and do it. Have them ready. I've got a half hour between ten and ten thirty. You just go up stairs and see the people working under the conditions they are, on the floor above where we are, and then the people talk about labor unions. I'd join a labor union too. They've got a room up there, to that first place (indicating) and back, with one window in it and seven people. I'd join the most radical labor union I could, and I'd demand .....

Bell: Did you see the vault?

H.M.Jr: I saw plenty.

Bell: That's all mine; my office.

H.M.Jr: I'd join the most radical labor union I could and say, "I'm entitled to fresh air." The United States Government should take care of it.

Klotz: Who started this thing?

H.M.Jr: Bell.

White: How'd you happen to go up there?

H.M.Jr: I've always said that any Government employee in my office could come in and speak to me. A young lady came in and reported this, and I went up there and saw it. I've always assured them there wouldn't be any jumping on their necks.

Professor Oliphant.

Oliphant: A short meeting of that group at ten o'clock.

H.M.Jr: Like our conversation yesterday, I think it's rather amusing - Pearson and Allen - the words they put in Bob Jackson's mouth on what he proposes to do with taxation.

Oliphant: I didn't see it.

H.M.Jr: Take a look at it today.

(Nods to Mr. Gaston.)

Gaston: I haven't anything except if you should want to use some words on the corner stone. (Hands H.M.Jr. paper.)

H.M.Jr: O. K. I'll read it later on. Got the champagne?

Gaston: That's going to be fixed. Mrs. Luke Wilson is going to entertain after the corner stone laying.

H.M.Jr: Who is Mrs. Luke Wilson?

Gaston: She is the lady who gave the land.

H.M.Jr: I still say, who is she?

Gaston: I don't know anything about it except she's still got land.

Gibbons: The land was all under water.

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

Anything else, Mr. Oliphant?

Oliphant: No.

H.M.Jr: Anything else?

Gaston: No, nothing else.

H.M.Jr: All right.

I signed those letters yesterday. I hope they are all right. And, incidentally, for heaven's sake, before he comes over for lunch, get me up a letter to send over to Eccles, explaining what we've done. Say "Dear Marriner: You will be interested in seeing a letter I have sent over to the President, explaining what we've done. Maybe you'd like to have your own staff look over it."

Haas: "Your own staff ..." - I didn't get that part of it.

H.M.Jr: Have them all look it over.

(Telephone.) Hello. I'm at a staff conference.

(Mr. Gaston hands H.M.Jr. slip of paper which he reads.)

Haas: That last figure, Mr. Secretary, on steel .....

H.M.Jr: Just a moment. What did you say.

Haas: That last figure on steel included two days of that stock market rise and it was just preceding the announcement of the price cut, and it simply developed - the steel - I don't know what effect it might have on new orders temporarily. Each day you hear a new announcement that the differential on Cleveland is taking off, and so on. That might hold that situation up temporarily.

(Mr. McReynolds returns.)

H.M.Jr: It's a great advantage to the automobile companies, but they are doing the buying now and as a basis of what they pay now, will depend on what the price of the automobiles will be this fall. If the automobile people can cut their prices - if it's only fifteen dollars - they can cut their prices and get out a new model, and it will make all the difference in the world.

Haas: The parts companies have already dropped their prices.

H.M.Jr: I have also noticed they have dropped the price on cement too. For an automobile fellow to know he can buy his sheet steel and all the rest of the stuff now on the market, if they could cut the price of automobiles fifteen dollars, it just makes a difference.

Haas: Oh yes, that cures that price dilemma, you know.

I have a few old things that sometime you may want to clean up before you go on your vacation.

H.M.Jr: All right. I've got two weeks yet.

Haas: Some other things I want to give to Miss Chauncey; she brought in some letters for Harry and me to look over. I think I'll give them to her.

H.M.Jr: All right.

White: In that connection, George, didn't last year when the automobile people were down here, remember when you asked them why they didn't cut the price of automobiles? They said they couldn't cut the price of automobiles so long as steel was up. That is the answer they gave.

H.M.Jr: Well, Plymouth comes out in September with their new model - earlier than - they are the first ones - and I don't suppose they make up their minds for the price until around the first of September. They wait until the last minute.

Haas: The trade reports are already mentioning the fact that the price of automobiles is going to be cut.

H.M.Jr: In the face of that Ford is going up, and railroads are going up.

Haas: If that acts as a forecaster, the seasonable thing is down some.

H.M.Jr: (From news clipping.) "Kennedy declares business is better."

Oliphant: That makes it all right.

Gaston: He denied he caused the stock market rise on his optimistic statement on his arrival.

H.M.Jr: He also said that it was an unmitigated lie that he was a number one whiskey salesman.

Gaston: Yes.

H.M.Jr: What else, George?

Haas: That's all.

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

Gibbons: See you at eleven o'clock?

H.M.Jr: Well, that's off. Waesche is going to New York. He wants to talk airplanes with Boeing tomorrow.

(Nods to Mr. Lochhead.)

Lochhead: I've just had a last talk, and unfortunately, they have had very heavy fog for three days. I don't expect it in before Saturday afternoon. They are pushing it as hard as they can.

H.M.Jr: Bet you Franco has got a couple of fellows down there in the boiler room.

Oliphant: What's that?

H.M.Jr: I'll bet Franco has a couple fellows down in the boiler room.

Oliphant: Pouring water in the boiler. It couldn't arrive at a much worse time.

Lochhead: The stock market opened on a very heavy volume on the up side. That's all.

H.M.Jr: Cy.

Upham: (Hands H.M.Jr. incoming letter.)

Oliphant: That window still open?

H.M.Jr: Yeah.

Haas: For the shorts?

H.M.Jr: (Looks at letter.) Bob Hanes. O. K. Will you answer it for me? Oh, that's to you.

Upham: It's to me.

H.M.Jr: (To Mrs. Klotz:) You check with Cy who's coming for lunch.

Klotz: Yes. I invited two and he invited five.

Upham: Seven besides the Secretary.

H.M.Jr: We are having the heads of these bank examining agencies in for lunch, just to make sure that the team is still playing, and now that they've got the regulations, they are going to carry them out in the proper spirit.

(Nods to Mr. Bell.)

Bell: I've got two letters for signature - just usual authorizations to audit the stabilization fund.

H.M.Jr: I take it that you are sending copies of the quarterly report to the people abroad.

White: Yes. They go to them.

H.M.Jr: Anything else?

White: With respect to that stabilization fund, Archie and I feel if you are going to make any committments at all it ought to be reduced - just three items.

H.M.Jr: I'd be glad to go over that with you.

White: You're not going to do anything on that?

Oliphant: It's all clear on the legal side. It will be over your name, with the approval of the President.

White: Except that if it's done with the approval of the President, it might appear as though it's a replica of or accompanying an audit you have to make each year, and since it's our thought it ought to be done just as fairly as possible, it ought to be in the form of a release. The audit has to be in a good deal more detail, doesn't it, Herman?

H.M.Jr: What three would you have?

White: What the fund started with. What the net operating profit is. What there is now - over the whole period. If you insist, I think it's better to avoid that.

H.M.Jr: No, I - what we started with - two billion dollars, and the fund now is worth two billion dollars and so much, and then an inventory that we have .....

White: I would feel very strongly against that, Mr. Secretary, for these reasons: If you have an inventory you have to indicate whether it's in gold, foreign exchange, or cash assets. If you call it cash assets you don't have to do that.

H.M.Jr: Well, the simplest way, Harry, is to start with the least - the minimum - and then if it takes - well, why don't you say this, or that? Well, if the pressure is enough we can always add a little more the next time. I think that would be enough.

White: Of course, it's all right over a four-year period, but if you have it over a period of one year and have to indicate how much exchange assets you have.

Bell: After all, the administrative expenses have been very small. It shows you operating four years at a ridiculously low sum, which is very good at this time.

H.M.Jr: Dan.

Bell: Mr. Straus apparently would like to get some answer to this letter before next week. You know, I asked you if you wouldn't wait until

Taylor got back. I think Mr. Foley and I could handle it, if you authorize us. We'll prepare a letter for your signature.

H.M.Jr: I don't see how you can shade that legal ruling.

Bell: It isn't so much a legal ruling. Their kick is, two months ago you said two and a half per cent is the going rate. Now you come out with a bond issue at two and three-quarters per cent.

H.M.Jr: Why should we consult them.

Bell: He contended that it is not a compliance with the spirit of the law.

H.M.Jr: You fix the letter.

Bell: We ought to have a conference, to satisfy them.

H.M.Jr: Mac?

McReynolds: I'm saving mine for the space trip.

H.M.Jr: You are, are you?

Gibbons: Are you going up to the corner stone laying?

H.M.Jr: Which one?

Gibbons: Today, isn't the President laying the corner stone?

H.M.Jr: I am not. I have grave responsibilities here.

McReynolds: I thought you were going to lay the corner stone today.

H.M.Jr: We have our own corner stone - Public Health.

Dan, if you'll stay right now, I'd like to talk to you, please.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 30, 1938

TO Secretary Morgenthau

FROM Herman Oliphant

For your information -

There was a meeting in Lubin's office this morning at 10 o'clock, attended by Lubin, Labor; Arnold, Justice; Patterson, Commerce; Ferguson, Federal Trade Commission; Peoples and myself.

Thurman and Douglas had discussed with O'Mahoney points which I told you yesterday were covered by the meeting at Arnold's house, and this morning's meeting was to report the results of that schedule.

O'Mahoney agreed on all points except he had a man from his own State whom he wanted as Executive Secretary; he objected to Henderson having the title of Executive Secretary and wanted to appoint John D. Clark of his State to some important post in the study.

It was agreed that Arnold and Patterson would see O'Mahoney again to insist that O'Mahoney's first political appointee act as a personal assistant to O'Mahoney, and that Henderson should have a title enabling him effectively to coordinate the research. It was recalled that John D. Clark had written a bitter letter to the President when he did not get an appointment to an important post in the Administration, and had subsequently attacked the Administration, particularly on account of the oil prosecutions.

The meeting of the full Committee has been called for 2 o'clock tomorrow, and I verified with the group meeting this morning that it was all right for Peoples to attend, regardless of the fact that the resolution creating the Committee provides "Such representative may designate an alternate to sit and act for him on the Committee in his absence."

Confidential

June 30, 1938

CONFIDENTIAL

Memorandum to the Secretary:

Re: Meeting of Executive Representatives of Antimonopoly Committee

A confidential meeting of the Executive Representatives was held in the office of the Department of Labor Representative, Mr. Lubin, at 10:00 A. M. this morning, adjourning at 11:30 A. M.

Present:	From Justice	Thurman W. Arnold
	From Commerce	R. C. Patterson
	From Labor	I. Lubin
	From Federal Trade	G. S. Furgeson
	From Treasury	H. Oliphant and C. J. Peoples
	From S.E.C.	None

The purpose of the meeting was to receive an informal report of the results of the luncheon meeting Wednesday, June 29th, with Mr. Arnold, Mr. Douglas and Senator O'Mahoney.

Mr. Arnold stated that the Senator was agreeable to the Chairmanship and various other matters discussed the night before with regard to Public Statements, Witnesses, Publicity, Space and Staff.

Senator O'Mahoney desires that a Mr. Himber of Cheyenne be designated as Assistant to the Chairman, and while agreeing to the selection of Leon Henderson, he thought that the designation of the latter as Executive Secretary should be changed.

Those present at the meeting were of the opinion that as the Executive Secretary would be in effect the General Manager of the Committee it was vital to insist on his duties as such, with such title as Executive Secretary or Administrative Secretary or possibly as Coordinator.

As to Mr. Himber, the meeting thought that an effort should be made to have him designated as Personal Assistant to the Permanent Chairman.

Mr. Arnold and Mr. Patterson were to have a further interview with Senator O'Mahoney at 2:30 P. M. today.

Senator O'Mahoney also thought it would be well to take on a Mr. John D. Clark, but the executive members objected to this inasmuch as he has been a critic of the Administration, is the author of a book "Anti-Trust Laws", and is more or less monopoly minded. Therefore he was not agreeable to the executive members.

Mr. Arnold suggested that two official persons be designated with power to issue subpoenas either jointly or separately, one of whom would be available in Washington at all times. This was agreed to. The first meeting of the whole committee is to be held in Senator O'Mahoney's office, Senate Office Building, Room 224, at 2:00 P. M. July first.

C. C. Peoples

June 30, 1938

To: The Secretary

From: Miss Lonigan EL

Attached are two tables showing consumption of surplus commodities in the District of Columbia

1. Total poundage and estimated value, June, 1935 through June, 1938
2. Separate food items January, 1938 through June, 1938

SURPLUS COMMODITIES DISTRIBUTED

IN THE DISTRICT OF COLUMBIA

1938

	Commodities	Number of Pounds	Number of Families	Pounds per family per month
January				
	Apples	144,745	6,918	20.9
	Prunes (dried)	32,363	10,415	3.1
	Rice	20,618	10,415	2.0
	Shortening	32,534	10,415	3.1
February				
	Apples	316,305	10,832	29.2
	Celery	1,618	553	2.9
	Oranges	60,414	5,250	11.5
	Potatoes (white)	142,245	5,696	25.0
March				
	Apples	458,370	13,780	33.3
	Celery	33,622	13,780	2.4
	Lima Beans (dried)	32,361	11,267	2.9
	Oranges	247,002	13,780	17.9
	Potatoes (white)	110,600	13,780	8.0
	Rice	21,413	11,267	1.9
	Shortening	16,161	11,267	1.4
April				
	Apples	333,434	12,540	26.6
	Butter	23,323	9,910	2.4
	Cabbage	55,370	4,590	12.1
	Celery	54,486	12,540	4.3
	Dry Skim Milk	32,560	8,391	3.9
	Lima Beans (dried)	15,429	4,874	3.2
	Oranges	259,567	12,540	20.7
	Sweet Potatoes	162,670	7,842	20.7
	White Potatoes	133,280	6,346	21.0
	Rice	17,098	11,058	1.5
	Shortening	17,098	6,669	2.6
May				
	Apples (fresh)	71,531	2,414	29.6
	Apples (dried)	33,064	10,001	3.3
	Butter	30,997	11,802	2.6
	Cabbage	166,409	11,802	14.1
	Celery	49,690	885	56.1
	Dry Skim Milk	47,440	9,417	5.0
	Oranges	318,806	11,802	27.0
	Potatoes (white)	343,000	11,802	29.1
	Rice	43,717	11,802	3.7
	String Beans	13,939	3,717	3.8

SURPLUS COMMODITIES DISTRIBUTED

IN THE DISTRICT OF COLUMBIA

1938

Commodities	Number of Pounds	Number of Families	Pounds per family per month
June			
(Estimated)			
String Beans	38,717	11,710	3.3
Beets (fresh)	92,541	11,710	7.9
Dried Apples	40,860	11,710	3.5
Tomatoes (fresh)	24,550	11,710	2.1
Cabbage	58,601	11,710	5.0
Butter	30,543	11,710	2.6
Potatoes (white)	337,000	11,710	28.8
Oranges	156,712	11,710	13.4
Rice	42,767	11,710	3.7

SURPLUS COMMODITIES, DISTRICT OF COLUMBIA
ACTUAL DISTRIBUTION, JUNE 1935 - JUNE 1938

	Total Food (lbs)	Retail Value	Dry Skim Milk(lbs)	Retail Value	Eggs (doz)	Retail Value	Total Retail Value
935	-	$ -	-	$ -	-	$ -	$ -
une	104,915	20,983	-	-	-	-	20,983
uly	281,474	56,295	141	14	-	-	56,309
ug.	308,196	61,639	800	80	-	-	61,719
ept.	59,481	14,870	1,000	100	-	-	14,970
ct.	229,175	49,969	7,000	700	-	-	50,669
ov.	102,561	20,512	1,400	140	-	-	20,652
ec.							
936							
an.	388,648	77,730	19,600	1,960	-	-	79,690
eb.	433,084	86,417	12,000	1,200	-	-	87,617
ar.	459,905	91,981	4,486	449	-	-	92,430
pr.	412,765	82,553	15,332	1,533	-	-	84,086
ay	590,324	118,065	-	-	-	-	118,065
une	265,567	53,113	-	-	-	-	53,113
uly	313,147	62,629	-	-	-	-	62,629
ug.	217,478	43,496	-	-	-	-	43,496
ept.	217,107	43,421	-	-	-	-	43,421
ct.	221,949	44,390	-	-	-	-	44,390
ov.	356,829	71,366	-	-	-	-	71,366
ec.	300,417	60,083	29,933	2,993	-	-	63,076
937							
an.	261,287	52,257	-	-	10,708	3,212	55,469
eb.	229,441	45,888	-	-	34,798	10,439	56,327
ar.	137,904	27,581	-	-	35,908	10,772	38,353
pr.	312,949	62,590	6,563	656	-	-	63,246
ay	144,589	28,918	61,970	6,197	-	-	35,115
une	275,708	55,142	63,932	6,393	18,197	5,458	66,993
uly	665,100	133,020	37,236	3,724	5,803	1,741	138,485
ug.	246,278	49,256	35,182	3,518	-	-	52,774
ept.	422,335	84,467	25,157	2,516	-	-	86,983
ct.	562,996	112,599	13,603	1,360	12,388	3,716	117,675
ov.	759,734	151,947	650	65	24,376	7,303	159,315
ec.	360,020	72,004	-	-	-	-	72,004
938							
an.	230,145	46,028	-	-	-	-	46,028
eb.	548,430	109,686	-	-	-	-	109,686
ar.	935,554	187,111	-	-	-	-	187,111
pr.	1,087,222	217,444	32,365	3,237	-	-	220,681
ay	1,072,130	214,426	47,440	4,744	-	-	219,170
une	1,000,150	200,030	-	-	-	-	200,030

9 30

TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

OFFICE OF THE DIRECTOR

June 30, 1938

MEMORANDUM TO MR. MC REYNOLDS:

On June 23, 1938, there was delivered to the Procurement Division by Mr. Holmes of the Works Progress Administration, Requisition No. 7-32-D.C. for the following materials, allocated to the states indicated, which it was estimated would cost approximately $12,000,000:

	New York City	Illinois	Michigan	Ohio
Cement (barrels)	350,000	500,000	500,000	700,000
Sand	200,000 yds.	400,000 tons	225,000 T	500,000 T
Gravel	100,000 "	600,000 "	225,000 T	500,000 T
Stone	670,000 "	400,000 "	700,000 T	500,000 T
Asphalt	-	210,000 "	-	-
Maximum Funds Allotted	$2,000,000	$4,000,000	$2,400,000	$3,600,000

Instructions were given by telephone to each of the State Procurement Officers involved to issue proposals immediately for the quantities of materials allocated to each state. These proposals were issued on June 24, with the bid opening date set as June 29, for competitive bids.

Information was received yesterday by long distance telephone from each of the State Procurement Officers that bids had been opened, awards made, and practically all of the purchase orders issued, a few remaining to be issued today. Entire transaction completed today.

Of course, no definite information has been received as to prices to be paid but abstracts of bids received will be forwarded to the Procurement Division by each State Procurement Officer just as soon as they can be prepared. However, the State Procurement Officer in Ohio indicated that an exceptionally favorable price had been quoted on cement to be used in Cleveland—$1.45 per barrel, delivered to the project.

Director of Procurement.

Balance Sheet
of the
EXCHANGE STABILIZATION FUND
As of
June 30, 1938.

ASSETS:

Cash:		
Treasurer of the U. S., Gold	$1,800,000,000.00	
Treasurer of the U. S., Checking Account.	1,643,849.25	
Federal Reserve Bank of New York Special Account.	100,765,630.03	
Disbursing Officers' Balances & Advance Accounts	11,829.04	$1,902,421,308.32
Accounts Receivable:		
Due from French Cable Company.		5,007.34
Special Accounts of Sec'y of Treasury - Fed. Res. Bk. of N.Y.:		
Special Account No. 1 (Gold) 1,248,862.370 ozs. (See sched.#1)		43,701,226.28
Special Accounts Nos. 3 & 4 (Sterling and francs).		100,331.51
Foreign Exchange due from Foreign Banks - Secured Deposits:		
Central Bank of China 165,000,000.00 Yuan		48,487,500.00
Gold of Foreign Banks held with Fed. Res. Bk. of N.Y. as collateral on Exchange Deposits:		
Gold of Central Bank of China 1,395,381.168 ozs..		48,838,340.89
Investments - U. S. Treasury Bonds (See schedule #2)		15,107,637.53
Accrued Interest Receivable (See schedule #2).		52,042.78
Commodity Sales Contracts.		2,651.00
Total Assets		$2,058,716,045.65

LIABILITIES AND CAPITAL

Capital Account.		$2,000,000,000.00
Due to Central Bank of China		605.78
Commodity Sales Contracts.		2,651.00
Liability for Gold of Foreign Banks held as collateral: Gold of Central Bank of China.		48,838,340.89
Earnings (See schedule #2)	$10,235,737.45	
Deferred Credits - add	310,250.56	
	10,545,988.01	
General Expenses - deduct (See schedule #3)	671,540.03	9,874,447.98
Total Liabilities and Capital.		$2,058,716,045.65

Schedule #1
Attachment to Exchange Stabilization
Fund Balance Sheet
of
June 30, 1938

Special Account #1 - Gold

Schedule showing location of Gold held by and for account of the Exchange Stabilization Fund.

Gold held by	Ounces	Dollars
Bank of England, Account A	38,941.816	1,354,006.95
Federal Reserve Bank, New York	47,460.817	1,661,128.59
U. S. Assay Office, N. Y. (Held in safekeeping)	1,162,459.737	40,686,090.74
Total.	1,248,862.370	43,701,226.28

Schedule #2

Schedule showing total earnings of the Exchange Stabilization Fund from January 31, 1934 to June 30, 1938.

Source	Dollars
Profits on French Franc Transactions	352,014.24
Profits on Gold Bullion.	711,099.88
Profits on handling charges on gold.	1,772,273.12
Profits on Silver Transactions.	105,371.27
Profits on sale of silver bullion to Treasury (nationalized). .	3,473,362.29
Profits on investments	491,208.70
Interest on investments.	2,866,888.37
Miscellaneous Profits.	410.44
Interest earned on Foreign Balances.	56,740.83
Interest earned on Chinese Yuan.	406,368.31
	10,235,737.45
Deferred Credits	310,250.56
Total.	10,545,988.01

Investments:

Schedule showing Classes of U. S. Treasury Bonds held by the Exchange Stabilization Fund.

Class	Face Value	Principal Cost	Accrued Interest	Average rate at which bonds are held
2-7/8% U. S. Treasury bonds of 1955-60 . . .	$ 5,000,000	$ 5,026,562.50	$41,796.88	100.5313
2-1/2% U. S. Treasury bonds of 1949-53 . . .	10,000,000	10,081,075.03	10,245.90	100.8108
	$15,000,000	$15,107,637.53	$52,042.78	

Schedule #3
Administrative Expenses of the Exchange
Stabilization Fund from January 31, 1934
to June 30, 1938.

	Total
Salaries	$379,961.67
Travel	31,785.80
Subsistence	18,509.14
Telephone and Telegraph	171,622.29
Stationery, etc.	11,232.67
All other	58,428.46
Total	$671,540.03

June 30, 1938

Mr. Morgenthau had for luncheon Mr. Diggs, Mr. Eccles, Mr. Ransom, Mr. Jones, Mr. Crowley, Mr. Gaston and Mr. Upham.

Mr. Morgenthau inquired of Messrs. Diggs, Eccles and Crowley what they were doing to put into effect the agreement which had recently been reached with respect to bank examination practices. Mr. Diggs explained that the press release containing the agreement and the revised regulation had been sent out to the chief examiners and that instructions were being prepared to be sent to examiners, and it was hoped that they would go out very shortly and probably be in full operation by the 15th of July. Mr. Morgenthau inquired if the agreement was going into effect as of the 1st of July, and Mr. Diggs replied that it was, explaining that this is the vacation period for bank examiners and that the majority are now on vacations and that few examinations are in process.

Mr. Eccles and Mr. Crowley confirmed that they were working together and with the Office of the Comptroller in devising interpretative instructions for the examiners in the field. Mr. Crowley explained that his office was

working very closely with the state bank supervisors and that everything would be arranged shortly. He expressed some feeling that the agreement put the FDIC on something of a spot in that they would have some difficulty in cleaning up banks that ought to be cleaned up.

Mr. Morgenthau asked if now that the agreement was a week old, anyone had any serious criticism of it or if any "bugs" had been discovered in it; in short, if any mistakes had been made that ought to be corrected.

Mr. Eccles expressed his satisfaction with the agreement and his feeling that it will be very helpful to the whole economic and recovery picture and that it represents a step in the right direction.

Mr. Diggs said that he believed it ought to be given a fair trial and that he saw nothing which could not be worked out if administered in the right spirit.

Mr. Crowley read a memorandum which he had brought with him which he regarded as interpretative of the agreement and tried to get those present to agree that his interpretation was correct under the agreement. This

brought on some discussion of the two philosophies of (1) bank examination as a factual accounting protection of depositors; and (2) bank examination as an added (or at least not a hindrance) to economic recovery and prosperity.

Mr. Diggs mentioned the situation of the bank in Homestead, Pennsylvania, as one of the problems facing his office, and Mr. Morgenthau was inclined to the view that if they only found one bank so far, the agreement was even better than he thought it was.

Mr. Crowley expressed the view with some vigor, and it appeared that Mr. Jones was in complete agreement with him and Mr. Eccles more or less so, that supervision of bad banks where there was inferior management or concentration in poor loans and poor securities would have to continue to be vigilant even under the agreement. Mr. Jones especially expressed the view that where there was an impairment of capital, the "screws" should be put on to compel the restoration of capital either by local subscription or through subscription by the RFC.

At 2:10 p.m. Mr. Morgenthau left and the rest of the group carried on the discussion for another half hour.

June 30, 1938

In laying the cornerstone of this new home for the National Institute of Health we mark another important step in a great program of serving real human needs in our land. These buildings will be a unit in a greater structure of organization and service. That greater structure has been reared by the unselfish energy of our pioneers in the continuing war against disease ~~and their worthy successors of today.~~ I am happy to have been permitted to have a ~~small~~ part in this great work and especially to have had the opportunity to join the Postmaster General in allocating funds with which to rear these structures on the site made available through the generosity of Mr. and Mrs. Luke I. Wilson. We are making here a sound investment of public funds in an enterprise certain to return dividends to the people in the form of new contributions to more healthful and happier living.