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July 1, 1938.
9:20 A. M.

Operator: Dr. Magill.

H.M.Jr: Thanks. Hello.

Operator: Go ahead.

Roswell
Magill: Hello.

H.M.Jr: Ros.

M: Good morning, Henry.

H.M.Jr: Where are you?

M: I'm up in Ca' - ah - in Bethel, Maine.

H.M.Jr: Good. Got your family with you?

M: Got the whole family with me. We're taking Kitty to camp, and ah -

H.M.Jr: Uh huh.

M: We're just about to take her down this morning.

H.M.Jr: Well the reason I'm calling you is this. I'm swearing in Hanes this afternoon at two thirty.

M: Yeah.

H.M.Jr: And he says they're kidding him about being a female Josephine Roche.

M: (Laughs.)

H.M.Jr: And - ah - would it be all right to say - ah - that when you retired he would take over Internal Revenue - and I didn't want to do it without talking to you.

M: Well, I think that - ah - it - it - it's just up to you. I presume that as far as retiring is concerned, I'll be doing it in probably a couple months, won't I?

H.M.Jr: Well, I don't know. He looked it up - he looked up the Columbia catalog and he's found that you're announced as teaching this fall.

M: That's right.

H.M.Jr: So he said, "Why is there any mystery about it?"

M: Yeah. Well, I don't think there is, as far as the papers are concerned.

H.M.Jr: Yeah.

M: Of course, - ah - as you know, I haven't yet resigned. How does that come in?

H.M.Jr: Well I don't know - I simply think - ah - in order to make - ah - I think when you come back - ah - I don't think you have to say anything until you do resign. I'd simply

M: I wouldn't think so.

H.M.Jr: I'd simply say that you're going back to Columbia and when you do - ah - he'll take over Internal Revenue.

M: Ah - I don't see any objection to that. Ah - why don't you say it?

H.M.Jr: All right.

M: I'd rather have you say it than have him saying it.

H.M.Jr: Oh no! He won't say it. No, no, no, no. No, I'll say it.

M: I think that'd be better.

H.M.Jr: Oh no. No, I wouldn't have him say it for the world.

M: Yeah.

H.M.Jr: No. I'm simply saying that - ah - you expect to return to Columbia to teach and when you do, why, ah, Mr. - ah - Hanes will take over; and in the meantime he's going to learn the business.

M: I think that's all right. The - ah - ah - I don't see that that does any harm, because, of course, there's been so much stories - so many stories going around anyway.

H.M.Jr: That's right.

M: It might be just as well to have it said officially.

H.M.Jr: I think so - rather than - otherwise, he'll be saying it.

M: Yeah.

H.M.Jr: Yeah.

M: I'll - it - ah - I can't see any harm in it at all. It - ah - it conceivably will weaken my position a little in the next two months, but I don't think that makes much difference.

H.M.Jr: Well, ah - we

M: Because it's generally known I'm going anyway.

H.M.Jr: Yeah.

M: Ah, when do you expect to go yourself, Henry.

H.M.Jr: On the fifteenth.

M: On - you - you're pretty - is that worked out all right?

H.M.Jr: Definitely.

M: That's good.

H.M.Jr: If you have any feeling about it, say so.

M: No, I don't see that it makes any difference. The thing-- ah - as a matter of fact, I think as things have gone, it might be somewhat better to have an official announcement than to have it just being sparred around as it has been.

H.M.Jr: All right.

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M: Don't you?

H.M.Jr: Yeah. I think so. I wouldn't call you up unless I thought it was all right.

M: Yeah, I think that's the best thing to do.

H.M.Jr: How are you feeling?

M: I'm feeling very well. We've - ah - we've, of course, had this rainy weather all the time, but - ah - ah - I've had really a very good rest. I haven't - ah - called you up because I didn't want to bother you. I knew you had enough to do any way.

H.M.Jr: Well, I didn't call you because I - I wanted you to have a good time.

M: I thought your speech was excellent.

H.M.Jr: You liked it.

M: I liked it very much. I think - ah - I think you - you get the blue ribbon on the commencement speeches this year.

H.M.Jr: I get what?

M: I think you get the blue ribbon on the commencement speeches this year.

H.M.Jr: Thank you.

M: I thought it was excellent. Did you enjoy the party?

H.M.Jr: Very much.

M: That's good.

H.M.Jr: As a matter of fact

M: I'd like to see you again - I thought I'd come down the night of the fifth, if that's all right.

H.M.Jr: Fine.

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M: And I'll see you then early on the sixth.

H.M.Jr: As a matter of fact, I haven't seen any really good commencement speeches, (laughs) besides mine.

M: (Laughs) I don't think there were any.

H.M.Jr: Have you?

M: No, I haven't.

H.M.Jr: I haven't.

M: No, I - I - it was the - it was the same old bunk everywhere else.

H.M.Jr: I - well, I haven't seen any that stood out - that stuck out.

M: I - I think you - I think you easily get the first prize.

H.M.Jr: Thank you so much.

M: Ah ha. Well, I saw your son's college yesterday - it looked very pleasant.

H.M.Jr: Good.

M: Well, I'll see you on the sixth.

H.M.Jr: Fine.

M: Bye.

July 1, 1938.
9:26 A. M.

H.M.Jr: Hello.

Operator: Governor Harrison is out of his office, and Dr. Burgess is not there. I have Mr. Matteson.

H.M.Jr: All right.

Operator: All right. Go ahead.

H.M.Jr: Hello.

Mr. Matteson: Hello.

H.M.Jr: Matteson.

M: Good morning, sir.

H.M.Jr: Good morning. Ah - Mr. Jesse Jones has just been in.

M: Yes.

H.M.Jr: And he thinks he may want to borrow some money now.

M: Yes sir.

H.M.Jr: On - ah - some notes.

M: Yes sir.

H.M.Jr: And he's talking about borrowing between two hundred and fifty and five hundred million dollars.

M: Yeah.

H.M.Jr: Now - ah - the suggestion I made to him is that if he's going to do that, he borrow a hundred million for one year, a hundred for two, three, four, and five - see?

M: Yeah.

H.M.Jr: Hello.

M: Yes sir.

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H.M.Jr: Ah - he can't do a discount note.

M: No.

H.M.Jr: Hello.

M: I see.

H.M.Jr: Ah - of course, which we can.

M: Yes sir.

H.M.Jr: Or, you could say price them at one and a quarter and sell them - ah - let's auction them off.

M: Yes.

H.M.Jr: Or, we could do just the way we do - sell them and decide what the price is - sell them at par.

M: Yes.

H.M.Jr: Ah - I think it might be interesting to the idea of exploring the possibility of a - of selling them just the way we sell our bills.

M: Yes sir.

H.M.Jr: See?

M: Yeah.

H.M.Jr: And then, of course, we'd get him the very best price.

M: Yes.

H.M.Jr: Not to attempt, to fix the interest, you see, that way we'd just sell them on a discount basis.

M: Yeah.

H.M.Jr: Now, I wish that you'd begin to talk about it - talk to the people in the Street and see how they feel about it, and then - ah - will Burgess be back Tuesday?

M: Yes.

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H.M.Jr: All right. And then - and you - you or Burgess give me a ring..

M: Yes sir.

H.M.Jr: Now, we don't have

M: Ah - ah - you'd like to have us call you back about Tuesday?

H.M.Jr: Yeah. Let me know.

M: Now, as I understand it, it will be some where between two hundred and fifty million and five hundred million.

H.M.Jr: Yeah.

M: Of serial notes?

H.M.Jr: Well I - I'd do - my thought is to do a hundred million for one year, a hundred for two, a hundred for three, a hundred for four, and a hundred for five years.

M: Yes.

H.M.Jr: Or he could do it all for five years. In other words we can do it the way the market wants it, but I'd rather do it - ah - divide it up like that - a hundred for one year, a hundred for two.

M: Yeah. Off hand I - off hand I would favor that.

H.M.Jr: A hundred for three, a hundred for four.

M: Yeah.

H.M.Jr: Date them July fifteenth and offer them on the eleventh.

M: Yeah.

H.M.Jr: See?

M: Yes sir.

H.M.Jr: Offer them on the eleventh and date them July fifteenth.

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M: Yes.

H.M.Jr: What do you think of selling a discount note? You know, this is a wholly guaranteed R.F.C. note.

M: Hmm. Ah - personally, I - I think that it's - that it would have one big advantage in one way, that - that we've got a - that we've got a short market here....

H.M.Jr: Yeah.

M: ... which is a cock-eyed sort of an affair.

H.M.Jr: Yes.

M: And - and to put some more notes in that - in that place where - where there is such a vacuum and all that, that - that it would be - that it would be a nice thing to do.

H.M.Jr: I think so.

M: Yep.

H.M.Jr: Now, my thought ...

M: This is - that would be - that would be the most controlling thing, in my opinion.

H.M.Jr: He doesn't need the money now, but he wants the low interest rate, and I thought if you let the people know in the Street that we were thinking about this, they could do a little talking and size the thing up and then maybe Tuesday you can give me a ring.

M: Yes.

H.M.Jr: You see, it gives them a chance to think about it.

M: Yes. These - this - this would be - ah - the note of the - of the Reconstruction Finance Corporation.

H.M.Jr: Yes - which, as I understand it, is a wholly guaranteed note.

M: And

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H.M.Jr: And would be handled ...

M: And ...

H.M.Jr: ... be offered by the Treasury.

M: And fully guaranteed.

H.M.Jr: Yep. Offered by

M: And would you offer them?

H.M.Jr: I would offer them.

M: I see.

H.M.Jr: The Treasury would.

M: I see.

H.M.Jr: Through - through ...

M: Well, that would - I'm glad that you had wrapped them up that way. I think that that would help a great deal.

H.M.Jr: No, I'd offer them.

M: Yes.

H.M.Jr: Through ...

M: That would be fine.

H.M.Jr: Through - through the Federal Reserve System.

M: Yes. And we'd handle it the same as you do our auctions on the - on the Treasury bills.

H.M.Jr: Yes.

M: I think it has advantages.

H.M.Jr: Oh yes.

M: I don't see any disadvantages offhand.

H.M.Jr: If you want any details as to the tax features or anything, call up Dan Bell.

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M: Yes. All right.

H.M.Jr: Call up Dan Bell, will you?

M: All right, I'll do that....

H.M.Jr: What?

M: ... and get that end of it, because we'll probably be asked that question.

H.M.Jr: Well, anything you want on that, call up Bell.

M: All right. Thank you.

H.M.Jr: Goodbye.

GROUP MEETING

July 1, 1938.
9:30 a.m.

Present: Mr. Oliphant
Mr. Gaston
Mr. Haas
Mr. White
Mr. Upham
Mr. Lochhead
Mr. Gibbons
Mr. Bell
Mr. McReynolds
Miss Chauncey

H.M. Jr: Good morning.

Gaston: Good morning.

Gibbons: Good morning.

H.M. Jr: Archie, see if those look all right, will you please (handing Lochhead some material in envelopes).

I had Jones in this morning and we went over his interest rates for the next six months. I showed him this paper - take this - ...

Chauncey: Uh-huh.

H.M. Jr: ... and so he came back and said, why wouldn't we let him sell his own securities, we refused to let him sell his own securities. And I said no, that wasn't so, we had suggested that he wait until he got his balance sheet cleaned up, which he now has. So there is the possibility we may offer 500 million dollars. He wanted 500 million, five-year note, - I'm doing this for the record - and I suggested a hundred million for one year, a hundred for two, a hundred for three, a hundred for four, a hundred for five. Bell said, possibility of selling a discount note just like our bill.

I've talked to Matteson and Matteson says he likes it just for one reason: it would fill a tremendous vacuum. And he says he likes the idea of a discount, and he said he'd get busy and sound the market out and let us know Tuesday. I said I thought - I wish you (Oliphant) would check this - that this thing was tax-exempt - wholly tax-exempt, except

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Bell: That's right, same as Governments.

H.M.Jr: But not for surtaxes.

Bell: Surtaxes.

H.M.Jr: What?

Bell: Not for surtaxes, inheritance.

H.M.Jr: I think, Herman, if you could have somebody get me out this morning a little memo just what the Treasury-R.F.C. notes are, and then give a copy to me and a copy to Bell. And if you get it to Bell - before one o'clock or before 12?

Bell: Before 12.

H.M.Jr: All right, before 12 o'clock. If he's not here, he's got - who can send it up, who could forward it up to your - to the Federal Reserve?

Bell: I'll do that.

H.M.Jr: What?

Bell: I'll do that.

H.M.Jr: Well, your office could do that. If it comes in after 12, who's up there?

Bell: Mr. Collins will be there.

H.M.Jr: All right. But I think they ought to have that.

And then, Cy, would you call up the Federal Reserve and tell them what's in the offing, what we're doing?

Upham: You mean ...

H.M.Jr: Eccles.

Upham: You mean here in town?

H.M.Jr: Yes, surely. See? And the reason that I'm - of course, what Jesse is doing, he's jockeying; he says, "If I get $1\frac{1}{4}$ in the market, why don't you charge me $1\frac{1}{4}$?" We're jockeying for interest

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rates. I don't know whether he really wants to sell, but both parties are having a good time and both know what we're doing. It's all right. But it may - and the only reason that I'm going along is that I'm looking forward to September and December; it would mean we have to ourselves borrow 500 million dollars less. Looking forward to that 900 million dollar note coming due next March, see? It's not so dumb.

But for Heaven's sakes don't anybody breathe it, and please caution the Federal Reserve over there, so that Ted Goldsmith and the rest of them don't find out about it.

Upham: Would this be about the 15th of July?

H.M.Jr: Uh-huh, offer it on Monday the 11th.

Ted can have it for Saturday a week bulletin, but not this one.

Gaston: Yes.

H.M.Jr: (Laughs)

Gaston: Don't forget that Ted will get the announcement of the financing just the same whether we give it to him or not.

H.M.Jr: All right, don't tell the Federal Reserve until next Tuesday. Skip it.

Upham: Tuesday.

H.M.Jr: All right, let it go, don't tell them. The Fed in New York - time enough to tell them O.K., Mr.... ?

Gaston: Yes, yes.

H.M.Jr: I don't want it to leak over the week-end.

Gaston: No, but I wasn't speaking about the Federal Reserve. I mean that when we give it out to the press

H.M.Jr: Let it go. The hell with it. Let it go until Tuesday, that's time enough. Oh, as a matter of

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decency we've got to tell them, though. You call them up, but caution them. Just as a matter of decency, we've got to tell them.

Mac, you all ready for the battle at ten o'clock?

McR: Yes, sir. That is, the Admiral's - I told him to be over here with all ...

H.M.Jr: You got your stuff?

McR: Yes, I've got some statistics.

H.M.Jr: All right.

Bell: What time can I see you on this statement?

H.M.Jr: You're a nuisance.

Bell: About 15 minutes.

H.M.Jr: You're a nuisance. Well, I got Parran 10:30. I got this lawyer coming in to see me at 11, to which you (Oliphant) are invited.

Oliphant: Which one is that?

H.M.Jr: He's flying from Los Angeles. Friend of Miss Chauncey's. You (Chauncey) weren't in on this, were you?

Chauncey: (Nods no)

Oliphant: Mac and I would like to have you - while you're looking at your calendar - talk about Katz, if you want to give the answer to ...

H.M.Jr: Well, let's see, Mr. Bell spoke first. 11:15, Mr. Bell?

Bell: Fine.

H.M.Jr: And Mr. Oliphant, 11:30. I'll tell you how we'll do it. Oliphant can stay behind, so we don't keep running in. "H.O., 11:15; Bell, 11:30." How's that? Save you walking back and forth, see?

Oliphant: 11:15.

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H.M.Jr: (On phone) Tell that tailor I can see him at two.
2:30, we're swearing in Mr.

McR: Hanes.

Gaston: Yes. Want to let - might as well let the boys
know, I suppose.

H.M.Jr: Right.

Gaston: That will be here.

H.M.Jr: You got the makings, Mac?

McR: Yes, all ready.

H.M.Jr: In the room - it's terribly funny - he said, "Gosh,
I want you to announce what I'm going to do, because
over there at S.E.C. they call me the 'female
Josephine Roche.'"

(Hearty laughter)

McR: The assumption is that the original wasn't female.

H.M.Jr: What?

McR: That the original wasn't female.

H.M.Jr: I'm not quite up to that, Mac. I've got to think
that one over.

McR: Think it over.

H.M.Jr: All right, all right.
Dan, you're fixed?

Bell: Uh-huh.

H.M.Jr: While we're talking financing during the summer, I
wish you (Haas) would have Seltzer and Murphy do me
a study on the possibilities of financing this
Government next - national income per capita head,
all that stuff, see, in relation to other countries.
I mean let's just take what we - could we do if we
were pushed to it, and then set this thing up. I

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wish that you'd be talking to Dan and White. And are you going to set this thing up on the "Svedish" basis, just to take a look at it when I come back?

Bell: I don't know whether we'll - we can do something with it.

H.M.Jr: Just take a look at it.

Bell: We can't break down our

H.M.Jr: Let's take a look at it! What I'd like is, let's take - let's set this thing up - I mean let's take a look at the money on the basis of what we have given away and what we've got invested in fixed assets.

White: We have a memorandum almost all ready on the Swedish budget, for Danny's information.

H.M.Jr: What I'm going to do is appoint a committee - Dan will appoint a representative, because he won't be here - will you appoint a representative?

Bell: Yes, I will.

H.M.Jr: And White and Haas. And I want the three of you to work on that thing, see, and have something for me when I come back, and have it ready for me day after Labor Day. I mean just exploring this thing - I mean we've always taken the attitude that we're terribly ashamed of our deficit, maybe we can sneak by, so forth and so on; just as a matter of interest, let's take a look at it the other way. You remember when I made that speech in '34, we added everything up, we had a profit? Remember?

Haas: Uh-huh.

H.M.Jr: What?

Haas: Uh-huh.

H.M.Jr: Look at that speech I made in '34 on the debt. We did it that

Gaston: It can still be done.

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White: The President made some remark this morning

H.M.Jr: I know, that's what I'm ... We did. We had a profit.

Bell: How you can arrive at something

White: You'd still have a profit, despite that.

H.M.Jr: O.K. Now I want Haas - I want the three of you - when I come back, I want a first-class presentation on that thing, see? You get it, George?

Haas: I get it.

H.M.Jr: And George, look at my speech of '34 and then take it from then and bring it up to date, see?

Haas: Yes, sir.

H.M.Jr: With the possibility that I might want to talk on it. Now, I've never had the nerve to say, "Why, a 50 billion dollar debt for this country would be nothing." I don't know whether it would or not, but ...

Bell: I don't think you should say that even if you find it out.

H.M.Jr: What?

Bell: I question whether you should say it if you find out that you can say it.

H.M.Jr: I know, but I can - I'm just raising it, I'm just looking forward. I mean - what's the Swedish

White: Myrdal.

H.M.Jr: He said the same thing - it wasn't he, it was Alva Johnson, not the Saturday Evening Post one, of the School of Research - he spent an evening with me the other night, and he was saying that he thought it was very sensible that I had never talked about the debt, just gone along; but he said the time was coming when I should.

White: The time is coming when a reexamination of the

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whole philosophy, I think, is in order.

H.M.Jr: He said I should - incidentally, he's doing a research job - I don't like to repeat it, but he said it - on every single financial move that I've made. He said he can't find a single mistake. He's doing an article for Forum. And he wants to know how I get my luck.

Haas: In the elbow.

H.M.Jr: Yes. But seriously, you three, I'd just like to reexamine this whole thing, and what - I mean I'm not saying I'm going to do this, but the approach - I don't want you fellows to be so timid about it, see?

Haas: Yes. There's another angle, Mr. Secretary - you probably have it in mind - that will come up very soon, which is that - take this Swede's proposal; think we ought to examine - might do it in the same document - examine the - is the tax structure high enough in a period of prosperity to do these things?

H.M.Jr: All right. O.K.

Haas: That's very important.

H.M.Jr: Did he leave a booklet with you (Bell)?

Bell: No, he's going to give me a memorandum, and the theory is to reduce taxation in the depression.

Haas: That's a - but you have to have it high enough in ...

H.M.Jr: In good times.

Haas: Yes.

H.M.Jr: Well, I don't know, I think it would be very healthy over the summer - I'm not saying - recommending everybody take a month - but we've got July and August, and during that period, that the study should be made and be ready for me on the sixth. I want the combined brains of the Treasury, and if you - if

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there is anybody that you think is smart and want to bring them in for a month - if you think about it the next two weeks and would like to have somebody special in on this study, let me know. There might be some economist - someone might be glad to come down for a month and help on it.

Haas: O.K.

H.M.Jr: But I think we distinctly need a fresh viewpoint on this thing. I mean we've taken this defeatist attitude right along, that it's something to be terribly ashamed of. Maybe it isn't. I don't know.

Haas: Give you a long-term philosophy that will work - from this we'll work it out.

H.M.Jr: I'm talking in terms of ten years.

Haas: That's right.

H.M.Jr: I'm talking in terms of ten years, George.

Haas: Uh-huh.

H.M.Jr: See?

White: Incidentally, there was another man dropped in to see me, not a foreigner, who, quite independent of all this, likewise stressed that. Apparently the thing is spreading, so that an examination on your part even publicly would not at all be the drastic, radical thing that it would have been, let's say, even six months ago.

H.M.Jr: Herbert, when did I give that talk, was that '34?

Gaston: Yes.

H.M.Jr: What?

Gaston: Yes.

H.M.Jr: Well, I think you should take that as a jumping-off place, because it will be four years. Once in four years isn't very often.

Gibbons: That's the speech where you showed a profit on gold, that you made here one night?

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H.M.Jr: I made it here. It was a question of - we took all the assets.

Oliphant: Different drawers.

Haas: You had a drawer.

H.M.Jr: And added it up. We had a billion dollars left over. None of us had had the nerve to

Gibbons: Talked in terms of the business man.

H.M.Jr: Incidentally, if I did it in September and October, it wouldn't hurt any for the election.

Gibbons: Incidentally, eliminating your Federal debt and taking all the question of utility and state, municipal and county debt, the interest at three percent is a hundred million dollars more a year than our exports have been - average for last ten years. In other words, our exports, including from '26 the high years up to '29, average three billion 800 million a year, and figuring it at three percent, your bonded interest - farm mortgages and one thing and another, exclusive of Federal debt, is about a hundred million dollars more.

H.M.Jr: Than all exports.

Well, George, you got it?

Haas: Yes.

H.M.Jr: Harry?

White: I was going to suggest, what do you think of trying our hand to accompany a report of that kind with a preliminary speech, see what it looks like, so we can have some draft before you when

H.M.Jr: Before I go?

White: ... you come back. No, not before you go. Have something ready, a preliminary draft, by the time you come back.

H.M.Jr: Yes. But you've got the idea.

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White: Because there won't be much time left if you wish to make one.

H.M.Jr: But Seltzer and Murphy ought to be able to help you.

Haas: Oh yes, it's their field. If they can't

H.M.Jr: You men might think of somebody else, I don't know.

White: I think it is the most important thing on the docket, to do that.

H.M.Jr: Johnson's attitude is very interesting on this whole thing - very interesting.

Gibbons: Waesche and I come in at 11.

H.M.Jr: 11?

Gibbons: From yesterday.

H.M.Jr: No, not that I know of. Is he ready to buy? Ready to close that contract?

Gibbons: I hadn't talked - he wasn't; two days ago they were still trying to work something out.

H.M.Jr: No, I think - ask him. If he's not ready - I mean I'm awfully jammed now.

Gibbons: Yes. You'll be here on Tuesday, Wednesday?

Lochhead: There are these figures.

H.M.Jr: Thanks.
Harry?

White: You notice, I take it, that Great Britain for the first time joined the procession and bought a substantial amount of securities on balance. Just a little late. Then I have some samples of the sort

H.M.Jr: If you'd stay behind with Gaston a minute, we'll settle that in about two minutes.

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H.M.Jr: Could you (Chauncey) lay your hands on that pamphlet by Sam A. Lewisohn?

Chauncey: I think so, yes.

H.M.Jr: With his card on it.

(Miss Chauncey leaves)

H.M.Jr: Cy?

Upham: The closed banks - the local closed banks here in the District of Columbia have left mainly notes representing borrowings of Government employees, and they're very reluctant to pay, and you cannot garnishee their wages, and the Comptroller is thinking of the possibility of warning them that unless they do something about it he'll inform the heads of their departments and agencies

H.M.Jr: Talk to McReynolds.

Upham: Talk to Mac about it.

H.M.Jr: Will you? Will you talk to McReynolds?

Upham: Yes.

H.M.Jr: Talk to McReynolds about it.

(To reporter) Put this in the record, will you?
(Material quoted as follows:

"Postal Savings

Special 2% ctfs. - 45 million

Cash on hand - \$3,988,247

Want this entire amount on reserve.

"F. D. I. C.

Special 2% ctfs. - 85 million

Cash on hand - \$20,091,654.

Want this entire amount on reserve.")

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And that ought to be taken up - for instance, we've got this cooperative loan society. What do you call it?

Oliphant: Credit Union.

H.M.Jr: What?

Oliphant: Credit Union.

H.M.Jr: Yes, Credit Union. There's a Credit Union in every department. Is there an interdepartmental committee on Credit Union?

McR: No. Handled through Farm Credit.

H.M.Jr: They've got a man there.

Oliphant: I think that's a splendid suggestion.

H.M.Jr: What?

Oliphant: That's a splendid suggestion.

H.M.Jr: Why isn't that ...

Oliphant: Step in and refinance on a sound basis and make the fellows dig up the difference; and let them refinance on a sound basis.

H.M.Jr: Yes, Mac. You used to be in Farm Credit.

McR: You can get those boys to work.

H.M.Jr: See? There you go. That takes them out of the hands of the loan sharks. That's what it's set up for. How much does it amount to?

Upham: Oh, I don't have any total. Quite a bit.

H.M.Jr: Well, anyway, I think that there would be the place to put it.

Anything else?

Upham: No, that's all.

H.M.Jr: George?

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Haas: (Bringing up black book) Just one figure in here.
(Miss Chauncey returns with pamphlet)

H.M.Jr: Thanks.

Haas: This morning a figure came out - this Engineering News Record figure. Did you see that?

H.M.Jr: Yes, big - quite a fat rain drop.

Haas: Yes.

H.M.Jr: 65 million or something.

Haas: Yes, it was a hundred percent over the previous week and 22 percent over a year ago.

H.M.Jr: Mostly (?) money.

Haas: Yes, and public projects. But it shows they're coming out now. I have nothing else.

H.M.Jr: Herbert?

Gaston: Mr. Duffield noticed that a Chinese was in here yesterday or the day before, so he wants to know whether we've made a new agreement.

H.M.Jr: Wrong. He's wrong. He was not a Chinese.

Gaston: Oh, it was a Siamese.

H.M.Jr: Just a moment. Will you (Chauncey) please give him his name? Si

Chauncey: Wasn't it "Si" for short?

H.M.Jr: We called him "Si" for short.

Gibbons: Did he look anything like Cy?

H.M.Jr: No, but he had a very charming wife - the Princess.
Don't you - just tell what's-his-name that there was no

Gaston: No Chinese in.

H.M.Jr: No Chinese in.

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- Haas: Duffield will get so he can't believe his eyes.
- Lochhead: Duffield says, "You're consorting with the Chinese again." I really didn't take it seriously, didn't connect that up.
- H.M.Jr: Incidentally, I met his wife. She is a Princess and a very handsome woman; talked beautiful Oxford English. So if you have any trouble with this "Si," as we call him - he's got a name that long, the oddest thing you ever saw.
- Herbert, anything else?
- Gaston: That will just stimulate interest - "He's not a Chinese."
- H.M.Jr: All right.
- Gaston: That letter that came to us through Mrs. Roosevelt - that man Paul Mantz who was connected with Amelia Earhart is asking for information that we can very properly give him.
- H.M.Jr: All right, for God's sake give it to him.
- Gaston: So we're writing a letter.
- H.M.Jr: I hope he has something about Mr. George Putnam too. We can give him something about him. So and so.
- Gaston: He wanted time of departure and wind directions and some signal exchanges, and so on.
- H.M.Jr: He can have it. Anything else?
- Gaston: No.
- H.M.Jr: Herbert - Herman?
- Oliphant: I've written a letter declining a request from Mr. Biddle, who has been retained as counsel for TVA, to loan him a lawyer for six months.
- H.M.Jr: You've declined it?
- Oliphant: He called me up.

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H.M.Jr: Have you got a good lawyer you want to get rid of?

Oliphant: Not any more.

H.M.Jr: What? All right. What else?

Oliphant: I'd like to tell this story - take a minute.

H.M.Jr: Good story?

Oliphant: The moral is the excellence of the Civil Service - of the Federal Government when pitted against high-priced lawyers. The settlement of the Mellon case was agreed upon at a flat sum - among others, the R. B. Mellon estate case. And then we got several communications from them that they were having trouble raising the money, and finally they suggested that we assess a transferee tax against some people to whom some of R. B. Mellon's estate had been transferred, which seemed like a reasonable request. But the boys - Phil asked them, "If we do that and the transferee pays the tax, will he deduct that in his income tax?" He says, "Yes." The savings would have been two hundred thousand dollars. Phil said, "Nothing doing."

H.M.Jr: Who's Phil?

Oliphant: Phil Wenchel.

H.M.Jr: Well.....

McR: They just tried to put something over on him and he saw what it was before he finished.

H.M.Jr: O.K. Now what comes at ten, Mac?

McR: Peoples.

H.M.Jr: All right. O.K. - if you'll stay, Harry and Herbert. And you (Oliphant) are a professor - get your advice as professor; I'm serious.

Postal Savings

Special 2% ctfs. - 45 million

Cash on hand - \$3,988,247

Want this entire amount on reserve.

F. D. I. C.

Special 2% ctfs. - 85 million

Cash on hand - \$20,091,654.

Want this entire amount on reserve.

ESTIMATED QUANTITIES OF FOODS AVAILABLE FOR
PURPOSES TO BE DISTRIBUTED BY

FEDERAL SURPLUS COMMODITIES CORPORATION
FISCAL YEAR 1938-39

<u>COMMODITY</u>	<u>UNIT</u>	<u>TOTAL PURCHASES</u>	<u>CONVERSION FACTOR</u>	<u>POUNDS</u>	<u>PER FAMILY PER MONTH</u>
Flour & Cereals	lbs.	1,352,600,000			45.1
Dried Beans & Peas	lbs	103,700,000			3.5
Fresh Vegetables	lbs.	200,000,000			6.7
Deciduous Fruit	bu.	2,000,000			3.2
Citrus	bxs.	3,250,000			7.8
Dried Peaches	lbs.	20,000,000			0.7
Raisins	lbs.	62,000,000			2.1
Prunes	lbs.	83,000,000			2.8
Potatoes	bu.	750,000			1.5
Butter	lbs.	50,000,000			1.7
Dry Skim Milk	lbs.	47,000,000			1.6
Vegetables Canned	cases	1,500,000			1.8
Canned Fruits	cases	2,000,000			2.4
Rice	lbs.	100,000,000			3.3
Syrup	gals.	700,000			0.2
Cheese	lbs.	2,880,000			0.1

July 1st 1938

RE SURPLUS COMMODITIES AND HEALTH
STUDIES

July 1, 1938.
10:30 A.M.

Present: Dr. Parran
Miss Lonigan

H.M.Jr: Miss Lonigan, I read your two memoranda. When you get in this production for use stuff, you're way above me.

Lonigan: It may go very fast.

H.M.Jr: I mean I could not understand your memoranda.

Peoples was just in. When they get through buying men's clothing, they're going to buy women's underwear and dresses. I'm going to call the President.

All right, I'm at your service.

Parran: You've seen the memo from Miss Lonigan of the conference we had. Since then I have had a letter from Dr. Stanley, and the first point she made was that Wallace would be willing to allot an estimated \$30,000. The total budget we submitted for the study was \$41,000, and WPA seemed interested in approving white collar projects; and we thought of the \$41,000, around \$15,000 could be taken care of through a work project. Dr. Stanley, however, has written me a letter under date of June 28 in which she does not agree to the type of studies we had proposed, and proposes certain other studies which our people think are not so good. In a word, the chief difference is, they say they have certain data gathered from spot studies in the past and when they are worked up they will give us the information we could get from our studies, and that the studies made two years ago will be as valuable as one made more recently. She does not indicate when they will be ready, and we can't get the information.

As far as carrying out another medical study in New York City in a large high school there, such as we proposed, she has countered with an alternate study of 250 families. Our people think, and I think Miss Lonigan agrees, that the study we had proposed originally to cost around \$31,000 would be much more valuable than what Dr. Stanley proposes. In other words, they have the money, however, and presumably will use it for the type of study they wish to carry out.

It gets down to the fact that if we could find \$15,000 we could carry out the New York studies on our own, plus WPA money to pay the difference.

H.M.Jr: I think I'm going to let you carry the ball on that.

Parran: I talked with McReynolds to see if there was a possibility of getting emergency money. As to the general attitude of the Surplus Commodity people, Williams wonders whether they should concern themselves officially or whether they should consider actual relief needs in such places. On that they have not made any decision.

Lonigan has a table - perhaps you would want to show that to the Secretary - which is an estimate of what the Surplus Commodity people expect to purchase during the coming year. That much food will cost about \$60,000,000, which they have. You notice that at present they have purchased about 25,000,000 bushels of wheat.

H.M.Jr: That's a big improvement, if they go through with this.

Parran: It is.

H.M.Jr: Tremendous.

Parran: And in the right column that's been converted into pounds of food per month per family.

H.M.Jr: This would go to families who are not on relief, or are not on public direct relief.

Lonigan: Only to families on work relief or direct relief.

H.M.Jr: This is something to smile about.

Parran: It is a big improvement, and they have agreed if they do not purchase beans and peas this month, they will try to substitute some canned food.

H.M.Jr: Grand.

Lonigan: There was a clipping in the paper yesterday which

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said that Federal Surplus Commodity was going into purchasing in a big way of potatoes, fruit and other commodities, except wheat and cotton, which were under the Government program.

- H.M.Jr: I wouldn't take their publicity too seriously. Their publicity has been something terrible.
- Lonigan: I saw in this a possibility of a very serious attack on the benefit program.
- Parran: From our point of view, we would like sailing orders from you.
- H.M.Jr: I would try to get it over somebody's signature.
- Parran: Presumably Wallace stated he would call a meeting when an agreement had been reached about the study, and a report would be prepared for you and Wallace.
- H.M.Jr: Is it necessary for us to call up Jesse Tapp and say I would like something?
- Lonigan: I think they're putting it through as far as they can.
- H.M.Jr: This is a nice July first present.
- Parran: The understanding is if we do not have the report back by next week we will ask you to put on the heat.
- H.M.Jr: That's right.



LAURENCE W. BEILENSEN
ATTORNEY AT LAW

1124 TITLE GUARANTEE BLDG.
LOS ANGELES

July 1, 1938

11 a. m.

Present:

Mr. Laurence W. Bellenson, Attorney for
Robert Montgomery, Presiding Officer
of Screen Actor's Guild

Mr. Oliphant

Mr. B: Mr. Montgomery asked me to apologize for his vagueness over the telephone and to thank you for this interview. He would have come except he is about to start to work and everywhere he goes it is catalogued in the press.

(Mr. B. gave the Secretary a letter, copy attached.)

HM,Jr: May I read this?

Mr. B: Certainly.

HM,Jr: I don't know what this is. My personal representative is on the Pacific Coast right now, who handles this. He is right there. Harold Graves.

Mr. B: The reason I was sent on was just this: in connection with the thing, as the letter says, we wanted to present this file to you to see that it went to the proper source and to answer any questions. I suppose the natural question would be why we started our inquiry.

HM,Jr: I would be glad to have you answer that.

Mr. B: I might tell you something of the background. The IATSE is an offshoot of Actors Equity and through AAAA affiliated with the AF of L. In 1937 it made a ten year contract with the motion picture producers providing for industrial arbitration of terms for the coming year. Much to our surprise, last fall sometime, the IA TSE through its head officers, Mr. Brown and Mr. Bioff, announced they were going to take

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over all actors. We were a little surprised, because no actors wanted them to take them over and everybody was getting along all right. It was a companion of AF of L Union and we decided to investigate what type of men were handling it. That prompted the investigation, of which this file is the result.

Our investigation has been going on. We knew nothing about any income tax violations. When we were questioned, this spring, by your representatives on the Coast, Mr. Emery and Mr. Gibbons, and from other questions, we gathered it was possibly a matter of income tax case pending against Mr. Bioff. Much of the information we had already, as a matter of fact, from our investigation arising out of the fact, in substance \$100,000 bribe was paid to Mr. Bioff to break the painter's strike in the motion picture industry at about the time our strike was threatened which resulted in our contract. We knew the bank where the money went into; we knew the source of the money, and we were positive of our facts. The agents of the Department were careful not to tell us anything, but they questioned us about the same transaction and other matters, so we were rather able to guess what was going on.

Mr. Russell has been retained by Mr. Bioff to represent him in the matter.

HM,Jr: Our Mr. Russell?

Mr. B: Yes, sir. I should say he has been jointly employed by Mr. Bioff and Mr. Joe Schenck. The latter is the agent through whom the \$100,000 was paid. I may say we have nothing against Mr. Schenck. In our dealings with him he has been the most liberal and fair-minded of the producers. We have nothing against the producers. We are at peace with them and get along with them. We do feel, as far as Mr. Bioff and Mr. Brown go, they are the worst type of racketeer.

We are justly proud to be a part of the American labor movement and we think that type of racketeering is going to destroy it if it is not eliminated. We have made up our minds that, having started, we will

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not stop. Unfortunately, Mr. Brown is a Vice President of the AF of L, or was, and it's too bad because the relationship between the stage union and the actors has always been very friendly. We have nothing against the Union and the last thing we want to do is destroy the union, but we would like to destroy the leadership. Unfortunately the situation is very bad.

There was an inquiry, an investigation, and we have every good reason to think \$25,000 was paid to stop it. I think we will uncover the evidence.

HM, Jr: Let me give you this thought. I have a reputation, which I have acquired in a lifetime, that once we start something we never stop, no matter where the chips may fall.

Mr. B: That's why we came to you.

HM, Jr: Our policy is to let the chips fall where they may. I think you know how we finally get a very famous doctor in Los Angeles. We have also got a man by the name of Mr. Smith in jail in Los Angeles, so I mean

Mr. Oliphant: And they both had good lawyers.

HM, Jr: They thought what they thought was right also. So that thing does not bother us.

Herman, this sounds pretty serious and inasmuch as this gentleman has everything would you take him in to your office right now?

Mr. Oliphant: Yes.

Mr. B: I am perfectly willing to answer any questions.

HM, Jr: Herman, have somebody from Irey's office.

Mr. B: Because of the reputation which you have everywhere, we wanted to come to you because we knew that once you knew the facts you would not stop.

HM, Jr: We did a job for the Mayor of San Francisco, Mayor Rossi. He could not clean up his own

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police department. We did a job for him and the Captain of his police force is in jail. So where the situation is necessary, we will step in if we have an income tax angle, and evidently you have. I will promise you I will follow through with it myself.

Mr. B: That's all I want. Thank you very much, Sir.

oOo-oOo

June 29, 1938.

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

Sir:

May I take this opportunity to thank you for your courtesy to me in receiving my telephone call this morning.

The bearer of this letter, Laurence W. Beilenson, general counsel for Screen Actors Guild, is authorized to speak for the Guild.

The reason for his visit is to present a file, supplemented by an answer to any questions you may care to ask, containing the background, criminal and otherwise, of William Bioff, now under investigation by the Treasury Department in connection with his income tax returns. We know that an investigation is going on, because we have been questioned by the agents of the Department, Mr. Emory and Mr. Gibney. We also know it from other sources.

For some time past, starting early this spring, we have been conducting an inquiry into Mr. Bioff's past and present activities. We feel confident that some of our information is the same as that of the Department, though, of course, the agents very properly will not tell us.

Mr. Bioff, who started life with a conviction for pandering in Chicago, and continued his activities as a Capone gangster and in other unsavory activities now bears the high-sounding title of "Personal Representative of Mr. George Browne, International President of the International Alliance of Theatrical and Stage Employees". We have nothing against the I.A.T.S.E., which is an old and honorable A. F. of L. union, but we have much against its present racketeer leadership.

We find that Mr. Bioff came into power about 1935, after the former President of the I.A.T.S.E., Mr. Malloy, had been killed mysteriously in Chicago, and Mr. Bioff had

been questioned in connection with the murder. We further find that Mr. Bioff immediately assumed the imposing title of "Personal Representative of Mr. George Browne".

There has been a good deal of complaint among the local members of the I.A.T.S.E. of high-handed methods and oppression. This is not our concern, nor do we intend to go into it here, but it did result in an investigation by a committee of the California State Assembly of the I.A.T.S.E. in November, 1937. That investigation came to a sudden end and we are now pursuing an inquiry into reports that we have had that it was stopped by a payment to certain politicians in the amount of \$25,000.

Our reason for sending Mr. Beilenson on this trip and presenting this information to you arises out of the fact that we have heard rumors that efforts will be made to kill off the investigation of Mr. Bioff's activities by the Department. We know your devotion to duty, and we feel that if you have before you a record of the kind of man Mr. Bioff is, you will know how to weigh any fictitious explanation which may be devised. We do not wish to be misunderstood; we are not questioning the integrity of anyone in the Treasury Department. Its reputation and record is enviable. We do know, however, that sometimes without a knowledge of a background such as we have here presented, that facts may be made to appear other than they are, and we are fearful lest some subordinates in the Department be misled.

The file with which Mr. Beilenson will present you will contain a certified copy of Mr. Bioff's conviction for pandering, a copy of his police record in Chicago, a copy of his vagrancy card in Chicago, copies of photographs of Mr. Bioff from the files of the Chicago Police Department, and a chronological record of Mr. Bioff's activities, as well as certain newspaper clippings tending to show that it is a matter of common knowledge that Mr. Bioff is a gangster and a crook. In connection with the chronological report, you will note the hiatus during Mr. Capone's regime in Chicago.

We think that Mr. Browne and Mr. Bioff are a discredit to the American labor movement. We also believe that they represent the most vicious type of gangster now at large in this country, carrying on as they do all kinds of dishonest activities under the cloak of organized labor, of which we are proud to be a part. We believe that this investigation should go on.

Respectfully,

(Signed) Robert Montgomery.

C O P Y

July 1, 1938.
11:58 a.m.

Christian

J. Peoples: Mr. Secretary.

H.M.Jr: Admiral, I just got your memorandum on that twelve million for Hopkins, and that looks very good.

P: Yes, sir.

H.M.Jr: Now, I want to ask you a question. On these other cement bids, see, ...

P: Yes.

H.M.Jr: ... - in ~~the~~ East, not the ones on the West Coast - do we give - are we still asking f.o.b. on those?

P: Ah -

H.M.Jr:

P: No, we had to get - we had to get the prices delivered.

H.M.Jr: Well, I mean are they coming through with us, or do we have to - I know today's the first of July - or did we have to release ...

P: No, after the first of July, Mr. Secretary, the understanding was that we had - we were to grant clearance

H.M.Jr: Yes.

P: ... month for month.

H.M.Jr: Yes.

P: That was all, sir.

H.M.Jr: Well, I mean I wondered if there had been any change in policy.

P: No, not a bit, sir.

H.M.Jr: I mean on the part of the cement companies.

P: Not a bit.

-2-

H.M.Jr: I mean in that they were willing to bid f.o.b.
P: No, not a bit, sir.
H.M.Jr: Well, if there should be any change, you let me know.
P: I'll be very happy to.
H.M.Jr: Thank you.
P: Yes, indeed, Mr. Secretary.
H.M.Jr: Thank you.
P: You're welcome, sir.

k

July 1, 1938.

M E M O R A N D U M

Re: RFC financing.

I had Jones in this morning and we went over his interest rates for the next six months. I showed him this paper (attached). He came back and said, why wouldn't we let him sell his own securities, we refused to let him sell his own securities. And I said no, that wasn't so, we had suggested that he wait until he got his balance sheet cleaned up, which he now has.

So there is the possibility we may offer 500 million dollars. He wanted 500 million, five-year note; and I suggested a hundred million for one year, a hundred for two, a hundred for three, a hundred for four, a hundred for five. Bell said there was a possibility of selling a discount note just like our bill.

I've talked to Matteson and Matteson says he likes it just for one reason: it would fill a tremendous vacuum. And he says he likes the idea of a discount, and he said he'd get busy and sound the market out and let us know Tuesday.

I said I thought (I am asking Oliphant to check this) that this thing was wholly tax-exempt, except for surtaxes.

Of course, Jesse is jockeying; he says, "If I get $1\frac{1}{4}$ in the market, why don't you charge me $1\frac{1}{4}$?" We're jockeying for interest rates. I don't know whether he really wants to sell, but both parties are having a good time and both know what we're doing. And the only reason that I'm going along is that I'm looking forward to September and December; it would mean we have to ourselves borrow 500 million dollars less. I am also looking forward to that 900 million dollar note coming due next March.

H.M. Jr.

(Further discussion re above in 9:30 meeting of this date)

(I showed this to Jones at our meeting this morning (July 1, 1938) - HMJr)

Interest rates on notes of the
Reconstruction Finance Corporation
purchased by the Treasury

Present rate on Series M-1 and M-2 notes aggregating \$859,692,166.28	2%
Proposed rates effective July 1, 1938,	
on \$500,000,000	1½%
on \$359,692,166.28	2%
Any new borrowings from the Treasury after July 1, 1938, at	1½%
Any repayments made after July 1 by the Reconstruction Finance Corporation to the Treasury to be applied to reduction of 2% notes.	

It is understood that if Government rates should increase by January 1, or within each six-months' period thereafter, any new funds furnished by the Treasury after the beginning of those periods will be at rates determined by the Secretary of the Treasury.

It is further understood that in order for these proposed rates to be effective on July 1, 1938, and to remain in effect, it will be necessary for the Reconstruction Finance Corporation to reduce its rates by such percentage as the Secretary and the Chairman may agree upon, on loans made after that date.

June 30, 1938

Regraded Unclassified

RECONSTRUCTION FINANCE CORPORATION
WASHINGTON

JESSE H. JONES
CHAIRMAN OF THE BOARD

July 1, 1958

Dear Henry:

You might consider two, three, four
and five years \$125,000,000 or \$150,000,000 each
year.

Sincerely yours,



Chairman

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

Ho Bell

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 1, 1938

TO Secretary Morgenthau

FROM Herman Oliphant

In connection with the proposed public borrowing by the Reconstruction Finance Corporation the following comments seem appropriate from a legal standpoint:

1. Type of obligation.

RFC may issue "notes, debentures, bonds, or other such obligations".

2. Maturity.

The maturity of such obligations must be not more than five years from issue date.

3. Sale on discount basis.

The RFC may also sell on a discount basis short term obligations payable at maturity without interest.

4. Life of Corporation.

The RFC is authorized to continue to perform all its functions until June 30, 1939 and therefore is authorized to continue its borrowing functions at least up to that date. However, the life of the corporation terminates on January 22, 1942 unless the corporation is sooner dissolved by an act of Congress. If the maturity of the obligations proposed to be issued is extended beyond this date further consideration of the legal problem involved should be had.

5. Borrowing limit.

The amount of such obligations which may be outstanding at any one time cannot exceed in the aggregate 6 - 3/5 times its subscribed capital stock (the borrowing margin for general corporate purposes of the RFC as of April 30, 1938 was \$1,603,600,000). This figure does not include authorizations to increase the borrowing of RFC for specified purposes.

6. Tax exemption.

The obligations of RFC are exempt both as to principal and interest from all taxation (except surtaxes, estate, inheritance and gift taxes) now or hereafter imposed by the United States, by any territory, dependency, or possession thereof, or by any State, county, municipality, or local taxing authority.

7. Guarantee.

All obligations of RFC must be guaranteed "both as to interest and principal" by the United States.

8. Functions of Treasury.

Obligations of the RFC can be issued only with the approval of the Secretary of the Treasury. The Secretary of the Treasury is authorized to market obligations for RFC and use all the facilities the Treasury has for such purpose. In the event that the Treasury does market such obligations a procedural agreement will have to be worked out between the RFC and Treasury.

9. Security.

The RFC obligations may be secured by the assets of the corporation in such manner as shall be prescribed by the Board of Directors.

10. Sale price.

The RFC obligations may be sold at such prices as the corporation may determine with the approval of the Secretary of the Treasury.

11. Lawful investments.

RFC obligations are lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof.

12. Interest.

RFC obligations bear such rates of interest as may be determined by the corporation.

Herman Olshansky



DEPARTMENT OF AGRICULTURE
WASHINGTON, D.C.

July 1, 1938.

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

My dear Mr. Secretary:

We have noted the report on surplus commodities in Cleveland, Ohio prepared for your consideration on June 6.

From a study of this and other reports concerning the situation in Cleveland it appears that the facilities for handling the foodstuffs already available are inadequate. It is the responsibility of local relief authorities to make the necessary arrangements to repackage and distribute the commodities made available by the Corporation to individual needy families. Under present conditions only a part of the total number of commodities in Cleveland are given to relief families at one issue. This is contrary to the practice followed elsewhere and changes in the present methods are in progress which will eliminate this present undesirable procedure.

In the opinion of those engaged in studying this problem from the Bureau of Home Economics and from the Corporation it is believed that a greater variety of foodstuffs should be made available to families at one time. It is not believed, however, that the existing monthly rates of distribution for any single commodity should be increased because such action would be in conflict with the operating principles it has been necessary to establish to effectuate accomplishment of the objectives to be attained in governing legislation.

It has been decided to increase the kind of commodities available including such items as whole wheat flour and whole wheat cereal. These commodities will be distributed in addition to the supplies of wheat flour now available. A plan is being developed to allow an increase in the monthly distribution rate of individual commodities within the same food group when other commodities within that same food group are not available. This will insure as far as possible that the established maximum monthly rates for each food group will be released.

-2-

Hon. Henry Morgenthau, Jr.

It is believed that this action together with the refinements to be made in the present methods of releasing commodities will insure a more regular flow of all available commodities. At this time these include butter, dry skim milk, fresh tomatoes, peas, dried beans and rice which will provide a somewhat higher level of dietary requirements.

There is attached hereto a report showing the inventories of commodities available for distribution on June 13, together with the shipments of commodities made to Cleveland thus far this month and a schedule of quantities of commodities issued to various sized families during any one month.

You may be assured that we shall continue to assist in this matter in so far as it is possible within the policy of our operations.

Sincerely yours,

Harry R. Brown
Acting Secretary.

FEDERAL SURPLUS COMMODITIES CORPORATION

1801 D STREET NW.
WASHINGTON

J. G. BLAND, SECRETARY

June 13, 1938.

MEMORANDUM TO MR. F. R. WILCOX
Vice President.

Table 1 attached shows the shipment of commodities to Cleveland from May 26 through June 10, 1938. As of the close of business June 13 the following inventories of commodities are available for distribution:

<u>COMMODITY</u>	<u>QUANTITY</u>
Dried Beans	238,368 lbs.
Butter	107,695 lbs.
Flour	42,900 lbs.
Dry Skim Milk	145,786 lbs.
Oranges	2,772 boxes
Canned Peas	96,000 #2 Cans
Prunes	246,000 lbs.
Rice	218,183 lbs.

These commodities are being distributed to needy families at the maximum rates indicated in Table 2, also attached.

The facilities for the distribution of foodstuffs in Cleveland have been surveyed by two Field Representatives of the Distribution Section and they report that any increase in the quantities of foodstuffs available for distribution can not be handled effectively with the present inadequate facilities provided by relief authorities in Cleveland.

It is agreed by those charged with the responsibility for meeting the relief problem in this city that the present rates of distribution for commodities received from the Corporation are generally as large as can reasonably be taken care of by recipient families.

As indicated in our memorandum of May 24, some families are receiving somewhat larger quantities of these foodstuffs where a special need is indicated and when increased issuances have been recommended by the case worker. Other families because of the conditions under which they are living receive less than the recommended quantities where case workers have found the ability of these families to use the commodities handicapped.

-2-

In the present critical situation that exists in Cleveland many families have been forced to give up much of their cooking equipment. In such instances it would obviously be impractical to increase the rates of distribution for flour and certain other commodities which require more than top of stove cooking.

Any general increase in the present rates of distribution will greatly increase the likelihood that a substantial portion of the commodities received by these families will be traded for other goods and services to provide a part of the other essential requirements of the families' budget. In a situation where no relief grants are being given, relief families necessarily have to obtain from some source the essentials for living beside food. Consequently if greater quantities of a few foods are given to these families they will undoubtedly trade a substantial portion of them for other commodities and purposes.

We are required by law to see that commodities purchased from funds available under Section 32 do not re-enter the normal channels of trade. Under the present circumstances therefore an increased rate of distribution of the present kind of commodities available will result in subversion of the purposes of existing legislation.

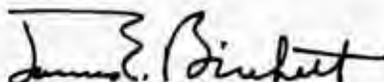

James E. Brickett,
Distribution Officer.

Table #1

SHIPMENTS OF COMMODITIES TO CLEVELAND

MAY 26, 1958 THRU JUNE 10, 1958

<u>COMMODITY</u>	<u>NO. OF CARS</u>	<u>NO. OF UNITS</u>
Oranges	17	7,854 Boxes
Prunes	5	180,000 Pounds
Rice	2	80,000 "
Snap Beans	6	144,000 "
Dry Limas	2	120,000 "
Flour	10	588,000 "
Dry Milk	4	160,000 "
Butter	6	128,000 "
Cabbage	5	72,000 "
Canned Peas	2	(No. 2) 96,000 Cans *

* Being shipped this week.

Table No.2

SCHEDULE OF QUANTITIES OF COMMODITIES
ISSUED TO VARIOUS SIZE
FAMILIES DURING ONE MONTH

NAME OF COMMODITY	UNIT	RECIPIENT FAMILIES				
		1 Person	2 Persons	3 or 4 Persons	5 or 6 Persons	7 & Over Persons
Apples (fresh)	Lbs.	12	24	36	48	72
Beans (dried)	"	1	2	3	5	7
Butter	"	2	4	6	8	10
Cabbage	"	5	10	15	20	25
Celery	"	5	10	15	20	25
Flour (Potato)	"	1	2	3	4	5
Flour (Wheat)	"	12 $\frac{1}{2}$	12 $\frac{1}{2}$	24 $\frac{1}{2}$	36 $\frac{3}{4}$	48
Grapefruit (fresh)	Lbs.	10	15	20	30	40
Milk (Dry Skim)	"	2	4	6	8	10
Oranges	"	10	15	20	30	40
Peas (canned)	Cans	2	4	8	12	16
Potatoes (White)	Lbs.	10	20	30	40	50
Prunes	"	1	2	3	4	5
Rice	"	1	2	4	6	8

Confidential

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June 6, 1938

To: The Secretary
From: Miss Lonigan *E.L.*

Surplus Commodities in Cleveland

There has been no increase in the allowance of surplus commodities made to each relief family, since the financial crisis in Cleveland relief. The quota for surplus foods, established by the Department of Agriculture, allots to families only a scheduled amount of each commodity, which is supposed to be extra consumption, above their normal needs.

If only three or four commodities are supplied, out of a possible fifteen, the quota for the three or four remain unchanged. If the normal needs are not supplied by relief grants, rules of the Department of Agriculture absolutely prohibit increasing the quantities allowed per family. Local relief officials virtually never make a change in these quotas, even when no relief orders are issued.

Mr. Rowley, the very able supervisor of commodity distribution, estimates that commodities in Cleveland constitute about 5 percent of the standard budget. Less than this is distributed, if fewer commodities have been purchased by the Corporation. Cleveland food budgets have been twice reduced so that they are now 28 percent below Department of Agriculture standards. Surplus commodities make up less than one-fifth of this loss.

Relief families in Cleveland were getting, in the week

of June first, a double ration of rice and dried beans. Flour was also being issued immediately, although it was not scheduled for release for two or three weeks. Dry skim milk was not being distributed because they had not finished packing it. Canned peas were in storage but had not yet been released for issue by Federal Surplus.

That week the car load of flour arrived on Wednesday. Families who got their supplies early in the week got only butter, rice, and green beans. They had to come in a second time for flour. About 25,000 families in all receive commodities. Furnished room families get them too if they can cook.

After the week is over, there will be practically no surplus commodities in storage in Cleveland. The thirty-day supply was used up long ago. Warehouses are empty. Spring and summer surpluses are exhausted.

July 1, 1938.

Dear Marriner:

This will acknowledge receipt of your note of June 24th with which you sent to Mr. Upham for my information a copy of your statement of June 23rd, suggested for use by the President in connection with the release of the agreement on bank examination uniformity. Thank you for letting me have this copy.

Sincerely yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Marriner S. Eccles,
Chairman, Board of Governors
of the Federal Reserve System,
Washington, D. C.

CBU:pm *Upm*



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON

OFFICE OF THE CHAIRMAN

June 24, 1938.

Dear Henry:

In accordance with my understanding with you, I am sending you herewith a copy of the statement which I have sent to the President.

Sincerely yours,

A large, elegant handwritten signature in cursive script, appearing to read "Marriner".

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

enclosure

Should be aug
Handwritten initials, possibly "HJ", written in cursive.

June 25, 1938.

In my message to Congress on April 14, I announced the sterilization of approximately \$1,400,000,000 of Treasury gold, accompanied by action on the part of the Federal Reserve Board to reduce reserve requirements by about three-quarters of a billion dollars, for the purpose of making additional bank resources available immediately for the credit needs of the country. At the same time I expressed the hope that Federal banking supervision could be better coordinated, with a view to facilitating the flow of credit for commerce, industry and agriculture.

The Secretary of the Treasury initiated a series of conferences with representatives of the Federal Deposit Insurance Corporation, the Office of the Comptroller of the Currency, and the Board of Governors of the Federal Reserve System for the purpose of reviewing the policies and regulations of the Federal banking supervisory authorities and determining wherein they might be improved and better coordinated in furtherance of this objective, consistent with sound banking principles.

They have unanimously agreed upon and submitted to me a program which for the first time brings about complete uniformity in the rules and regulations to be followed by the Federal agencies in their administration of all bank examinations under their respective jurisdictions. This is an important forward step in re-

- 2 -

moving from the field of bank supervision sources of conflict and of irritation that do not make for the efficient functioning of the banking system.

Beyond this, however, the program adopted should be of benefit both now and in the future in two important respects; first, by opening the way especially for the small and medium-sized business concerns to obtain needed credit from the banks, and, second, by relieving pressures that tend to reduce outstanding credit or prevent extension of new credit to sound borrowers.

The program includes a broad revision of the Regulation of the Comptroller of the Currency governing bank investment policy. It provides that member banks of the Federal Reserve System may purchase investment securities, of such sound value or so secured as reasonably to assure payment, issued by established commercial or industrial businesses or enterprises that can demonstrate the ability to service such securities, without requiring that the securities be offered for public distribution or that they must be readily marketable, provided, however, that they mature not later than 10 years after the date of issuance and that 75 per cent of the principal be amortized at maturity by substantial, periodic payments, none of which would be required during the first year.

The program provides, with respect to bank examination reports, that what has been commonly called the "slur" column will be abolished altogether. In place of this, and of the columns

- 3 -

heretofore headed "doubtful" and estimated loss", there will be substituted the designations, II, III, and IV, which are to be defined respectively for the listing of loans that are somewhat doubtful, more doubtful, and in which loss is estimated. The "slow" column has long been a misnomer and a cause of complaint.

The important fact, however, is not the designation of the columns, but the clear recognition that in making loans, whether for working capital or fixed capital purposes, the banks should be encouraged to place the emphasis upon soundness rather than upon liquidity or quick maturity.

Similarly, the revised examination procedure clearly recognizes the principle that bank investments should be considered in the light of their inherent soundness rather than on a basis of day to day market fluctuations or liquidating value. The soundness of the banking system depends in the last analysis upon the soundness of the country's business and industrial enterprises. It should not be measured by the precarious yardstick of ticker quotations which often reflect speculative and not true appraisals of intrinsic worth. In their purchase of securities the banks should be encouraged to invest, not to speculate.

Accordingly, the revised procedure broadly divides securities into those of investment quality and those of speculative

- 4 -

or sub-standard character. The former will be listed in Group I, the latter in Group II. Defaulted bonds and stocks will be listed in Groups III and IV, respectively.

It is estimated that approximately 90 per cent of the total securities held by the banks are of investment quality and will be carried in Group I. In conformity with the principle of measuring such securities by investment and not by fluctuating market standards, daily quotations will not be taken into account in examination reports, which will require that such securities be shown at their book value whether they be listed or unlisted securities. By thus severing bank investment from the ticker, banks will be encouraged to purchase the securities of sound American business and industrial concerns, whether large or small, for their true worth and not for speculative gains.

Sub-standard or speculative securities, to be carried in Group II, are estimated to comprise not more than 5 per cent of the banks' holdings, and will be shown in examination reports at their average market price for the 18 months preceding the examination, a method which would more accurately reflect intrinsic values in this group. Unlisted securities in this group will be shown at estimated value. In the case of Group III and IV securities, net depreciation will continue to be classified as loss.

In estimating the net sound capital of banks, the total of loans classified as loss, as well as the total depreciation in defaulted bonds and stocks will be deducted. In addition, 50 per cent of the more doubtful loans, as shown in Class III and 50 per cent of the net depreciation of the sub-standard bonds listed in Group II, will be deducted. Previously, the total of all of the loans classified as doubtful has been deducted, but experience has shown that not more than half result in loss. Likewise, in the past deductions have been made for all of the ^{net} depreciation as reflected by current market quotations for the entire investment portfolio.

A primary purpose of the program is to encourage the private banking system of the country to adapt its lending and investment functions to present-day requirements of commerce, industry and agriculture. It will afford the banks a broader opportunity for service to the community and for profitable outlet for some of their abundant, idle funds. If the banks will avail themselves of that opportunity, the necessity will be diminished for creation of government agencies to furnish credit facilities which the banks should provide. A first step in stopping deflation requires that credit contraction in the banking system be arrested.

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This is essential in order to provide a basis upon which necessary expansion can be brought about. This program should assist in halting private credit contraction and encouraging private credit expansion which in turn will lessen the need for reliance upon public credit. Thereby it can contribute to general economic health upon which the welfare of the public as well as of the banker and bank depositor depends. At the same time, this program does not mean unsound banking. The banks will be required to continue the present practice of charging off losses and of establishing and maintaining adequate reserves against doubtful and speculative loans and securities.

8007
8007 JUL

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 1, 1938, 2 p.m.

NO.: 1039

FROM COCHRAN.

This morning I visited at the Bank of France. In trading yesterday, I was told, there was a net loss of 20,000 pounds by the French control. When I was at the Bank the franc was requiring some support. The loss yesterday did not include the amount of foreign exchange expended in purchase of belgas. I have been told, most confidentially, that the control will have to purchase 600,000,000 belgas during July in order to meet maturities on the Belgian market of the French railways. The resources of the stabilization fund will inevitably have to be drawn on rather heavily, unless the trend of the market, aided by the tourist season, may be more favorable to the French franc than it is now.

As for the open market operations, my contact, who will actually supervise the dealings, stated that such operations will be begun only gradually and will be delayed until preparation of the regulations is completed. He also told me in the strictest confidence that the plan was
to

- 2 -

to limit initial operations to securities of not more than one year, and to maintain a certain proportion between the gold holdings of the Bank and its total open market purchases. The General Council of the Bank decides such limits.

Under date of June 30 B.I.S. issued following communique:

"The Bank for International Settlements, trustee for the Austrian Government international loan 1930, announcing that the sixth monthly service installment due on June 1, 1938, has not been received and that, consequently, it can pay only five-sixths of the face value of the coupons of the loan due on July 1, 1938 except in the case of the Austrian and Swedish issues, in respect of which the trustee holds unexpended sinking fund monies which will be drawn upon to complete the coupon payment."

BULLITT.

EA: LNW

REH

GRAY

London

Dated July 5, 1938

Rec'd 2:46 p. m.

Secretary of State,
Washington.

594, July 5, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The following excerpt from the ECONOMIST fairly reflects the dominant opinion in the city although the recent upward movement in Wall Street has certainly had an alleviating effect.

"The American trade and political background does not encourage more than a hope that pump priming may possibly transform the hunch of a moderate autumnal recovery into something more substantial than its predecessors. Signs of some revival in residential building thence welcome. But of a thorough going revival in steel production there are no signs unless the recent reductions in prices stimulate a disproportionate increase in demand and wage troubles do not arise. There have been no overt approaches for a truce between business and a President whose political prospects

REB

2-#594, From London, July 5, 6 p. m.

prospects at the November congressional elections look better than ever. To all this the reply may of course be made that the role of the Stock Exchange is not to register but to anticipate economic changes. But neither the speed nor the extent of last month's upturn in prices affords in itself conclusive evidence of permanence. The present movement could be paralleled from the experience of 1930 when the market was much wider because speculative facilities were not curtailed as they are today by official regulations. The London market therefore is likely to maintain its Fabian attitude even if, as is probable, the American movement goes further before encountering its first real check."

Although the premium on gold was down one penny to $5\frac{1}{2}$ pence and the amount dealt in was only 115 bars nevertheless there was a very large demand for coin. Due to their scarcity sovereigns moved to 33 shillings 10 pence.

Foreign exchange movements were without significance except that the demand for dollar seems to have been stimulated by Bank of England purchases.

KENNEDY

HPD

July 1, 1938.
2:52 p.m.

H.M.Jr: Hello.

Marriner
Eccles: Hello.

H.M.Jr: Hello, Marriner.

E: Oh, Henry, I - I wanted to say that this transcript that - of your press conference ...

H.M.Jr: Yes.

E: ... Monday that Gaston gave me - I had a chance to ~~go over~~ go over it ...

H.M.Jr: Yes.

E: ... and I would have mentioned it yesterday but the others were there.

H.M.Jr: True.

E: And I did want to call you back to say that the press certainly stretched things somewhat out of shape, as I would say, in relationship to this press conference. The press conference - it doesn't do justice to - to what the press said - say that you said.

H.M.Jr: No.

E: And it gives me quite a different light...

H.M.Jr: Yes.

E: .. than - than - than the darn stuff that the press reported.

H.M.Jr: Well, I - it's awfully nice of you to call me. Fortunately, we always take stenographic notes.

E: Yes.

H.M.Jr: And - so that any

E: Well, this thing seems to me to be evident to me in this, that - that there wasn't an intention - there's

-2-

no indication of an intention to - to put us on to the limb that the press did put us on.

H.M.Jr: Quite true.

E: Now, I can see where a press could take this, that, and the other and pin them together and come to certain conclusions and you couldn't sue them for libel.

H.M.Jr: No, no.

E: But the thing about it that interested me was the fact that there is no - there is no indication of any - of any immediate intention to put anybody on a limb.

H.M.Jr: No. Well

E: And that they have stretched

H.M.Jr: They - they stretched it a lot.

E: Yes, that's right, and I merely wanted to say to you that I appreciate your giving me this and I wanted to call you back to let you know that I had read it and that this gives me a somewhat different impression ...

H.M.Jr: Fine.

E: ... certainly, than we got from the press.

H.M.Jr: Well, let's call it all washed up and we're still here both trying to serve our country best as we can.

E: That's right.

Say, there's one other thing, while you're on the phone.

H.M.Jr: Yes.

E: The letter you sent me enclosing a copy of a letter to Fleming - you remember, on this inventory and the relation to commercial loans?

H.M.Jr: Oh yes.

E: Now, I assume you sent that to all of the banks.

-3-

H.M.Jr: That's right.

E: And we've already had one call up this morning.

H.M.Jr: Yes.

E: Called up the secretary, Morrill, and he knew nothing about it, of course, and he called me.

H.M.Jr: Yes.

E: And what I was going to suggest, and I think it might facilitate matters, ...

H.M.Jr: Yes.

E: ... if - you see, these Divisions, in each Bank, of Research, ...

H.M.Jr: Yes.

E: ... are directly under our Division here.

H.M.Jr: I didn't know that.

E: Yes, they are. They work directly under this Division here - well, of course, I don't mean by that that they're antagonistic to the Bank; they work very closely with the Bank management as well, but in order to - in order to try to get direction and coordination, we reserve the right to - to approve and also to select, if need be, the people that go in these Divisions.

H.M.Jr: All right.

E: Except with New York, and they've been with Williams up there; he's been - they've been a little more independent than any of the rest of them.

H.M.Jr: Uh-huh.

E: Now, I was just going to say that anything that the Treasury may want of a statistical or economic nature ...

H.M.Jr: Yes.

E: ... we'll be always glad to - to get it, and I believe

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that it would really facilitate matters if White or Haas would get in touch with Goldenweiser or Thomas and discuss it with them and they could, I'm sure, facilitate it, so that we'd get uniformity in it.

- H.M.Jr: I - I - I didn't - I thought that they were quite independent.
- E: Yes.
- H.M.Jr: Well, I'd be more than pleased to do that in the future.
- E: And if we made the request from here on that thing, some of them wouldn't refer the matters back as they do, you see.
- H.M.Jr: Well, I'll be glad in the future to be guided that way. I didn't know that.
- E: Well, I just think we can help you and get - we can do a lot towards getting
- H.M.Jr: Fine.
- E: ... getting whatever information you want, if we tell them that we want it, see? Then they won't be doing what they do sometimes.
- H.M.Jr: O.K., Marriner, the next request will go over to you first.
- E: Well, not necessarily - it doesn't mean that if Haas wants to call up Goldenweiser or Thomas, that - that they're perfectly free to call up the Division, and it's a matter that wouldn't have to bother either you or me at times, you see?
- H.M.Jr: All right, I'll tell him.
- E: If it's a matter that goes through you, then you could take it up with me; if it's a matter they want to take up direct without discussing it with you, why, that - there's no need of discussing it with me.
- H.M.Jr: O.K.
- E: Is that O.K.?

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H.M.Jr: Entirely.

E: All right, then.

H.M.Jr: Thank you so much for calling.

E: Goodbye.

H.M.Jr: Goodbye.

JUL 2 1938

SI-15210-F
GB:MHW

Dear Mr. Montgomery:

Your letter of June 29, 1938, was presented by Mr. Laurence W. Beilenson yesterday forenoon. The situation reflected in your letter was discussed with Mr. Beilenson in this office, and thereafter he called upon officials in the Bureau of Internal Revenue, under whose jurisdiction investigation is being made of the individual mentioned by you. Mr. Beilenson left with these officials the file referred to in your letter, which will be given consideration in connection with field reports.

I am informed that on the basis of preliminary reports now in the Bureau of Internal Revenue, supplemented by the statements of Mr. Beilenson, it is evident that your organization, through Mr. Beilenson, has furnished information which should be of value in connection with the investigation now being made.

With regard to your reference to rumors that efforts will be made to kill off the investigation by this Department, you may be assured that the investigation will continue until such time as the investigating officers are satisfied that they have developed all available evidence so far as the matter of income tax liability is concerned.

Very truly yours,

Secretary of the Treasury.

Mr. Robert Montgomery,
President, Screen Actors Guild,
8743 Sunset Boulevard,
Hollywood, California.

Copy attached.

*Sent Registered
mail
gmc*

Federal Surplus Commodities Corporation
Summary of Commodities Procured -
July 1, 1937 to June 29, 1938

(Figures in thousands)

Commodity	Unit	July 1, 1937 to April 29, 1938	April 28,* 1938 to May 4, 1938	May 5, 1938 to May 11, 1938	May 12, 1938 to May 18, 1938	May 19, 1938 to May 25, 1938	May 26, 1938 to June 1, 1938	June 2, 1938 to June 8, 1938	June 9, 1938 to June 15, 1938	June 16, 1938 to June 22, 1938	June 23, 1938 to June 29, 1938	Total July 1, 1937 to June 29, 1938	(1)
(1) Apples (Dried)	Pounds	14,450	144	180	-	-	-	-	-	-	-	14,774	(1)
(2) Apples (Fresh)	Bushels	5,604	46	8	2	-	-	-	-	-	-	5,660	(2)
(3) Apricots (Dried)	Pounds	2,990	-	-	100	2,090	60	-	670	180	1,200	2,990	(3)
(4) Beans (Dried)	Pounds	52,990	450	400	-	9	6	-	-	10	-	58,080	(4)
(5) Beans (Snap)	Bushels	-	-	-	-	-	-	-	-	-	-	29	(5)
(6) Beets (Fresh)	Bushels	-	-	-	-	663	1,451	1,734	887	192	8	15,433	(6)
(7) Butter	Pounds	8,320	918	754	514	1,294	1,968	96	-	54	133	33,641	(7)
(8) Cabbage	Pounds	10,167	7,020	5,808	7,272	-	-	-	-	-	-	187	(8)
(9) Cane syrup	Gallons	-	-	-	-	-	-	-	-	-	-	196	(9)
(10) Celery	Crates	166	7	20	3	-	-	-	-	-	-	408	(10)
(11) Cereal (Whole wheat)	Sacks	-	-	-	-	-	-	238	-	12	-	408	(11)
(12) Cheese	Pounds	-	-	-	92	-	-	-	-	-	3,446	3,446	(12)
(13) Cotton fabric	Yards	530	26	-	-	-	-	-	-	-	-	998	(13)
(14) Cottonseed oil	Pounds	9,780	-	-	-	-	-	-	-	-	-	9,780	(14)
(15) Eggs (Shell)	Cases	270	-	-	-	-	-	-	-	-	-	270	(15)
(16) Fish	Pounds	-	-	-	7	3	125	-	915	-	-	3,677	(16)
(17) Flour	Barrels	-	-	-	48	38	42	19	10	444	52	2,699	(17)
(18) Grapefruit	Boxes	155	48	69	48	-	-	-	-	-	-	429	(18)
(19) Grapefruit juice	Cases	-	-	40	5	-	-	-	-	-	-	541	(19)
(20) Grapes	Tons	8	-	-	-	-	-	-	-	-	-	8	(20)
(21) Milk (Dry skim)	Pounds	8,642	-	-	-	-	7,940	-	-	5,000	-	21,582	(21)
(22) Milk (Fluid)	Quarts	8,082	459	472	482	495	478	497	510	514	511	12,500	(22)
(23) Onions	Pounds	3,000	-	-	-	-	-	-	-	-	-	3,000	(23)
(24) Oranges	Boxes	1,564	87	79	50	31	14	10	11	54	57	1,957	(24)
(25) Paper bags	Bags	-	-	-	-	-	8,400	-	-	5,250	-	13,650	(25)
(26) Peaches (Dried)	Pounds	2,534	-	-	-	-	-	-	-	-	-	2,534	(26)
(27) Peaches (Fresh)	Bushels	-	-	-	-	-	-	-	-	8	-	8	(27)
(28) Pears (Fresh)	Boxes	318	-	-	-	-	-	-	-	-	-	318	(28)
(29) Peas (Canned)	Cases	927	-	-	-	-	-	-	-	-	-	927	(29)
(30) Peas (Dried)	Pounds	6,000	-	-	-	-	-	-	-	-	-	6,000	(30)
(31) Potatoes (Sweet)	Bushels	440	-	64	7	-	-	-	2	-	-	440	(31)
(32) Potatoes (White)	Bushels	4,150	117	-	-	-	-	-	-	-	-	4,340	(32)
(33) Potato starch & flour	Pounds	2,562	280	1	-	-	-	-	-	-	31	2,842	(33)
(34) Prunes (Dried)	Tons	23	-	-	-	-	-	-	-	-	-	55	(34)
(35) Raisins	Pounds	-	-	-	-	-	-	-	-	-	-	3,000	(35)
(36) Rice (Milled)	Pounds	70,550	3,360	2,080	560	1,000	-	1,600	-	-	-	76,550	(36)
(37) Tobacco	Pounds	-	-	-	-	-	-	-	-	-	-	2,600	(37)
(38) Tomatoes (Canned)	Cases	50	-	-	-	-	-	-	67	170	64	50	(38)
(39) Tomatoes (Fresh)	Bushels	-	-	-	-	-	-	-	-	-	-	301	(39)

July 2, 1938.

Treasury Department, Division of Research and Statistics.

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

GROUP MEETING

July 5, 1938.
9:30 A. M.

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

H.M.Jr: The only new business I've got - it kind of bothers me a little bit - Jesse Jones is very anxious to borrow some money in his own name, and is talking about five hundred million dollars, and I put the Fed to work on it Friday. And, ah - they've gone this far: They don't want a discount note. That's a definite thing. They want an auction, but much to my surprise, when I talked to Dr. Burgess Sunday night he was talking about - "Well, I'm on the home stretch, and I'm not - I'm going to let the next fellow try the auction. That's the way I feel."

Burgess is going to let me know in the morning - I mean at noon - and I thought we'd better get together at lunch, if you can get hold of Eccles, and talk about it. I'd like Bell there, and Taylor.

George, you might have your boys look over - we are talking about a one to five year note for R. F. C. The question comes up, in consideration with our own financing - where would it fit in the best. See?

Haas: Uh huh.

H.M.Jr: I think five hundred is much too much; I think three hundred at the most - maybe two hundred would be still better.

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Bell: Not over three hundred, I think.

H.M.Jr: Because what he wants is to get a rate and have us charge him.....

Upham: You want Ransom too?

H.M.Jr: Yes, if he's there. Tell him what it's all about.

Oliphant: Did Ed speak to you, Dan, about the desirability - on the Attorney General's opinion, whether it could be a five year note?

Bell: He spoke to me about the question; he didn't say anything about the Attorney General's opinion.

Oliphant: I think we'd better be armed with an Attorney General's opinion.

H.M.Jr: You'd better move awfully fast, because this thing is moving fast. The thing that's bothering them is, can the Federal Reserve buy these? There are two acts, and I'm not sure which supercedes the other. They are not sure, so when you are doing this thing - they are raising the question of whether the Fed can buy these, so Herman, will you get busy on that?

Oliphant: Yes.

H.M.Jr: I don't want any grey opinions. I either want a black or a white - see? I don't want anything in the grey zone. Huh? But we've got to move awfully fast on this, because - I mean, see, that is, one thing went sour because they didn't know.

Bell: They are sure of three and a half years.

Oliphant: That's right.

Bell: Up to January, 1942.

H.M.Jr: Then it would get down to a three-year note. I don't want to sell a three and a half.

Oliphant: That would solve the problem if you don't want more than a three-year note.

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- H.M.Jr: I don't want somebody to return to Sullivan and Cromwell, and Mr. Taft, and bring a suit - I mean, it isn't worth it.
- Bell: There isn't any question about a three-year note.
- Oliphant: And there is a question about extending it beyond their termination.
- H.M.Jr: Then, the other question is, can the Federal Reserve buy these? It seems in the act of '33 they said they could not buy indirect obligations; the act of '35 says they could. Now the question - in the writing they didn't strike out, and they are not ~~sure~~ I mean of the '35 saying that they could, that that strikes out the '33. Of course, it makes a lot of difference.
- Oliphant: Shall I get ahold of Wyatt, the General Counsel and together get ahold of the Justice Department?
- H.M.Jr: I wish you would push it. If there is any doubt about this thing it will be a three year note.
- Oliphant: I'd be relieved if you'd say it is a three year.
- H.M.Jr: You would feel relieved?
- Oliphant: I'd feel relieved.
- H.M.Jr: Then it is a three year note. I can relieve you there.
- Bell: Any question about the serial form, in New York?
- H.M.Jr: They want it done just like ours.
- Bell: I should think that.
- H.M.Jr: They want to do it just the way we do it in the Treasury.
- Bell: Three hundred million - three-year note.
- H.M.Jr: I wouldn't sell it that way. I'd sell them a hundred million one year and a hundred million three years, and let them come along - let the market get built up. There is a question of

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good faith, also, because we didn't announce it. As a matter of fact, if I were Jesse, I wouldn't have more than a hundred million coming due at one date. I'd sell a hundred million one year and two hundred million three years. It's easier to handle it. I'd sell a hundred million two years and a hundred million three years, and come along on the fifth of October and sell another couple hundred million. He'd have it eventually so that every quarter date he'd have a couple hundred coming due, and having a nice revolving fund. That's the way I would do it.

Oliphant: Who was it discussing the questions, over there?

H.M.Jr: Randolph Burgess.

Mac?

McReynolds: Mr. Gibbons isn't here this morning. On those Coast Guard plans, they are not ready to go.

H.M.Jr: Well, don't give it to me until they are ready. Incidentally, for your information, but not for the Coast Guard's, here is a memorandum for Navy, turning them down flat.

McReynolds: I can hold that.

H.M.Jr: I want you to know if you want to get Mac to do anything, all you've got to do is suggest it, (Look at the expression on Mac's face.) and finally, by walking sixty feet,--they can move the Comptroller of the Currency people out one month earlier than they planned, and by the first of August. Then they've got to walk sixty feet further to the vault. Mac says if you don't ask him how does he know. See? So the tenth of August - I mean the tenth of July, - the eleventh - you people will have all the room on the third floor the Comptroller's got. Is that right?

McReynolds: (Nods "No.") The movements down there doesn't effect the people up here. It's the other.

H.M.Jr: But on the eleventh he gets the room, doesn't he?

- 5 -

McReynolds: Well, I hope he can get it by that time. I notified the Comptroller's people - Friday. But they've got to move - they've got to get in some space across the street.

H.M.Jr: Mac, it just gets down to whether you are as good as when you were in Farm Credit.

Klotz: Yes.

H.M.Jr: There you are! You're not going to let the lady down, are you?

McReynolds: Well, we'll move them around.

H.M.Jr: All right, Mac. Golf not too good over the weekend?

McReynolds: I didn't get to play. My grandson was down. I went to Irey's cottage. They weren't going down so he asked me if I didn't want to use it. We took the whole family down there, and I've been chasing the grandson all over that point - three days. Lots of fun. I never saw a little kid have so much fun in all my life.

H.M.Jr: How about the big kid?

McReynolds: I had a lot of fun myself. I did a little sailing, but didn't wade around in the water.

H.M.Jr: Dan.

Bell: I have nothing.

H.M.Jr: You'll be at lunch today.

Bell: Yes - thank you.

H.M.Jr: Who is the Treasury official who announced that our revenue will be off ten per cent? All the papers carry it.

Bell: I don't know.

H.M.Jr: Treasury official.

Gaston: I don't know.

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H.M.Jr: Huh?

Gaston: I don't know.

H.M.Jr: You don't know?

Gaston: No.

H.M.Jr: Every paper carries it.

Bell: That is A. P.

H.M.Jr: Here I've been arguing with Dan not to get out any deflation on the paper.

Bell: That's inflation - big debts.

H.M.Jr: But it's based on business. Is that statement correct, George?

Haas: No, I was going to say if that

Bell: It's a quarter of a million dollars off, huh, George?

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

Upham: (Nods "Nothing.") I have nothing.

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

Lochhead: Last week - exchanges all quiet; gold is steady. Mr. Oliphant knows the Treasury part of this.....

H.M.Jr: I thought after ten o'clock we could have Bernstein in - Bernstein and Dietrich.

Oliphant: And get the first hand story.

H.M.Jr: (Over telephone.) Tell Mr. Bernstein and Mr. Dietrich to be in my outer office at five minutes of ten, please.
All right.

Lochhead: That's all.

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H.M.Jr: Harry.

White: You noted what happened in Mexico currency. They have adopted a five to one on imports and four to one on exports. (That's a new wrinkle.) They've also got an export tax which will now yield something on the silver exports, which they weren't getting before. The reason why they have been able to adopt this new method is because they feel that most of their exports are of the kind that they don't need to reduce their price in order to sell a good deal, so they are really depreciating their currency on only the imports, which gives them a profit.

H.M.Jr: Archie, you will be amused at the Central Hanover Bank, where my wife keeps her account. They sent out a letter of credit - authorized by two officers. Aren't they supposed to know the signature?

Lochhead: They don't know the signature. If the clerk went to make it up and handed it to them, they wouldn't check it.

H.M.Jr: A letter of credit, of all things.

Lochhead: It seems to me they would check over the account only to see if the account was good.

H.M.Jr: They sent out a letter of credit with her name misspelled.

Upham: There's no excuse for that.

H.M.Jr: It's inexcusable.

Lochhead: They should be very particular on these traveler's credit. It will cause a lot of trouble when you get over there.

H.M.Jr: What else, Harry?

White: I thought you noticed the cable of the increase and decrease of gold.

H.M.Jr: Yes, I saw that.

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- White: About seven hundred million dollars in Great Britain during the last year. They increased their gold holdings both in the bank and stabilization funds for the year ending March 31. Since then they have lost a little, but
- H.M.Jr: Is that their stabilization?
- White: Both. Their stabilization fund has about a billion and a half now.
- H.M.Jr: How about the Argentine? Is she still gaining?
- White: No. Her exports have dropped.
- H.M.Jr: Did you ever get anything out of that man from Brazil we've got down here?
- White: Yes, he wrote very frequent and rather voluminous reports, but most of the volume consisted in translations of public documents. He wrote one good early report, many months ago.
- H.M.Jr: Is he painting it for himself?
- White: He's coming back; he ought to be back in a month and a half, in which case he'll have already prepared a final and comprehensive report on Brazil. Whether it was worth while, I don't know yet. I would presume yes.
- H.M.Jr: You are not going to send him back?
- White: Not there.
- H.M.Jr: I suggest, for your stand on anything else, read this book by Josiah Boman - (Limits of Land Settlement.) It's gotten out under the Foreign Policy. It's the whole question of population, looking forward to the balance of this century. The two places, as far as I've gone, you can take population ad lib is Russia and Brazil.
- White: Russia is taking it pretty fast - about three and a half million a year.
- H.M.Jr: He estimates that Brazil can take up to three hundred seventy-five million people.

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- White: I am very skeptical about that.
- H.M.Jr: He's the greatest living authority on it. You see, what he says about Brazil, it is perfectly amazing. I was thinking - take Argentine, with ten or twelve million people - they've got their limit. If Brazil can take that many, the United States ought to cultivate Brazil a little. He's a great authority. His book on land - moving population - I'd say he is the greatest living authority on people, in connection with economic geography. The other book - the book he wrote before - is one preceding; this is on population. If you people don't know it, I think you should take a look at it.
- White: We'll get a report.
- H.M.Jr: You don't need a report - I'm reading it. I want to point out to the President that if that is what Brazil has, why fool around with a lot of these other countries, with its potentialities - such as Brazil. We can't do much with Russia, but we could with Brazil. They've got areas there - millions of square miles - where they have no roads - just trails. With all the proper amount of rainfall, proper elevation, and proper temperature, but no one has ever been able, he said, to put them through. He said for four hundred years they have talked about putting railroads or highways for motor trucks in there, but have just never done it. It's an amazing document.
- White: You are interested, are you, in the reopening of the Chaco dispute between Paraguay We have something on it, but if you are not interested we'll let it pass.
- H.M.Jr: It's chronic. Did you ever read that book about a man going through there on horseback? He spent two years going through that country on horseback. It's a novel, but authentic. He just ranched it. He'd fight a while for instance, for one side and then another - do a little more ranching, and a little fighting. It's authentic.
- O. K.?
- White: (Nods "Yes.")

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Haas: (Inaudible.)

H.M.Jr: On Friday.

Haas: I've forgotten.

H.M.Jr: Terrific surplus out there - one of the largest on record.

Anything else?

Haas: There is - remember some time ago I spoke to you about Walker writing to you and F. H. A. did something about it. I was reading over the communication which Fisher sent over here and it occurred to me he only did it for Sears Roebuck and not for everybody. Fisher was out of town and I checked, and it happened to be the case. I told him you were interested in increasing construction over the country and not for Sears Roebuck. They are going to change their standardized form. I thought it looked not particularly good.

H.M.Jr: The dumbest thing I ever heard of. You mean to say they just did it for Sears Roebuck?

Haas: That's right. Now they are fixing the standardized form up.

H.M.Jr: Are you sure?

Haas: That's right.

There is another memorandum which compares the estimates with the receipts for '38.

H.M.Jr: The first thing you know they will be writing an editorial article - "Sears Roebuck Get's It."

Haas: That's it. I don't know why they put that interpretation on your thing, but they did. They are fixing that up.

H.M.Jr: I hope so.

Taylor: I did read that one up in Maine.

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H.M.Jr: You did?

What else, George?

Haas: Here are the people that can come to this meeting tomorrow. There are three of them that are tied up on previous arrangements - vacations - regret very much that they can't come down, but they are just not available now. Colonel Ayres is in Canada but his office wired that he will probably be able to attend.

H.M.Jr: One, two, three, four, five, six, seven question marks after Colonel Ayres.

Haas: Well, that was given for me.

H.M.Jr: I am going to the White House for lunch tomorrow so I will meet with those people at two thirty. I can't have them for lunch, but I will meet with them at two thirty.

I think I am slipping because McIntyre telegraphed the farm on Saturday that I was expected Wednesday for lunch. I am not used to such courtesy, so I think I must be slipping. He even added the word "Regards."

What else, George?

Haas: The boys in the estimating group.....

H.M.Jr: Bell and I know what that means better than anybody else.

Haas: The boys in the estimating group are getting some particular consolation on that sheet. The miscellaneous taxes came out exactly - by a combination of things - made the total come out exactly.

Bell: Fifty thousand dollars, wasn't it?

H.M.Jr: What else?

Haas: That's all I've got.

H.M.Jr: Wayne.

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Taylor: (Nods "Nothing.")

H.M.Jr: Things have been happening since you've gone.

Taylor: I'm going to have to find out what happened, because I don't know.

H.M.Jr: Were you here when I told my raindrop story?

Taylor: (Nods "No.")

H.M.Jr: All right - I'll tell you when I get a chance.

White: Don't forget the addition.

Klotz: That's the story.

H.M.Jr: You're all right otherwise?

Taylor: Yes - fine.

H.M.Jr: Herbert.

Gaston: Do you want a press conference today?

H.M.Jr: (Nods "No.")

Gaston: Do you suppose the President will hold one at four o'clock?

H.M.Jr: I don't want one. Just as soon as I know what we're going to do with R. F. C., I'll give you an official leak, but I don't want to say anything.

Gaston: Harold Graves is back from the Coast.

McReynolds: He was in my office this morning. He said he had a grand trip.

Gaston: I talked to him before he went out there about seeing the newspaper men, and he did see the editors of all but one of the San Francisco papers, and got very favorable reactions.

H.M.Jr: Bring him in here at eleven fifteen, Mac.

What else?

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Gaston: I haven't anything else.

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

Oliphant: Senator Pepper came in to see me Saturday morning, to bring me the young man whom he wanted to get a job, and he asked if we had an attorney down in Miami, which we do have, and indicated that he intended to replace every Federal employee down there with his people.

H.M.Jr: And so what?

Oliphant: That's all - reporting.

McReynolds: That's his intention.

Oliphant: Just reporting the facts.

H.M.Jr: McReynolds, make a note - if while I'm gone - if Fred Martin, Collector of something, of Vermont, wants a leave of absence to run, it's all right. He's Collector of Customs, or something. If he wants a leave of absence to run, it's all right. He's going to run for Senator or Congressman or something.

Pepper must feel quite cocky, huh?

Oliphant: There's something I want to see you about.

H.M.Jr: All right.

Wayne, we're glad you're back. Not quite as much tension now.

RE: SPANISH SILVER

July 5, 1938.
10:00 A. M.

Present: Mr. Oliphant
Mr. Lochhead
Mr. Bernstein
Mr. Dietrich

Oliphant: It looks like the Treasury boarded the boat and took over the Spanish pieces of eight.

H.M.Jr: The damndest thing I ever heard of.

(Over telephone.) Tell Kieley to shoot those two people in.

(Mr. Dietrich and Mr. Bernstein come in.)

Hello. How are my stevedores?

Dietrich: What do you mean, stevedores? We're a couple steps higher than that.

H.M.Jr: You are, are you?

Dietrich: I think so.

H.M.Jr: Well, tell us all about it.

Dietrich: Well, I guess I have to start in; I'm the fellow who started the business.

I went to New York on Friday night, for the purpose of helping Lynch to get the silver in.

H.M.Jr: Who is Lynch?

Dietrich: He's the Superintendent of the assay office. We went down to the steamship company to get a carrier's certificate. We had no bill of lading. We needed that in order to make the customs entry. While down there we got the carrier's certificate, and we got a letter addressed to the Captain of the Harding and the United States Lines, which we call a delivery letter, authorizing them to deliver the silver to me on behalf of the Superintendent of the United States

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Assay Office, and on behalf of the United States, and, also, I handed to him a form of receipt which I was to sign and give to the Captain, acknowledging delivery to me on the ship, and that I had taken possession. Of course, I handed those to the United States Lines for their approval. They immediately called their counsel - I've forgotten his name here.

Oliphant: Potter.

Dietrich: Yes.

Bernstein: Kirlin, Campbell, Hickox, Keating, and McGrann.

H.M.Jr: No Levy?

Bernstein: Mr. Potter, of that firm, was the man handling the case.

Dietrich: They submitted it to that man and I could get no answer as to whether they would accept these two documents. Instead of wasting time I went down to the Customs House to make the entry. Mr. O'Keefe, the Deputy Collector of Customs there, was very nice and made the entry, and I had him assign a Customs Inspector to me, who would take the Customs permit at the pier. He instructed him to hold himself at my disposal, and to give me every possible assistance.

I also had Mr. O'Keefe issue a pass for Mr. Tarbell, of

Bernstein: Colonel Stimson's firm.

Dietrich: And Mr. Ryder, of the United States Lines, who wanted to accompany me down on the trip. I got my entry and I went back to the steamship company. As soon as I got to the steamship company they told me that - I think it was Sharp and Wyette; I'm not sure whether it was both, but it was both or Wyette, there with Valls, the London representative of the Bank of Spain of rebel territory. They told me that they had served notice on the steamship company that there was a question of ownership. The rebel side claimed they owned it. They also told the steamship company they had sent

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a cable to the Master of the Harding, advising the Master there was a question of the ownership. They set me up in the United States Lines, in a small private office. Later on, the United States Lines had sent these two people away because they said they couldn't give them any information; they didn't know. They came back while I was in the private office - they were outside, and I was inside.

I communicated with Mr. Bernstein and tole him the circumstances.

H.M.Jr: Where was he?

Dietrich: He was still in Washington. He arranged with Mr. Tarbell, of Stimson's firm; he thought he ought to go down the bay. Tarbell, when we got ahold of him, suggested that we keep Sharp and Wvette off the cutter. Nobody was to be on the pier.

H.M.Jr: Nobody to be on the pier?

Dietrich: No strangers to be on the pier - nobody to get near the silver.

H.M.Jr: Didn't they let the passengers off?

Dietrich: They let them off up stairs.

H.M.Jr: Who was giving this advice - Stimson's firm?

Dietrich: Stimson's firm.

H.M.Jr: Why? Where was the Federal Reserve?

Dietrich: They were not in on this shipment. I arranged for everybody to meet me at the barge office at two fifteen.

H.M.Jr: What day was that?

Dietrich: That was on Saturday, July 2. The Secret Service men were there, and identified themselves. Mr. Tarbell was there. And while there, a curious incident happened. About three thirty one of the United States Lines men, Lambert, had another gentleman with him, whom I met at the barge office, and he said, "This is Mr. Whalen, of our counsel; we'd like to have Mr. Whalen go down on the cutter

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with us, and have you any objections?" I turned to Tarbell and he said, "I see no objection to having their counsel on the boat." And Tarbell said he had no objection. They couldn't get to O'Keefe; he was up seeing a ball game. He was the only man that could issue a pass for him. They implored me to use whatever influence I had to get a pass for him. I said that O'Keefe was the man, and said I wasn't so sure I could do anything, but to leave it with me. In the meantime they had O'Keefe paged on the loud speaker system in the Yankee Stadium, but never got him.

The system on these passes is that O'Keefe issues them over his name; you go to the barge office and meet the customs officer. He picks up O'Keefe's pass and issues you another pass, in his name.

After thinking it over, and their approaching me several more times, I spoke to Mr. Bernstein and asked him if he saw any objections. I almost insisted that the counsel accompany us.

H.M.Jr: Counsel for whom?

Dietrich: Counsel for the steamship company - Whalen. He said he had no objection. I told them - the Inspector - we had no objection. He said, all right, if we had no objection he'd issue the pass. We went down and boarded the Harding just about off quarantine. We went aboard and I got ahold of one of the officers, told him who I was, and he said he had a radio from the company. I got our men together, Tarbell, the Secret Service men, and myself, and this officer took us up a back way to the ship and we got to the Captain before the company's own lawyers could get to him.

I introduced myself, and he said, "Yes." I told him I was there - I handed him the delivery letter. I told him I was there to take possession of the silver in the name of the Superintendent, on behalf of the United States. Was he prepared to deliver it to me? Here, also, the steamship company slipped up. They had this notice of protest, but they never advised the Captain by radio about it, with the result that he said, "Well - the United States Government - what can I do?"

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I said, "I have the receipt here, I am prepared to sign and deliver to you right now," and he was all for giving it to us, you see, but Tarbell and I - we both felt that if we did that we were just sneaking one over on the company, and in addition put the Captain in a very embarrassing position, and eventually the steamship counsel and the steamship men got up there. They went into a huddle in the Captain's private office. Later on they came back and delivered to us a letter. They acknowledged our letter and said in it that there was a dispute of ownership; they wanted more time, but that they could not oppose the Federal Government.

So that is the way the thing stood. Now the ship was out in the Hudson, off the dock, and I didn't know what would happen to me when I got ashore, so I made safe; I went to the radio room and asked them if the radio was closed and they said, "Just about." I said, "I am a Treasury Department employee, and in the name of the Government, I ask you to keep open, and the radio man said, "We shall." I ran off a sixty-six word radio to Mr. Bernstein and sent it to the Coast Guard in Washington to him, to be telephoned, "Rush."

The very comical part of that was that ten minutes after it went out the boat docked and I got off the boat and called him within fifteen minutes of the time the radio went out.

W.H.Jr: Where was Bernstein?

Dietrich: Here in Washington, waiting for me. After they had acknowledged the letter and said they couldn't surrender the silver, I spoke to Whalen, the company's counsel, and said, "I have two Secret Service men here and four more are meeting me when the ship docks. Have you any objection to my placing these men around the ship where the silver is located, and on the dock, to protect the property in the name of the United States?"

W.H.Jr: Just a minute. I've got a bug. She's gone! Damn these people - why they can't keep these insects off my desk. Do you (Oliphant) have those?

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Oliphant: Sure - and I have a big rat north of my door every night.

Dietrich: He said, no, he had no objection. In the meantime I got ahold of the cargo office.

(Dowling comes in.)

W.A.Jr: Dowling, if you don't tell the woman who cleans my desk to keep these damned bugs off my desk something is going to drop on her. It's just full of bugs.

Dietrich: I asked the cargo office where the silver was stored on the ship, and he said, "Number two hold, three hold, and five hold." I asked him if there was any in the strong hold. He said, yes, five hold was the strong room. I requested the steamship company to show the Secret Service men where these holds were. Whalen, of the steamship company's counsel bucked up. He said, "No. Find them yourselves." I said, "Do you - do I understand that you refuse to show me where the silver is stored?" And he said - well, he stuttered a bit, you see. I said, "Now, let's get this straight. Do I understand that you refuse to cooperate with the United States Government in pointing out to its representatives the holds in which this silver is stored, in order that they may protect it as United States property." And, of course, Mr. Whalen just slid right down to about five foot three. He said, "No, no, no, no." Then I said, I understand you will show the guards." He said, "Yes."

Well, when the boat docked ^{there were} four Secret Service men at the pier, with the ones on board. I consulted with the man in charge - McNally. (His name is very important because I'll have something to talk to you about that, if you don't object, later on.) He tolled off three men and placed them in the ship where the silver was. He did that and then we strewed out the remaining men along the dock, and where they placed the silver; he sent out a call for five more Secret Service men. We didn't have enough. They were drawing the silver from one end of the ship all the way up to the head of the dock. They unloaded the silver and all this time Mr. Bernstein and I had been in

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communication with one another and Tarbell had been in communication with him, and we were keeping each other informed of the developments. They finally got the silver unloaded, on to the dock, and I placed these Secret Service men around it with instructions that nobody was to come near it. They assumed a five-foot distance and anybody that came within five feet they told them not to advance any further - United States property.

During the most intense part of this, on the bridge, I want to make plain for you, and for the record, that there was no threat of coercion, intimidation, or force displayed by me. All I requested was cooperation.

We got the silver on the pier, and, of course, the lawyers were wrangling back and forth - I mean, you know, as lawyers do, and

H.M.Jr: I am surprised - the thing that surprised me was that Bernstein wasn't up there. The whole show was with all these lawyers.

Bernstein: I can explain that.

H.M.Jr: Yeah, but with all this stuff on the boat

Dietrich: I might insert, Mr. Tarbell, of Stimson's firm, is a very capable man.

H.M.Jr: Go ahead. I don't want quite so many details.

Dietrich: We got the stuff on the pier. We got into a little trouble about consignee's mail. I did a little bluffing there - with consignee's mail - did a little bluffing there at one o'clock on Sunday morning, and told them I thought they were disobeying Postal regulations by not turning in the mail. At two o'clock they told me they delivered the package at two o'clock on Sunday morning. That showed the shipment was consigned to the Superintendent of the Assay Office.

Bernstein: At this point, I can explain what had been happening down here at Washington, and the reason I wasn't in New York. I had arranged with Stimson's firm for Tarbell to go along. We

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were considering what legal action we would take in light of the fact that this adverse claim had been made. It became important to get the shipping document. I got in touch with the Spanish Embassy and they had just about no information on the subject, and they were of no help to us. I got in touch with the Post Office and the Post Office was very cooperative. As soon as the mail came off the President Harding they examined the mail and still didn't find the shipping document. We had been told by the Spanish Embassy that the shipping documents were going to be delivered to the Spanish Consul in New York. They came in on consignee's mail, addressed to the Superintendent, and we were told they wouldn't deliver the documents to us unless we had some authority from the Postal Inspector.

In the meantime, we were in touch with Klots and Colonel Stimson, and Colonel Stimson felt we had an absolutely clear case on the merits, and he was somewhat reluctant for us to use our sovereign power and take it by force. I indicated to him that there was obviously a great deal in his position. We argued the various possibilities until around twelve o'clock, our time. We then decided what we wanted to do was to have a conference in New York the next morning. At first the company's lawyers agreed, and thereafter they refused to hold a conference with us. We decided that despite that, we would go ahead.

I went to New York - got there at eight o'clock; met Dietrich on the boat and they delivered the mail containing the shipping documents to us. We decided on a course of action, again consulted Colonel Stimson, and the Colonel agreed.

We went to the Bar Association and drafted a demand - a letter stating our position. We went to the company's office, and we had a conference with some of the officers of the company and one of their lawyers - the junior lawyer - not Potter. I handed him the demand and bill of lading, and I said we wanted the silver. He said, "We can't acquiesce or refuse." He said if we took it, it would be over their protest. I said that was all right. Then he said they would open the door.

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- Oliphant: After an hour and a half talk, the upshot was.
- Bernstein: Potter took the position that he would only yield to force. He said he would only yield to force, and he was trying to egg me on to say something that would be forcing him and overpowering him. I simply said that was our position. They walked out of the room and we went down stairs, and fifteen minutes later - and then he said, "Do you demand the keys?" I said, "This is our property and we want to get it off here, and we demand the keys; we want to get it out." He handed the keys to Dietrich; he opened the doors and the trucks came in. Every time a truck came in they said, "We protest and object."
- Oliphant: We took possession of the silver peaceably. We have formal notice from the shipping company that they protest; they protest in the process of protecting their interests, and the case - they will sue us, probably in due time....
- H.M.Jr: Who will, the shipping company?
Rebel Government
- Oliphant: No. The / will sue us in due time for possession of the silver and they may sue the shipping company. Our case - this case - the second shipment, the way the document is drawn and all, it's a perfect case. There isn't any doubt but what we will win the case, so it seems to me it will now boil down purely to a question of policy as to future action.
- H.M.Jr: I would like the answer because I invited the Spanish Ambassador to have luncheon with me. Is there any reason why I shouldn't advise him to let another shipment come along?
- Oliphant: It's purely a question of policy, because documents drawn in the same way, the case handled in the same way, the outcome will be the same.
- H.M.Jr: Do you want it to come on United States Lines?
- Dietrich: I don't know about that.
- Bernstein: I think it might be all right, from our point of view. I have some doubt as to whether they want it.

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- Dietrich: There is one on the French already - there's one on the French line.
- Bernstein: I think one thing that might be helpful - if there were no publicity on that stuff that it was coming over. The newspapers broadcast the arrival of this stuff. If it were possible for it to be loaded on the ship in secrecy.
- Lochhead: The Spanish Rebels are going to be watching that. They have their spies on board those ships. Are we going to be able to make the payment for that? Is that going to be all right? It will be important. Are we going to make the payment?
- H.M.Jr: When are we going to make the payment.
- Dietrich: We don't know, Mr. Secretary. We have to work out a form of procedure for the Assay Office in New York.
- H.M.Jr: A couple days?
- Dietrich: It may take a little longer than that.
- H.M.Jr: But you can pay them this week, though?
- Dietrich: I hope so. I wouldn't want to make any promises.
- H.M.Jr: Well, rush it along.
- Dietrich: Mr. Secretary, may I mention in here - I think this was a very difficult operation, and I'd like to tell you that Mr. Bernstein has been very wonderful to me through it all, and in addition to that, I would also like to bring to your attention that the New York Office of the Secret Service was most cooperative, and nothing was too much trouble for them to do, and the Agents that were assigned to me - and if you will allow me to have your permission, I intend to write a memorandum to Chief Wilson and mention the Agents and the Agents in Charge of the details, and the Agents that helped me. In other words, bring it to his attention.
- H.M.Jr: Well, give it to McReynolds; from McReynolds it will come to me, and I'll give it to Wilson.

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Dietrich: I do feel

H.M.Jr: You said you were going to say something in particular about the Agent of the Secret Service ...

Dietrich: That is what I wanted to get in. It was McNally.

H.M.Jr: Oh, McNally is the Secret Service Agent.

Dietrich: Those men just came and went, and were at our call every minute.

Bernstein: As I told Mr. Oliphant this morning, I thought that Dietrich did a very excellent job on this case.

H.M.Jr: After all, when the United States Government goes into hijacking and gets away with it, that is something, isn't it?

Dietrich: As these trucks went on and off the pier the United States Trucking Company representatives were there to supervise the removal. They kept protesting and protesting to everybody, and finally went over to Moran, and said, "Mr. Moran, your trucks are moving this silver off this pier; we protest." Mr. Moran is a thick-set Irishman. He said, "Who cares?"

H.M.Jr: All right. I want you two fellows to know that you did a good job and that I'm very much pleased.

July 5, 1938.
10:35 a.m.

H.M.Jr: Hello.

Operator: Chairman Douglas has a newspaper man with him.
Would you rather talk to him alone?

H.M.Jr: Yes.

Operator: All right, I'll have him call you.

* * * *

10:46 a.m.

H.M.Jr: Hello.

Operator: Chairman Douglas is calling you.

H.M.Jr: O.K.

Operator: Go ahead.

Wm. O.
Douglas: Hello.

H.M.Jr: Hello, Bill Douglas?

D: Mr. Secretary, how are you?

H.M.Jr: Oh, fine. Henry to you.

D: You're calling me up to thank me for my punctilious
delivery of Johnny Hanes.

H.M.Jr: That's right. How'd you guess it?

D: Huh?

H.M.Jr: How'd you guess it?

D: Well, I hadn't heard from you, and I - you don't know
how that hurt my - hurt me all the way through.

H.M.Jr: Did it?

D: Yes. You won't mind if I keep on calling on him
between now and November first rather than September
first, will you?

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H.M.Jr: Ah - you call on him as long as you need him.

D: Yes.

H.M.Jr: How's that?

D: Fine. You see, he can - he can on - you know how this thing goes, it's a - it's a conference method, and ...

H.M.Jr: Yes.

D: ... the boys are about to break up and say, "To hell with the Government," and I could put Johnny in there and get a 5-to-4 vote.

H.M.Jr: You call on him just as long as you need him.

D: Fine.

H.M.Jr: Of course, I - you're being a little sarcastic, but - (laughs) - let me remind you that I think you set the date of July first when I first talked to you about it.

D: Well, I - I'll never be - I'll be more cautious from now on.

H.M.Jr: You want to be with me, because I'm ...

D: You believe what we say, huh?

H.M.Jr: Absolutely, when it's you.

D: (Laughs) Well, you have reasons to - to - ah - be confirmed in that policy to date, because I've delivered.

H.M.Jr: O.K. Now, right on top of that, inasmuch as you are such a good sport about Hanes - Hanes talked to me when he first came over here about Milton Katz.

D: Yes.

H.M.Jr: Then he talked to me about it Thursday again, and I - on account of the lapse of time I thought that the matter was dead.

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D: Yes.

H.M.Jr: Now, before we do anything about Milton Katz I want to see how you feel about it.

D: Well, I'll have to check up on that,...

H.M.Jr: I mean ...

D: ... to see what - how far Milt is in the situations here. He went into a new job here early in the year on the Utility Act, and I haven't seen very much of him since then; I don't know how far he is submerged in that.

H.M.Jr: Well now, let me straighten my position. I told Hanes that if Katz wanted to come over as his administrative assistant, that was just between Hanes and myself; but Katz wants to insist on coming over as a lawyer.

D: Yes.

H.M.Jr: So naturally it's a question of whether Oliphant can fit him in.

D: Yes.

H.M.Jr: And we have not given Hanes any answer.

D: Yes.

H.M.Jr: And the arrangement was that they were going to meet tomorrow with Magill when he comes back and - and talk about him and also about how much he knows about tax law.

D: Yes.

H.M.Jr: So - but in any case I don't hire people from another group until I've talked to the head of the ...

D: Yes.

H.M.Jr: ... department.

D: Yes.

H.M.Jr: So if you would be thinking it over - but there's been

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absolutely no commitment made.

D: I understand.

H.M.Jr: See?

D: Yes.

H.M.Jr: And I've never met the man, nor I don't know anything about him.

D: We might trade Milt Katz for Ed Foley.

H.M.Jr: Ha ha ha ha ha ha! Say, listen, just ...

D: Sight - sight unseen.

H.M.Jr: What?

D: Sight unseen.

H.M.Jr: Well ..

D: It's just a - just an out-and-out trade.

H.M.Jr: Well, listen, just because you regulate the New York Stock Exchange, don't try - don't trade my pants off.

D: (Laughs) Well, you know I - Christ, I haven't succeeded in doing it to date, at least.

H.M.Jr: Well, I'm just a little country boy, not - I don't know my way around.

D: Yes. You're just the guy that comes right in and takes my top Commissioner right away from me.

H.M.Jr: I see. Well, you

D: These country boys sure are slick fellows as far as I'm concerned.

H.M.Jr: Well, you're one yourself, aren't you?

D: (Laughs) Well, I'll - I'll talk to you about Milt Katz as soon as I have a chance to turn around here and see what he's doing and how far he is into the job and all that.

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H.M.Jr: O.K.
D: Fine.
H.M.Jr: Thank you.

July 5, 1938

The Secretary had as guests for lunch Mr. Jones, Mr. Eccles, Mr. Bell, Mr. Taylor and Mr. Upham.

Mr. Morgenthau said that he would like to talk about the proposed RFC financing. One of the questions in which he is interested, with respect to the market that he can expect for the securities he plans to offer on behalf of the RFC, is whether the Federal Reserve banks can and will buy part of the issue.

Mr. Eccles explained that when the RFC Act was originally passed, Carter Glass insisted on the inclusion of the provision specifically prohibiting Federal Reserve banks from purchasing the securities of the RFC. Later, the Banking Act of 1935 authorized Federal Reserve banks in general language to purchase the obligations of the Government agencies if they are guaranteed as to principal and interest by the United States Government. Under the circumstances, by reason of this conflict of authority, Mr. Eccles stated his view that while the Federal Reserve banks might legally purchase the securities, it might be bad in the

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matter of policy to invite criticism from Senator Glass. Prior to this, Mr. Morgenthau had stated that he had an opinion from the General Counsel of the Treasury to the effect that the Federal Reserve banks probably could purchase these securities. Mr. Eccles referred to the necessity of referring the matter to the Open Market ~~Committee~~. Mr. Morgenthau reminded Mr. Eccles that he had at luncheon a week or two ago, according to Mr. Morgenthau's recollection, stated that the Federal Reserve banks could buy these securities and would welcome it as a means of replacing their maturities of Treasury bills. Mr. Eccles said that he had not said quite that, but rather that the issuance of RFC notes would be a help to the general market and would replace the maturing bills in the short-term portfolios of banks and dealers and other holders.

Mr. Morgenthau said that they would proceed on the assumption that the Federal Reserve banks would not buy the securities either originally or as a part of the secondary distribution, and that in arranging the financing, that there would be no dependence upon purchase by the Federal Reserve banks.

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Mr. Bell said that the securities could not be sold on a credit or war loan account basis. In view of the lack of a market in the Federal Reserve banks and in view of the fact that they can not be sold to the banks on credit, and in view of the fact that there might be some criticism of the Government for going into the market between the June and September financings, Mr. Morgenthau was inclined to the view that the offering should be held down to \$100 million. Mr. Taylor was inclined to the view that \$200 million was little enough by reason of the great demand in the market for short-term securities. Mr. Bell thought \$200 million could be disposed of readily. Mr. Jones referred to the fact that when they offered \$25 million National Mortgage Association securities a short while ago they got subscriptions of over \$1 billion and he thought there would be a ridiculously large over-subscription for a \$100 million issue. Mr. Eccles was inclined to think \$100 million enough and spoke of the issuance of a large amount as directly contrary to the President's program of building up excess reserves. Mr. Bell referred to the fact that the Commodity Credit issue had also reduced excess reserves.

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Mr. Morgenthau said that he wanted the issue subject to the same rules and regulations as the last Treasury note. He said he wanted to do a good job for Mr. Jones and did not want to try anything new, such as issuing them on a bill basis or having an auction. He said that he wanted to do a good job even though he realized that it meant when the RFC got established in the market that Mr. Jones would want to borrow money from the Treasury at a lower rate.

Mr. Morgenthau said that Mr. Burgess is of the opinion that he can put out a three-year note at one per cent or less. Since the life of the RFC does not extend beyond February, 1942, it is of doubtful legality to borrow with a maturity date beyond that. Mr. Morgenthau suggested \$100 million quarterly--say in August, October and January, at which time legislation can be enacted extending the life of the RFC so that further quarterly borrowings can be undertaken if necessary.

Mr. Jones said that he would like to have the Comptroller of the Currency issue a regulation making it possible for banks to buy issues which he holds of such agencies as

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the San Francisco Bridge Authority, which are not properly classifiable as general municipal obligations. Mr. Morgenthau suggested that he handle that with the Comptroller's Office through Mr. Upham.

Mr. Eccles said that while he was at the White House this morning discussing civil service matters with the President, the President asked him why he didn't talk to Jesse about the possibility of buying up from the railroads their worn-out equipment and letting the WPA conduct a project of reclaiming it for scrap iron material. Mr. Jones said that suggestion was made a few days ago by Senator Shipstead and that he regards it as just another one of those plans which are wholly impossible. He said that he is not inclined to do anything unless he can find clear authority for it in the RFC Act. He took this occasion to state that in his opinion the authorization in the Banking Act of 1935 to the Federal Reserve banks to buy guaranteed obligations of the Government, being a later enactment than the RFC Act and its specific provisions, made it fully legal for the Federal Reserve banks to buy his obligations.

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The group adjourned to the Secretary's office where he called Mr. Burgess on the telephone. Mr. Burgess reported that he thought \$200 million of a three-year note would go very well and that the rate might be as low as $3/4$ of 1 per cent. He thought that a 1 per cent rate might affect adversely outstanding Treasury notes, but was sympathetic of Mr. Jones' desire to make a sweet offering for the purpose of establishing a market and attracting buyers to future issues. It was agreed that as wide a distribution as possible would be desirable. Mr. Eccles said he did not want any impression to get out that the Federal Reserve banks could not buy the issue and said that if he were asked, he would give as his opinion that they could--saying nothing about whether they are going to. Mr. Burgess said that he would like to know by Monday whether they could because he would be asked that. Mr. Morgenthau suggested that perhaps the Open Market Committee could get together and determine by that time. It was agreed that the offering would be made on the 11th with payment on the 20th.

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Mr. Gaston was invited in and asked to make an oral announcement to the Treasury press room after the White House press conference this afternoon that under a policy of establishing the RFC on a basis of self-financing similar to that employed by the Farm Credit Administration, the Home Owners Loan Corporation, etc., he would offer on behalf of the RFC on July 11th for payment July 20th a \$200 million of a three-year note under the same rules and regulations as the last Treasury note issue, the coupon rate to be fixed on Saturday next for announcement in Monday morning papers.

Upm

July 5, 1938
11:29 a.m.

H.M.Jr: Hello.

Operator: Dr. Burgess. Go ahead.

H.M.Jr: Hello.

W. R. Burgess: Oh, hello, Henry.

H.M.Jr: How are you?

B: Fine.

H.M.Jr: What do you know about an R.F.C. sale?

B: Well, I know quite a little more than I did when I talked to you Sunday night.

H.M.Jr: Well ...

B: And I'm getting my opinions fairly definite.

H.M.Jr: Yes.

B: Now, in the first place, this general plan of having these fellows independent - borrow independently

H.M.Jr: Yes.

B: ... - I suppose that's all decided.

H.M.Jr: Yes.

B: As I suggested the other night, you will get a very substantial negative reaction on that.

H.M.Jr: Yes.

B: The people will say you're paying more just for the sake of - of affecting the bookkeeping.

H.M.Jr: Yes.

B: However, you'll face that.

H.M.Jr: Yes.

B: Now, I think the second problem is consistency with

the general policy as to reserves.

H.M.Jr: Yes.

B: If these boys aren't going to need to spend the money, ...

H.M.Jr: Yes.

B: ... I think you'll get a reaction perhaps on borrowing way ahead of what they need.

H.M.Jr: Yes.

B: From that point of view, I think that keeping the borrowing down to - to something of what they're going to need ...

H.M.Jr: Yes.

B: ... has a good deal to be said for it.

H.M.Jr: I see.

B: These reserves of the City banks, of course, would feel it most, and you might get a negative reaction if you pulled them down very heavily by - by a large amount of borrowing.

H.M.Jr: Well ...

B: And that would be an argument also for selling on War Loan deposit rather than simply for cash.

H.M.Jr: Yes.

B: Now, in the third place, I think as I review it too with the fellows here and with fellows outside, I'd be inclined to use the regular methods...

H.M.Jr: Yes.

B: ... rather than the auction methods.

H.M.Jr: Yes.

B: Now, while I still feel as I did Sunday night, that

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the auction method is one that should not be wholly discarded ...

H.M.Jr: Yes.

B: ... this market is not quite as good as it was a few days ago or a couple of weeks ago;...

H.M.Jr: Yes.

B: ..there are still quite a number of these bonds, the new issue, that haven't been fully distributed; there's a little weight on the notes, there's some notes kicking around.

H.M.Jr: Yes.

B: The market was just a touch easier today. So it might be taking a little bit of a chance ...

H.M.Jr: Yes.

B: ... to - to auction, ...

H.M.Jr: Yes.

B: ... particularly since that method would bear especially in New York.

H.M.Jr: Yes.

B: The sale would be concentrated in New York.

H.M.Jr: Yes.

B: And that would be more apt to affect the money picture than - than the other method, ...

H.M.Jr: That's right.

B: ... where you sold them on - on subscription ...

H.M.Jr: Yes.

B: ... and the thing were distributed throughout the country.

H.M.Jr: Yes.

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B: The bidding method of course gives New York the inside track.

H.M.Jr: Yes. Well, I - I wasn't - I listened, but I would have argued with you about it.

B: Yes.

H.M.Jr: I mean I wasn't ...

B: Well, my mind's been very open on that, because ...

H.M.Jr: But I - I personally don't want to try anything new at this time.

B: Yes. Well, I think there's a good deal to be said for that.

H.M.Jr: Yes.

B: Now, in the fourth place, as to the schedule.

H.M.Jr: Yes.

B: If we do this on the regular method, it's very important that we have time to do it properly.

H.M.Jr: Yes.

B: And if you announce it on Monday, ...

H.M.Jr: Yes.

B: ... I don't think delivery ought to be until the 20th.

H.M.Jr: I see.

B: To give us time to police the thing and do it properly.

H.M.Jr: Well, that will be all right.

B: Uh - and if you're going to announce it Monday, there ought to be in tomorrow morning's papers or in Thursday's ...

H.M.Jr: Yes.

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B: ... a preliminary indication ...

H.M.Jr: Right.

B: .. that you are proposing to announce a - a borrowing on Monday.

H.M.Jr: I see.

B: So that the market would have some time to adjust to it, and so we could fix the rate more intelligently on Friday or Saturday.

H.M.Jr: Well, when would they begin to draw coupons, from when?

B: I should say from July 20th.

H.M.Jr: Oh, you'd date it the 20th.

B: Yes, I think that's just as good as the 15th, isn't it?

H.M.Jr: I - I don't know. As far as I'm concerned, it is.

B: Yes. I don't see any particular virtue in the 15th.

H.M.Jr: I see.

B: And it takes about ten days to handle these things comfortably. Tell you, this last - this last thing that the - that the R.F.C. did left a very bad taste.

H.M.Jr: Did it?

B: Because they delayed their deliveries and they couldn't make up their minds about allotments and - just kind of messy, you know?

H.M.Jr: Uh-huh.

B: And we don't want that.

H.M.Jr: Uh-huh.

B: It doesn't make a good impression.

H.M.Jr: No, no.

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- B: So we need time enough to handle it and have the definitive obligations printed and ready to deliver on the delivery date, and so on.
- H.M.Jr: If you want to take the time about it, we could announce on the 18th for delivery on the first of August.
- B: Well, we don't need quite that much time. Ten days is enough.
- H.M.Jr: All right.
- B: But - the only point I'm making is, there should be ten days.
- H.M.Jr: All right.
- B: Now, the dates sit pretty well for the 11th and the 20th.
- H.M.Jr: All right.
- B: But any similar period's all right by us.
- H.M.Jr: All right.
- B: And would be handled.
- H.M.Jr: Now ...
- B: So that my general reaction now is - is to do it in the regular way and if - if they're not going to need the money right off, to take only part of it at this time and part later; to take, say, 250 or 300 million now, either in one maturity or in two. I wouldn't do more than two, I think.
- H.M.Jr: Well now, Oliphant and Bell say there's a question about going beyond three and a half years.
- B: Oh, there is, legally.
- H.M.Jr: Yes, so I said I - I'd make it a three-year. I don't want any ...
- B: Yes.
- H.M.Jr: I don't want any doubts.

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B: Well, that's good. I think a - right on the present market, it's three-year 1%.

H.M.Jr: A three-year 1%.

B: Yes. Now, you could - that's pretty generous.

H.M.Jr: Is it?

B: It may be a little too generous.

H.M.Jr: Uh-huh.

B: I don't know.

H.M.Jr: Now, here's another thing to help you. I'm having these - Eccles and Jones for lunch.

B: Oh yes.

H.M.Jr: I don't want to offer more than a hundred million.

B: I see.

H.M.Jr: Because he doesn't need the money.

B: Yes.

H.M.Jr: I wanted him to do it, so that - I want it to taste good.

B: Yes.

H.M.Jr: And let him come back every three months and build this thing up, and they get this thing accustomed to it.

B: Yes. Well, I think that's entirely consistent with your policy on Treasury bills, and so on.

H.M.Jr: See? I mean ...

B: Yes.

H.M.Jr: ... in other words, I don't want him to have a maturity of more than a hundred million at any one date.

B: I see.

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H.M.Jr: See?

B: Yes.

H.M.Jr: Now let's break the ice, let's say, with a three-year - whatever you can - you figure, one or seven-eighths, whatever it is.

B: Yes.

H.M.Jr: And then offer that; that establishes the security, the people get used to it.

B: Yes.

H.M.Jr: And then along in the middle of October we can offer another hundred million.

B: Yes. Yes.

H.M.Jr: In other words, let him have it a hundred million coming due every three months.

B: Yes. Well, that makes more sense.

H.M.Jr: And then the people get used to that kind of a security, and I think for him a three-year security would be good anyway.

B: Yes. Yes.

H.M.Jr: See?

B: I think a three-year would be just right. In fact, three years was what - was the reaction I got.

H.M.Jr: Three years. Well, legally - I don't want to go beyond three, and the way I'm feeling now I think a hundred million is plenty.

B: Yes. Well, the market would take more than that easily enough, but that's ...

H.M.Jr: Well, I don't think Jones ought to have more than a hundred million coming due in one maturity.

B: Yes. Well, there's something in that, because one

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day these won't be as easy to sell as they are now.

H.M.Jr: Exactly.

B: Yes.

H.M.Jr: And a hundred million dollars sometimes is a lot of money, and if he spreads it along

B: I agree with you. I think it still is.

H.M.Jr: Yes. He could do 200 million, couldn't he?

B: Oh, easily, yes.

H.M.Jr: Yes. Well, I'm going to - I'm going to argue with him to do a hundred.

B: Yes. Well, if you have to compromise on two it's not bad.

H.M.Jr: It would not.

B: As far as the market's concerned.

H.M.Jr: But you may be able to shade that. If it's a hundred million you could shade to one ...

B: I think you could shade the rate, yes.

H.M.Jr: Shade an eighth?

B: Yes, but I - we can decide that later; that's - it's too early a little on that.

H.M.Jr: I'll call you back after lunch.

B: And there ought to be an announcement, if possible, tomorrow morning papers ...

H.M.Jr: I'll try to get it.

B: ... so that - so the market will adjust to it, you see?

H.M.Jr: Uh-huh. I'll - I'll try to work it so that we - we say we're going - and especially inasmuch as the

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Dow-Jones ticker had something, if you ask for it, that ...

B: Yes, we have it.

H.M.Jr: "R.F.C. may finance itself by open market securities." That was at 10:38 this morning.

B: Yes.

H.M.Jr: See?

B: Yes, but they said they weren't - nothing was - there was nothing immediately

H.M.Jr: I know.

B: ... final. Yes.

H.M.Jr: All right?

B: Very good, Henry.

H.M.Jr: Thank you.

B: First rate.

July 5, 1938.
12:58 p.m.

Herman
Oliphant: Hello.

H.M.Jr: Hello.

O: This is - the way it appears, so far as I've looked into it, been able to look into it, I think the Federal Reserve Banks may purchase the R.F.C. notes.

H.M.Jr: They may.

O: But General Counsel Wyatt of the Federal Reserve Board and General Counsel Logan, of the Federal Reserve Bank, have just begun to study the subject and they're going to go into it fully and I'm sure Wyatt will go into it fully before he makes up his mind. - Hello?

H.M.Jr: Yes. Hello.

O: Something wrong.

H.M.Jr: Well, I'm not wrong.

O: Hello.

H.M.Jr: It's not me, it's on your end.

O: All right.

H.M.Jr: Well, anyway, ...

O: So it's just a question then of having some other agency to stand by and take them in case they're offered.

H.M.Jr: I see. But we don't know definitely yet.

O: No. I think you'd better assume you ought to have some other fund in mind to stand by and take them.

H.M.Jr: That's funny, we're not on my regular wire here; I wonder why.

O: I don't know.

H.M.Jr: Just - just you stay a minute, I want to see.

Operator: Yes, sir.

H.M.Jr: Why

July 5, 1938.
1:58 p.m.

H.M.Jr: Hello.

Operator: Dr. Burgess.

H.M.Jr: Hello.

W. R.
Burgess: Oh, hello, Henry.

H.M.Jr: Randolph, if you don't mind I'm going to give you an audience here over my loud-speaker.

B: Well, that's a great honor, sir.

H.M.Jr: All right. I got Jones, Eccles, Taylor, Bell and Upham.

B: Greatly honored.

H.M.Jr: All right. Now, how does it look to you, this RFC note?

B: Well, I think they'd like three years very much.

H.M.Jr: Uh-huh.

B: And they could take that up to 200 million dollars.

H.M.Jr: Uh-huh.

B: Without serious difficulty.

H.M.Jr: Uh-huh.

B: Up to 200.

H.M.Jr: Up to.

B: Yes. I don't think it ought to be larger than that.

H.M.Jr: Well ...

B: On the whole.

H.M.Jr: We're all very conservative except Wayne Taylor, who's been eating beans and shoving a canoe along, and he

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just thinks anything will go.

B: Well, I know his radical disposition.

H.M.Jr: Yes.

B: (Laughs) I think the rate could probably be under one percent.

H.M.Jr: Oh, you've had some beans for lunch too.

B: I've had a little - a few beans for lunch; I feel better now.

H.M.Jr: Uh-huh.

B: I think it's possible that you could go as low as three-quarters, but I'd want to think about that for the rest of the week.

H.M.Jr: Uh-huh.

B: Now, I'd handle it in just exactly the same way as we handled the - the Commodity Credit or Federal note issue.

H.M.Jr: Well, I told Bell that I wanted exactly the same rules and regulations as governed our last note issue.

B: That's - that's - I'm - I'm with you a hundred percent. I think that's just right.

H.M.Jr: So if the boys said, "Well now, what is it?" - "Just the same as the last Government note issue."

B: Yes.

H.M.Jr: "No change." See?

B: Well, I'm all for that.

H.M.Jr: All right.

B: I think that's just right.

H.M.Jr: And what I - what I thought we'd do is to accommodate you with the press, I'd get hold of Gaston and tell him to say that next Monday we're going to offer a

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note issue

B: Yes.

H.M.Jr: ... of the RFC.

B: Yes.

H.M.Jr: Now, do you think we ought to say how much tomorrow morning or ...

B: Uh - ...

H.M.Jr: ... or let them - and then come along, say, Thursday morning and tell them how much.

B: Well, of course, if you can tell them how much now, it would have some advantages, because it wouldn't frighten them all to death.

H.M.Jr: All right, now then ...

B: And

H.M.Jr: ... we'll take a look. I'll ask the boys to raise their fingers.

B: Yes.

H.M.Jr: (Short pause) (To group in room:) Wait a minute, do it - wait a minute, do it again. (Laughs) No, fingers. - Well, you - you had one there before. - Oh.

Well, everybody's for two.

B: For two hundred.

H.M.Jr: Yes.

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

H.M.Jr: All right.

B: Now, I think - I think the people in the market would be very much interested to know how, if at all, that

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affects future financing of the Treasury; that is, a word about the purpose and how it fits into the scheme of things

H.M.Jr: Yes.

B: ... might remove some mystery about it.

H.M.Jr: Oh, too much knowledge in Wall Street is a bad thing.

B: Yes, I know that.

H.M.Jr: And if we take the veil off the Treasury, why, we never could do any business.

B: Well, they know so many things that ain't so that, you know, one or two definite things that are so are very helpful.

H.M.Jr: Well, we'll just tell them that the RFC is on a basis now just the same as Farm Credit or

B: Yes.

H.M.Jr: ... Home Owners Loan.

B: Yes, that's all - that's the kind of thing.

H.M.Jr: Simply carrying out a policy of the Government to let these independent agencies go in the market and borrow on their own.

B: Yes. Yes.

H.M.Jr: And - and I'll let Gaston handle it and ...

B: Yes.

H.M.Jr: ... he'll - he'll do it all right.

B: That won't affect your September financing really at all, will it?

H.M.Jr: No. No.

B: It'll be

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H.M.Jr: No.

B: ... just the same as before.

H.M.Jr: Yep.

B: Uh-huh. Uh-huh. Yes.

H.M.Jr: No. No, I mean the way things look now we'll take a minimum of 500 in September and as much more as we can grab off.

B: Yes. Yes.

H.M.Jr: See?

B: Yes. Yes. Well, I think you could say perhaps informally that that will have no - no important effect on future Treasury financing.

H.M.Jr: We won't tell it to them all tonight.

B: No.

H.M.Jr: When do you fellows see the press down there?

B: Well, we see them at 3:30, but ...

H.M.Jr: Well, you can follow it up tomorrow.

B: We can follow it up tomorrow.

H.M.Jr: Yes.

B: Yes.

H.M.Jr: I'll - I'll get it in tomorrow morning's papers.

B: I think that's fine, Henry. And then your program would be to open the books on Monday morning?

H.M.Jr: Close them on - yes, and for - payable on the 20th.

B: Payable on the 20th. That's splendid.

H.M.Jr: Now - now just a minute. Mr. Jones wants to say something. Just a minute.

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(Jones: Suppose we put this note out at one percent, three years, and we determine that it's slightly above the market. Would that have any adverse effect on future financing?)

- H.M.Jr: Jones wants to know if we put it out at one percent, would that have any adverse effect on future financing?
- B: Well, it might have some adverse effect on your outstanding Treasury notes. I think it's a little rich and I think if you start off that way it means that it's going to be a little less easy to get the rates on the market at another time.
- H.M.Jr: That's the point he had in mind.
- B: Yes.
- H.M.Jr: Well, what we'll do is this. I'll get in touch with you a couple times more. We'll talk Friday afternoon, we'll talk Saturday morning.
- B: Very good.
- H.M.Jr: And I'll keep Mr. Jones informed.
- B: That'll be fine.
- H.M.Jr: And we - I think we're all agreed we want it - give it, oh, just a little dash of sweetening the first time.
- B: Oh yes. Well, I see what Mr. Jones has in mind, that he wants to do a job now that'll make people want the next issue, and I quite agree on that; I think you can do that probably without going quite as high as one percent, but achieve the same objective.
- H.M.Jr: Yes. Well, a lot may happen this week, because the market seems to be kind of bobbing around a little.
- B: Exactly, yes. Yes. Yes.
- H.M.Jr: (Aside:) What's that? - Taylor raises a question of a one percent rate, but selling it at a premium.
- B: Well, that's never quite as good, particularly with

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these new rules of the - of the conference of the various supervisory agencies. It means they have to start amortizing right away.

H.M.Jr: Uh-huh.

B: They don't like that quite so well.

H.M.Jr: I see.

B: But it'll go all right. You could do it, but ...

H.M.Jr: You mean those Cy Upham rules.

B: That's right, yes.

H.M.Jr: Uh-huh.

B: I didn't - I tip my hat to him; I didn't realize it.

H.M.Jr: Yes.

B: He's ...

H.M.Jr: Well, we can think it all over. We got four or five days to go.

B: Yes.

H.M.Jr: Now - now, Eccles wants to - just a minute - the Chairman.

B: Yes.

H.M.Jr: (Pause for aside conversation) Oh yes. We've had this from Bell: we cannot handle this on a credit basis, War Loan account.

B: Oh, you can't, huh?

H.M.Jr: No.

B: Well, that's not serious.

H.M.Jr: And the - the feeling is that Federal Reserve System will not be able to buy these.

B: Yes. Yes. That's - I've been talking that with our legal fellows here. There certainly is question about

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it.

H.M.Jr: Well, that's a matter to keep within your own shop.

B: Certainly, yes. Yes.

H.M.Jr: That's - that's a matter within your own shop, and - and the Federal Reserve may - Chairman says may call an Open Market Committee and - and look into that further.

B: Yes.

H.M.Jr: He looks a little hungry for a few notes. I mean may ..

B: (Laughs)

H.M.Jr: And ...

B: Well, it may make some of the other notes a little more freely available.

H.M.Jr: Uh-huh. But just - am I right (aside to Eccles), you want to keep that in the Bank? (Pause for Eccles' answer)

The Chairman says don't take a positive position on that, because he - he wants time to think it over.

B: Yes. We ought to know by Monday what we're going to say when people ask us the question.

H.M.Jr: Yes. And would you - is it you or Bell will be getting the circulars out in advance? Bell. Bell says he

B: Bell's the fellow, yes.

H.M.Jr: All right.

B: Yes. Yes.

H.M.Jr: Well, you - after all, the Federal Reserve ought to be able to make up its mind in six days.

B: Oh, that's expecting a good deal, Henry.

H.M.Jr: (Laughs)

B: (Laughs)

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H.M.Jr: All right. We're all feeling better.

B: That's right.

H.M.Jr: All right.

B: Very good.

H.M.Jr: O.K., goodbye.

B: Goodbye.

July 5, 1938

HM, Jr telephoned the President at 2:30. The President said, "Hello, Henry, how are you?" HM, Jr answered, "I am fine, Mr. President."

Continuing, HM, Jr said, "I want to tell you that we have worked out an arrangement to sell the RFC notes in the public market and I had Jesse Jones and Eccles here and it will be in the papers tomorrow morning. We start with a \$200,000,000 3-year note which we will get for 1% or less. Every three months we will sell \$200,000,000, so that at the end of the year he will be getting his money from the market instead of the Treasury. What it does is that it eases the pressure a little bit on us. I think it is a good move and I wanted to tell you about it."

The President said, "I think it is very good. That is fine. I will see you tomorrow. We are lunching together."

oOo-oOo

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 7-5-38

TO Secretary Morgenthau
 FROM Mr. Haas
 Subject: Fiscal year 1938 revenues and receipts.

Total revenues and receipts (general and special accounts) for the fiscal year 1938 amounted to \$6,241.7 millions, daily Treasury statement basis, or 1.2 percent less than the estimate made last December.

The following table presents a comparison of the estimates for the fiscal year 1938 shown in the Budget Message of January 3, 1938 and the actual receipts shown in the daily statement of the United States Treasury dated June 30, 1938:

	Fiscal year 1938			
	Estimated receipts	Actual receipts	Increase (+) or decrease (-) from estimate	Amount : Percent
(money figures in millions of dollars)				
General and Special Accounts				
Internal revenue:				
Income taxes	\$2,692.9	\$2,634.6	-\$58.3	- 2.2
Misc. internal revenue	2,279.5	2,279.5	0	0
Other internal revenue:				
Taxes under Social Security Act	571.0	604.4	+ 33.4	+ 5.8
Taxes on carriers and their employees	150.3	150.1	- .2	- .1
Tax on unjust enrichment	5.0	5.7	+ .7	+ 14.0
Total other internal revenue	\$ 726.3	\$ 760.2	+\$33.9	+ 4.7
Total internal revenue	\$5,698.7	\$5,674.3	-\$24.4	- .4
Customs	\$ 415.3	\$ 359.2	-\$56.1	- 13.5
Miscellaneous revenues and receipts	\$ 206.5	\$ 208.2	+\$ 1.7	+ .8
Total receipts, general and special accounts	\$6,320.5	\$6,241.7	-\$78.8	- 1.2

Secretary Morgenthau - 2

The fiscal year 1938 receipts of \$6,241.7 millions represent the largest receipts of the Federal Government in any fiscal year with the exception of fiscal year 1920. It amounts to \$947.9 millions, or 17.9 percent more than the \$5,293.8 millions of total receipts to general and special accounts for the fiscal year 1937. Gains in revenue were widespread among the numerous sources. Income tax receipts including back taxes and excess profits taxes showed a gain of \$477.1 millions. This large increase of receipts from this source is ascribable both to the higher levels of income in 1936 and 1937 and to the full effect of the various features of the Revenue Act of 1936, such as the increases in rate scales, imposition of surtaxes on undistributed profits, and subjection of dividends to the individual normal tax. Another notable increase in these receipts is the \$502.0 millions increase in receipts from the various taxes on payrolls. This increase was caused by the higher effective rate of tax on employers of eight or more, receipts from the employment tax of nearly a full year's liability, and the payment of the liability in respect of five quarters of the tax on carriers and their employees, which represented practically a new source of revenue due to the litigation which restrained the collection in the fiscal year 1937 of all but \$300,000 of the accrued liability under the previous law. Miscellaneous internal revenue increased \$98.3 millions and customs receipts showed a decline of \$127.2 millions from the fiscal year 1937 level.

The following table presents a comparison of the revenues and receipts to general and special accounts in the fiscal years 1937 and 1938 shown in the daily statement of the United States Treasury dated June 30, 1938.

Secretary Morgenthau - 3

	Fiscal year 1937	Fiscal year 1938	Increase (+) or decrease (-) 1938 from 1937	
			Amount	Percent
(money figures in millions of dollars)				
General and Special Accounts				
Internal revenue:				
Income taxes	\$2,157.5	\$2,634.6	+\$ 477.1	+ 22.1
Misc. internal revenue	2,181.2	2,279.5	+ 98.3	+ 4.5
Other internal revenue:				
Taxes under Social Security Act	252.2	604.4	+ 352.2	+ 139.7
Taxes on carriers and their employees	.3	150.1	+ 149.8	+49,933.3
Tax on unjust enrichment	5.9	5.7	-.2	- 3.4
Total other internal revenue	<u>\$ 258.4</u>	<u>\$ 760.2</u>	<u>+ 501.8</u>	<u>+ 194.2</u>
Total internal revenue	<u>\$4,597.1</u>	<u>\$5,674.3</u>	<u>+1,077.2</u>	<u>+ 23.4</u>
Customs	<u>\$ 486.4</u>	<u>\$ 359.2</u>	<u>-\$ 127.2</u>	<u>- 26.2</u>
Miscellaneous revenues and receipts	<u>\$ 210.3</u>	<u>\$ 208.2</u>	<u>-\$ 2.1</u>	<u>- 1.0</u>
Total receipts, general and special accounts	<u>\$5,293.8</u>	<u>\$6,241.7</u>	<u>+\$ 947.9</u>	<u>+ 17.9</u>

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 5, 1938

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation, week ending July 2, 1938

Summary

(1)

Further improvement in various business series confirms previous indications that an upturn in business activity is getting under way.

- (a) Steel activity has shown a contra-seasonal increase for the fourth consecutive week, and automobile production has continued to hold its previous gain.
- (b) Stock and commodity prices have had a further sharp upturn.
- (c) Department store sales have extended their upward trend.
- (d) Heavy buying in the cotton textile markets has continued through the second week.

(2)

The background for the business outlook in this country has been strengthened by an improvement in business confidence in Great Britain, simultaneously with improved confidence in this country. An increased demand for motor cars in England is reported; sentiment in the steel industry is more optimistic; and textile sales have expanded.

(3)

The uprush in the stock market, partly due to heavy short covering, has apparently outrun the immediate business prospect. Investment buying should provide market support on reactions, however, in view of the improved confidence in the business outlook.

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(4)

The prospect for increased activity in the country's two leading industries strengthens the outlook for the immediate future.

- (a) Increasing steel operations at a time of normal seasonal decline testifies to an increasing demand, despite some tendency to withhold orders because of price uncertainties.
- (b) The heaviest textile buying since March, 1937, promises a continuation of the recent improvement in cotton mill activity, while the near prospect of serious weevil damage to the cotton crop may encourage a speculative boom in prices.

* * * * *

The steel situation

Steel operations increased this week for the fourth week in succession, reaching 28.7 percent of capacity, up .7 point. Steel orders for the week ended June 23 declined to the equivalent of 26 percent of capacity, as compared with 29 percent the previous week. Although two days of the stock market rise were included in this period, the uncertain price situation has apparently held back new orders.

Since the week of June 23, trade reports indicate some increase in demand for steel, of which the contra-seasonal increase in steel operations provides confirming evidence. On this point, the American Metal Market mentions that earlier plans for a cut in production in some districts were abruptly halted by a broadening of demand. In the Buffalo district, for example, Bethlehem Steel had lighted two additional furnaces on June 13 to take care of a small accumulation of orders, expecting to drop them the following week. However, plant officials said that an influx of unexpected orders had made it necessary to continue all open hearths indefinitely. Republic Steel, operating two out of nine furnaces, also said new business had shown an encouraging upswing during the past week.

Nevertheless, the uncertainties and complications attending the recent price cuts and elimination of basing point differentials have undoubtedly held back a considerable volume of possible business. Buyers now have the additional problem of making new calculations to determine where they can get steel cheapest. A Pittsburgh news item mentions that on the price cut announcement by U. S. Steel, buyers of almost all

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finished steel products decided to hold back orders until the whole situation should become straightened out. The American Metal Market says editorially that "By no means will buying and production be immediately stimulated. Rather, buyers may be disposed to hold off until the last word has been spoken." Mid-year inventory taking will also tend to delay steel ordering at this time.

The new price schedules do not eliminate the basing point system, but they do eliminate differentials between basing points. This has the effect of cheapening steel prices most in the districts farthest removed from Pittsburgh. Purchasers in the Southern (Birmingham) district will therefore reap the largest benefits. Many of the smaller steel companies are greatly upset by the change in price policy, claiming it will work to the advantage of U. S. Steel and the large independents.

Following the price cut on steel products, a series of price reductions have been made on other related products. A general reduction of \$4 a ton in pig iron prices is called the most drastic in the history of the industry. Prices on cast iron pipe, on black and galvanized piping, on wire products, and on rivets have been reduced, and the price of coke, used in blast furnaces, has also been lowered.

The various price reductions appear to have improved the outlook for steel activity during the fall. They have been made at a time when they will be of maximum benefit to the automobile industry in its steel buying for 1939 models, and some increase in demand from the railroad and building industries may be expected as a result of the reduced prices. The effectiveness of the price reductions on steel is increased by the upward trend of basic commodity prices.

Improved prospects in textiles

The immediate outlook for the country's second largest industry has been greatly improved by two successive weeks of heavy textile buying, particularly since cotton mill activity had already started a rising trend. The New York Times adjusted cotton mill index for last week rose to 94.6, the highest since early December 1937. If textile sales continue even fairly large, it is taken for granted in the textile trade that mill activity will increase substantially.

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Cotton textile sales during the first week of heavy buying were reported as the largest since March, 1937, with print cloth sales equivalent to 5 or 6 weeks' production. Textile prices have been marked up with the improved demand, confirming previous belief that the Government bought its recent huge W.P.A. cloth order at the lowest levels of the price decline. The first week of heavy buying ended with most standard cloth constructions $3/8$ to $1/2$ cent higher than at the beginning of the week.

In Chart 1 we show a comparison of new orders for cotton and rayon received by Pacific Mills, by weeks, with the trend of cotton mill activity. Although orders in recent months had been moderately high, part of them had evidently been filled from inventories rather than from increased production. The recent upturn in mill activity suggests that stocks have become depleted.

Reduced cotton crop prospect

The prospect of an upturn in textile activity during the summer and fall is aided by the possibility of a speculative price boom, since the cotton crop seems headed for a season of severe weevil damage. Reports from the Government and from State and private agencies indicate that weevils are more numerous than last year. The crop is now in the critical weevil period. If cool and showery weather continues during the next two or three weeks the weevil will develop rapidly, and a drastic reduction in yield per acre will be inevitable. In every year since 1927 a period of hot weather has been experienced during June or early July, sufficiently prolonged and with temperatures sufficiently high to destroy most of the first brood of young weevils, and allow the crop to get ahead of the next broods. This year no such weevil-killing weather has yet appeared except in limited areas.

Any rise in cotton prices which might result from a weevil scare would probably not get under way until after the present uncertainty over the cotton acreage has been removed by the official acreage report, which will be issued on July 8. The American Cotton Cooperative Association estimate of cotton acreage, just received, shows a reduction of 27.9 percent from last year, a much larger reduction than expected by the cotton trade.

The price rise would probably not last longer than early September, at which time hedge pressure would become an important market factor. Later in the season the rise might be resumed under the influence of improving industrial demand. The extent of any price upturn would be limited, however, by the volume of loan cotton which would be liquidated as prices rose.

Stock prices outrun business

Stock prices have continued their rise this week on increased volume, with the industrial and utility groups reaching new high levels for the year. It may be well at this point to consider whether the advance may not temporarily have carried stock prices too far ahead of the business upturn which they are in process of discounting, particularly in view of the fact that a considerable part of the recent rise has apparently been due to short covering, a transient influence.

In Chart 2 we compare the trend of the Dow-Jones industrial group since last July with the New York Times index of business activity. The low point for all three major stock groups in the stock market was reached on March 31, hence the rise in the stock market has been under way for a full three months. During this period the Dow-Jones industrial average has recovered 43 percent of the entire decline from last August. Since the New York Times business index at the peak last August was 111, and the low (in early June) was 75, one may say very roughly that the industrial stock average at this level has discounted a recovery in the index to somewhere near 90.

Obviously such an upturn in business would represent too rapid a recovery for the immediate future, which suggests that stock prices may go through a waiting period while actual business catches up with the advance. On the other hand, the increased volume of funds seeking investment since excess reserves were expanded would probably justify somewhat higher levels of stock prices than before in relation to business activity.

The significant fact remains that, regardless of reactionary tendencies from here on, the stock market has given convincing evidence that a turn in business is at hand. This will provide a support to the market in the form of increased investment buying on reactions.

Sentiment improved abroad

The background for business recovery in this country has been strengthened by increased business confidence abroad. Sentiment began to improve in England even before the upturn in our markets. Under the heading "Is Confidence Returning?" the London Financial Times of June 18 stated that it was undeniable that confidence had been gradually creeping back ever since the Czechoslovakian crisis had been boldly dealt with in May. It mentioned that the instantaneous success of the £50,000,000 Defense Loan had given a powerful tonic to markets, and noted the following indications of returning confidence;

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1. Retailers of motor cars in Great Britain are reported to have experienced an unexpectedly sharp revival of demand since fine weather set in.
2. "The recent sharp rally in wolfram (tungsten) gives color to reports that the leaders of the British steel industry are becoming a little more hopeful as to the outlook."
3. "Manufacturers' inventories on both sides of the Atlantic are assumed to have already been brought down to healthy proportions. If any large section starts a buying movement the rest will, it is thought, be quick to follow."
4. London stock brokers report that "some of their biggest clients, after having kept for months to the sidelines, are now inquiring what they should buy."

Recent cables to the New York Cotton Exchange state that yarn and cloth business at Manchester has expanded, and that sales by Lancashire mills are running well ahead of current output.

The London Times mentions that "Since the Anglo-American Depression of the past nine or twelve months has been so perpendicular, the upward swing may, when it comes, be more rapid and violent than in the normal course of the trade cycles."

Business series improve

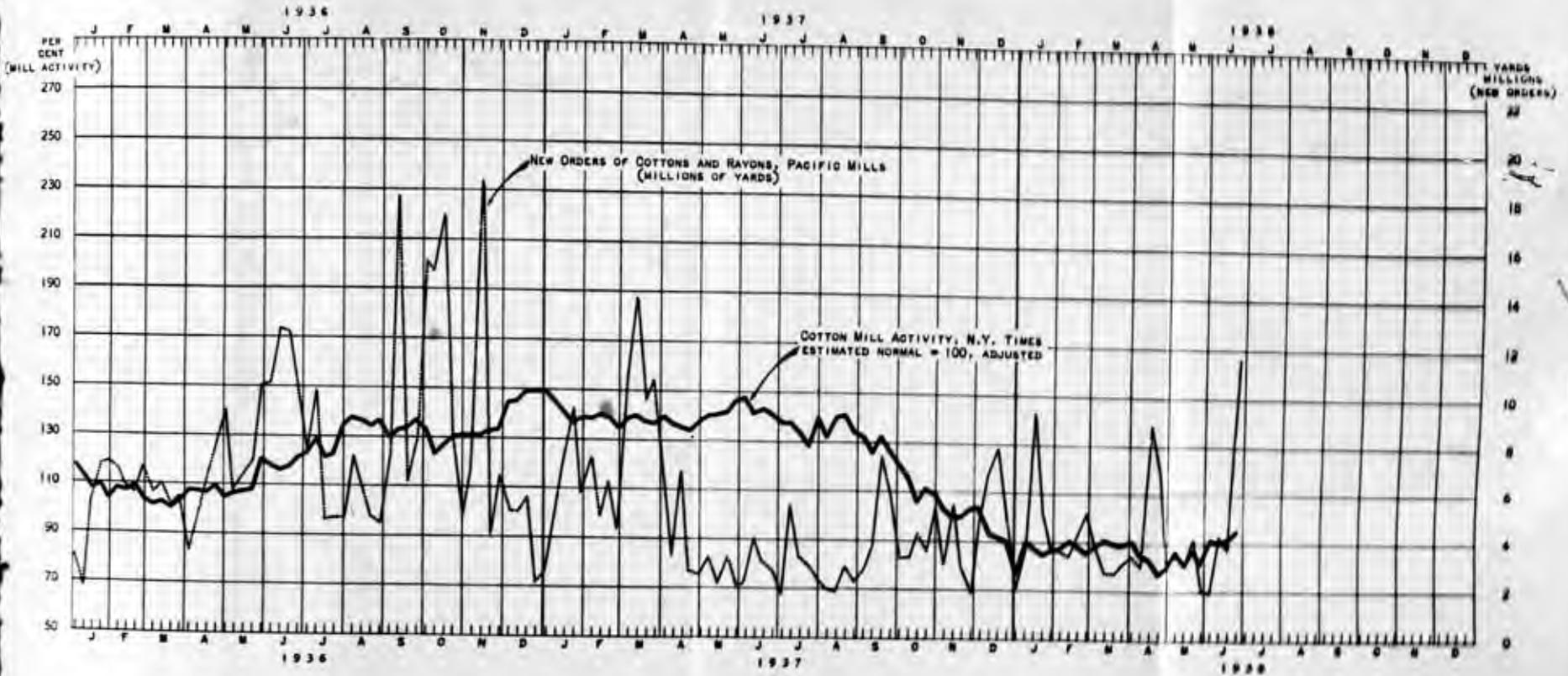
Additional evidence of an improving business trend in the United States appears in the following items:

- (1) Department store sales last week made the best comparative showing since last April, extending their recent rising trend. Apparel stores in New York and Brooklyn registered a 2.4 percent increase over 1937.

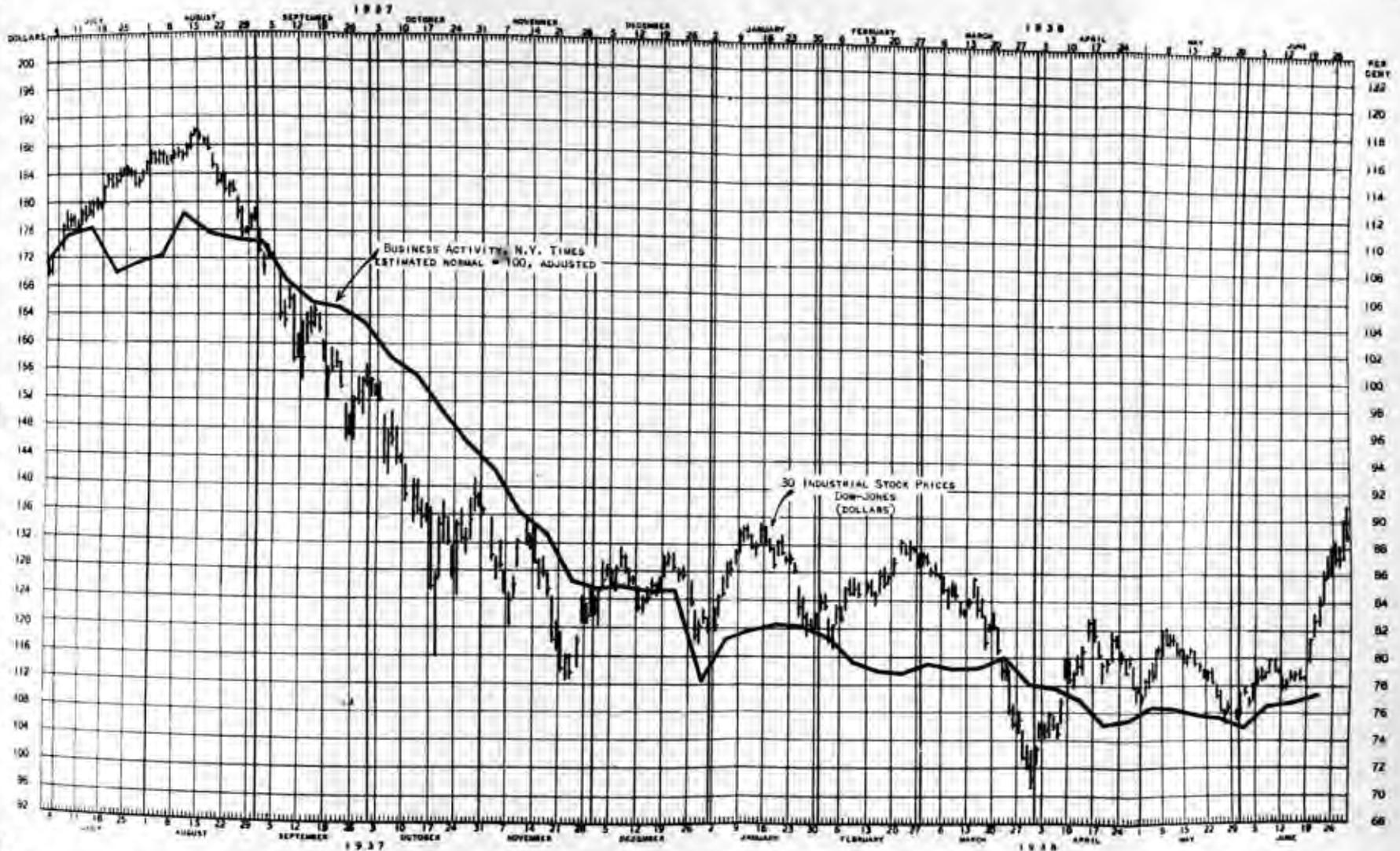
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- (2) A steel inventory survey by the magazine Steel shows inventories abnormally low among steel consumers generally, indicating that this factor has ceased to be a brake on production.
- (3) The improvement in the steel operating rate has been reflected in the heaviest week-end of iron ore traffic on the Great Lakes since the season opened.

NEW ORDERS OF PACIFIC MILLS AND COTTON MILL ACTIVITY



INDUSTRIAL STOCK PRICES AND BUSINESS ACTIVITY
 July 1937 - June 1938



REB

GRAY

Paris

Dated July 5, 1938

Rec'd 3:56 p. m.

Secretary of State,
Washington.

1065, July 5, 6 p. m.

FROM COCHRAN.

French control apparently gained good amount of sterling today at increasingly favorable rates opening at 177.88, and closing at .83. Dollars in general demand and especially strong against sterling. Much continental buying of dollars attributed to interest in American stock market. National Bank of Belgium continues to acquire gold in London.

BULLITT

CSB

RECEIVED

JUL 6 1938

TREASURY DEPARTMENT

U.S. DEPARTMENT OF THE TREASURY

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 6, 1938, 5 p.m.

NO.: 1072

FROM COCHRAN.

This morning at half-past ten the Bank of France informed me that by that hour the French control had gained about one-half million pounds, principally through cashing and conversion of dividend checks on securities of Royal Dutch. On Tuesday four hundred thousand pounds was net gain of the control.

On market today franc strengthened from 177.83 to .75 but late this evening market was bidding for sterling at .77. Dollar has continued very strong today with important demand therefor from London. Belga showed sympathetic improvement.

Unfavorable French trade balance for June was one billion five hundred twenty million francs. Total deficit for first six months was therefore nine billion three hundred thirteen million.

Bank of France telephoned me this afternoon as follows: In the matter of Spanish gold, the First Chamber of the Paris Court of Appeals announced this noon that it is incompetent to give a referee verdict in the matter and that the bank shall continue to hold the gold pending a
legal

- 2 -

legal decision to be arrived at after full court examination of the merits of the case and of the claims involved (see my 983, June 22, 5 p.m.).

This forenoon at the Ministry of Finance I was informed by Rueff that the Franco-German commercial and debt discussions are continuing, but as yet they have reached no definite agreement.

BULLITT.

EA:LWW

JUL 7 1938

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July 6, 1938.
9:17 a.m.

Operator: Mr. Stettinius.
H.M.Jr: Thank you.
Operator: Go ahead.
H.M.Jr: Hello.
Edward R.
Stettinius: Hello.
H.M.Jr: Henry Morgenthau, Jr.
S: Yes, Mr. Secretary.
H.M.Jr: How are you?
S: Fine, how are you, sir?
H.M.Jr: I'm very well. I'm almost ready for a vacation.
S: Good.
H.M.Jr: Mr. Stettinius, I'm calling up for this. Naturally,
I'm very much interested in how we're getting along
on recovery.
S: Yes.
H.M.Jr: And I wondered if you would care to tell me - whether
you've had a long enough time to have any feeling
as to whether - what effect your reduction in prices
has had on your own business.
S: It's had - it's had none in the right direction, but
we feel it's too soon.
H.M.Jr: I see.
S: But there's been - there's been no - no pick-up in
volume ...
H.M.Jr: There has not.
S: ... whatsoever as a result of that move yet.
H.M.Jr: Uh-huh.

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S: Of course, we're hoping that that will come.

H.M.Jr: You - you understand what I'm asking, it's just for myself.

S: Oh sure, I understand.

H.M.Jr: I think by now you know that.

S: That's right.

H.M.Jr: But you haven't got the feel of it yet.

S: No, it's a little - it's a little too soon. But generally speaking, I'd say that the boys on the firing line are a little disappointed.

H.M.Jr: A little disappointed.

S: Yes - that the reduction didn't bring about an immediate response.

H.M.Jr: I see. Mr. Stettinius, you're not coming to Washington in the next ten days?

S: It's possible that I might try to be down there next week.

H.M.Jr: Well, I'm going away on the 15th; if you are here next week, let me know a day or two in advance, and I'd like to have a chat just on this.

S: All right, fine.

H.M.Jr: And ...

S: Now, are you going to be - you're going to be there all of this week and all of next up till the 15th.

H.M.Jr: Up till the 15th.

S: Fine.

H.M.Jr: And if you come down, why, if you let me know in advance, why, I'd like to have you have lunch with me.

S: Fine. Thanks ever so much.

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H.M.Jr: And the reason you never heard from me again after that last meeting was that I had nothing to say.

S: Ha ha ha! Right!

H.M.Jr: So there was no use calling you.

S: I understand.

H.M.Jr: All right.

S: Thanks ever so much.

H.M.Jr: Goodbye.

GROUP MEETING

July 6, 1938.
9:30 a.m.

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

H.M.Jr: George, I'm going to give this to the President;
so if I can have another one

Hello, Hanes.

Hanes: Good morning, Mr. Secretary.

H.M.Jr: Do you know everybody?

Oliphant: Here's a chair.

H.M.Jr: Anybody you don't know?

Haas: I don't know him.

Gaston: Mr. Haas.

Hanes: Very glad to know you.

Haas: How do you do.

Hanes: Glad to see you (Magill).

H.M.Jr: George, I notice in this report - incidentally, I'd
like Mr. Hanes to get a copy of it too from now
on, see - ...

Haas: Yes.

H.M.Jr: ... that you talk about the Bethlehem Steel at
Buffalo and the number of furnaces they've got.
Have you noticed today - I see they've blown a

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couple more. I saw it in the Times.

Haas: That's all to the good.

H.M.Jr: What?

Haas: Another raindrop.

H.M.Jr: On the other hand, I talked to Mr. Stettinius, asked him how he felt - this is very much in the room - and he said that the boys, to use his own words, on the firing line were disappointing; but he thought it was too early to tell. But he said he'd be down next week.

Haas: Uh-huh.

H.M.Jr: But if you would - because this goes ... Taylor gets a copy.

Haas: Taylor gets a copy.

H.M.Jr: White gets a copy. And one goes abroad.

Haas: Goes abroad.

H.M.Jr: I think you'd (Hanes) be interested.

And Dan, I thought you were successful in stopping Wallace from buying cotton for mattresses.

Bell: (Laughs)

H.M.Jr: I thought that that was going to be done by Hopkins.

Bell: I was successful in stopping one four million dollar allocation, but I didn't know - I don't know about previous allocations, whether he's using that for mattresses or not.

H.M.Jr: Three and a half million. (Hands Bell newspaper clipping) Could you find out?

And the other thing, Dan, you missed out on getting the ten million dollars for clothing to come out of the last year's fund - comes out of the 25.

- Bell: That's right, they couldn't obligate it prior to the 6th of July to save their necks, so I took ten million of the old money and transferred it to Farm Security Administration and requested them to hold it in reserve. So I have 20 million dollars with the Farm Security Administration which can be used for direct relief next - this year.
- H.M.Jr: How much?
- Bell: 20 million dollars.
- A.T.Jr: Why not 25?
- Bell: That's all I had in unobligated balances. I put the 20 million over there, and we still have 15 million of the new money.
- McA: Got 35 instead of 25.
- H.M.Jr: Will you do something for yourself and the President and myself - will you make a note? I'd like you - maybe you got it - to ask each agency that's going to spend to give you the best estimate they can, on the basis of 12 months, of how much they're going to spend each month and how much employment they're going to give.
- Bell: I have the expenditures for six months and the cash position. I made that up the other day, based on that, but materially reduced
- H.M.Jr: Well, I'd like to just amend it a little bit. I'd like to put it this way. Of the money that's voted by Congress, I'd like these agencies that have this money to give us an estimate how long they'll take to spend all of it. In other words, what I'd like to give the President in front of him is a chart: Public Works - what is it, a billion four or a billion five hundred ...
- Bell: Well, a billion; 450 is the roll-over.
- H.M.Jr: Yes, whatever it is. And then carry that thing over - out to what they claim anyway, see? Now, you and I think it will go to 1940. And then the employment, then the Hopkins people, then Nathan Straus and his

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housing. He's given me a ...

Bell: I got it.

H.M.Jr: He's given us that. Then underneath let's total it for the President by months - so much money, so much employment; carry it out to 1940, whatever it is. Then he has a master chart in front of him. And then I think if he'd be willing to go on and publish it ...

Bell: Well, that's the danger. I was going to ask about that.

H.M.Jr: All right.

Bell: I don't think it's worth the paper it's written on, and if you make it public, why, ...

H.M.Jr: Do it for me anyway.

Bell: I'll do it for you, but I hope it won't be made public.

White: For your own purpose I wonder if this additional suggestion would be helpful: if you could break down those expenditures each month into two categories. They have very different effects on the amount of employment. I can suggest the categories to him. But I think that will give you a better picture of the actual additional employment.

H.M.Jr: Talk to Bell afterwards. But there is no place, is there, a master chart like that.

Bell: There is no chart at all, no, sir. The nearest you have to it is my cash position.

H.M.Jr: Well, if you'd like, let White and Haas take a look. Would it rush the boys too much to let me have it by the middle of next week?

Bell: No.

H.M.Jr: I think the amazing thing is that it isn't there. What? Rushing too much?

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- Bell: I don't think so. I think I can get it pretty promptly. You just want the main ones.
- H.M.Jr: Yes.
- Bell: Emergency.
- H.M.Jr: Yes, all of them, just as much as we can to have an intelligent view of how long this Government's money is going to last, how fast they think they're going to spend it, when it's going to peter out.
- Oliphant: Did you want the effect of naval construction in there?
- H.M.Jr: Yes.
- White: Why not have two: one on emergency, and one, in so far as you can, be a complete expenditure. Be a very valuable chart.
- McR: Complete expenditures wouldn't be worth much, Harry, except on these special programs.
- White: Except I was thinking of the inclusion of naval and others in which they're prorated, which are heavier, come rather later, take much more time.
- H.M.Jr: Let's have - anybody that has any suggestions write a memo to Dan. But do you get the idea, Dan? It may not be worth anything after you do it, but I'd like to take a look at it. I mean no business would run itself on a basis without having a total like that.
- Haas: We've got one, Mr. Secretary, which shows the total, which we based on the figures which Dan spoke about. It's practically done. But it doesn't show the breakdown that you want. It shows the net cash deficit.
- H.M.Jr: Well, anyway, I'd like to have it myself, and anybody in the Treasury who's interested, plus the President.
- Mac, I thought you were going to buy eight trucks and move that silver. I see in the paper that you let the contract.

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McR: Yes.

H.M.Jr: Was that a union fellow you got to do it?

McR: Yes, we got a union fellow.

Lochhead: Yes, it's a union fellow, because he heard yesterday that his drivers were going to go on strike this morning.

(Hearty laughter)

Gibbons: Not only that, but they want - the union wants to put two guards on for every two guards that the Coast Guard have. They demand that.

H.M.Jr: I suppose, to be a little sarcastic, with Nellie Tayloe Ross getting all the publicity, she will continue to look after it.

Gibbons: I imagine so.

McR: The buying trucks - when they came down to actually making their plans, it turned out that they were asking for twice as many trucks as they originally estimated, and that was ridiculous, put it out of all reason to spend that much money for it. So I thought we'd better make just an economical contract. I don't know how much labor trouble they're going to have, but after all, we accepted a union contractor.

H.M.Jr: Oh, if there's trouble, don't come to me about it, because I O.K.'d the trucks.

McA: I know you did.

H.M.Jr: I'm serious. I O.K.'d the purchase of trucks. Now, if you're going to have trouble with labor unions, I don't want to get into it, Mac.

McR: I don't think there will be any trouble.

H.M.Jr: Because I thought that was the reason we were going to buy the trucks, so we wouldn't have any trouble. Huh?

McR: That was, but when it came to the question of spending \$125,000 for trucks instead of \$50,000, which was the original estimate, I thought it was

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out of reason.

H.M.Jr: Well, anything else?

McR: Nothing of any importance. I've got this wire of Gutzon Borglum's. I got a memorandum

H.M.Jr: Herman Oliphant's on it, and you suggested ...

Oliphant: No, I'm not. He told me he would telephone McIntyre and ask the President to leave my name off.

H.M.Jr: Why should McReynolds ...

Oliphant: That was his idea - I mean Borglum's idea.

McR: Borglum's idea - he tried to get Herman and Herman ducked it.

H.M.Jr: I don't think that's fair, after having fathered those faces out in the Black Hills.

Gibbons: Want to put Herman's face up there?

H.M.Jr: Well, why should any Treasury fellow go on?

Oliphant: It's a question of

H.M.Jr: You don't want to go on, do you, Mac? You want to go on, Steve?

Gibbons: What is it?

H.M.Jr: No - I mean if anybody ...

Gibbons: How many votes?

H.M.Jr: If anybody wants to go on, let somebody go on from the Art Section.

Oliphant: Ned Bruce wanted to go, but then he found

H.M.Jr: If anybody goes on, let him go on from the Art Section of the Treasury, but otherwise I don't see ...

Inasmuch as Oliphant doesn't want to go on - I mean can't you spare a lawyer?

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Oliphant: Well, Cairns would be useful to him. It's a broader thing, I think, than a Treasury thing.

H.M.Jr: I don't think the Treasury should go on.

Oliphant: I think it's individuals rather than departments. The person who goes on would go as an individual - a permanent broad thing. If anybody is interested in it ...

H.M.Jr: Anybody in the room want to go on?

Magill: What is it?

H.M.Jr: It's a Gutzon Borglum Memorial.

Oliphant: Permanent Commission for the Memorial.

Magill: To carve pictures on mountains?

H.M.Jr: Want to go on?

Magill: Sure.

McR: It's a beautiful thing - wonderful.

Bell: Waste of the public money. I don't think any Treasury official should go on.

H.M.Jr: Herman, don't take it so seriously. Come on, Herman, smile.

Oliphant: I feel fine this morning. I read Kintner last night.

H.M.Jr: That's more than I did. Why didn't you read the Bible?

Oliphant: I do, as a matter of fact.

H.M.Jr: Well, Mac, as my administrative assistant, I leave it to you.

McR: Well, I told Gutzon when he called me ...

H.M.Jr: All right, Mac, you take it, will you? I mean you're not going on, are you?

McR: No.

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H.M.Jr: All right.

McR: I thought I'd clear it with you.

H.M.Jr: All right. To be serious, there is only one Art Section and I wouldn't move anything on that unless Ned Bruce O.K.'d it.

McR: I'll tell it to him.

H.M.Jr: All right.

Upham: Nothing, Mr. Secretary.

H.M.Jr: I got your memorandum.

Upham: Thank you.

H.M.Jr: Dan?

Bell: I have nothing. Tennessee Valley may be in in a few days to get approval on a two million dollar bond issue to take care of that utility.

H.M.Jr: Let's give them the money out of the Treasury.

Bell: We can't buy the issue, have no authority, but I think maybe R.F.C. can. Hamilton said

H.M.Jr: I don't want to go into the market for two million dollars.

Bell: I told them you wouldn't. That's the reason they went to R.F.C. I think Jesse Jones will take the two million issue. I think you also ought to tell Jesse he's got to hold it, he can't sell it. Have a provision in it regarding the Panama.

H.M.Jr: Well, will you and Wayne fix me a letter to write to Jesse?

Bell: Yes.

H.M.Jr: But don't let him put it in the market.

Bell: That's right. I don't think he would put it on the market anyway.

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Taylor: They've both got this circulation privilege attached to it, which we don't want.

H.M.Jr: Well, will you fellows write me a letter?

Bell: Yes.

H.M.Jr: Anything else?

Bell: No.

Lochhead: We can't find that foreign participation in the stock market is having any effect on the exchange rates. The volume is so small that, even though sterling has been a little weak, it is more seasonal trend than securities.

H.M.Jr: Hanes, whatever happened to the man S.E.C. sent over to London to make a study?

Hanes: He's completed that study and I think he gets back the middle or latter part of July.

H.M.Jr: All right. We'll get

Hanes: Got a first draft just the day before I left.

H.M.Jr: All right.

And I told the Spanish Ambassador last night we'd take another shipment of five million ounces and that if he didn't hear by tonight it would again go on a ship with a United States flag. So if you fellows have any reason why it shouldn't - now, if there's any question I'll call up the President of the American International and tell them that I'm going to put it on their ships, and is there any reason why he doesn't want it? Personally, I think he'd be foolish not to take the business. But if I don't hear by four o'clock tonight, I'll take it that it will come on an American flag ship.

Taylor: And if that gets in while you're away, we'll use their regular gang of hijackers.

H.M.Jr: Have you heard the story?

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Taylor: Yes.

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

Taylor: Yes.

H.M.Jr: O.K.

Gibbons: Did they get that silver that came in yesterday through the Port of New York all right? They were going to seize it, or were threatening to.

H.M.Jr: If you're interested, let Dietrich tell you about it. Get Dietrich to tell it to you when you have two hours.

McR: Dietrich is really enthusiastic about the Secret Service.

H.M.Jr: If you want to hear how he personally took it off, just let him tell you.

Gibbons: They wanted to take it off down the Bay.

Oliphant: We've been going over all these cases, and Bob Jackson is gone until the first of August; I'll call up the Attorney General myself.

H.M.Jr: All right, O.K. Anything else? Harry?

White: Only two minor items. You probably noticed within the week there was a report that the Canadian Government is taking over completely the central bank. They have partial control which they got in '36; they acquired a major portion of their stock and control. But now they've taken it completely over. It's an indication of the trend that there is in various countries. So that the Central Bank of Canada will now be owned completely by the Government, stock and all.

You note that the new issue of British 16-to-20-year Defense Loan was issued at three percent. Compares with our two and three quarters - about the spread - shows the difference of variation.

H.M.Jr: All right.

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- White: And you saw the slips - there was another net purchase of substantial amounts by foreigners of a little over a million this morning - third day running.
- H.M.Jr: Harry, I read your balance of payments. I'm surprised that the net movement of capital is still out of this country.
- White: Just about - here's the ...
- H.M.Jr: I noticed your last report was about five million dollars.
- White: These are the figures. The net outflow was 350 million.
- H.M.Jr: No, but I mean by the week. I mean it still seems to be going out.
- White: This last week it was 15 million. This is the weekly figures.
- H.M.Jr: Now, here's your net outflow here.
- White: That's the week before.
- H.M.Jr: Oh. It says five million. Still up.
- White: Probably the later week.
- H.M.Jr: What?
- White: Yes, it's still up. A good deal of it is due to our own balances being built up abroad - of that amount. Apparently our balances are being built up. But there's been a slight net inward movement on security account, and the outward movement on short-term account has slackened very considerably. So that what it amounts to is that they're beginning to buy American securities on balance this last week and they're beginning to stop repurchasing their own securities, which accounted for most of the outflow - for most of the inflow during the last - during this year.
- H.M.Jr: Purchase of their own ...

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White: Their own securities - repurchase. And the outward flow of short-term funds is beginning to slacken. But the outflow of our own funds, banking funds, building up foreign balances, is continuing to be fairly substantial.

H.M.Jr: Anything else?

White: That's all.

H.M.Jr: Dan, can I buy for F.D.I.C. the R.F.C. note?

Bell: I'll have to check up on it.

H.M.Jr: Will you let me know tomorrow morning? Can I? Also Postal Savings. Just for my

Bell: Sure, you can buy Postal Savings.

H.M.Jr: I wouldn't, but ...

Bell: You can buy

H.M.Jr: But how about F.D.I.C.?

Bell: I'll check on that. You can buy Postal Savings. Attorney General has given us an opinion that they're Government obligations.

H.M.Jr: I wouldn't, but F.D.I.C. I might.

Oliphant: The General Counsel have all agreed now that Federal Reserve banks may buy - Wyatt and Logan in New York - Wyatt down here.

H.M.Jr: Oh, good. Poor Marriner had his saliva running down both sides yesterday at the idea of being able to buy a three-year note, and I knew that they'd bend their opinion up

Upham: He thought that was soup.

H.M.Jr: He said he thought it was soup.

Alotz: That's wonderful.

Oliphant: Well, we called their attention to a line in the House Committee report that makes it pretty clear.

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Gibbons: Fort Hunt - did you speak about it or did you want to ...

H.M.Jr: No, no, I wanted to go on record that if the Park Service is opposed to having some other agency come on their territory, I will not go up against the Park Service. As ex-Conservation Commissioner, I'm for the Park Service first. I think the Coast Guard, if you don't mind my saying it, has been asleep at the switch. I told them three years ago they should find a new place for that thing. Why should they get in the middle of a park? If the Department of the Interior - I won't even talk to the President - if the Department of the Interior wants Fort Hunt as a park

Gibbons: You handled it direct with Waescne, so

H.M.Jr: But I mean for three years I've told them to find a new place.

Gibbons: well, they don't have to have it so adjacent to Washington.

H.M.Jr: Any place within 20 miles.

Gibbons: Within 20 miles.

H.M.Jr: Yes.

Gibbons: All right, I'll get ...

H.M.Jr: Go up here in Maryland, Virginia, any place. I wouldn't - I know what the President would say, how he feels about parks; I feel the same way.

Gibbons: O.K.

H.M.Jr: All right. Wayne?

Taylor: (Nods nothing)

H.M.Jr: Wayne, has that been settled - Wallace's loan on cotton? I mean has that finally - they've always notified us before, you know. This time I asked Wallace to let us know.

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Taylor: You mean wheat.

H.M.Jr: I mean wheat. Thank you.

Taylor: I don't think that's final yet.

H.M.Jr: Would you check?

Taylor: Yes.

H.M.Jr: He said he'd let us know. We've got quite a ...

And would you also find out whether they have elected the new directors of Commodity Credit?

Taylor: They haven't done that yet. They're in process of preparing minutes for a meeting which was supposed to have been held in this office, and they talked to me about that yesterday, and I said I thought that was the best way of doing it.

H.M.Jr: But I did ask Wallace if he would let me know.

Taylor: Goodloe called me up yesterday to find out whether they should have a meeting or whether they shouldn't have, and I said, "Well, I think the best thing to do is to prepare minutes and check with each of the agencies which are entitled to have directors and say that "my recollection is that .." - not mine, but Goodloe's - "recollection is that you did have these two men, is that right? - or three men."

H.M.Jr: And then would you get on the phone and find out if anybody wants to borrow any more money between now and the first of September. I want to know it if anybody is going to be in the market. Will you? Home Owners Loan, Farm Credit - I mean ...

Taylor: Yes. Intermediate Credit will be. They've got their regular monthly thing.

H.M.Jr: Well, anybody else? Is Jesse going to sell any more of his mortgage bonds or - I mean I'd just kind of check around, because personally I think that this 200 million dollar issue - I think that ought to be the last now until we come along after Labor Day.

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Taylor: We've got - has Preston Delano gotten his stuff out yet?

Bell: Yes, that 41 million he's just sold.

Taylor: That's what I mean. I wasn't sure if he'd done that while I was away or not.

Bell: Yes - 22d.

H.M.Jr: Will you just get on the phone and go around? Anything else, Wayne?

Taylor: (Nods no)

H.M.Jr: George?

Haas: Here's a little note on that R.F.C.

H.M.Jr: Excuse me?

Haas: Little note on that R.F.C. financing.

H.M.Jr: What rate did you put on it?

Haas: Seven-eighths or one. One looks a little sweet, and seven-eighths might be a little thin.

H.M.Jr: Will you give a copy of this to Taylor, Lochhead, and Bell, please.

Haas: Taylor, ...

H.M.Jr: Anything else?

Haas: I've got a couple other minor things. Did you note that press report that Tolley made - the Administrator of AAA - with regard to surplus commodities?

H.M.Jr: Yes, I did.

Haas: The other thing, at this meeting - I understand you want this group in at 11 o'clock - ...

H.M.Jr: Yes.

Haas: ... in the meeting in the other room, including myself, we got five members of the Treasury staff.

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There was White and O'Donnell and Daggit and Seltzer and myself. Do you want the whole crowd to come in here?

H.M.Jr: Oh, I'll go down there.

Haas: Oh, you'll go down there.

H.M.Jr: I think last year - doesn't Magill want to sit in on that, and Hanes?

Magill: What is it?

H.M.Jr: We've got to get out a supplementary budget report for the President, and in this thing will be brought out this advisory group on advising us what they think, what their best guess is on the business outlook for the next twelve months, you know. Who all is coming down on the outside?

Haas: There's Roberts, National City Bank; and Naess of Tri-Continental; probably Colonel Ayres will be here; Lichtenstein of the First National, Chicago.

H.M.Jr: Do you (Magill) get in on that?

Magill: Well, I've not been in on those. I've been in on the revision of budget estimates when that's occurred.

H.M.Jr: Well, they're going to give us another figure, and Bell takes Haas's figure and then puts it in and then it goes to the President and we release what we call a supplementary budget estimate.

Magill: I'd like to be in on the receipt side.

Haas: This is the receipt side.

H.M.Jr: What?

Haas: This is the receipt side.

H.M.Jr: Do you fellows want to go down when I go down at 11?

Magill: This morning?

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H.M.Jr: Yes.

Magill: Yes.

H.M.Jr: "ould you (Hanes) like to go down at 11?

Hanes: (Nods yes)

H.M.Jr: See what they got to say.

Magill: All right.

H.M.Jr: All right, George?

Haas: Fine.

White: Mr. Secretary, in reference to something he said, did you note the report in the paper that Secretary Wallace was planning - contemplated a 200 million dollar wheat loan to China? It was in the papers, I think, either yesterday or the day before.

H.M.Jr: I did not see it. Wayne, find out about it, will you please.

Magill: 11 o'clock, where?

Haas: 296.

McR: Conference room.

H.M.Jr: 296.

Herbert, that was a good job you did on the publicity on the 200 million.

Gaston: I thought the stories were all right. They expressed a lot of curiosity about what the R.F.C. was going to do with the money, in view of their large balances, and I told them they'd have to ask Jesse Jones, I didn't know whether they were going to buy back any Treasury notes or not.

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

Bell: I understand the Herald-Tribune has an excellent article this morning.

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H.M.Jr: They're all good.

Bell: Jesse Jones is having a press conference at 11, I understand.

Gaston: Uh-huh.

H.M.Jr: Anything else, Herbert?

Gaston: I noticed Jack Bennett's crowd are starting to make medicine against taxation of state securities and invasion of state rights and so on. I suppose you noticed that.

Oliphant: Retroactive action.

Magill: Yes, as far as I can see, what they have literally proposed to be for is all right, wouldn't you (Oliphant) say so?

Oliphant: Yes.

Magill: I think what they want is unquestionably more than what they have put themselves on record as wanting. I think they'd like to have themselves free from Federal taxation in the future, but that isn't what they say.

H.M.Jr: Would you (Gaston) advise any statement?

Gaston: I don't think so, not at this stage.

H.M.Jr: Hanes? Set in your office all right? Everything all right?

Hanes: Fine. Fine, couldn't be better.

Oliphant: Where are you?

Hanes: Right down there.

Oliphant: Where?

Hanes: Right down the hall - 294.

H.M.Jr: He's next to the kitchen.

-20-

Oliphant: Yes.

H.M.Jr: Very nice picture of the Hanes family in Monday's Tribune. I suppose you saw that.

Hanes: Yes, I saw that.

H.M.Jr: Anything you want to ask us? You all right for the day?

Hanes: Yes, sir.

H.M.Jr: Herman?

Oliphant: Nothing.

Magill: I can talk to you some time today or tomorrow at your pleasure.

H.M.Jr: You see, I got lunch with the President today, then Cabinet at two. So I think if it's just as agreeable to you - you want to catch up - maybe Hanes and you and I could

Klotz: Thursday.

H.M.Jr: Why don't we have lunch together tomorrow, go over Internal Revenue? What?

Magill: I'd like to have a (rest of sentence inaudible)

H.M.Jr: All right. Right on schedule.

July 6, 1938.

Dear Mr. Roberts:

Thank you for your letter of July 5th,
addressed to the Secretary of the Treasury.
I am bringing it at once to his attention
for I knew that the enclosed weekly
memorandum on business conditions will be
of much interest to him.

Sincerely yours,

E. S. Klets,
Private Secretary.

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

707-2 1838

GW/abw

The National City Bank
of New York
ESTABLISHED 1812

New York July 5, 1938

CABLE ADDRESS 'CITIBANK'

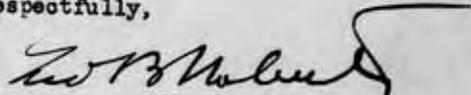
IN REPLYING PLEASE QUOTE INITIALS

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

My dear Secretary Morgenthau:

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

Respectfully,



Geo. B. Roberts
Vice-President

This has been acknowledged

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SPOT COMMODITY PRICES

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Commodity	July 2	Week Ago	Month Ago	Year Ago	Since Jan. 1, 1926	
					High	Low
Up	9.12¢	8.85¢	8.00¢	12.40¢	23.80¢	5.00¢
Cotton	01.80	01.70	01.58	01.93	06.91	01.05
Silk	15.25¢	13.87¢	11.31¢	19.33¢	89.50¢	2.56¢
Rubber	43.18	42.90¢	38.60¢	37.50¢	72.50¢	18.35¢
Tin	013.25	012.50	010.75	16.75	023.75	08.25
Steel Scrap	9.50¢	9.00¢	9.00¢	14.00¢	23.87¢	4.87¢
Copper	4.75¢	4.50¢	4.00¢	6.00¢	9.50¢	2.65¢
Lead	4.75¢	4.50¢	4.00¢	6.75¢	8.75¢	2.30¢
Zinc	5.50¢	5.20¢	4.50¢	7.55¢	17.75¢	3.55¢
Cocoa	9.54¢	9.15¢	9.20¢	13.16¢	18.22¢	2.97¢
Steers	9.20¢	9.05¢	8.60¢	12.35¢	19.23¢	4.10¢
Lard	10.00¢	8.50¢	8.75¢	15.50¢	26.50¢	3.75¢
Hides	1.78¢	1.70¢	1.80¢	2.80¢	3.50¢	0.57¢
Sugar, Raw						
Down						
Wheat	00.75 1/2	00.76 1/8	00.72 1/2	01.28 3/4	02.15	00.45 1/2
Corn	00.56 3/8	00.57 3/8	00.57 1/2	01.25	01.38 1/2	00.21
Hogs	8.61¢	8.92¢	8.48¢	12.02¢	15.00¢	1.62¢
Unchanged						
Wool	00.64	00.64	00.64	01.02	01.28	00.365
Coffee	6.30¢	6.30¢	6.35¢	11.50¢	24.57¢	6.00¢
Cottonseed Oil	7.00¢	7.00¢	6.50¢	8.00¢	10.88¢	2.56¢
Hoody's Index	145.1	140.8	131.2	207.1		

Hogs - The largest Spring pig crop in 5 years, or since the droughts, was estimated by the Government in its June 1 pig crop report issued on Wednesday. The increase is 13% over last year's crop. A 5% increase had been expected last December based on farrowing intentions. The difference between 5 and 13% is equivalent to about 2 million more pigs. Farrowing intentions for next Fall's crop indicate an increase of 9%. This would bring the total slaughter supply for the packer year beginning next Oct. 1 to 69,100,000 about 7,000,000, or 11% more, than last season.

The following table gives the figures and comparisons with other years.

Hog Supply and Demand (Millions of Hogs) Year beginning Oct. 1

	1932-33 Avg.	1935	1936	1937	1938
Number of Farms January 1	60.3	39.0	42.8	42.8	44.4
Supply from Spring Crop	52.2	32.4	41.5	38.4	43.4
Supply from Fall Crop	31.1	22.0	23.8	23.8	25.6*
Total new crop	63.3	54.0	65.3	62.0	69.0
Inspected slaughter October 1-Sept.30	45.0	31.0	34.1	33.5e	

* Based on estimates of a 9% increase in farrowings. e - estimated.

The report was somewhat bearish on hog prices and may influence packer storage policies during the coming months when slaughter falls off seasonally. The Department of Agriculture had expected firm to higher prices this summer but the market was off 30¢ last week to 6.60¢ only 60¢ from the low of \$8.00 in April.

Copper - Sales continued in large volume last week reaching a peak of 30,047 tons on Thursday, largest day's volume since Dec. 14, 1936. As a result, one large pro-

-2-

ducers to $9\frac{1}{2}\%$ on Friday. This brought the domestic price in line with the export price, which moved up to 9.57%. Scrap copper was raised $\frac{1}{2}\%$ each day, bringing the price of No. 1 heavy melting up to 8¢. Copper and brass products were marked up $\frac{1}{2}\%$ on Friday. Good inquiry for copper was reported at the $9\frac{1}{2}\%$ price.

From June 23-30 inclusive, domestic sales reached 73,287 tons. Total June sales were 90,921 tons, compared with a monthly average of 23,500 tons during September-May and were the highest in any month since December 1936.

The London price on Friday was up only $\frac{1}{4}\%$ for the week but this morning is at $140\frac{1}{2}$ up $12\frac{1}{4}$ compared with a week ago. The export price this morning is at 10¢ and scrap copper was marked up another $\frac{1}{4}\%$ to $8\frac{1}{2}\%$.

Lead - Prices were raised \$5 a ton last week bringing the New York price to $4\frac{5}{8}\%$ from $4\frac{3}{8}\%$. Sales for the week ended June 29 were 11,567 compared with 9,206 the week before and 3,429 a month ago. Carload orders for prompt delivery were numerous, orders well diversified from all consumers, and prompt delivery was requested in most instances. The trade expects June deliveries to show considerable improvement over recent months.

Zinc - All but one producer raised prices \$5 a ton on Friday, bringing the St. Louis price to $4\frac{3}{8}\%$ from $4\frac{1}{8}\%$. Zinc concentrates rose \$2 a ton in the Joplin district in sympathy with the \$10 per ton rise in zinc prices during the preceding week. Zinc sales were reported quiet last week compared with 17,680 tons sold the week before which was by far the best weekly volume sold this year.

Hides - Trading last week was the largest since the depression started, tanners taking about 335,000 pieces from packers' large holdings. Prices of September future rose to 10.35¢, up $2\frac{1}{2}\%$ from the low several weeks ago. Spot hides were up $1\frac{1}{2}\%$ on the week. Tanners raised leather prices, both sole and uppers, 1 to 2¢. Basis of the advance is the strong statistical position of hides (total visible stocks at the end of May, raw, in process, and finished, were 13,843,000, lowest on record) and general improvement in business outlook, from which shoes are in position to benefit, following sharp curtailment of production. New orders for Fall shoes reported reaching the manufacturers in good volume. May shoe production is estimated at 30,000,000 pairs compared with 32,859,000 in April, less than the usual seasonal decline. Drop from a year ago 15.2%, compared with 23.1% for the first 4 months.

Wool - Trading in wool tops rose sharply last week. Sales for week ended June 27 were 3,815,000 pounds compared with 795,000 the week before and 1,300,000 two weeks ago. Both in the spot and futures top market prices were up about 4¢ on the week. With raw wool showing little change, the spread of tops over raw wool widened to 17¢ on Wednesday which approximates converting charges. This is the first time since last Fall that the two markets have been in line, tops having been consistently low relative to raw wool.

Hills, whose stocks of wool are low, were buying actively last week, with requests for prompt delivery. American Woolen reported receiving new orders which required stepping up operations sharply in one or two mills. Buying in piece goods markets more active, prices firmer, and demand for clothing better than for some time. May mill consumption on a weekly average basis showed a belated seasonal increase of about 28% over April but was 43% below a year ago.

Foreign auctions last week were well supported by Germany, France and Japan. Prices abroad held firmly at recent levels.

Alan H. Temple,
Statistician

July 5, 1938

Regraded Unclassified

Memorandum on Business Conditions for Week ended July 1, 1938

with the rise in the stock market persisting, general trade news has continued preponderantly bullish. Retail trade reports have been better, and wholesale markets have extended and broadened their gains of the previous week. While the heavy industries, not unnaturally, remain dormant, consumer goods' lines are undoubtedly enjoying their best spurt since the onset of the depression, thus tending to bear out earlier contentions that inventories in the merchandising field were getting down to healthy proportions. With the season at hand for the placement of Fall orders by retailers, the next few weeks should afford an important test as to the quality of the upturn.

In consumer goods, buying of cotton textiles was again active, though at a somewhat less hectic pace than the previous week. Sales of unfinished goods reported two or three times production. However, as mill stocks of cotton goods are reported ample, and prices are not yet attractive, manufacturers are not expected to be in any hurry to increase output. Rayons and silks were firmer in price on increased orders; while substantial orders for Fall shoes have strengthened hides and leathers and brightened the manufacturing outlook. Despite the lag in the heavier industries, sensitive metals were marked up all along the line, with copper sales to fabricators for June totaling the largest since December, 1934. Woody's commodity price index up for the fifth consecutive week, making a total advance of 8 1/2 per cent since June 1. An indication of the cumulative effect of business changes appeared in an improved demand for industrial chemicals, accompanying the spurt in textiles.

Contrasting with consumer goods activity, the steel market was in confusion, due to radical changes in prices and pricing methods, and evidently some time must pass to determine the effect upon demand. Meantime encouraging factors have been the continued firmness in scrap and a slight gain in mill activity for the fourth successive week.

Motor car assemblies held steady, around 41,000 units weekly, against the seasonal trend, but are expected to slacken off soon in anticipation of model changes. Retail sales apparently have held around May levels; June Packard deliveries best since September. With production of cars curtailed below actual consumer demand for some time in order to reduce stocks, output of new models practically certain to lift factory operations during latter part of the year.

We estimate Federal Reserve index for June at 70 against 78 for May, with possibility that if steel mill and cotton mill activity held up, July production index may show an advance after seasonal adjustment.

Building contract awards continue to run under a year ago, with residential contracts showing less than seasonal dip from May, though off 14 per cent from June last year which was an unusually good month. Applications for F.H.A. mortgage insurance continuing to show gains, preliminary figures indicating that June total may exceed all previous records.

Retail trade reports reflect a narrowing of the unfavorable spread as against last year, with actual gains in some instances. For week of June 25 department store sales over the country were off 10 per cent, compared with declines of 13 to 19 per cent during May and early June. New York City department stores off only 8 per cent for the week, with apparel stores up 2 per cent. In the Federal Reserve

- 3 -

districts, Boston and Minneapolis, department store sales ran 9 per cent and 8 per cent, respectively, ahead of the same week last year. Electric power production and railway car loadings showed better than seasonal increases, the latter due to coal and grain.

Grains sharply weaker on continued favorable crop prospects. While private experts pared wheat estimates by 100 million bushels, they expect the crop to be 200 million bushels in excess of domestic requirements and exports.

July 8, 1933

Geo. E. Roberts
Vice-President

RECEIVED

JUL 8 2 44 PM '33

SECRETARY OF TREASURY
OFFICE

JUL 1 1933

JUL 8 1933

July 6, 1938

Dear Ellie: 7-1

I am inclosing herewith a photostatic copy of a letter, together with inclosures, which I received from the Acting Secretary of Agriculture in response to the memorandum I sent him on June 6. I cannot help but take great personal satisfaction that, as Secretary of the Treasury, I have been able to bring about a more humane distribution of food in Cleveland. I am sending this to you at Hyde Park as I thought Eleanor Roosevelt might also be interested.

I am also inclosing a copy of the Washington Post which includes Gallup's poll among the Democrats on the popularity of the Cabinet. You will note that I am third. However, if he had averaged the number of votes against Farley, I would have been second.

Affectionately yours,

Mrs. Henry Morgenthau, Jr.,
Care Mrs. Franklin D. Roosevelt,
Hyde Park, New York.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 6, 1938

TO Secretary Morgenthau
FROM Herman Oliphant

For your information -

There was an informal meeting of the administrative representatives of the monopoly committee in Douglas' office today at 12 o'clock, Peoples and I attending. Most of the meeting was devoted to the discussion of matters of procedure, such as, an office manager for the Executive Secretary, a subcommittee to be here during the summer to handle the issuance of subpoenas to get information needed in the research, arranging for contacting other departments under the provision of the committee's resolution giving it power "to utilize the services, information, facilities, and personnel of the departments and agencies of the Government"; etc.

It was agreed to suggest Dexter Keezer to handle public relations for the present, he being an old newspaper man now working in Justice, but returning in five weeks to his work as President of Reed College.

The President has asked the committee to indicate the portion of the \$400,000 required by the six executive agencies during the first month. Amounts ranging from \$5,000 to \$15,000 have been requested, the Treasury's being \$7,500.

The full committee is to meet tomorrow in the Senate Office Building at 10:30 to complete the formal organization and set-up. It will then probably adjourn for a month or two and the departments will go ahead with their respective research jobs.

HO



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON July 6, 1938

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OFFICE OF THE DIRECTOR

CONFIDENTIAL:

Memorandum

Re: Meeting of Executive representatives
of Anti-Monopoly Committee

A confidential meeting of the Executive representatives was held in the office of the Chairman of the Securities & Exchange Commission at 12:00 noon today, adjourning at 1:30 P.M.

Present:

From Justice	Thurman W. Arnold
" Commerce	Thomas C. Blaisdell, Jr.
" Labor	I. Lubin
" Federal Trade	G. S. Ferguson and E. L. Davis
" Treasury	H. Oliphant and C. J. Peoples
" SEC	J. N. Frank
Executive Secretary Leon Henderson	

The purpose of the meeting was preparatory to a meeting with the main committee to be held in the office of Senator O'Mahoney, Chairman, Room 244 Senate Office Building at 10:30 A.M. July 7.

Funds

Mr. Arnold stated that Justice had requested a \$30,000 allotment as a preliminary allocation from the total sum of \$400,000 appropriated for use of the President.

After some discussion Mr. Douglas, who was to see the President, left and later advised the Committee members that the President wished requests only for the current month. The Treasury has asked for the sum of \$7500.

Space

The office of the Executive Secretary will be located in the Federal Trade Commission Building.

Publicity

Dexter Keene will be asked to serve as publicity agent temporarily.

Subpoena power

Mr. Arnold submitted a resolution which, after certain changes therein, is to be submitted to the main committee at tomorrow's meeting. It proposes that the Chairman name a committee of three, with their alternates, to serve. The names of Congressman Eicher, Mr. Arnold, and Mr. Ferguson were tentatively suggested.

CONFIDENTIAL

Memorandum:

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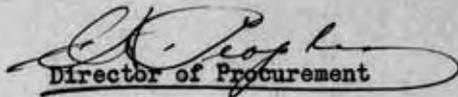
178
July 6, 1938

Applications

Applications for positions with the committee are to be filed with the Executive Secretary who will reply to them, and be made available to various members.

Agenda

The Executive representatives are to submit to the Executive Secretary, prior to tomorrow's meeting, an agenda covering the phases of the work of each, which will follow, without overlapping, the general duties of the agencies or departments represented on the committee.


Director of Procurement

July 6, 1938

To: The Secretary
From: Miss Lonigan

Attached is the revised table showing proposed purchases of foodstuffs by the Federal Surplus Commodities Corporation, of which a preliminary copy was given you last Friday in conference.

ESTIMATED QUANTITIES OF FOODSTUFFS FOR RELIEF
PURPOSES TO BE DISTRIBUTED BY

FEDERAL SURPLUS COMMODITIES CORPORATION
FISCAL YEAR 1938-39

<u>COMMODITY</u>	<u>UNIT</u>	<u>TOTAL PURCHASES</u>	<u>CONVERSION FACTOR</u>	<u>TOTAL POUNDS</u>	<u>POUNDS PER FAMILY PER MONTH</u>
Flour and Cereals	lb.	1,352,600,000	-	1,352,600,000	45.1
Dried Beans and Peas	lb.	103,700,000	-	103,700,000	3.5
Fresh Vegetables	lb.	200,000,000	-	200,000,000	6.7
Deciduous Fruit	bu.	2,000,000	48 lb.= 1 bu.	96,000,000	3.2
Citrus	bx.	3,250,000	72 lb.= 1 bx.	234,000,000	7.8
Dried Peaches	lb.	20,000,000	-	20,000,000	0.7
Raisins	lb.	62,000,000	-	62,000,000	2.1
Prunes	lb.	83,000,000	-	83,000,000	2.8
Potatoes	bu.	750,000	60 lb.= 1 bu.	45,000,000	1.5
Butter	lb.	50,000,000	-	50,000,000	1.7
Dry Skim Milk	lb.	47,000,000	-	47,000,000	1.6
Vegetables Canned	cs.	1,500,000	36 lb.= 1 cs.	54,000,000	1.8
Canned Fruit	cs.	2,000,000	36 lb.= 1 cs.	72,000,000	2.4
Rice	lb.	100,000,000	-	100,000,000	3.3
Syrup	gal.	700,000	10 lb.= 1 gal.	7,000,000	0.2
Cheese	lb.	2,880,000	-	2,880,000	*

*Less than one-tenth of one percent.

Prepared by: Lawrence H. Seltzer,
Assistant Director of
Research and Statistics;
Assisted by: Sidney G. Tickton.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 7-6-38

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Proposed offering of 3-year notes for the RFC on July 20

1. Amount: It would appear to be wisest to restrict the amounts of RFC public borrowings at any one time to the minimum consistent with near-term requirements. A large-scale public issue, such as \$500 millions, by the RFC at this time might occasion considerable unsettlement in the minds of investors in respect to the whole question of the public debt. It would appear to be prudent, therefore, to limit the initial offering to \$200 millions or less. It may be noted that RFC 1-1/2 percent notes held by banks, aggregating \$299 millions, will mature on December 15, 1938. These notes were originally issued to banks at various dates in payment for preferred stock, capital notes and debentures purchased by the RFC.

2. Maturity: As is indicated by the attached table of outstanding maturities, the Treasury's convenience in this respect is better served by a 3-year issue than either a 2-year or 1-year issue.

3. Coupon rates and yields: It is extremely difficult to estimate accurately the probable market yield basis of the proposed issue. The existing market prices for short-term Governments, which would normally provide fairly close limits for the estimate, are being powerfully influenced at present by anticipated "rights" values in connection with future refundings. This is true even in the case of some of the guaranteed issues. All outstanding Treasury notes that mature prior to June 15, 1940 are now selling on a negative yield basis.

Of the outstanding Treasury obligations, the Treasury bonds maturing August 1, 1941 are nearest related in character to the proposed note issue. These bonds, unlike Treasury notes, possess the identical income-tax exemption privileges that reside in RFC notes; and they mature only twelve days after the proposed note issue.

Secretary Morgenthau - 2

On July 5, the Treasury 3-1/4's of 1941 closed at 108 bid, to yield .62 percent. This price probably reflects some value for anticipated preferential rights to a refunding offering. It does indicate, however, that the probable yield basis of the proposed RFC issue is in excess of .62 percent. It does not appear unreasonable to presume that the probable yield basis of the proposed RFC issue will be in the neighborhood of .75 percent. On this basis, a coupon rate of 1 percent would result in a premium of 24/32. A 7/8 percent coupon would result in a premium of 12/32, on the same yield basis, i.e., .75 percent.

In the present market, the choice lies between a 1 percent coupon and a 7/8 percent coupon. The premium that would accompany the former would doubtless be considered in some quarters as excessive. The premium attaching to the latter might be too slim if the market were declining. Choice between these two coupon rates may better be made nearer the date of offering.

The 1-1/2 year 3/4 percent notes of the Commodity Credit Corporation were offered on April 25, 1938 at par and commanded a premium of 14/32 on a "when-issued" basis.

Attachment

Direct and Guaranteed Obligations Becoming Due or Callable
1939-1941

(Millions of dollars)

	1939	1940	1941
<u>Treasury notes</u>			
March 15	942	1,378	677
June 15	1,294	738	504
September 15	427	-	-
December 15	<u>526</u>	<u>737</u>	<u>204</u>
Total	3,189	2,853	1,385
<u>Treasury bonds</u>			
August 1	-	-	834
Guaranteed obligations*...	641	-	-
Treasury bonds callable (first call date)	<u>-</u>	<u>353</u>	<u>545</u>
Total due or callable	<u>3,830</u>	<u>3,206</u>	<u>2,764</u>

* Includes HOLC bonds, \$325 millions; FPMO bonds, \$110 millions; and CCCorp. notes, \$206 millions. Excludes HOLC bonds, 1939-49, \$1,036 millions.

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Federal Surplus Commodities Corporation
Summary of Commodities Procured -
July 1, 1937 to July 6, 1938

(Figures in thousands)

Commodity	Unit	July 1, 1937 to April 29, 1938	April 28,* 1938 to May 4, 1938	May 5, 1938 to May 11, 1938	May 12, 1938 to May 18, 1938	May 19, 1938 to May 25, 1938	May 26, 1938 to June 1, 1938	June 2, 1938 to June 8, 1938	June 9, 1938 to June 15, 1938	June 16, 1938 to June 22, 1938	June 23, 1938 to June 29, 1938	June 30, 1938 to July 6, 1938	Total July 1, 1937 to July 6, 1938	
(1) Apples (Dried)	Pounds	14,450	144	180	-	-	-	-	-	-	-	-	14,774	(1)
(2) Apples (Fresh)	Bushels	5,604	46	8	2	-	-	-	-	-	-	-	5,660	(2)
(3) Apricots (Dried)	Pounds	2,990	-	-	-	-	-	-	-	-	-	-	2,990	(3)
(4) Beans (Dried)	Pounds	52,990	450	400	100	2,090	60	-	-	-	-	-	58,080	(4)
(5) Beans (Snap)	Bushels	-	-	-	-	9	6	-	670	120	1,200	5	2,095	(5)
(6) Beets (Fresh)	Bushels	-	-	-	-	-	-	-	-	-	8	6	14	(6)
(7) Butter	Pounds	8,320	918	754	514	663	1,451	1,734	887	192	-	860	15,819	(7)
(8) Cabbage	Pounds	10,167	7,020	5,808	7,272	1,294	1,968	96	-	-	16	-	26,631	(8)
(9) Cane syrup	Gallons	-	-	-	-	-	-	-	-	54	133	107	394	(9)
(10) Carrots	Bushels	-	-	-	-	-	-	-	-	-	-	-	1	(10)
(11) Celery	Crates	166	7	20	3	-	-	-	-	-	-	-	196	(11)
(12) Cereal (Whole wheat)	Sacks	-	-	-	-	-	-	-	-	-	408	-	408	(12)
(13) Cheese	Pounds	-	-	-	-	-	-	-	-	-	3,446	-	3,446	(13)
(14) Cotton fabric	Yards	630	26	-	92	-	-	238	-	12	-	-	998	(14)
(15) Cottonseed oil	Pounds	9,780	-	-	-	-	-	-	-	-	-	-	9,780	(15)
(16) Eggs (Shell)	Cases	270	-	-	-	-	-	-	-	-	-	-	270	(16)
(17) Fish	Pounds	-	-	-	-	-	-	-	-	-	3,677	-	3,677	(17)
(18) Flour	Barrels	-	-	-	7	3	125	-	915	-	1,649	-	2,692	(18)
(19) Grapefruit	Boxes	155	48	69	48	38	42	19	10	-	-	-	481	(19)
(20) Grapefruit juice	Cases	-	-	40	5	-	-	-	-	444	52	-	546	(20)
(21) Grapes	Tons	8	-	-	-	-	-	-	-	-	-	-	8	(21)
(22) Milk (Dry skim)	Pounds	8,642	-	-	-	-	7,940	-	-	5,000	-	-	21,582	(22)
(23) Milk (Fluid)	Quarts	8,082	459	472	482	495	478	497	510	514	511	497	12,997	(23)
(24) Onions	Pounds	3,000	-	-	-	-	-	-	-	-	-	-	3,000	(24)
(25) Oranges	Boxes	1,564	87	79	50	31	14	10	11	54	57	2	1,999	(25)
(26) Paper bags	Bags	-	-	-	-	-	8,400	-	-	5,250	-	-	13,650	(26)
(27) Peaches (Dried)	Pounds	2,534	-	-	-	-	-	-	-	8	-	-	2,542	(27)
(28) Peaches (Fresh)	Bushels	-	-	-	-	-	-	-	-	-	-	2	2	(28)
(29) Pears (Fresh)	Boxes	318	-	-	-	-	-	-	-	-	-	-	318	(29)
(30) Peas (Canned)	Cases	927	-	-	-	-	-	-	-	-	-	-	927	(30)
(31) Peas (Dried)	Pounds	6,000	-	-	-	-	-	-	-	-	-	-	6,000	(31)
(32) Potatoes (Sweet)	Bushels	440	-	-	-	-	-	-	-	2	-	-	442	(32)
(33) Potatoes (White)	Bushels	4,150	117	64	7	-	-	-	-	-	31	-	4,369	(33)
(34) Potato starch & flour	Pounds	2,562	260	-	-	-	-	-	-	-	-	-	2,822	(34)
(35) Prunes (Dried)	Tons	23	-	1	-	-	-	-	-	-	-	-	24	(35)
(36) Raisins	Pounds	-	-	-	-	-	-	-	-	-	3,000	-	3,000	(36)
(37) Rice (Milled)	Pounds	70,550	3,360	2,080	560	1,000	-	1,600	-	-	-	-	78,090	(37)
(38) Tobacco	Pounds	-	-	-	-	-	-	-	-	67	170	64	301	(38)
(39) Tomatoes (Canned)	Cases	50	-	-	-	-	-	-	-	-	-	-	50	(39)
(40) Tomatoes (Fresh)	Bushels	-	-	-	-	-	-	-	-	-	-	-	-	(40)

Treasury Department, Division of Research and Statistics.

Source: Weekly reports, unrevised, of the Federal Surplus Commodities Corporation.

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

Regraded Unclassified

July 6, 1938

My dear Mr. President:

I am sending you herewith, by hand, a book entitled "Limits of Land Settlement."

I thought you would enjoy reading this on your trip, particularly the chapter on South America by Isaiah Bowman.

Sincerely yours,

The President,
The White House.

July 7, 1938.
9:01 a.m.

H.M.Jr: Hello.

Operator: Dr. Burgess. Go ahead.

H.M.Jr: Hello.

W. R.
Burgess: Oh, hello, Henry.

H.M.Jr: How are you?

B: I'm fine.

H.M.Jr: Randolph.

B: Yes, sir.

H.M.Jr: Gossip with me a little bit about the RFC note.

B: Yes.

H.M.Jr: Tell me what you know.

B: Well, I think the behavior of the market yesterday indicated that - that it was very well received.

H.M.Jr: Yes.

B: The market was a little relieved. It had been worrying a little bit about 500 million or something.

H.M.Jr: Oh.

B: And these notes were a little stronger, and there were some buyers of bonds in the market; quite a few of the new bonds turned over.

H.M.Jr: The new ones.

B: Yep. Some banks buying bonds.

H.M.Jr: Yes.

B: Now, this market says that it'll take these in its stride, without any difficulty.

H.M.Jr: Yes.

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- B: Now, I didn't find much criticism, even of the bookkeeping. There was a little squib in the Herald-Tribune ...
- H.M.Jr: Oh, well.
- B: ... you saw this morning, but that's all ...
- H.M.Jr: Well, they - they've got to earn their living.
- B: I met with the - I talked to the newspaper men yesterday ...
- H.M.Jr: Yes.
- B: .. and reviewed the whole history of this thing ...
- H.M.Jr: Fine.
- B: .. pointing out that when this thing was first established, the Treasury statement did not include it in the current budget. You remember that, don't you, that ...
- H.M.Jr: No, I don't.
- B: Well, even in the days of "King" Hoover they didn't include this in the budget.
- H.M.Jr: They didn't!
- B: No.
- H.M.Jr: Oh, for
- B: So you're the boy that put it in the budget.
- H.M.Jr: Uh-huh.
- B: And then I pointed out the - the other corporations that were similar and the general principle that where a corporation had assets...
- H.M.Jr: Yes.
- B: ... that that's excluded now, and I didn't get any flare-back really from the boys, though I thought I would get more. There was one or two

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critical, but not much.

H.M.Jr: Well ...

B: And I asked them if they had heard anything about the issue. Well, all they had heard was favorable, that the banks were eager to get it and so on. So that I think that the road is all clear.

H.M.Jr: All right, how much - what price?

B: Now, I've been talking with these fellows about rates and the suggestions on rate range from - from three-quarters ~~to~~ one percent.

H.M.Jr: Uh-huh.

B: The majority of fellows, ah - tell us like parrots, one percent.

H.M.Jr: Who?

B: But ...

H.M.Jr: Fellows like who?

B: Parrots - p-a-r-r-o-t-s.

H.M.Jr: Who does he work for?

B: (Laughs) You get - a thing goes down the Street, and these boys have a parrot-like way of repeating it.

H.M.Jr: Oh. Oh, oh, oh.

B: (Laughs)

H.M.Jr: I didn't get it. It's a little early in the morning down here.

B: Yes. (Laughs) But we've been doing some pretty careful figures, and I think one percent is pretty rich.

H.M.Jr: Me too.

B: I've - I've just been talking with - with Herbert Repp, very carefully reviewing it with him, and our

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judgment now is that - that one of two ways out: you can either have a $7/8$ percent, which is a sort of a cockeyed rate ...

H.M.Jr: Yes.

B: .. but would go all right.

H.M.Jr: Yes.

B: Or you could sell a one percent at a premium of half a point, which would yield about .83, you know.

H.M.Jr: It would yield what?

B: That would - either of those would go all right.

H.M.Jr: It would yield what?

B: You could - you could either put a $7/8$ coupon and sell it at par, or you could put a one percent coupon on and sell it at a slight premium, like par and a half, with a half point premium. Now, either of those would go.

H.M.Jr: I personally prefer the $7/8$.

B: Yes. Well ...

H.M.Jr: Do they figure out - does the $7/8$ figure out the same as the one percent at par and a half?

B: Just about. It's not - not - it's a little more generous.

H.M.Jr: Which way? Which is more liberal?

B: The $7/8$.

H.M.Jr: Well, I - still, I'd rather do the $7/8$.

B: Yes. Well, now, Repp is going to feel out the market a little bit about which one of those they would - they'd like best; it you know.

H.M.Jr: How about Devine?

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B: Well, Devine's man is waiting outside. He - he talked in terms of one percent yesterday, but I told him to sharpen his pencil and ...

H.M.Jr: Well, how about Devine himself?

B: Oh, he's away, he's in Europe.

H.M.Jr: Oh. That's too bad.

B: Several of our boys are away now.

H.M.Jr: How about Solomon?

B: Solomon thinks we could sell a three-quarters. He thinks it's a little thin.

H.M.Jr: Uh-huh.

B: Just a little bit thin.

H.M.Jr: I think one percent is too rich.

B: I think so too.

H.M.Jr: Yes, and ...

B: It would sell for 101.

H.M.Jr: Yes, that's too good.

B: I think it's too rich.

H.M.Jr: Right.

B: Yes.

H.M.Jr: Well, I don't think I'll talk to you again today about it unless you've got something to talk to me.

B: No, I'd rather feel around today and get impressions and a little more definite view tomorrow.

H.M.Jr: That's right. And we've got an order in of five million of the 2½s after they cross 102.

B: To sell them.

H.M.Jr: Yes.

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B: Good for you.

H.M.Jr: After - but they have to - we have to net 102.

B: Yes.

H.M.Jr: So...

B: Well, I'm very glad to have that.

H.M.Jr: So that may go.

B: Yes.

H.M.Jr: Of course, the thing that tickles me pink is to see the strong buying power for those new long bonds.

B: Yes, I think that's fine.

H.M.Jr: And I thought your students were very intelligent. I read your letter.

B: Yes. Isn't that funny?

H.M.Jr: Very.

B: I think that's very good.

H.M.Jr: Yes. Shows that

B: Our problem is to compromise between those two views.

H.M.Jr: Yes. Well, you could do it, but I'm tickled to death to have 900 million longs out.

B: Yes. Yes.

H.M.Jr: O.K.

B: Very good.

H.M.Jr: Thank you.

B: Goodbye.

GROUP MEETING

July 7, 1938.
9:30 A. M.

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

H.M.Jr: Say, Wayne, we're getting quite a few good customers on our baby bonds - Tel' and Tel' and Armour. Do those come in on their own, or have we done anything?

Taylor: We've done a little something on it. Particularly on the Tel' and Tel' thing - why, Gene Sloan helped work that out with the company. The Armour and Company one was also - I think they expressed the original curiosity, but we worked with them on it.

Gaston: Scott Hovey worked with them on it.

H.M.Jr: Well, you might pass the word down to them that I am pleased.

Gaston: Jim Bryan spoke to me about those things, about the desirability of doing some publicity on it, and after talking to Mr. Oliphant, we decided it would be better to let them handle any publicity on it, because we didn't want any implications or responsibility of the Treasury for the safe-keeping of those funds for the companies.

H.M.Jr: All right.

Ros, here's something for you and Hanes, from the White House:

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"Would you please send me a memorandum within the course of the next few weeks on the following subject:

1. Results in the form of 'legislation, investigation, collection of taxes, etc., of the message of the President to the Congress, dated June 1, 1937, on tax avoidance."

Magill: That's simple.

H.M.Jr: All right. Will you prepare an answer for me?

Magill: All right.

H.M.Jr: Ah - where's Dan?

In talking to Burgess this morning, explaining the R. F. C. thing, and all this talk about taking it off and putting R. F. C. out of the regular Budget, etc., he said when the R. F. C. - I am just quoting Burgess literally - "When the R. F. C. was created by 'King Hoover'," he said, "it never was in the Budget." He said, "I pointed that out to the boss."

Gaston: That's true.

H.M.Jr: I am the fellow that put it in.

Gaston: No, it was put in, in '33, before you came in here, and the reason it was put in was because they got to making relief appropriations through the R. F. C.

H.M.Jr: I thought if there was any question on that, between now and ten thirty, have a little memo for me, so I

Gaston: It's all stated in that Treasury statement of July 1, but I can give you a statement on it.

H.M.Jr: How long is that statement?

Gaston: (Indicating about 2½ feet.) About so long - printed.

H.M.Jr: Suppose you give me that. You see, they haven't printed that. The Tribune people were very amusing about it. You see, Burgess had a press

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conference and he told the boys, but they don't want to print anything. The Federal Reserve of New York has a - they see the boys every day at three thirty. "R. F. C. notes - R. F. C. signifies to Wall Street - little more budgetary wool to be pulled over the eyes of the populace."

Gaston: You notice that Jesse Jones told the boys yesterday they were going to get out about seven hundred million dollars, and were going to use the proceeds to buy back notes from the Treasury.

H.M.Jr: And Burgess said that the announcement he had, the Government bond market, and that there was a very healthy demand for our August Government bonds.

The other thing which he wrote me about, which I thought was very interesting - he's teaching this school of banking, for all bankers, for two weeks, and he said he had eighty people in this course this third year; and at the end of the course he said, "You, in your own business, what kind of Government obligation would you like?" Unanimously, ten years. "As Secretary of the Treasury, what would you do?" And the answer was, "Just what he did - get out the longest one you could." Which was very nice.

He said this morning - "Just forget about it - it's just a question of pricing." He said, "You can sell one per cent at a hundred and a half or at seven-eighths, and seven-eighths being a little sweeter." I don't like a premium bond.

This morning the Standard Oil of New Jersey is going extremely well, and Crown Cork and Seal a little sloppy. And our English - our European friends, I don't know - it's interesting - they dealt in, well, five million dollars yesterday, and they sold that - about two million three. But notwithstanding that, I think it's pretty good that net sales of two million three, the market behaved the way it did.

(To Mr. Hanes:) Did you see these?

Hanes: No sir.

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H.M.Jr: Would you like to.

Hanes: Yes sir.

H.M.Jr: Incidentally, Mac, you are lunching with me today.

McReynolds: Helvering - I was right about Helvering; he won't be back until Monday. I left word with his secretary.

H.M.Jr: (Side conversation with Mrs. Klotz.)
Magill?

Magill: (Nods "Nothing.")

H.M.Jr: Oliphant?

Oliphant: (Nods "Nothing.")

H.M.Jr: Gaston?

Gaston: The small Post Office designs—they hope to finish judging them by noon today. There were four hundred fifty competitors and about a thousand different designs, drawings, etc., they have hung up. Simon thinks there are some very good ones, although, as a whole, he was a little disappointed in the contest. He thought probably you wouldn't want to see them until after they had picked the winners.

H.M.Jr: Well, I thought around four o'clock maybe you, Mrs. Klotz, and I might go over there and take a look at them.

Gaston: Would you like to have the winners announced as soon as they get the decision?

H.M.Jr: Yes. I'd wait until we know. We might just let Peoples and Simon know half an hour in advance.

Gaston: I won't let them know now.

H.M.Jr: No, I really want to see them.

Gaston: But they can go ahead and announce the winners?
(Mr. Bell comes in.)

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H.M.Jr: You know, Architectural Forum, I think, is very much interested in those.

Gaston: Yes.

H.M.Jr: Anything else?

Gaston: No, nothing else.

H.M.Jr: George?

Haas: I have nothing except a few more figures in the book.

H.M.Jr: I almost called you at seven, but I changed my mind and called McReynolds instead. I got poor Mrs. White out of bed; I forgot Harry was away. I don't see why everybody else should sleep when I can't.

Haas: disrupted my sleep at seven this morning.

H.M.Jr: Mrs. White was up.

Taylor: You and the quail. The quail around my part of the world.

H.M.Jr: Believe me, it's not only the quail; everything is terribly noisy from five o'clock on.

McReynolds: The boss has more woods around him than you have.

Haas: There are a couple pretty good ones in there.

H.M.Jr: Golly! Look at Cannon Mills.

Haas: Pacific is away up too.

H.M.Jr: George, I was surprised that the Tel & Tel lost telephones in June; I noticed they lost seventeen thousand telephones in June. I was surprised at that.

Gaston: Isn't that due to summer vacations, etc.?

Haas: That's seasonal. This figure there has a correction for seasonal trends.

H.M.Jr: It's all right. What else, George?

Haas: I have nothing.

H.M.Jr: Wayne?

Taylor: Nobody's going to be in the market with the possible exception of a small amount for the R. F. C., and Federal Mortgage Association. They handle that themselves if they need it. Remember, they just talked

H.M.Jr: Is that Jesse Jones?

Taylor: Yeah, but it isn't the same type of thing that they are doing.

H.M.Jr: Are they going in the market?

Taylor: They may be in for a very small amount.

H.M.Jr: How much?

Taylor: Well, you

Bell: Five million last time.

Taylor: Twenty-five.

Bell: That's what I say - it was five million for last time.

Taylor: If they do it, it's for that amount. They may not do it.

H.M.Jr: Anything else?

Taylor: Everybody else is taken care of. Intermediate Bank will do their own stuff.

H.M.Jr: Unless Jones has a tidy amount, I think it's silly for him to go in the market. It just upsets everyone.

Taylor: That particular one doesn't make any difference. It - it isn't a Treasury obligation.

Bell: And it's sold before it is announced - syndicate.

H.M.Jr: What else?

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Taylor: Nothing in that Chinese story.

H.M.Jr: Chinese loans?

Taylor: No.

Bell: Nothing in this either.

H.M.Jr: Cotton loan. Somebody - I don't know how well you know Agriculture - they've had the lousiest publicity there on their Farm Surplus Corporation - simply lousy. You'd think they are buying all the cotton they could; they do this, and they do that. Do you (Gaston) know Appleby very well?

Gaston: I know him.

H.M.Jr: What's the fellow from Minnesota?

Gaston: Stedman.

H.M.Jr: Why don't you tell Stedman their publicity on Surplus Commodity - they ought to detail somebody over there. - If you can do it in a nice way.

Gaston: If I can run across him. I think I can probably see him.

H.M.Jr: Well here - use this as an example: (News clipping.)

"United States to spend three million five hundred thousand dollars on beds in relief plan. Fifty thousand bales of raw cotton to fill mattresses. The Agriculture Department authorized the Federal Surplus Commodities Corporation today to purchase three million five hundred thousand dollars worth of raw cotton and fabric material to be used in making the mattresses and comforts for relief families."

It's just - why not use that?

Gaston: It just isn't true.

H.M.Jr: Mr. Bell is very much disturbed.

Bell: Not now - if they are not going to do it.

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H.M.Jr: If you can do it in a nice way.
(Nods to Mr. Taylor.)

Taylor: On wheat, you've got your meeting this afternoon at three o'clock.

H.M.Jr: Yeah. Are you interested in that?

Bell: Is that the loan question?

Taylor: Yes, very much so.

H.M.Jr: George, you're interested.

Haas: (Nods "Yes.")

Taylor: They think a hundred million dollars will cover it. It won't require any new financing.

H.M.Jr: Well, now, George, between now and three, give me a little memorandum, will you, just how that's done and this whole question. Is that the amount of the two hundred twelve? Come out of that?

Bell: No.

H.M.Jr: What does that come out of?

Bell: Commodity Credit.

H.M.Jr: Well, give me just a little memorandum anyway. How does he arrive at parity, and how is it fifty-two per cent of parity, and how does he get it? How does he get parity at a hundred fourteen, and why fifty-two per cent; why not fifty per cent, or forty-nine, or fifty-three?

Taylor: It's different prices in different localities for different grades, and so on, so you don't get different kinds of figures.

H.M.Jr: Sometimes he puts the grade so it's very hard - you've got to refresh my memory on it. Is this a loan on wheat which is maturing now, and what happened to last year's wheat loan?

Taylor: This will be the first wheat loan.

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H.M.Jr: What happened to last year's corn loan, and do they draw the checks, and how soon does the check go out, and how do they store it; do they store it on the farm or do they store it in terminal elevators? See? I'd just like to be intelligent about the thing. And to whom does the money go? Does it go to the elevators? Does it go to the farmer? Does he go up there and get it? See? Have Bill Myers here. Will you (Mrs. Klotz) tell Bill Myers to be here at a quarter of three.

Bell: I assume it will be handled through the banks just like the cotton loan.

H.M.Jr: Shouldn't Jones be here?

Taylor: He'll be here.

H.M.Jr: George, I want to refresh myself, see?

Haas: I'll get the facts.

Taylor: The main new factor in this thing is farm storage for wheat.

H.M.Jr: There you are.

Taylor: It's very controversial as to whether you can get good farm storage for certain types of wheat.

H.M.Jr: Does that come in - also are we going to build storage?

Taylor: Ah - ah

Bell: That isn't a normal grant.

Taylor: It's part of the - I mean, it

Bell: I thought that was crop insurance.

H.M.Jr: Have we got crop insurance?

Taylor: Yes sir.

Bell: It's on the road.

H.M.Jr: When does that go into effect?

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- Bell: They are working on the organization now.
- H.M.Jr: George, if it doesn't crowd you too much - George, let's do it this way. I am a wheat farmer. (I'm not - I'm a strawberry farmer.)
- Oliphant: Razzberry farmer.
- H.M.Jr: Damn good raspberry farmer. I've got a crop of wheat. How much can I look to the Government? How many different drawers can I go to? What do I have to do, from the time I put the wheat in the ground? I started last fall - what do I have to sign up? What did I do, beginning with last fall, when I started? What did I do, and did I have to get any loans - any farm loans in Farm Credit? Did I sign off anything? Let's start last fall, and what else can I expect, and how many pockets of Uncle Sam can I tap, as a wheat farmer?
- Bell: Nice cabinet full of drawers. There are - there will be a lot of them.
- H.M.Jr: I mean, just how many different pockets are there, and then, also, you might look forward - what am I going to do next fall about my planting? I mean, where does this all - in other words, what you had better do is start with July, 1937, I suppose, and run through until July first, of '39. I suppose that would be the period to be covered.
- Taylor: You'd have had to be in the wheat business for quite a while.
- H.M.Jr: Well, George knows this.
- Bell: Have to work it through '39 in order to get under the organizations that are just being created for crop insurance.
- H.M.Jr: Out in New York State they laid off all the soil conservation forces. They said they are through. That is, the supervisors.
- Bell: I assume that's the demonstration crowds.

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- H.M.Jr: I - if I am going to do this I think I ought to know this.
- Haas: Incidentally, I'll bring myself up to date.
- H.M.Jr: Yes, and everybody in the room. Wayne is kind of "poker-faced," but I'd hate to cross examine him. Are you willing to read the memorandum?
- Taylor: Yes sir.
- H.M.Jr: I think they ought to print on the endorsement of the checks, promising to give the money back if they don't do so and so. I sent it down to Herman and asked him if it were negotiable paper.
- Then they'd say, "Where would Farm Credit come in if they made a proper loan on this thing?" Bill Myers can help you on this thing. Also, where does the tenant farmer come in. Supposing I'm a tenant farmer, what would I get out of this?
- Oliphant: Would you get a red card or a white card?
- H.M.Jr: Most likely somebody over at Farm Credit can dictate that.
- Haas: Yes, there are several people over there that can outline the whole thing.
- H.M.Jr: This seventy-five million - where does that - has Commodity Credit got that money in the bank?
- Bell: Seventy-five million?
- H.M.Jr: Yes.
- Bell: That's what Wayne's talking about.
- H.M.Jr: The President said to Wallace, "How much will this cost Henry?" and Wallace said, "About seventy-five million."
- Taylor: It will cost the Commodity Credit, but it won't cost you.
- H.M.Jr: Where does Commodity Credit get its money? I'm a stockholder in that.

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Taylor: They get it from the market.

H.M.Jr: Does that mean a new issue - am I going to have to sell seventy-five or a hundred million dollars?

Taylor: Probably not.

H.M.Jr: Will they draw on us?

Taylor: They'll draw on the R. F. C. When the market - it is right, you say, up to a hundred - then there will be an issue.

H.M.Jr: A hundred - what market?

Taylor: Commodity Credit will sell its obligations.

Bell: Commodity Credit now has a hundred fifty million in cash credit in the Treasury, which it will draw on. The last time we had our conference I thought they were coming directly to the Treasury and then they would finance it, but the chances are, on the cotton note maturities, the banks will take them back for another year, and on the wheat loan, the banks will take those loans for a year, so that our seventy-five million is a potential item rather than an actual item, at the present time. We have in our cash possession statements about sixty million dollars for Commodity Credit for this next six months.

Taylor: We've got the same arrangement with them that we have with Straus and the various other people, that they can come into us, up to a certain amount. We've got a top on it; it's sort of a revolving thing. The minute they get to the top then they go to the market.

Bell: They certainly won't go to the market until after the September financing.

H.M.Jr: Anything else?

Taylor: No.

H.M.Jr: George, will you send Miss Lonigan, and somebody from Parran's office to Cleveland again and let them be back here Monday or Tuesday. I want to know how they are taking care of the feeding - I mean what they are doing on taking care of the feeding up there.

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Haas: Yes sir.

H.M.Jr: Are you through, Wayne?

Taylor: (Nods "Yes.")

H.M.Jr: Quite a proposition, isn't it?

Haas: That was just Cleveland?

H.M.Jr: Just Cleveland.

Cy.

Upham: I think it's interesting, although probably not important, that the July Reserve Bulletin for tomorrow morning's papers carries the statement that Eccles prepared for the President.

H.M.Jr: Well, ah, it's not news that Eccles is persistent. Huh?

Upham: No.

H.M.Jr: I read the statement; it's not a bad statement.

Gaston: It's a fair statement.

Upham: Oh, it's a very good statement.

H.M.Jr: How do they do it? Do they say this is a statement for the President?

Upham: It's part of the Bulletin - presumably the Governor's statement.

Gaston: They just corrected the statement - took out the "Is".

H.M.Jr: What! This is a very sarcastic crowd. Can't pull many fast ones.

Oliphant: This is called the razzberries.

H.M.Jr: What is the Federal Reserve index production for June? Do you know?

Upham: I can check.

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Haas: Seventy-six.

H.M.Jr: Seventy-four?

Haas: That's their estimate.

H.M.Jr: What other good news have you got?

Upham: Do you want to see the Comptroller this week or next.

H.M.Jr: Yeah. Oh, all right, we'll do him tomorrow - ten thirty.

Upham: All right.

Klotz: Who's that - Diggs?

H.M.Jr: You tell him, now, I'm going to ask him about - what's the name of the bank examiner of New York?

Upham: Roberts.

H.M.Jr: Where Roberts got his instructions to start this campaign for Diggs for Comptroller. Would you like to be here?

Taylor: It would be interesting.

H.M.Jr: What else, Cy?

Upham: That's all.

H.M.Jr: Everybody under control?
(Nods to Mr. Gibbons.)

Gibbons: (Nods "Nothing.")

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

Lochhead: Japan is starting in shipment of gold again, after stopping for two or three weeks. There's about eleven million on the way now. Their balances are way down still, in this country - they haven't been able to build them up.

H.M.Jr: (To Mr. Hanes.) Busy? Got enough to do?

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Hanes: In the fog.

H.M.Jr: Huh?

Hanes: Still in the fog.

H.M.Jr: Just think how nice the sun will be when you get out.

Hanes: I'll get out soon.

H.M.Jr: On that, I heard a very amusing story - it may be familiar to you. It seems that in Parliament they were questioning the British Government about these guns which now completely cover Gibraltar, which they feel, from the African side and from the mainland they can absolutely disseminate - I mean just powder Gibraltar in twelve hours, and Loyd George asked Chamberlain, "What about protecting the British life-line?" He said, "Oh, the fleet can go through under a smoke screen." Loyd George said, "Oh, the British life-line is protected by a smoke screen."

I thought it was rather nice. Those guns, incidentally, are all manned by Germans, too.

Gibbons: Did you see that cartoon recently in one of the Washington papers (Evening Star - June 20, 1938) showing that Britannia rules the waves?

H.M.Jr: Britain waves under the rules?

Gibbons: Showed a banner being taken down that said, "Britannia Rules the Waves," and now it is, "Britannia Waives the Rules."

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

Bell: You asked me yesterday to let you know whether Government Life could invest in obligations of the R. F. C. The Reconstruction Finance Corporation Act has a section that makes its obligations lawful investments for fiduciary trusts and public funds, and the Postal Savings can be invested in guaranteed obligations, according to the Attorney General's decision with respect to Federal Farm Mortgage Corporation bonds, and that would apply equally to Farm Mortgage or any other, providing we get authority. Now, the F. D. I. C. has a

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special provision. It says they may be invested in obligations of the United States or in obligation guarantees of principal mention of the United States. That would require the approval of the Board.

H.M.Jr: I was' curious - I was just checking around.

Bell: The Government Life has a provision - it's a trust fund, and it would fall under the provision that any fiduciary trust You wouldn't want to put those funds in a bond.

H.M.Jr: Supposing everything is lovely, and supposing there is a bust, and I'd like to know how much Government funds I could throw in there.

Bell: You could use the F. D. I. C., and the Postal Savings, if you wanted to.

I have a copy of a letter which the Tennessee Valley sent to Jesse Jones, making application for a loan of two million dollars. It says:

"Under the statute, the bonds of the Authority have all the rights and privileges of Panama Canal bonds. It is our understanding that the Secretary of the Treasury is averse to having bonds of this character placed on the market, but, on the other hand, he is agreeable to the sale of these bonds to your Corporation with the understanding that they be not placed upon the market. It may be observed that the bonds are of the highest type of obligations of the United States, and it is the thought of the Board of Directors of the Authority, in which I feel confident you will concur, that the interest rate should be commensurate with that type of security."

That was a very fair statement - probably went a little far in saying the Secretary of the Treasury is agreeable to the sale of the bonds. They took that from me.

H.M.Jr: That's all right. You can talk for me.

Bell: We'll write a letter when we get tomorrow's things. The only other thing is that the N. E. C. Directors have made a survey, of about three months, and have rendered their report to

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the headquarters here, which has been compiled in this book. The President asked that it be circulated. It's very frank. Yet, I haven't a lot of confidence in some of the people who worked on it. Would you like to read it tonight, before you go away, and I'll return it tomorrow.

- H.M.Jr: Dan, of the two hundred million dollars Federal funds under the Public Works, how much has been allotted?
- Bell: A hundred fifty-four million.
- H.M.Jr: What's the matter with the other forty-six million?
- Bell: I thought we ought to keep a little cash for a while, because there is a little difficulty in getting the W. P. A. to go along. We may have to allot some P. W. A. funds.
- H.M.Jr: What do you mean when you say we are having difficulties?
- Bell: There are some places where they haven't got the labor.
- H.M.Jr: You'll have to explain it.
- Bell: Take the Coast Guard Station - they want to build. There are places there that could be done by W. P. A. labor. It's all worked out beforehand. Now W. P. A. says, "In order to do that job we'll have to stop state projects, and the State Directors don't want to stop them."
- H.M.Jr: You mean they don't have enough people out of work?
- Bell: They don't have enough people to put on the projects. That's happened in the Navy Yards and to some of the other folks.
- H.M.Jr: (Speaks aside to Mrs. Klotz.)
You've got a curved number of people at work in the W. P. A.?
- Haas: Yes sir.

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- H.M.Jr: Shoot that in to Mrs. Klotz. Bring it right up to date.
- Bell: I think the state projects of W. P. A. ought to be stopped temporarily and these people loaned over to the Federal projects. Then they can go back with the state projects.
- H.M.Jr: Dan, this doesn't check. I was down in the field, and the W. P. A. was running out of projects.
- Bell: There - they may be in some cases.
- H.M.Jr: Have you talked to Colonel Harrington?
- Bell: Yes. You see, he left the project control in the hands of the state administrators. Down at Norfolk they can't get enough.
- H.M.Jr: Would you mind me having Harrington come down and discuss it?
- Bell: It's all right with me. I was going to discuss it today with the President. There may be as much as fifteen or twenty-five million dollars in the P. W. A. fund.
- McReynolds: You'll have to supplement the other fund.
- Bell: Yeah.
- H.M.Jr: You don't know how much Ickes has got out, do you?
- Bell: No, I don't.
- H.M.Jr: Transferable? - Anything else, Dan?
- Bell: No.
- H.M.Jr: And ask Burlew also how many of the bonds were released and how many cities or states have refused to take the funds - how many have been turned down. Mac, how long do they give a city or state to say they will or won't take them?
- McReynolds: (Inaudible.)
- H.M.Jr: Anything else? (McReynolds nods "No.") Thank you.

July 7, 1938.
10:26 a.m.

K. T.
Keller: Hello. Hello.

H.M.Jr: Hello, Mr. Keller.

K: How do you do, Mr. Secretary.

H.M.Jr: How are you?

K: I'm fine, thank you.

H.M.Jr: I'm calling up just to find out if you would tell me in confidence how your business looks.

K: Well, I - I wrote you a letter yesterday morning.

H.M.Jr: Oh, did you? Well, I haven't - the mail ...

K: All right.

H.M.Jr: I got my first mail, but I guess it isn't in the sec- - it must be in the second.

K: You called yesterday noon while I was down in the shop. I came back up and they said you'd call later.

H.M.Jr: Yes.

K: Well, our business has - in some spots has shown a pick-up.

H.M.Jr: Yes.

K: Particularly out where they're harvesting the wheat.

H.M.Jr: Uh-huh.

K: I got reports from several dealers out there that they did more business last week than they did in the previous month.

H.M.Jr: No.

K: Now so far as our business nationally is concerned, our retail sales went up about 7 percent the week ending 7-2, as against the week ending 6-25. But they did that same thing last year too.

H.M.Jr: So that would be seasonal, huh?

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- K: Yes. Now, when it always comes in there before the 4th of July, your deliveries run heavy.
- H.M.Jr: I see.
- K: But nevertheless, we picked up one percent relative. We went one percent better this year than we did last year.
- H.M.Jr: For the month of June?
- K: No, for that week.
- H.M.Jr: You mean you did one percent better for the
- K: For instance, the week of 6-25 this year was 44.7 of last year.
- H.M.Jr: Yes.
- K: And the week of 7-2 this year was 45.3 against last year.
- H.M.Jr: I see.
- K: Now, the whole tendency has been up very slightly for the last month.
- H.M.Jr: Uh-huh.
- K: Now, we were running along in - in February and March at about 35 to 36 percent of last year; we're running now about 46 to 47 percent of last year.
- H.M.Jr: Well, that - that - that's encouraging.
- K: Yes, that is. Now, our field stocks have come very nicely into line as well.
- H.M.Jr: Good.
- K: We got our - our passenger car stock is down to 74,000 now, and that's about the same as last year.
- H.M.Jr: I see.
- K: Yep.

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H.M.Jr: Now let me ask you this, which I'm particularly interested in. What effect is this cut in prices of steel going to have in your business?

K: Well, the - we figured up on the prices we have to date; it's going to mean about four dollars and a half an automobile.

H.M.Jr: Is that all?

K: Yes, sir.

H.M.Jr: You got ...

K: Now, if that also carries through so that the things that we buy fabricated

H.M.Jr: I see.

K: ... like the alloy - we use an awful lot of alloy steel things.

H.M.Jr: Yes.

K: And there's been very little drop in alloy yet.

H.M.Jr: Yes.

K: But if this move carries on, why, it will mean - it could mean up to seven dollars.

H.M.Jr: Up to seven dollars.

K: Yes.

H.M.Jr: Well, from your standpoint, though, you - it's good, isn't it?

K: Yes.

H.M.Jr: It's all ...

K: But that's all more than wiped out now with copper and lead.

H.M.Jr: Oh, I see.

K: Lead's gone to beat hell.

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H.M.Jr: Uh-huh. Any change in your plans for bringing out the new model Plymouth in September?

K: None at all. We're - the only change we have in our plans, we're working overtime endeavoring to get it out as quick as we can.

H.M.Jr: I see.

K: But I don't think we can speed that up very much. We may have some the latter part of August.

H.M.Jr: I see.

K: Yes, sir.

H.M.Jr: Well then, since I've seen you, things have - you - I would say, have improved.

K: Well, I think we've confirmed to a slight degree the optimism we both had.

H.M.Jr: That's right.

K: Yes.

H.M.Jr: That's right.

K: Yes, sir.

H.M.Jr: Well, I just wanted to check with you and that was all.

K: Thank you very much.

H.M.Jr: Thank you.

K: Goodbye.

July 7, 1938.
2:22 P. M.

H.M.Jr: Herman.
Herman
Oliphant: Yeah.

H.M.Jr: I - as you know, had Hanes and Magill for lunch.

O: Yeah.

H.M.Jr: And I asked him whether he'd come to a decision....

O: Yeah.

H.M.Jr: On the, ah - maybe you've been told this - I don't know.

O: No.

H.M.Jr: On the, ah, Katz matter.

O: Yeah.

H.M.Jr: And he said, ah, he'd talked the thing over, and for the time being he's given up the idea.

O: Yeah.

H.M.Jr: So I thought I'd tell you that.

O: Well, that's fine. That's fine.

H.M.Jr: So that's that.

O: Yeah.

H.M.Jr: O. K.

O: Thank you so much.