

**RECONSTRUCTION FINANCE CORPORATION
WASHINGTON**

JESSE H. JONES
CHAIRMAN OF THE BOARD

July 7, 1938

Dear Henry:

Enclosed, for your files, is a certified copy of the minutes of the meeting held today in your office. The original has been filed with the Secretary of Commodity Credit Corporation.

Sincerely yours,



Chairman

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

MINUTES OF THE FIFTH ANNUAL MEETING
OF THE STOCKHOLDERS
OF
COMMODITY CREDIT CORPORATION

* * *

On July 7, 1938, the annual meeting of the Stockholders, which had been deferred from April 10, 1938, was held in the office of the Secretary of the Treasury, all of the capital stock of the Corporation having been transferred to the Secretary of the Treasury in accordance with the provisions of the Act of March 8, 1938 (Public No. 442 - 75th Congress) and Executive Order No. 7848, issued under date of March 22, 1938.

Those present were -

Honorable Henry Morgenthau, Jr.,
Secretary of the Treasury

Honorable Henry A. Wallace
Secretary of Agriculture

LYNN P. TALLEY	President	§ NO SALARY
JOHN D. GOODLOE	Vice President	8,500 per annum
G. E. RATHELL	Treasurer	7,500 per annum
F. P. BIGGS	Assistant Treasurer	5,400 per annum
GUY C. CHASE	Assistant Treasurer	4,800 per annum
SAMUEL H. SABIN	Secretary	7,500 per annum
M. R. BUCK	Assistant Secretary	3,600 per annum
L. C. RACKLEY	Assistant Secretary	2,800 per annum

Article 13 of the By-laws was amended to reduce the number of Directors from twelve to ten, and the following persons were elected as Directors of the Corporation, to serve until their successors are duly elected and qualified:

J. W. Tapp, Assistant Administrator, Agricultural Adjustment Administration
R. M. Evans, Assistant to the Secretary of Agriculture
C. W. Kitchen, Assistant Chief, Bureau of Agricultural Economics, Department of Agriculture
W. I. Myers, Governor, Farm Credit Administration
J. E. Wells, Jr., Deputy Cooperative Bank Commissioner, Farm Credit Administration
Lynn P. Talley, Assistant to Directors, Reconstruction Finance Corporation
Clifford J. Durr, Assistant General Counsel, Reconstruction Finance Corporation
W. J. Johnson, Assistant Chief, Examining Division, Reconstruction Finance Corporation

Warren L. Pierson, President, Export-
Import Bank

John D. Goodloe, Vice President and
General Counsel, Commodity Credit Cor-
poration

(Signed) H. Morgenthau Jr.
ACTING CHAIRMAN

ATTEST:

(Signed) Jesse H Jones
ACTING SECRETARY

(Initialed) H A W

I hereby certify that the above
is a true and correct copy of
what it purports to be.

L. G. Packley
Assistant Secretary, Commodity Credit
Corporation

Honorable Jesse H. Jones, Chairman of the Board of Directors of the Reconstruction Finance Corporation

Mr. D. W. Bell, Acting Director of the Bureau of the Budget

The Secretary of the Treasury was advised that an Annual Report of the Board of Directors of the Corporation, furnishing a full and clear statement of the business and condition of the Corporation, had been prepared, in accordance with Article 44 of the By-laws, and a copy thereof furnished to him, the Secretary of Agriculture and the Chairman of the Board of Directors of the Reconstruction Finance Corporation, and that the purpose of the meeting was to elect Officers and Directors for the ensuing year.

The following persons were elected to the positions set opposite their names, and their salaries fixed in the amounts stated, to serve until their successors are duly elected and qualified:

RE WHEAT LOAN

July 7, 1938.
2:45 p.m.

Present: Mr. Taylor
Mr. Haas
Mr. Bell
Mr. Dasher
Mr. Myers
Mr. Jones
Mr. Goodloe
Mr. Wallace
Mr. Tapp
Mr. Gaston

H.M.Jr: Explain that marketing quota.

Haas: The marketing quota

H.M.Jr: I can't understand that.

Haas: If

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

Haas: Let's see, production and ...

H.M.Jr: I don't understand it.

Haas: Oh, for instance, the domestic crop of wheat, say, is 700 million and the carryover was 200 million, making nine; that's put in here as domestic supply. Now, the normal consumption, say, was 600 and exports 100, which gives 700. You're up the difference between 700 and 900. Well, if that difference is more than 35 percent of the 700, then you have to put the quota in effect. In other words, if your supply is greater than your outlet - you see, your outlet is two forms - export

H.M.Jr: That doesn't apply to this year.

Haas: No. Now, I understand that that would go into effect this year on the basis of the present crop.

H.M.Jr: - But they haven't put it into effect.

Haas: No, they're not putting it into effect.

H.M.Jr: Do you mind if I check on that? Bill, the marketing quota does not go into effect?

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Myers: That's my understanding.

H.M.Jr: Quota and crop insurance not in effect.

Myers: That's right.

H.M.Jr: Then I can go to school on that slower. I haven't got my slide rule.

Haas: The slide rule boys really figured it out. They've got everything in this last farm bill.

Bell: Oh, there isn't anything left out in that farm bill.

H.M.Jr: Well then, if I'm correct, Bill, what Wallace is going to propose is that he's going to do the minimum, which is 52 percent of parity; he couldn't do less under the law.

Myers: That's right.

H.M.Jr: Well now, before he comes - that's the purpose of asking you to come over here - do you think that's good or bad or what? Either 52 percent

Myers: What do you mean?

H.M.Jr: Exactly that. Should he do more?

Myers: Do you want me to express my opinion of the law?

H.M.Jr: No, I'm not arguing about the law.

Myers: I think the lower it is, the better.

H.M.Jr: Well, I mean then

Bell: From our standpoint.

H.M.Jr: Then you are in favor of the 52 percent.

Myers: Yes.

Bell: Better security the lower it is.

Myers: 52 percent is high enough.

H.M.Jr: But that's fixed in the law, isn't it?

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Myers: Yes.

H.M.Jr: That's what I want to try and see. I didn't know anything about this. I got to learn this marketing quota business and this insurance business.

Myers: I mean ...

Haas: It will only take a minute or two.

H.M.Jr: Well, Bill, there isn't much then to argue about. If Wallace comes over here

Myers: If he comes on over here and recommends a minimum loan for wheat, it's mandatory under the law. The formula is all established and the minimum is the best that can be done under the existing law.

H.M.Jr: You're going to sit in on this, aren't you, Dan?

Bell: Yes. I wonder if I could have one of my Budget men come around on this. Might save a hearing tomorrow.

H.M.Jr: Anybody you want.

Bell: Thanks.

H.M.Jr: Anybody you want.

Haas: I don't know if I have all that straight. I think I have, Bill.

Myers: The danger is going to be in the cotton loan.

H.M.Jr: What? Well, you see, I just wanted to post myself on this thing. Hell, I didn't know anything about this.

(Taylor comes in)

Myers: Hello, Wayne.

H.M.Jr: Hello.

Taylor: Can I be educated too?

H.M.Jr: Bill's got one.

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Myers: There you are.

H.M.Jr: And there's one.

Taylor: Fine.

H.M.Jr: I've decided that the market quota and crop insurance are not going into effect on this year's crop. I couldn't assimilate it, so I'm going to take it in another day.

Well, Bill, the economics of the thing - I mean just to put a floor under the wheat - I mean on the price; is that what's ~~behind~~ it?

Myers: The thing that's behind it is an attempt to make it easy for farmers to carry surpluses from big crop years in order to prevent increased pressure for marketing, and when it's applied only to the crop in a

(Jones comes in)

H.M.Jr: Myers is giving us a quick course before Henry Wallace gets here.

Myers: When it's applied only to an abnormally large crop at a low value, it has some merit, - it has some merit in helping carry the big crop over till some year when we might have less.

(Jones brings in Goodloe)

Jones: Do you know Mr. Goodloe?

Goodloe: How do you do, Mr. Secretary.

H.M.Jr: How do you do.

Myers: Hello, John.

Jones: You know these other boys.

H.M.Jr: Well, Bill, do you know, besides wheat, how many of these things they're going to do? I mean under the law, how many - as I understand from Haas, they have to do wheat.

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Myers: That's right.

H.M.Jr: What? They have

Myers: They have to do wheat, corn and cotton, don't they, John?

Goodloe: That depends on the crop report. The wheat crop report comes out July 11, and it will be of such size as to make a loan on wheat mandatory, beyond any question.

H.M.Jr: Would you know what size it could be and they wouldn't have to make a loan?

Goodloe: Well, under the law a loan is mandatory if the July crop estimate exceeds domestic consumption and exports, plus 15 percent.

Jones: Say it again louder, John.

Goodloe: If the July crop report is in excess of a year's domestic consumption, plus exports, plus 15 percent carryover, then a loan is mandatory; and it would have to drop from around a billion bushels to about 750 million to escape a loan.

H.M.Jr: That's domestic consumption.

Goodloe: Plus exports.

H.M.Jr: Domestic consumption is 600 million, is it?

Goodloe: 600 million, I think, is correct.

H.M.Jr: And what do they consider export?

Goodloe: Well, we had 200 million carryover, and the testimony of the Department of Agriculture, you recall, Mr. Bell, before the Appropriation Committee ...

Bell: No, I don't.

Goodloe: My recollection is, anything less than 750 million bushels will make a mandatory loan.

H.M.Jr: A total.

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Myers: Anything more.

Goodloe: More.

H.M.Jr: And then the minimum is 52 percent of parity.

Goodloe: Yes.

H.M.Jr: Well, doesn't parity change all the time?

Goodloe: Yes, sir.

H.M.Jr: When do they fix that, daily or weekly or monthly?

Goodloe: Well, I don't know about that. I understand present parity is \$1.15 on wheat.

H.M.Jr: \$1.14.

Goodloe: 14.

H.M.Jr: But I mean do you know how often they fix that?

Haas: It's in the law.

Myers: I think it is monthly, when they get their data on the prices of commodities that farmers buy.

Haas: But I'm not sure they fix it every month. It's stated in the law, but I don't know how many times a year. Tapp gave me figures to multiply by 129.

H.M.Jr: I'm glad I got a lot of people who know just as little as I do about it. I'm not, of course, including you, Jesse.

Jones: I know less about it than anybody.

Bell: George has got the monetary price of silver worked out - 129.

Haas: I checked that and it works out at the right figure.

Bell: Maybe that's the basis of it.

H.M.Jr: Maybe we can pay these farmers in silver.

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Jones: Why not?

H.M.Jr: Huh?

Jones: I think they'd like to have it.

H.M.Jr: Could we pay them in silver dollars?

Taylor: Oh yes.

H.M.Jr: What?

Taylor: Sure.

Myers: George, is \$1.14 the farm price, or Chicago?

Haas: Farm. Then there is another problem that they probably would ...

Myers: That's another angle to it.

H.M.Jr: It's what price?

Myers: \$1.14 is the farm price and when wheat is - let's say, September wheat is now in Chicago about 70 or 71 cents.

Gaston: And there's a difference of

Myers: And the price on the farm would be depending on where the farm was.

Haas: They've got two wrinkles after you get that 52.

H.M.Jr: September wheat is 72½ cents.

Haas: They're going to take basing points at different terminals - Kansas City, Chicago, and so on - and at these basing points work out grade differentials. And then the farmer - if he lives out a hundred miles they'll work a freight differential out to his place off of that basing point. Very involved.

Myers: And the elevator margin has to be figured.

Haas: That's right.

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Goodloe: That's all west of the river. East of the river it would be flat.

Jones: Well, they asked for 120 million, didn't they, John - estimate?

H.M.Jr: Well, yesterday he said 75.

Goodloe: Well, in his letters that he has prepared ...

Jones: In his letter to us he says 120 million dollars.

Myers: Any improvement in the market would mean less demand for the loan.

Goodloe: That 120 is his idea.

(Wallace comes in)

Wallace: Hello. Been in session here quite a while?

H.M.Jr: Been going to school. Trying to persuade me what parity is, but nobody knows, so you better start all over again.

(Tapp comes in)

Jones: How's the wine merchant today?

Wallace: The which? Oh, wine merchant. Oh yes. Well, I'm glad to take off my hat to him.

Jones: He's the wine merchant.

Wallace: He wanted us to distribute wine to the people on relief.

Jones: Want to make this thing as attractive as possible.

H.M.Jr: Bell says he's going to have a man in from the Budget, so that will save you a hearing before the Budget.

Tapp: That will be fine.

H.M.Jr: Seriously, Henry, could you take a couple minutes and just describe when this act goes into effect? I mean this question - the rules governing

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Wallace: Got the copy of the act there? Roughly, it's this. Two things put wheat loans into effect. I'll give the precise wording. The one is in case the price on June 15 on the farm is below 52 percent of parity; second is, if the size of the crop as announced by the Bureau of Agricultural Economics as of July 1 - and this year it comes on July 11; that's when the announcement is made - in case the size of the crop is above normal domestic requirements and exports.

H.M.Jr: And how much are those two?

Wallace: And those two put together, at the present time - last I heard - 754.

Tapp: 750.

Wallace: 750?

Tapp: Yes.

Wallace: So we got by the June 15 without it being below the 52 percent, as I understand it.

Now, the crop, judging from the private crop estimates, will run above the 750 by 200 million bushels or more, and there is no question but what it will run beyond the point designated in the act.

H.M.Jr: And the price, is that the price at the farm?

Wallace: On the farm, yes.

H.M.Jr: And how many basing points do you have?

Tapp: Oh, that covers all the wheat states.

H.M.Jr: I mean do you take the whole United States?

Tapp: That's right, and then weight it.

H.M.Jr: And then weight it. Is that the way it's done?

Bell: How do you determine the domestic requirements, Mr. Secretary?

Wallace: Well, that's rather easily - quite easily determined.

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Bell: Average over the years?

Wallace: It's the trend over the years. We know the milling requirements run roughly into 500 million. We know the feed requirements run around 75 million, such a matter - pretty stable. The demand of the human stomach for wheat flour and bread is pretty stable through the years.

Bell: The exports same way, I suppose - an average over a period of years?

Wallace: Well, in the exports you have to introduce much more uncertain factors.

Tapp: We're estimating exports on the same basis they were this past year. Best year we've had for some years.

Jones: How much the last year?

Tapp: Between 90 and a hundred million bushels for exports.

Jones: Goodloe, you said something of 15 percent.

Goodloe: I was mistaken. I understood there was a 15 percent allowance in addition to domestic consumption and exports.

Tapp: That's when you talk of marketing quotas.

Haas: Is that 15 or 35?

Tapp: No marketing quotas on wheat this year.

Wallace: That wouldn't be coming in in any event until next year.

Dasher: Have you deducted the premiums on wheat insurance? Made any allowance for that?

Tapp: Well, that of course, will not be either in consumption or exports. That will be in a separate fund which is reserved

Dasher: But it takes wheat off the market.

Tapp: But even if you deduct that, you're still 175 million bushels over.

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- Bell: Well, that would be part of the 200 million bushel excess, then.
- Tapp: Yes.
- Jones: Now that that's so clear, will you explain the monetary situation? Eccles isn't here, and we ought to have somebody to
- Wallace: Do you think I could keep going at sufficient length?
- H.M.Jr: Well, first thing you know, we're going to just - meeting be over in three minutes and Jesse won't have time to tell any dirty stories.
- Henry, legally, what - to whom do you write the letter? Do you write it to yourself, or how do you do that?
- Tapp: We write it to Commodity Credit Corporation.
- H.M.Jr: Well, who's the President of ...
- Tapp: That's - we address it to Mr. Goodloe.
- Jones: He's the Vice President. Lynn Talley is the President.
- Tapp: After they approve, we address another letter to the President to get his approval. That goes to the Budget Bureau.
- H.M.Jr: This is purely informal and informing.
- Wallace: Pursuant to your desires as stated at the last meeting.
- Jones: He writes a letter and recommends a loan on a certain basis, the President approves, and Commodity Credit Corporation then either approves or doesn't. That right?
- Wallace: That's right.
- Jones: And they usually do.

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H.M.Jr: And when the banks come into this, is there any - do we charge - I mean on this money the farmers pay no interest, do they?

Jones: Except when they settle the wheat.

Wallace: Oh yes, four percent.

H.M.Jr: Is that in the loan?

Goodloe: The loans are without recourse; they bear four percent.

Wallace: I don't think that's in the law. I think that's been our universal custom.

Jones: That's administrative. But we've always had four percent on commodity loans.

Bell: How much money do you figure is involved in this? Be 175 million at the top.

Tapp: Our best guess is only a guess, but frankly we probably won't get more than 150 million bushels of wheat, which, including carrying charges ...

Bell: 78, 79 million dollars?

Tapp: Oh no, figuring on a basis of terminals and sub-terminals, including all charges to next July, be a maximum of 110 to 115 million dollars.

Bell: What would that be on a bushel? Take 52 cents....

Wallace: Not 52 cents, 52 percent.

Bell: 52 percent of \$1.14 - about ...

Tapp: 59 cents.

Bell: 59 cents.

Tapp: Don't take this down - that makes a loan ...

H.M.Jr: This is only for me.

Tapp: ... about 70 cents - 71 cents on hard Number Two

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wheat in Kansas City, and about 6 cents higher than that in Chicago; be 8 cents over that - I mean over the Kansas City base, up in Minneapolis. Right now it's a couple cents above the market, but that's the minimum under the law that you can loan.

Bell: How much ...

H.M.Jr: Excuse me.

Bell: I just want to get the amount.

Tapp: Including all the charges, and in view of the fact that all these charges will be made at terminals and sub-terminals, including these differentials, I'd say the maximum would be around 110 million dollars; that is, with charges paid up next July.

Bell: Do you expect the banks to take practically all of that?

Tapp: Well, they would take, I assume, John, most of it except the farm storage wheat. We don't know how much we'll get under the farm storage plan to handle that direct, but we might get, Mr. Secretary, 20 percent of the loans in farm storage.

Jones: I think take most of them.

Wallace: In farm storage?

Jones: Why not?

Wallace: They're not equipped, not sufficiently equipped.

Jones: You mean the bank?

Wallace: No, the farmer - farm storage as distinguished from elevator storage.

Jones: I thought you were saying who would take ...

Goodloe: We're not going to let them have any of the farm storage wheat.

Jones: Why not?

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Goodloe: Those loans are made on a chattel mortgage basis. It's impractical to agree to buy chattel mortgages from a bank. You've got to examine those and O.K. them before you put your money into them. But on the other, which will be the bulk of the wheat loans, I should say the banks will take 60 percent of it.

Jones: You say it's impractical to. Why is it?

Gaston: No warehouse receipt.

Goodloe: No warehouse receipt. Your security for your farm storage loan is your chattel mortgage.

Bell: Banks are not looking for the mortgages anyhow, are they? Commodity Credit is the underwriting ...

Goodloe: That's true, but there is no way we can tell a bank in advance just what they have to do to get a satisfactory chattel mortgage. We want to look at the chattel mortgage before money is advanced on the loan, so we make those direct.

Bell: That might be as much as 40 or 50 million dollars cash.

Goodloe: (Nods yes)

H.W.Jr: Is that - would that - do I arrive at the figure, then, that they may draw on us, or rather, draw on Commodity Credit for 40 or 50 million?

Bell: Yes, if they get 40 percent of it - 40 million.

H.W.Jr: And they've got 150 million cash on hand?

Bell: That's about right, isn't it, John?

Goodloe: A little less. About 135.

H.W.Jr: That's much less than what we figured - cash outgo.

Tapp: Farm storage loans will not be made until 30 days after the wheat is stored; then inspect it, determine its condition so far as

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Wallace: Required, furthermore, that the moisture content be not in excess of 13 percent.

H.M.Jr: 13?

Wallace: 13.

H.M.Jr: Is that strict?

Wallace: That's strict, yes. We intend to make that phase of the operation very strict.

E.S.Jr: Yes.

Bell: I thought it was originally contemplated that all this wheat would be stored in licensed warehouses. Didn't we give you some more money to license warehouses?

Wallace: You did, but Congress didn't. That's where the rub came. We went at it very definitely from that point of view, but we couldn't cut it on the Hill, and when we found we couldn't do it we had to revise our plans accordingly. We have entered into an arrangement with the state warehouse people to help ...

Jones: Does the law require you to lend on the farm?

Wallace: Well, we're given an option on that.

Jones: That's optional.

Wallace: I'm not sure about that, though.

Jupp: Yes, it's optional, but the important thing ...

Wallace: There was in the debate, in the various efforts that have been going on, there's been a great deal of interest in the farm storage end of it, especially in the Northwest.

Gaston: Hazards are pretty great, aren't they, Mr. Secretary?

Wallace: Hazards are great in the weevil area, and the hazards are great in case the storages are of imperfect type. Of course, we intend to take care of that by regulation

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and to enforce regulations through the county committees, which would mean visiting the farm bins from time to time.

Myers: Loans on farm storage give the farmer a chance to earn the warehouse charge rather than to pay it out to an elevator.

Wallace: (Nods yes)

Tapp: That's another reason for giving some reasonable encouragement to farm storage.

Wallace: The elevator charges are - this is important to keep in mind in this wheat loan, that here for the first time we have elevator charges of the magnitude that can eat us up very rapidly, and we will want to have this devised so that that doesn't happen to us. That did happen to the Farm Board. And I think you've got a set-up here whereby our storage charges can be kept in hand fairly well.

Tapp: Cutting it down to a seven months basis, the maximum charge on the elevator storage - that's terminal, elevator storage - 6 plus 1 - 7 cents for the full period that they have it in there, until next July.

Myers: That's in, out, and the storage.

Tapp: The country elevator would be higher than that, but with the terminal elevator on the one end and the farm storage on the other end, we think we can bring some pressure on the storage charge business to get that down.

Wallace: Of course, if we were under the necessity of taking the wheat over, then we would have the question of whether to put it on the market.

Tapp: That's right.

Wallace: Or to continue to incur storage charges ourselves.

Hell: Who pays these storage charges?

Goodloe: First lien on the wheat.

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- Tapp: First lien on the wheat. Producer has to pay them off before he can get his wheat to sell.
- Bell: You'll owe the farmer for storage charges as the offset against his interest.
- Wallace: It's a non-recourse loan. In case the market is below, why, then we're stuck on it.
- Jones: But you don't pay him unless he delivers the wheat, though?
- Wallace: That's right.
- H.M.Jr: Is there any time limit when the Government could step in and sell that wheat?
- Tapp: Seven months on the elevator storage wheat and May 31, '39, on the farm storage wheat; and in any event, if the price gets above this \$1.14, step in and call all loans.
- H.M.Jr: Do what?
- Tapp: If the price gets above \$1.14, they can call the loans, require they be paid off.
- H.M.Jr: Above \$1.14.
- Haas: That's parity.
- Gaston: On the present September quotations, you'll have to rely on improvement in price to get your carrying charges, won't you?
- Tapp: (Nods yes) Of course, one important factor in there is the fact that you've got next year a mandatory wheat acreage allotment established by Congress of 55 million acres, as against 80 million acres this year. Very drastic adjustment in wheat acreage.
- H.M.Jr: 55. They do the same in cotton?
- Tapp: (Nods yes)
- H.M.Jr: How much is it in cotton?

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Tapp: Cotton will be about 26 million.

H.M.Jr: And corn?

Tapp: Corn - that's about - that wasn't mandatory, but it's down to about 94 million.

H.M.Jr: Well, I know enough to say "Yes" anyway, seeing I can't say "No."

Bell: Put it the other way.

H.M.Jr: What?

Bell: I put it the other way. I don't know enough to say "No."

Gaston: But you can't say "No."

H.M.Jr: I accept your amendment.

Tapp: I think - I assume, Mr. Secretary, this conversation is going on the assumption that we're talking about a minimum loan. Maybe we ought to disillusion him.

Wallace: It would be very well to bring that point up. The law reads that the loan shall be, in event of either of these two facts which I have mentioned earlier, anywhere between 52 percent of parity and 75 percent. We have had a great many telegrams from the wheat region urging that it be above the 52 percent level. We all feel that it should not be above the 52 percent level.

H.M.Jr: Well, you've decided that, haven't you?

Wallace: Well, nobody's decided that. I mean that's brought up to the high council.

Jones: Have you got the schedule there, Tapp?

Wallace: I'm indicating my feelings on the question.

H.M.Jr: As far as you know, it's going to be 52 percent.

Wallace: That's what I'm going to recommend.

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- H.M.Jr: Isn't that what the President accepted? He has to sign this, doesn't he?
- Wallace: Well, I would think he would accept it.
- H.M.Jr: I mean he's not asking to increase it above 52 percent.
- Wallace: The President has given no indication he wanted it increased above 52 percent.
- Bell: As I understand, that's the minimum he can accept under any conditions.
- Wallace: Can't go lower.
- Bell: It can't go lower than that.
- Dasher: It can go up to 75.
- Wallace: But if you wanted to particularly
- Tapp: These are the figures I mentioned a minute ago. These are preliminary estimates. We won't make our final estimates until we get the crop reports. But on the basis of preliminary estimates, Kansas City Number Two hard would be 71 cents; Number Two red, 69 cents; Omaha, 70 cents - that's Number Two hard winter; Chicago ...
- Jones: That's in the warehouse at Omaha.
- Tapp: That's right.
- Jones: And at Kansas City.
- Tapp: And any point out from there, freight charges and handling charges. Chicago, 70, hard winter, and 75 on red winter. St. Louis, 76 on hard winter and 74 red winter. Minneapolis, 81 on Number One dark northern spring; 79 on northern spring; 72 on Number Two amber.
- Wallace: Don't you think you're shedding your differentials too early on your spring wheat? I should think they would be subject to change in view ...

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- Tapp: These will be subject to adjustment after we get our crop report. These are early preliminary ideas to see what a 59 cent loan would mean.
- H.M.Jr: Do you fix the parity once a month? Your Bureau of Agricultural Economics do that?
- Wallace: Yes.
- H.M.Jr: Is that fixed - is that published once a month?
- Wallace: Yes, sir, published in that little blue publication - what they call it - "The Agricultural Situation."
- H.M.Jr: That's published. Incidentally, I don't get a copy of it. Will you get it for me, George?
- Wallace: Be sure that George is
- H.M.Jr: I'm sure George gets it, but I'd like to get it.
- Wallace: Well, you can see that it gets in here, can't you, George?
- Hees: I'll do that.
- Gaston: Mr. Tapp, how do those loan values compare with the present spot market at those points - Chicago, Kansas City, and so on?
- Tapp: About two or three cents, in Chicago and Kansas City, above, and not much above in the spring wheat area, because you've still got a high cash value in that area. In Kansas City and Chicago
- Jones: ... the loans are above.
- Tapp: But not in the spring wheat area yet, because you've got a high cash market right now. But those are about the minimum prices that will give you 52 percent of parity in the average farm.
- H.M.Jr: How's the export, more or less this year than last year?
- Tapp: That depends a lot on how the foreign crops go and what the policies of the foreign governments are.

-21-

Wallace: It looked a month ago as though we would export fully as much, but the crop turned very much for the better during the month of June in Italy, and now it doesn't look like it will be as good as last year.

Tapp: Might get some forward buying on the part of foreign interests, feeling that wheat is pretty attractive and that they'd invest some money in it.

H.M.Jr: There's no use - I don't want any more.

Jones: No, I have - if you can get the President to concur in your recommendation, I'll help you logroll with the Commodity Credit Corporation board; I'll try to get them to approve it. Haven't got any choice in the matter.

H.M.Jr: No, but I appreciate the courtesy of telling me.

Jones: It's interesting to know.

H.M.Jr: In order to save Bell, do you want anything to clear the Bureau - the only formal thing this is is the hearing before the Bureau of the Budget.

Tapp: We wanted to get some arrangement with Mr. Bell whereby we could get a telegram to the President next Tuesday and get a reply, so that after the Board meeting we'd be ready to move.

Wallace: On the 11th - that's Monday, isn't it?

Tapp: Yes.

Wallace: On the 11th our crop report comes out, and that starts the wheels in motion, and we want them to move as fast as possible.

Jones: And the Board is prepared to meet ...

Tapp: Tuesday at 2:30.

Goodloe: 2:30 Tuesday.

Bell: We can reach him very promptly any place up until the 16th; any time up until the 16th.

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Dasher: Has he talked to you about a loan on raisins?

Bell: No, we've been talking about a loan on wheat.

Dasher: We've got one here for 9 million dollars on raisins.

Wallace: This is not a mandatory loan.

Dasher: Not a mandatory loan, but a recommendation to the President that he authorize a 9 million dollar loan on raisins.

Jones: The Board approved that yesterday, didn't they?

Tapp: Yes.

Bell: Is that following last year?

Jones: We take that in our stride.

Goodloe: It's lower than last year. Last year it was 55 - 50 dollars now.

Dasher: 50 dollars a ton.

Wallace: Did you lose any money last year, after everything was cleared up?

Bell: That was included in the 94.

H.M.Jr: Well, all right.

Jones: All right, sir.



TREASURY DEPARTMENT

243

PROCUREMENT DIVISION

OFFICE OF THE DIRECTOR

WASHINGTON July 7, 1938

CONFIDENTIAL

Memorandum

Re: Meeting of Executive Representatives
of Anti-monopoly Committee

A confidential meeting of the main committee was held in Room 244, Senate Office building at 10:30 A.M. July 7 and adjourned about 5:00 P.M.

Present:

Senator J. C. O'Mahoney, Chairman	Cong. M. W. Summers
Senator W. H. King	Cong. B. C. Reecs
Senator W. E. Borah (Absent)	Cong. E. C. Eicher

Department or Agency:

Justice	Thurman W. Arnold and Harold Nathan
Commerce	R. C. Patterson and Thomas C. Blaisdell, Jr.
Labor	I. Lubin and A. Ford Hinrichs
Federal Trade Commission	G. S. Ferguson and E. L. Davis
Treasury	H. Oliphant and C. J. Peoples
SEC	W. O. Douglas and J. N. Frank

Executive Secretary - Leon Henderson

In General

Specific resolutions with respect to committees on subpoenas; a committee of three to issue, and a committee of five to hear appeals from subpoenas being established. Also that all statements or interviews to the press should be given out only by the Executive Secretary acting in conjunction with the Chairman or Vice-chairman.

Agenda

A memorandum from each Executive member was read setting forth the scope but not inclusive of the field and subjects of investigation and research. These agenda created considerable general discussion. There was considerable overlapping of subjects as between Justice and Federal Trade Commission. A resolution was finally passed to the effect that the Executive Secretary should correlate after further consultation with the Executive members with a view toward setting forth therein the scope of the investigation subject to such subjects as may be added thereto from time to time, and with a view toward preventing overlapping or duplication of effort.

These agenda to be ready for the next meeting of the main committee which will be held about the middle of next week subject to the call of the Chairman.

July 7, 1938

244

Staff for Executive Secretary

He requested permission to employ an administrative assistant at about \$4000 per annum; a bookkeeper at about \$2600, and a stenographer at about \$2000 for his offices to be established in the Federal Trade Commission, which was approved.

Spirit of cooperation

It was very evident all the way through the discussions of the spirit of cooperation on the part of all members, legislative and executive, and each member of the legislative branch is expected to take active interest in the sub-committee work to be done by the executive members so that such legislation as may be proposed later on upon the recommendation of the main committee will have in Congress certain members thoroughly acquainted therewith and as leader thereof.


Director of Procurement

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 8, 1938

TO Secretary Morgenthau
 FROM M. A. Harris

I have given two estimated premiums on a 3-year R. F. C. note at various rates. The first is a very conservative estimate and one that would be immediately placed upon the various notes if they were offered. The second estimate is the one that would be shown if the issue moved immediately to the basis that I believe is in line with the market and certainly should be expected after the issue has been out for a while.

3-year R. F. C. Note

	<u>Market Bases</u>	<u>Estimated Premiums</u>
1%	0.73% - 0.67%	25/32nds - 31/32nds
7/8%	0.73% - 0.67%	15/32nds - 19/32nds ✓
3/4%	0.73% - 0.67%	2/32nds - 8/32nds

1% 3-year R. F. C. Note at a Price

	<u>Offered Price</u>	<u>Yield at an offered price</u>	<u>Premium indicated above offered price to yield 0.73 & 0.67 respectively</u>
1% ●	100 1/4	0.92%	18/32nds - 23/32nds
1% ●	100 1/2	0.83%	10/32nds - 15/32nds ✓

FEDERAL EMERGENCY ADMINISTRATION
OF PUBLIC WORKS

WASHINGTON, D. C.

July 7, 1938

920
7-8-38

IN REPLY PLEASE REFER TO
Assist. Admin. HAG:oc

Mr. William H. McReynolds
Administrative Assistant to the Secretary
Treasury Department
Washington, D. C.

My dear Mr. McReynolds:

Since the Act was signed, we have made allotments and sent out Offers on 1893 projects, covering loans of \$26,181,000 and grants of \$218,784,477: total, \$244,965,477. The estimated total cost of construction which these allotments will bring about is \$486,863,751.

We have had no Offers declined officially, although there are newspaper rumors to the effect that some of them will be. We think these will be in negligible quantity because of the care taken prior to the allotments. Applications are coming in at the rate of over one hundred per day, and we will be shortly allotting at this rate.

Sincerely yours,



H. A. GRAY
Assistant Administrator

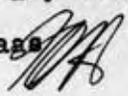
TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 7, 1938

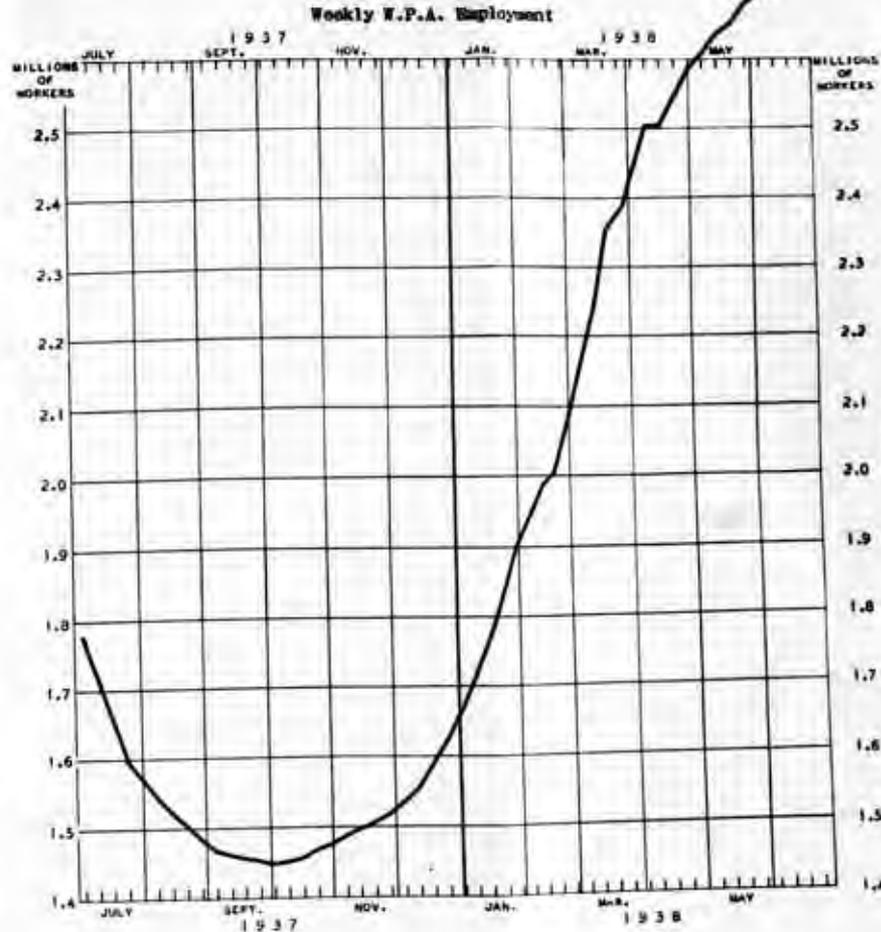
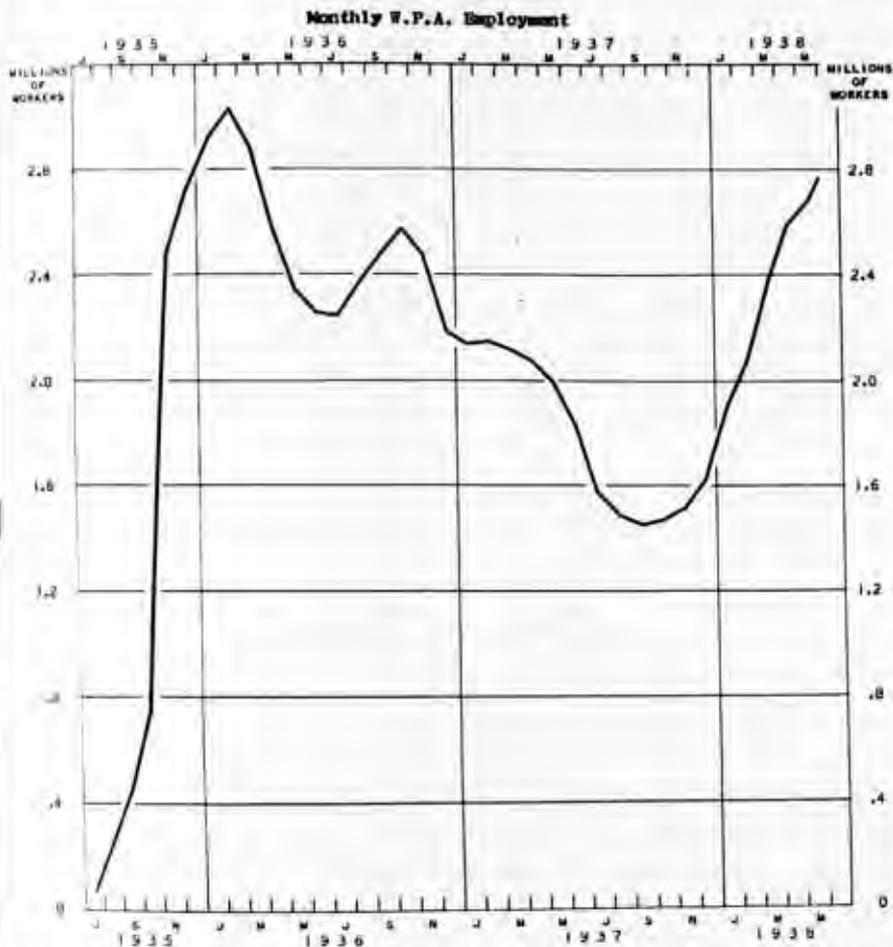
TO Secretary Morgenthau

FROM

Mr. Hagg 

Attached is the chart which you requested this morning, showing the number of workers receiving W.P.A. employment by weeks and by months. Two tables are also attached, furnishing the data upon which the chart has been made.

WORKS PROGRESS ADMINISTRATION Number of Workers Employed United States



SOURCE: WORKS PROGRESS ADMINISTRATION

WORKS PROGRESS ADMINISTRATION
 Number of Workers Employed - Monthly
 United States

249

	Number of Workers (In thousands)
1935	
July	70
August	253
September	456
October	777
November	2,446
December	2,740
1936	
January	2,926
February	3,036
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,076
March	2,395
April	2,583
May	2,680
June	2,767 ^{a/}

Source: Works Progress Administration

a/ Confidential

WORKS PROGRESS ADMINISTRATION
 Number of Workers Employed - Weekly
 United States

250

Week Ending	Number of Workers (In thousands)
1937	
November 6	1,488
November 13	1,500
November 20	1,510
November 27	1,520
December 4	1,538
December 11	1,558
December 18	1,588
December 25	1,629
1938	
January 1	1,667
January 8	1,712
January 15	1,768
January 22	1,832
January 29	1,901
February 5	1,945
February 12	1,985
February 19	2,009
February 26	2,076
March 5	2,167
March 12	2,244
March 19	2,357
March 26	2,395
April 2	2,444
April 9	2,504
April 16	2,532
April 23	2,545
April 30	2,583
May 7	2,608
May 14	2,638
May 21	2,652
May 28	2,680
June 4	2,695
June 11	2,711
June 18	2,736
June 25	2,767 <u>a/</u>
July 2	2,807 <u>a/</u>

Source: Works Progress Administration

a/ Confidential

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 7, 1938

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Wheat loans by the Commodity Credit Corporation

1. Contemplated wheat loan. The contemplated loan will be the first made by the Corporation on wheat. The Corporation has already made loans to growers on cotton, corn and wool, and to cooperative associations on dates, figs, raisins, prunes, tobacco, peanuts, butter, turpentine and rosin.
2. Who makes the loan. On wheat stored on the farm, the loans will be made direct to the growers by the Corporation through the local agency of the Reconstruction Finance Corporation. On wheat stored in elevators, the loans will be made by local banks, and will be guaranteed as to principal and interest by the Corporation, or by the Corporation itself. No other Government agency participates in the loan.
3. Basis of loan. The contemplated basis of the loan is 52 percent of "parity", equivalent to a loan value of 59 cents. Mr. Tapp stated that final decision on the loan value will be made after the crop report on Monday, July 11. The contemplated basis is the minimum established by the Agricultural Adjustment Act of 1938. The maximum basis established is 75 percent of "parity", equivalent to a loan value of 85 cents.
4. Parity. Parity as applied to prices of an agricultural commodity under the Agricultural Adjustment Act of 1938 is that price which will give to the commodity a purchasing power with respect to articles that farmers buy equivalent to the purchasing power of such commodity in the base period -- August 1909 to July 1914 for most agricultural commodities. As currently determined, parity for wheat is \$1.14, the product of the average farm price of wheat, 1910-14 (85.4 cents) and the index of average prices now paid by farmers, 1910-14 basis (129).
5. Differentials. It is contemplated that differential loan rates will be established, both by grades of wheat and by geographical location. Loan rates will be established at terminal points such as Kansas City and Chicago, and will be adjusted back to the farm from these points.

Secretary Morgenthau - 2

6. Liquidation of loans. Loans can be liquidated at any time by the farmer. Loans on wheat stored in elevators will be for a period of seven months. Loans on wheat stored on the farm will mature on May 31, 1939.

7. When farmer gets check. The farmer gets the proceeds of a loan on elevator stored wheat as quickly as the necessary papers can be handled. The Corporation may occasion some delay in making disbursements, however, because of the difficulty of obtaining forms and in distributing them to the banks. In the case of wheat stored on the farm, moreover, the crop must have been stored thirty days on the farm and have passed inspection by the county committee, established under the current and previous agricultural conservation programs, before becoming eligible for a loan.

8. Status of 1937 corn loan. The Corporation made loans on the 1937 corn crop amounting to \$7,198,299, of which \$7,029,223 is still outstanding. Commercial banks made corn loans, guaranteed by the Corporation as to principal and interest, of \$14,230,154, of which \$14,041,962 is still outstanding. Loans on the 1937 corn crop were made between December 1, 1937 and April 1, 1938, and mature 10 months from date of loan, but not later than November 1, 1938.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 7/7/38

TO Secretary Morgenthau
FROM Mr. Hass *[Signature]*
Subject: Government agricultural program with respect to wheat.

The Government wheat program consists of:

1. The conservation program, for acreage control and soil building.
2. The marketing quota plan for dealing with over-production.
3. Wheat loans.
4. Crop insurance.
5. Seed loans.

The conservation program

Under this program, a farmer is given an acreage allotment each year, and a normal yield per acre is determined for his farm. On condition that he has complied with certain requirements regarding the building up of his soil by planting soil building crops, he is paid at end of the season an amount determined by his normal wheat production on the allotted acreage, less any penalties for exceeding this acreage.

For example, if a farmer's normal yield is determined at 11 bushels per acre, and his allotment this year is 100 acres, he will receive a Government payment on 1,100 bushels at the rate of 12 cents per bushel, or \$132, regardless of the amount he actually raises on that acreage. If he plants more than the 100 acres, there will be deducted from the total payment a penalty equal to five times the 12-cent rate, or 60 cents, on each excess bushel calculated on the basis of his normal yield on the excess acreage. For example, if he planted 110 acres, and his normal yield is 11 bushels per acre, he will be penalized 60 cents a bushel on 110 bushels, or \$66.

Farmers will get payments on their 1938 crop some time this fall. In the case of share tenants, payments are divided between tenant and landlord in proportion to the division of the crop. Cash tenants are paid the full amount of the payment, as if they were owners.

Secretary Morgenthau - 2

The marketing quota plan

Provision is made for withholding wheat from the market under a marketing quota whenever, in advance of the beginning of a new season, it shall appear that the total domestic supply will exceed normal consumption and exports by more than 35 percent, provided a referendum among farmers subject to the quota shows at least two-thirds in favor of the plan. Farmers will be given loans on the wheat withheld from market, but farmers not cooperating in the soil conservation program will receive loans at only 60 percent of the rate allowed to cooperating farmers.

Wheat loans

Wheat loans to growers are mandatory whenever the farm price on June 15 is below 52 percent of the "parity price", or when the July crop estimate is in excess of a normal year's domestic consumption and exports. This subject is discussed in a separate memorandum.

Crop insurance

Beginning with the 1939 crop, an optional crop insurance plan is available under two policies, for insuring either 75 percent or 50 percent of a normal yield. The farmer will pay to the Federal Crop Insurance Corporation a premium in bushels of wheat, or its cash equivalent, depending on the plan selected. The premium varies in different sections. If, for any reason outside of his control, the farmer should receive less than the 50 percent or 75 percent of his normal yield, the Corporation will deliver to him enough wheat to make up the deficiency.

Seed loans

Emergency seed loans are sometimes made under special appropriations by Congress, to provide money, for example, in drought-stricken sections. Seed loans are also made to growers through the Farm Credit Administration.

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE July 7, 1938.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHJ. W. McKeonBANK OF FRANCE.

I called Cariguel at 10:10 this morning and asked him what was going on in Europe. He said the dollar was very strong and believed that the demand came from commercial sources. Up to yesterday the franc had been fairly steady and he had gained about £1,000,000 on balance. However, so far today he had given up over £800,000 due to the weakness in the franc. There was a persistent demand for gold in London today, Cariguel said, the pence quotation rising to 141 1 1/2, the highest in over a year. He asked about our capital movement of funds and I told him that during the week ending June 29 there had been an outflow of about \$15,000,000.

JWMcK:KW

RECEIVED

COMMERCIAL CREDIT

FEDERAL RESERVE BANK
OF NEW YORK

258

OFFICE CORRESPONDENCE

DATE July 7, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

J. W. McKeon

BANK OF ENGLAND.

I called Bolton at 11:10 this morning. There was a moderate demand for dollars in London this morning and Bolton said he supplied about \$3,000,000, only one-half of it to the London market, the other half to Australia on special order. Since then he had done practically nothing in the exchange market. Sterling was better after the opening due to covering for gold purchases. There was a very large demand for gold on the London market not only at fixing but after fixing. Bolton said that he knew of fairly substantial orders for dollars underlying the market; part of the demand, he thought, would be for forward delivery. He said recently the Air Ministry had placed orders for aeroplanes and that they required some \$6,000,000 or \$7,000,000 to pay for the equipment. I referred to the shipment of gold consigned to us by the Bank of England for the account of Morges Bank and he said that most countries were happy to get part of their gold out of Europe, although the political atmosphere was very much improved. Referring to the rapid rise in the stock market, Bolton agreed that London was not buying stocks but is patiently waiting for stocks to go higher so they can unload. I told him that there had been reported to us two shipments of gold totaling \$11,000,000 from Japan to the United States.

JWMcK:KW

REB

GRAY

London

Dated July 7, 1938

Rec'd 2 p. m.

Secretary of State,
Washington.

608, July 7, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The general tendency of the dollar to be strong in terms of sterling has been augmented by predictions that it would go below dollars 4.90 and also that it might be stabilized at dollars 4.86. This has been responsible for the size of the gold dealings today, the amount at fixing being 278 bars although the premium was only 3 pence.

The other movement that is noteworthy has been from short and dated government securities into long and undated due to the city's increased confidence that a Czech German crisis is not in the offing.

JOHNSON

WWC

EDA

GRAY

PARIS

Dated July 7, 1938

Received 4 p.m.

Secretary of State

Washington

1033, July 7, 6 p.m.

FROM COCHRAN.

Today has been unfavorable to Paris on both exchange and stock markets. Franc weakened from 177.75 to .85 with control appearing to yield considerable sterling. Thus pound strengthened against franc in spite of demand for dollars from holders of sterling. Belga strong against dollar and higher gold price in London. Part of franc weakness came from today's Bank of France statement which showed increase of almost three billion francs in circulation. While this is not extreme for end of month and half year, it struck a sensitive market. Gossip in regard to Anglo-American trade and currency revaluation agreements also partly responsible for slump.

BULLITT

KLP

REB

TELEGRAM SENT

GRAY

July 7, 1938.

7 p. m.

AMEMBASSY

LONDON (ENGLAND)

330

The Secretary of the Treasury will be in Paris on July 24 and expresses the belief that it would be useful for Butterworth to be in Paris that day to participate in discussions. This is agreeable to the Department if satisfactory to you.

HULL
(HF)

EA:HF:LWW

Eu

PA/D

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 8, 1938, noon.

NO.: 1086

FROM COCHRAN.

At half-past ten this morning I visited at the Bank of France. The French control had by that time lost 175,000 pounds; there was increasing pressure on the franc.

No particular reason could be given by my friend for the turn in the market of yesterday and this morning, except that there is increasing pessimism regarding both the French and international situation. The control lost 1 1/2 million pounds yesterday. This amount more than wiped out the gain which was realized on the two days before then.

My market contact told me at twelve noon that the rate opened nominally at 177.82 this morning, but until the control began giving sterling at 177.95, there was no business. The rate had moved to 178.45 in a short time, but at noon was back to 178.25. My friend said he thought part of the weakness was the result of gossip in financial circles based upon the understanding that there was a deficit of 990,000,000 francs in subscriptions to the national defense bonds in the month of June.

In

- 2 -

In the circumstances, one is led to suspect that the Treasury situation is not good, and that unless there is a turn in the trend of the short term Government security market, it will be necessary for the Government to try a public loan or more likely resort to borrowing from the Bank of France earlier than it was thought would be necessary a few weeks ago.

BULLITT.

RECEIVED
JUL 5 1938
TREASURY DEPARTMENT
Office of the Secretary
WASHINGTON, D. C.

EA: LWW

JR

GRAY

London

Dated July 8, 1938

Rec'd 1 p.m.

Secretary of State,
Washington.

617, July 8, 5 p.m.

FOR TREASURY FROM BUTTERWORTH.

The franc was heavily sold today and the French authorities let it slip to 178-5/16th. At the same time the demand for gold increased, 248 bars were sold at fixing the premium being the same as yesterday and sizeable dealings were done after fixing. There is a real scarcity of gold coin; sovereigns sold as high as 33 shillings 11 $\frac{1}{2}$ pence and gold dollars 7 shillings. Partly due to the franc movement and partly due to switchings the dollar weakened.

JOHNSON

RR:HPD

RE AFFAIRS OF E. E. BERNEY

July 8, 1938.
7:10 a.m.

Present: Mrs Klotz
Mr. McReynolds
Mr. Berney
Mr. Graves

H.W.Jr: Berney, would you tell me in your own way just what there is to your business of owing the banks and why you didn't keep up your payments and now you happened to get into debt?

Berney: Well, getting into debt would go back several years prior to the closing of the bank, due to the purchase of several pieces of real estate through the officers of the bank as then constituted. Those officers, as I stated in the communication to you,

H.W.Jr: which I have not seen.

Berney: I'm sorry, sir. ...died - one; one committed suicide and the other is serving four years in the penitentiary. Through the manipulation of those two men I found myself, at the time that that bank was not reopened and the other banks were opened, in a position that I lost both of the houses and found that my affairs at the bank were in - well, I would say very irregular shape. The receiver told me that I and several hundred others had been used by the officers as dummy accounts to pad their own manipulation. In other words, in my own particular case, if I paid \$150 interest, they would charge me \$150, give me a blank receipt for \$150, and pocket \$300; and that went on for a period of years.

When the whole blow-up came, I was confronted with a suit by the receiver of some five thousand dollars. I had previously raised at the request of the Vice President who committed suicide some thousand dollars by borrowing money through endorsements of friends of mine at other banks, turned it over to them for a saving of these properties - that money. And I immediately went to the receiver and told him my story and we finally came to an offer in compromise on the outstanding loans, he admitting, of course, to me that nobody could tell how much I owed the bank.

My only reason for not going to trial in the case at

the time and following the advice of the then Comptroller of Currency that I do go to trial and defend the case, was that the law as my attorney interpreted it in the District of Columbia was that they had never definitely decided here whether testimony of a man could be taken against a dead man; that is, oral evidence be accepted against a dead man. And with that in my mind, my attorney said, "You're taking a gamble." "Well," I said, "I don't care to have this thing spread around in the department or elsewhere and I'll get out of it the best I can and carry as big a load as I can."

That's up - in a general way, up to about the time of the compromise. I had other obligations that I mentioned. I had borrowed money to save these houses from time to time. But the week before the Vice President of this bank committed suicide I had gone in to see him because things had been coming to my attention - one thing, the fact that one of these purchasers of overdue tax bills had written to me and told me that he had bought a tax receipt on one of these properties, the house that I was living in then, and I went in there and wanted to know what it was all about, because the first trust notes had been sold to some new people, which meant to me that the interest and the taxes had been paid currently. And he said, "Oh, come in here next week. We just went on a five percent basis, and I'll straighten your accounts out. They're all mixed up."

Well, next week he was a dead man.

Well, after this compromise was signed and I went on the \$40-a-month basis with the receiver ...

H.M.Jr: How much did they compromise for?

Berney: Two thousand dollars.

H.M.Jr: You owed them two thousand dollars.

Berney: I compromised for two thousand. The new thing was beginning to break out; there was a second trust on one of these houses that I was sued on, after lying dormant for some three years, that I had no defense to offer on - amounted to about seven hundred dollars. That came up.

-3-

There were other obligations that I had borrowed on other friends' endorsements, and in handling the affair it seemed to me that where I had other people involved other than myself, it was infinitely better that I take the odium of non-payment on myself rather than letting my friends down when they were involved, and where I had fallen down I fell down for myself rather than on my friends. They had been good enough to endorse - carry me over. I was dropping money, really, in a rathole without knowing it. And I had plenty of company, because everybody up there on the Hill - that neighborhood bank

H.M.Jr: Excuse me just a minute.

(On phone) Tell Harold Graves to be in his Treasury office, if he's in town. I want to see him in a few minutes. To be in his office, the one next to McReynolds - his own office. I want to see him.

Berney: In settling off these affairs over a period of several years and a term of 50 - over a term of, let's see - of 16 payments behind out of - 16 payments behind, I believe, out of about

H.M.Jr: Well, it doesn't

Berney: The point was that I was 16 payments behind until I again saw the receiver and the Comptroller this week and adjusted the entire matter with them so that by this adjustment there could be no future fall-down, having taken care of future payments by giving them post-dated checks, so that in the future they will be all taken care of.

H.M.Jr: You were 16 payments behind on the #40?

Berney: Yes, sir. I was \$560 behind. In other words, I had paid \$900-odd and I should have paid around \$1400 at this date.

H.M.Jr: Well now, Berney, did you tell either McReynolds or Graves about this financial trouble you're in?

Berney: Never told Mr. McReynolds or Mr. Graves a thing about

-4-

anything since the offer in compromise. Never.

H.M.Jr: Did you tell them you were behind?

Berney: Never.

H.M.Jr: Did it ever occur to you that you were letting me down?

Berney: No, sir.

H.M.Jr: You know what I went through for you.

Berney: Well, I certainly do. I would be blind not to know it, sir.

H.M.Jr: And you realize that when the Comptroller of Currency comes around three times to see a man who is working out of the office of the Secretary of the Treasury, who doesn't make his payments and is in financial difficulty, it reflects on my office and on me personally.

Berney: Well, you see, sir, the reason that I didn't take it up either with Mr. Graves or Mr. McReynolds was because the receiver wrote to my lawyer in March and merely threatened to go back into court again; he didn't say anything about taking anything up with ...

H.M.Jr: Yes, but when you are in a trusted position, and you of all people, your creditors know, are working out of the office of the Secretary of the Treasury - aren't you?

Berney: Yes, sir.

H.M.Jr: Why didn't you go to McReynolds and Graves and say, "Now look, I'm not meeting these payments and, as a man, I ought to tell you, so that nothing - there won't be any reflection on Mr. Morgenthau, who stood by me when I was - the drive was on the Hill to kick me out."

Berney: Well, I - during the ...

H.M.Jr: And there's nobody in the whole Treasury - nobody that I've gone through personally what I went through for you.

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- Berney: Well, I agree with you absolutely.
- H.M.Jr: No, sir, nobody. I tied up - what was it, how many men's salary for three months in order to get you - so that they couldn't kick you out unfairly. There were hundreds of men didn't get any pay. How many men were there in Alcohol Tax?
- Berney: About 860.
- H.M.Jr: Didn't get any pay, so that you could keep your status in the Treasury. And if you were a man, when you were in this thing, so ~~that~~ McReynolds and Graves, who trust you, and I trust you - and you've let us all down.
- Berney: Well, Mr. Secretary, may I say just this. I've always been very close to Jefty O'Connor on this. I knew Jefty O'Connor. I told him the whole story. I told him when I was behind. The day I left on this trip, the receiver's superior officers came around and I - asked if I was the Berney that was in this jam, and they said, "Nothing will be done until you come back, and we'll hold it all up." And the day after I left, the thing broke.
- H.M.Jr: Which makes it all the worse.
- Berney: I hadn't the slightest idea
- H.M.Jr: You were asking Jefty O'Connor to do something because you thought that would be all right. But you didn't go to McReynolds. If McReynolds here was in a financial jam, knowing the position he's in in relationship to me, the first thing he'd do is come say, "Mr. Morgenthau, you ought to know my position, because you're going on the basis ..." - as I've said before, I wouldn't insult the people that work for me by asking them whether they're gambling in the stock market or whether they're buying on margin, because they know how I feel.
- But if McReynolds - which is impossible to think of - would do - was in any trouble or was back on his payments and owed a bank and was doing the things which he's doing, and knowing that everybody wants to shoot at me, and if they can't reach me they shoot people that are close to me, the first thing

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he'd do as a man is come and tell me.

Now, you didn't tell anybody in the Treasury and you thought on account of your friendship with Jefty O'Connor you could stall the thing over.

Berney: It wasn't a question of stalling it over. It was a question of just a financial impossibility of stretching the number of dollars I had over the area I had to cover.

H.M.Jr: Yes, but here's the Comptroller comes in and with a smirk on his face says, "What about this fellow Berney who's out for Morgenthau in the field?" and takes great pleasure in cunnning me two or three times for your financial difficulties. Now, if there is any one person in the United States Treasury that shouldn't let Henry Morgenthau, Jr., down, it's you.

Berney: Well, I wouldn't wittingly let you down.

H.M.Jr: Well, you have.

Berney: Well, I'm extremely sorry, sir.

H.M.Jr: And the amazing thing is, I don't think you see it now.

Berney: Well, I see it the way you picture it. Of course I do. I certainly do, the way you ...

H.M.Jr: And I hold McReynolds and Graves responsible, and I'm very much put out with them.

(On phone) Tell Graves to come in here.

Berney: Well, I don't see why they should be responsible if I don't tell them. They can't know if I don't tell them.

H.M.Jr: Well, they should - I mean they should know.

Berney: Well, they couldn't know what my financial condition was if I didn't tell them, sir.

H.M.Jr: (On phone) Hello. - All right. Well, as soon as he comes, let me know.

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I mean for a man who is out reorganizing these offices, who is on the hot spot for me every time, and if anybody calls up - and there isn't a month that passes that somebody doesn't bring up something about this group that's out in the field. Why, if anybody criticized McReynolds or Graves, I'd - without even asking, I'd go down the line. And here you personally representing the Secretary's office in the field, reorganizing these things - you go into Secret Service and all the rest of them - and I've got to sit here and have the Comptroller of the Currency come in and say, "Well, what about Mr. Berney?"

Now, if you'd have come to me or come to Graves and said, "Here's the situation. I'm in a tough spot. I want you to know. You tell me what to do. But I want you to know about it, so that you know what my position is, and you advise me, Mr. McReynolds, or Mr. Graves, what should I do." But you didn't do that.

- Berney: Well, I never had the slightest idea it would ever come into the Department as a departmental matter. I always assumed that the Comptroller would do what he said he was going to do.
- H.M.Jr: Listen, anybody that works out of the office of the Secretary of the Treasury has to be a hundred percent sound and so that he can go and be investigated any time, so that he's got to be in shape.
- Berney: As I say, I assumed that the receiver would go right ahead with his suit and I'd have to defend it, much as I disliked to do it. But if I had the slightest idea that it was going to come into the Department, I would certainly have gone all the way down the line on it.
- H.M.Jr: And I say again, you of all people - there's nobody in the Treasury that I went through what I went through for you. I thought you were being persecuted and I held up the salary and 800 men weren't paid on account of you.
- Berney: Well, I'm glad you

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H.M.Jr: You felt the same, didn't you?

Berney: I feel that I was.

H.M.Jr: Well, I'm going to talk it over. I've never - I've never - I won't say never - I'm terribly disappointed in you.

Berney: Well, I wish you didn't feel that way about it. I wish you could see something of my side of it.

H.M.Jr: Oh, I see your side. I'm sympathetic for a man that got himself into financial difficulty. I think it's terribly hard.

Berney: The worst of it is, I didn't get myself into it. A couple of other guys that had taken the worst punishment in the world got me into it without me doing it.

H.M.Jr: But there is something missing up here when you didn't go to Graves and McReynolds and tell them the trouble you were in. You know the rules, you know we investigate everybody all the time.

Berney: Surely if I ...

H.M.Jr: And you are out doing it yourself.

Berney: ... in the slightest manner

H.M.Jr: Of course, it's a departmental matter. I mean nobody can be out

Berney: Usually the rule, as I understood it, in the Treasury, was that if a man was sued and judgment obtained against him, then it became a departmental matter. But since it was a matter still in ...

H.M.Jr: (On phone) Hello. - O.K., tell him to come in.

well, I'm going to talk it over with McReynolds and Graves. But seldom have I been as disappointed ...

Berney: Well, the harshest punishment you could ever mete out to me would be to say that you're disappointed.

H.M.Jr: I am.

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Berney: Well, that's the harshest punishment you could ever mete out to me.

H.M.Jr: Well, I'm going to talk it over with McReynolds and Graves. That's all.

Berney: Thank you. (Leaves)

Klotz: There is something to his side of the story.

H.M.Jr: There is something.

(Graves comes in)

Klotz: I think maybe I would have done the same thing.

H.M.Jr: No, you couldn't have.

Klotz: Mr. Morgenthau, I might.

H.M.Jr: Now look here, if you were in financial difficulty and owed a bank - sit down, Harold - owed a bank, a national bank which I have to examine, and a receiver which I am responsible - have to appoint, and you owe this man, you wouldn't make any deals with the Comptroller of the Currency and not tell me or somebody else.

Klotz: I don't think he wanted - he just wanted his payments spread over a longer period. After all, the thing in the first place - he didn't do anything wrong.

H.M.Jr: All true, but the man - I know, but here's the man 16 payments behind, and he doesn't go to Graves and Mac and tell them that he's in this trouble.

Klotz: It might have been pride. After all, he doesn't want his own superiors to know what his financial situation is.

H.M.Jr: But he's firing people - he's firing people every single day because ... - isn't he?

Graves: No, he ...

McR: He has nothing to do with anything except space. He was taken off everything

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- Graves: He's had nothing to do with any personnel, Mr. Morgenthau, for a long, long time.
- Klotz: Do you mind my
- H.M.Jr: I asked you to sit here.
- Klotz: Well, I can see where a man can get into that jam, especially knowing Jefty O'Connor, where he said, "Well, that's all right, I'll see that it's extended," and then in the meantime they turned around and spilled the whole thing. I mean I don't think it was with any willful intent. I think he did what every other human being would have done, tried to get the thing extended for a long time.
- Mac: I think Berney, when that thing came up, borrowed money every place he could, to try to cover up, keep from losing his property. He did lose his property in spite of that, but he still owed everybody that he borrowed from; and I know personally that Berney's been taking care of those obligations as fast as he possibly can.
- Klotz: I think that's very admirable.
- Mac: He hasn't been squandering any money. Of course, Berney came to me before the settlement was made and said, "I've got the alternative of going into bankruptcy."
- H.M.Jr: When was this, Mac?
- Mac: Oh, right after the banking crash. He said, "I have the alternative of going into bankruptcy, because of the mix-up in that Park Savings bank."
- H.M.Jr: Oh, he told you that.
- Mac: He told me about that at that time. "...or of making an agreement with the receiver, making a compromise with the receiver and assuming the obligation and paying it off on an agreed basis."
- I said, "Berney, if I were in your place I would assume the obligation and pay it off, make a compromise agreement with the receiver and assume your

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obligation. It's unfortunate you got into difficulty, but I'd take it through the nose if I were you." And he decided to do it, and I knew he made the agreement. I never knew specifically what the agreement was. But I knew they did come to an agreement to clear it up. But that's the last I ever heard. He never told me that he was unable to keep the agreement current.

H.M.Jr: Well now, you're (Graves) entirely familiar with the case, aren't you?

Graves: Yes, sir.

H.M.Jr: All right. Piece of paper and a pencil. (Hands paper to Klotz, Mac, and Graves) Now, I want to ask you - I'm going to ask you three questions.

Klotz: Sure.

H.M.Jr: One. Should he continue in the same work which he is doing now? Two. Should he be taken off that job and given some work here in Washington which has nothing to do with reorganization - I mean something different, see? I mean Internal Revenue - is he in Internal Revenue?

Graves: Yes, sir.

H.M.Jr: Three. Should some other action be taken which you people might suggest - I mean other than those two things. I mean you recommend something else.

(Written answers are handed to Secretary)

H.M.Jr: What was my first question?

Graves: Should he be continued on the same work?

H.M.Jr: Should he be continued on the same work?

I can't read shorthand, Mac.

Mac: Well, that's "One."

H.M.Jr: Yes. He says yes.

Klotz: Yes.

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H.M.Jr: Well, there's no use.

Klotz: This is the first time I've heard the thing.

H.M.Jr: I hadn't heard it. That's why I made the statement.

McR: Did we frame you up?

H.M.Jr: (On phone) See - I don't know where Berney is; he may be in McReynolds' office.

Graves: The work that he's doing, Mr. Morgenthau, is of course definitely for me in connection with this reorganization thing. We're using him to get space for our new field

McR: Just a space man and nothing else.

Graves: Doing a swell job.

H.M.Jr: (To Kieley) Berney, please. The others will have to wait a minute.

Klotz: I mean this whole thing, to me - it wasn't his fault he lost heavily.

McR: We haven't got anybody that knows the job as well as

H.M.Jr: That isn't my point.

McR: And he's working directly for Graves. He has no contacts with personnel, he has no contacts with organization. The only thing he's got to do is to find space and find the way that it can be made available.

H.M.Jr: Mac, Berney is a marked man. Berney was persecuted. I held up 800 people's pay for Berney. I did more for that fellow than any other person. And let's be frank about it - I mean I felt that the fellow was being persecuted because he was a Jew. Now, I didn't ...

Kieley: I can't seem to find him. He was in Mr. McReynolds' office.

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H.M.Jr: Well, I want to talk to him right after this meeting. Have him come back.

And that fellow ought - knowing that he was going to put this office in this place, he ought to come in and tell me.

Graves: I think he had no idea that this was ever going to be a matter of embarrassment to you.

Klotz: That's it.

Graves: I'm sure if he had known that, he would have moved heaven and earth to prevent that.

H.M.Jr: I'm going to see him at 10 o'clock. After all, I did remake Callahan in Chicago, and he did make good. He's now one of the two best men Wilson has. I'm going to talk with this fellow on ethics, and I'm going to tell him that he is responsible to you (Graves) now; if anything happens again, I'm going to hold you responsible.

Graves: That's all right.

McR: I don't think there is any - there are just two alternatives.

Klotz: You know me. You know I'm always frank.

McR: He's on the job and he's on or he ought to go out of the Department. One or the other. I think it would just mess it up to make it

Kieley: Berney is here.

H.M.Jr: All right.

Kieley: Have him come in?

H.M.Jr: Yes.

Klotz: The fact that he paid his friends showed that the intentions - I mean really I would have done just that; I think my standards are pretty high.

H.M.Jr: You would no more have done it ...

(Berney comes in)

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Klotz: Well, I never got into the jam.

H.M.Jr: Now, Berney, I've talked this thing over with these people, and frankly, their judgment of you is a little bit different than mine. Now, I still feel the way I have, see, but they feel that this thing that you have done was in no way letting me down, see? I disagree with them; I can't help it. But the one thing - it's awful easy to break a fellow; it's much easier to help him build himself up, see? Now, knowing the way I feel, I want you to be extra careful. Of all the people in the Treasury, you should be careful.

Berney: Well, if you think I let you down, I'm going to make you change your mind.

H.M.Jr: You want to make me change my mind. That's what I want you to do.

(They shake hands)

That's what I want you to do.

Berney: Thank you, sir.

H.M.Jr: I'm going to watch you and here's your "daddy" (Graves). You make me change my mind and you come back and see me in a couple months, see? But my mind is open and it's flexible. And you make me change my mind.

Berney: I'll try.

H.M.Jr: O.K.

(Berney leaves)

Klotz: I'll be eating paper here.

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

McR: I like Berney's attitude.

H.M.Jr: His attitude, yes, is good. That's all right. But this thing - this thing - we got to keep this thing just as clean as a whistle.

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Graves: Of course, as to his attitude - he probably convinced you all right, but he's one of the most loyal men to you.

H.M.Jr: He should be, but

Graves: He is.

H.M.Jr: I don't, for instance - I wouldn't send for a fellow and say, "Look what I did for you." When somebody thanks me for a raise, I'm the most embarrassed person in the world. It isn't my money. I mean it isn't my business. But I can't help it, and nobody can help me change my mind, that this fellow should have come to me and said to me or to somebody, "Mr. Morgenthau, this thing - if this is going to be embarrassing to you, I want you to know it first."

Now, I realize that every human being is different. Mrs. Klotz has been with me for 16 years; she knows me as well as anybody could know me, and my policy: if you're in any trouble, come and tell papa first, then if you're in trouble I'll help you get out. But I don't want this so-and-so Biggs coming around here and smirking over the fact that a fellow that works out of my office - and don't you think that he doesn't spread it. Now, I can take it, and that's why I'm willing to let Berney go on, because the record of the Treasury is so good that I can take it, see? And I've got such confidence in the three of you that on your recommendation - I wouldn't dream of overruling the three of you. I don't ask people to come in and advise me, then overrule them. But when I come back in September, you (Graves) bring him in and I'll have another talk with him, see?

Graves: Yes. Goodbye.

H.M.Jr: And if, as a parting shot, you find during the day that I was too hard and didn't leave the effect that he was going to go out and work harder than ever - if I was too tough, you let me know before one o'clock.

Graves: Well, I'm sure that his attitude is going to be entirely all right.

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H.M.Jr: Well, if I was too tough, let me know.

You might as well sit in at the 9:30 as long as you're here. You might as well waste your time.

McR: Bring a chair over here.

H.M.Jr: But if I was too tough, let me know.

McR: No, I think the effect was good. I think the effect was good. Berney has - it was good for him. I'm glad it had to happen. It was good for him.

H.M.Jr: That's all right, I was terribly upset.

GROUP MEETING

July 8, 1938.
9:30 a.m.

Present: Mr. Magill
Mr. Taylor
Mrs Klotz
Mr. Oliphant
Mr. Hanes
Mr. Upham
Mr. Haas
Mr. Bell
Mr. Gibbons
Mr. White
Mr. McReynolds
Mr. Graves

H.M.Jr: Sorry I'm late, but we had a little personnel trouble which we straightened out with the help of these three people.

Ros?

Magill: (Nods nothing) I've been trying to get the work on tax legislation, 1939, going, and it seems to be going. Seems to be a lot of work to do. I don't think there is any special report.

H.M.Jr: Everybody's worried they're not going to have enough to do when I'm gone.

Magill: There will be a couple things.

H.M.Jr: O.K. Herman?

Oliphant: One of my boys graduated last night - Hester.

H.M.Jr: So I see in the papers. So I see. What's that, twelve thousand? I'm glad for his sake.

Oliphant: What?

H.M.Jr: I didn't know anything about it, did you?

Oliphant: No.

H.M.Jr: What?

Oliphant: It had been rumored in the papers. I'd like to talk to you about it.

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Gaston: I don't know of anything. We're planning to put out a release on this building competition probably about Sunday.

H.M.Jr: Anything else?

Gaston: I don't know of anything else.

H.M.Jr: Wayne?

Taylor: (Nods nothing)

H.M.Jr: George?

Haas: I have nothing. Here's a new figure that goes in that book for steel.

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

Haas: Up, yes. I'll show you where it goes.
That's the week-end of June 30. Doesn't take in ...

H.M.Jr: That's good, isn't it?

Haas: Uh-huh.

H.M.Jr: That's steel - 33 percent.

Haas: Yes. And it's for the week ending June 30.

H.M.Jr: Yes.

Haas: That's all I have.

H.M.Jr: Cy?

Upham: Nothing, Mr. Secretary.

H.M.Jr: You and Diggs and Taylor coming in?

Upham: Yes, 10:30.

H.M.Jr: O.K. Can I let Diggs know that I have a copy of that Roberts letter without disclosing the source, which I don't know?

Upham: (Nods yes)

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H.M.Jr: Can I?

Upham: Yes. I don't see any reason why you shouldn't.

H.M.Jr: All right. Harry?

White: The Trade Agreements Section just called up. The British Treasury is asking them to ask the Treasury very much the same question that they asked you (Taylor) directly, only they put the percentage in a little broader terms. You want to give them the same answer, you want to reconsider it, or what? I'll take it up with ...

H.M.Jr: Well, did we answer it formally before?

White: I think it was an informal answer, wasn't it?

H.M.Jr: Well, you and Wayne go into a huddle. I'm available up to one o'clock.

Taylor: What we told them before, as you will recall it, was that the question of trade agreements and any interpretation of clauses in the trade agreements was a matter for the State Department; therefore, we couldn't answer that question. And we told them informally the question of the governing principles of the tripartite agreement - no competitive depreciation and so on - and that, rather than trying to express that at this stage, why, I thought we'd like to stay where we were.

H.M.Jr: I think that's still good, don't you, Harry?

White: Yes, I do.

H.M.Jr: Archie?

Lochhead: (Nods yes)

White: Particularly since the members of the Trade Agreements Section were of the same opinion as some of us, that all they were trying to do was smoke out the Treasury rather than get any reassurance on the trade agreement.

H.M.Jr: Put the old smoke screen on.

White: Would you like to have the answer to your question on

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the amount of investments lost in China or Mexico orally or on paper? Give it to you either way - oral or in a memo.

H.M.Jr: Memo. What's the total?

White: In both countries it's between 300 and 400 million dollars. Between 250 and 300 million in China. There's been much less physical destruction of property than one would assume, because a good deal of their stuff is in Shanghai and they have resumed operations. And even the values of a great many Chinese securities have dropped much less than seems justified or one would think warranted. So they've got a total of investments of about a billion to a billion and a quarter in China, and I think pretty careful estimates would put their losses at a maximum of 300 million up to date. But the losses will continue even though further destruction does not go on.

H.M.Jr: Anything else?

White: No. One other small point. You notice a couple of days running the French have been selling rather heavily. I don't know the explanation.

H.M.Jr: Well now, wait a minute. (Takes out a chart)

White: Just two days running.

H.M.Jr: I think we got to wait until this thing shakes down and see what it means. I think so.

White: There is one comment that was made about the respective merits of various investors, and by somebody who was quite familiar with various markets, and they said the Dutch investors are by far the shrewdest international investors; the London market comes next; the Swiss market next, the Paris market fourth, and the New York market ...

H.M.Jr: Sixth.

White: ... - they're better than the French.

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

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White: That was just the evaluation of some international ...

H.M.Jr: All right, what else, Harry? I hope I didn't disturb your wife the other morning about seven.

White: No, she was in bed.

H.M.Jr: Thought she was up.

I'm still waiting on you fellows to say what kind of a flying boat you want to buy.

Gibbons: We were up in New York yesterday and tested the speed. I want to talk to you about that and some other contracts over there Monday or Tuesday if you have a chance.

H.M.Jr: All right. Will he be ready?

Gibbons: Yes. I've got Mr. Manning of Mr. Oliphant's office going through on it, and I sent Tommy Thompson over to the Navy to get their

H.M.Jr: Mac's got it.

Gibbons: Huh?

H.M.Jr: Mac's got the secret report on the Sikorsky from the Navy. Let Gibbons read it.

Gibbons: I know about that.

H.M.Jr: What more do you want? It's only two weeks old.

Gibbons: But the Coast Guard has got themselves into this ridiculous position: the way they draw up their specifications, not only for this airplane but an engine for some of these small boats - and the successful bidder says, "\$4500 - you can take it or like it." The lowest bidder is \$3200, and they say the lowest bidder - their engine won't meet the specifications.

H.M.Jr: When you're ready, let me know. But have you seen that report of the Navy on Sikorsky?

Gibbons: Waesche told me about it. But I'll have the whole picture for you.

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McR: Was Waesche had a copy of it? I didn't give it to Waesche.

Gibbons: He talked to

McR: He talked to the Navy people.

Gibbons: Yes.

McR: I didn't give him the copy. I'll let you see the one I have.

Gibbons: Yes, but they're not

H.M.Jr: This is ^a very recent test they have just made within the last couple weeks.

Gibbons: I know they made a test. They've got a round nose, and they flew into a wave, and it buckled a four-foot wave. In other words, the thing didn't destroy the plane, but it dented it, you know. However, they're in the ridiculous position of having Hall Aluminum say, "You can take this plane at \$28,000 more than Sikorsky." Seven people asked - here's the ridiculous feature - with all the airplane manufacturers in this country, they sent out seven invitations. Five of the companies returned the invitations, said, "No, thank you." They brought themselves down to two companies. Now it's just - and the Navy could do it; of course, they have a much broader policy. I don't know whether it might not be well to do our - it might resolve itself into that: get the bids and

H.M.Jr: O.K.

Hanes: Nothing.

H.M.Jr: Archie?

Lochhead: The stock market is opening a little bit easier this morning. The government bonds are steady, not much change, although just before I came in I disposed of two million more.

H.M.Jr: Lucky for you.

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Lochhead: No, sir, I got two thirty-seconds more, and \$625 is still \$625.

H.M.Jr: Archie turned down a bid yesterday for two million dollars. I was just wondering - how much more did you get?

Lochhead: We got about six hundred-odd dollars.

H.M.Jr: Well, that pays for our lunch.

Lochhead: It's small money, but we can use it, can't we, Dan?

Bell: Yes indeed.

H.M.Jr: Incidentally, if you could give me a net figure of what our net earnings for the Stabilization Fund are from January 1 to June 30

Lochhead: Yes, that's the last figure. Mr. Bell has them all made up for the whole - every six months' period since it started.

H.M.Jr: Have you got it?

Lochhead: I have it here. I wanted to talk it over.

H.M.Jr: Want to stay behind a minute?

Bell: Yes.

H.M.Jr: Dan?

Bell: You recall the unpleasant conferences we had on the Railroad Retirement fund.

H.M.Jr: Very.

Bell: At the time their bill went through last year I think we put in the budget about 115 million for appropriation, which was about equal to the estimated revenue. In your revised revenue estimates it has been reduced to 85 million, as Mr. Haas and his crowd

H.M.Jr: Yes.

Bell: What I'm coming to is that the estimated benefit payments for 1939 will be about 102 million, which

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will exceed the revenue by about 14 million, and I don't believe that that's the peak of the benefit payments. I think that whole question should be studied before the next Congress, and if the annual revenue is not going to exceed the annual benefit payments then the rate of tax should be raised.

H.M.Jr: Well now, who would do that?

Bell: As I remember, you handled it, Ros, in the Treasury.

Magill: Well, I handled negotiations. Of course, you remember that that's what we told Latimer all the time, and we had to screw him up in order to get to this thing where we now are, with the greatest difficulty.

H.M.Jr: Well, will you and Hanes make a summer study on that?

Magill: Well, there is a provision in the law for a readjustment of those rates every three years. Now, I would suppose that the thing to do would be to - why doesn't the actuary do a little more figuring on the thing?

H.M.Jr: Yes. But will you and Hanes carry the ball on that thing?

Magill: Surely.

H.M.Jr: What?

Magill: Surely.

H.M.Jr: Somebody might give Hanes the history - at least what I think of Latimer.

McR: Wouldn't take ...

Magill: That won't take long, will it?

H.M.Jr: No. But you might as well give it to him. All right, Dan.

Bell: May I see you some time today on the outline of the budget summation?

H.M.Jr: How about 11:45?

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- Bell: Be all right.
- H.M.Jr: What else?
- Bell: That's all.
- H.M.Jr: Harold?
- Graves: Nothing.
- H.M.Jr: What are you going to do - I mean just as long as you're here, tell us about how this thing is going to move now on New York and Chicago. What are the plans?
- Graves: We set up in New York the division of the staff on August 1 and the Chicago division on September 1.
- H.M.Jr: Yes.
- Graves: The New York division will take jurisdiction of all income and estate and gift tax cases for the State of New York, and the Chicago division for the states of Wisconsin, Illinois, and Indiana. The New York division will handle about a quarter of the total tax business of the country, and the Chicago division, as I recall it, about 12 percent. The three divisions that we will have set up - that is, the Pacific division, the Chicago division, and the New York division, will account for about half the total tax business of the country. The New York and Chicago divisions are not taking jurisdiction for the moment of anything except cases docketed before the Board of Tax Appeals. They take jurisdiction of all cases January 1. So that there is an interim period in there.
- H.M.Jr: And have you fellows got the Board of Tax Appeals to agree to open up a branch office in New York?
- Graves: We have not had any conference with them so far as I know. But Mr. Magill and I have had it in mind that as soon as he was back from his vacation we would take that up, and we talked together yesterday about it.
- H.M.Jr: Did they keep the same Chairman?

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Magill: (Nods yes)

Graves: We intend to have a program to submit to the Board of Tax Appeals perhaps this week, paralleling our field organization.

H.M.Jr: Are you still pinch-hitting for Elmer Irey?

McR: Yes, he is.

H.M.Jr: Would you for me look into this case that was brought here by Mrs. Klotz's friend Robert Montgomery, of Los Angeles?

Gaston: Wasn't it Robert Taylor?

H.M.Jr: Robert Taylor? No.

Gaston: No, it was Montgomery.

Klotz: Is my face red!

H.M.Jr: But I want you to look into that.

Graves: I'll get it from Mr. Mac.

H.M.Jr: And follow through on that, because it has some very unusual angles. And if Mr. Hanes doesn't know about this thing that you're doing, when you get a chance I think he ought to know about this coordinated Treasury enforcement agency.

And see, Irey's the chairman of that and during his illness Graves pinch-hits for him, because that's what he did do for me for two years before he got on this Internal Revenue thing. But he's watching that while Irey is ill.

But if you would look into that.

Graves: Be glad to.

McR: Incidentally, Irey - they've got Irey sitting up and walking around for about three or four hours a day now. He's taken care of. I think in sight of three more weeks he'll be back.

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- H.M.Jr: Anything else, Harold?
- Graves: Nothing more.
- H.M.Jr: Is there much excitement in the field from people whom Mr. Helvering is letting off in the various offices?
- Graves: Well, we've completed that program. There was, as you know, considerable objection.
- H.M.Jr: How many people did you separate?
- Graves: In all, about 800.
- H.M.Jr: It was remarkable how few complaints there were. There were about two or three cases that seemed to be very unfair, but outside of that
- McR: There is a problem that I expect to bring to you after you get back in September - principle involved - you've got among those people who were dropped, I suppose, maybe 50 people who have had service up to 18, 20 years - non-Civil Service people. They're old and relatively incompetent. They have no retirement privileges. But they have had faithful service, some of them outstanding service, during that period. And I am preparing, or having prepared, a proposal that will undertake to give those people - put them back, with that maximum service, and get legislation that will permit their retirement at the minimum retirement age. And incidentally, at the same time, for the whole group - I think that is argument enough to get complete backing from your entire Revenue service for throwing the whole group into classified service, which would have taken care of it - had they been in the classified service.
- H.M.Jr: Well, Mac, must we let those people suffer all summer?
- McR: No, there's - you'll have a memorandum from the Commissioner next Monday.
- H.M.Jr: Couldn't we do that before I go?
- McR: Well, I think the question of whether those people - the people in that class are actually going out, we

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ought to determine before you leave.

H.M.Jr: Please.

McR: And we'll have that - one case was disposed of up there.

H.M.Jr: Well, Mac, before I go.

McR: It was decided he shouldn't be on the list at all, so he didn't go. But the one that came to you from Hoey's office - I'm having - I'm using that as the basis, and it's the perfect case as a basis for this proposal I'm making.

H.M.Jr: Before it comes to me, let Magill and Hanes take a look at it. Let's you and Harold and Hanes and Magill and the Commissioner and I sit down and settle it. But let them have it first, will you please?

McR: O.K., we'll do it next week.

H.M.Jr: Will you please do it before I go?

McR: Yes.

H.M.Jr: Anything else?

McR: There is Gray's report of their position on those non-Federal PWA projects.

H.M.Jr: This is: "Since the Act was signed..." - this is from Gray, over

McR: He has charge of it.

H.M.Jr: "...we have made allotments and sent out offers on 1893 projects, covering loans of 26 million dollars and grants of 218 million, total 245 million. The estimated total cost of construction which these allotments will bring about is 486 million. We have had no offers declined officially, although there are newspaper rumors to the effect that some of them will be. We think these will be in negligible quantity because of the care taken prior to the allotments. Applications are coming in at the rate of over one hundred per day, and we

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will be shortly allotting at this rate."

I think that's pretty good. How about my Public Health?

Bell: I've got it. I've got a carbon of the letter someone submitted to the Public Works Administration. Then I have

H.M.Jr: Did it go through your office?

Bell: No, it did not.

H.M.Jr: Peoples went directly to Public Works instead of going to Dan? What's he do that for?

McR: Well, it was his understanding of the way they were handling the Public Works proposition; they've always done that before.

H.M.Jr: It makes Dan sore as well, then he turns them down.

Bell: Might turn them down, but I'm not sore.

H.M.Jr: What?

Bell: I may turn it down, but I'm not sore.

H.M.Jr: Well, I'd rather have you sore and not turn it down.

(Hearty laughter)

Bell: Well, as I view it, without having considered it very much, Public Health Service has had five million dollars from the Public Building fund, and I assume that they picked the projects that had priority for that Public Building fund. Now, we've got some large ones in here, such as Stapleton, New York, two million eight, and some more at - in Bethesda; and we want to move this building over here next to the hospital, or at least they want to build a building and vacate that building over there. I don't see why they can't occupy that building over there for a good many years to come. And they've made a very good case for the building in Bethesda, in my opinion.

H.M.Jr: Well, may the Secretary of the Treasury have a hearing

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before the Director of the Budget at a quarter of 12?

- Bell: Yes, he certainly may. What I'm trying to do with this five million dollars is relieve the next three budgets, and most of the projects of the Public Health would not relieve the next three budgets.
- McR: If Dan had those projects in for Public Health next year, he'd turn them down anyway, so why give them to him now?
- H.M.Jr: Well, will you tell Peoples that anything of that nature in the future for Public Works should go first through the Director of the Budget.
- McR: Yes, of course. He should have known that anyway.
- H.M.Jr: Will you please?
- McR: Yes, I've already told them.
- Bell: Funds, by the way, are getting pretty low.
- H.M.Jr: Gee, you're tough: give ten million dollars ...
- Bell: 13 million dollars left.
- H.M.Jr: Give ten million dollars to Coast Guard.
- Bell: Well, I certainly didn't - I thought that that was pretty liberal for the Treasury.
- H.M.Jr: Public Health hasn't got anything.
- Bell: Well, Public Health can go to Public Building fund and Coast Guard can't.
- H.M.Jr: It's awful.
- Bell: If I had my choice, Mr. Secretary, I'd rather give Coast Guard some money for icebreakers.
- H.M.Jr: Well, haven't you your choice?
- Bell: Well, I don't want to overrule
- H.M.Jr: What? Is it finished? I wondered why you (Gibbons) didn't ask for a couple more icebreakers, because

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those wooden icebreakers they built for Long Island and Shallow Harbor

- McR: Well, they had icebreakers in the original submission, didn't they, Danny?
- Bell: I don't think
- McR: They had lots of ships you kicked out.
- Bell: Yes, they had ships.
- Gibbons: There were some icebreakers in there.
- McR: They loaded you with so many ships that you got scared and kicked them all out.
- Gibbons: The plans on that Fort Hunt site - they wanted that money to buy a site outside, and the Budget kicked that out. That was the only thing they could do.
- H.M.Jr: Incidentally, I never saw the Coast Guard list.
- Gibbons: For projects?
- H.M.Jr: Never saw it.
- Gibbons: Well, it was taken up with Mac.
- McR: They had to have it in about 15 minutes.
- Gibbons: I think probably the reason is it was signed by somebody else as Acting Secretary while you were away over the week-end. That's the only reason.
- H.M.Jr: I'd certainly put in for icebreakers.
- Gibbons: I'll look that up as soon as I get back.
- Bell: I don't think they have to worry about icebreakers, because I find a letter a year or so ago promising them one in each budget for the next three years.
- H.M.Jr: Well, will you bring in that Public Health thing when you come in.

July 8, 1938.
11:06 A. M.

H.M.Jr: How are you?
Gordon

Rentschler: I'm all right - loafing now, with nothing to do, but I saw you were going off and I thought I'd call you up and tell you goodbye, and good luck to you.

H.M.Jr: Well that's very nice of you.

R: Ah - can our boys do anything for you, either in London or Paris?

H.M.Jr: I don't think so. Ah, I ah - I'm merely going on a vacation.

R: Yeah. Well, that's ah - that's exactly what they'd help you do.

H.M.Jr: And ah -

R: If there is, I - I'll drop a line over to them and tell them you're coming. You're going to be both in London and Paris, or only

H.M.Jr: I don't think I'm going to London.

R: You will not go?

H.M.Jr: I - I don't think so.

R: But in Paris, if you're there, why, anything you want done, why, of course, I know the Embassy will do it for you, but if you want to get away from them, why, the boys will take darned good care of you if you want them to.

H.M.Jr: Well, that's awfully nice, but I - I - I, ah.

R: Well, there may be something that you or the family might want to do, and I'll tell General LeChambre that you're going to come over, because you'd enjoy seeing him anyway

H.M.Jr: Fine.

R: if you're on the loose at all.

- 2 -

H.M.Jr: O. K.

R: Yeah. How - how is everything going?

H.M.Jr: I think it's going - I think it's going pretty well.

R: Ah - I don't know whether these fellows that moved in with Jesse with their railroad stuff or not, but there's a big bunch of it in the works now.

H.M.Jr: Well.

R: And I think they'll be calling on him regularly to see if he'll buy the paper.

H.M.Jr: Well, he had - he told me he had somebody in there yesterday. He said he couldn't remember whether it was American Locomotive, or somebody.

R: Yeah. Well Amer' - we've got American Locomotive, and American Foreign Foundry and General Electric.

H.M.Jr: But he hasn't done any business yet.

R: Yes. Well now they're going to bring in the individual propositions, and once they break the jam and get something started, I think there might be a good deal of it.

H.M.Jr: But, he keeps, ah, playing around with it and - ah - he said he's ready to do business, but they haven't broken the ice yet.

R: Yeah. Well I - I hope we can get that broken along - maybe even before you get away.

H.M.Jr: Fine.

R: Because that's where you get some of the money spent promptly, and I think we'll have to follow this up pretty vigorously if we're going to get anything out of it we want.

H.M.Jr: Well. Take care of yourself.

R: Yeah, I'll do that; and in the meantime you take good care of yourself, fellow.

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H.M.Jr: Thank you.

R: If there's anything we can do back over here, you let us know.

H.M.Jr: Ah - ah - I enjoyed having Roberts down here.

R: He's a pretty good boy, Henry.

H.M.Jr: Did he tell you about his meeting?

R: Yes. I talked to him on the telephone yesterday, and he told me about the meeting, and he was pretty well satisfied with it. ~~-----~~

H.M.Jr: Good.

R: But he's a pretty thorough fellow.

H.M.Jr: Yeah. He's all right.

R: Ah, do you want us to continue these memos to you in your absence?

H.M.Jr: No.

R: All right. Then we'll pick them up when you come back.

H.M.Jr: We dropped you a line.

R: Yeah.

H.M.Jr: Thanks.

R: Weren't so very far wrong on this Commodity turn.

H.M.Jr: No.

R: It worked out very well.

H.M.Jr: That's right.

R: It was rather interesting to see commodities go up three weeks before the stock market.

H.M.Jr: That's right.

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R: But, ah, that was ah - that turn was definite.
Well, good luck to you, Henry.

H.M.Jr: Thank you.

R: And tell Mrs. Morgenthau goodbye for me too, and
we hope you all have a very happy time.

H.M.Jr: Thank you so much.

R: Goodbye. Good luck.

July 8, 1938.
11:15 A. M.

Present: Colonel Harrington
Mr. Bell
Mr. McReynolds

H.M.Jr: I just wanted a little chat, as to how things were going and how your projects are holding out; whether you see any encouragement in unemployment falling off, or whether some sections are getting worse.

Harrington: Taking the last thing first, Mr. Secretary, we have not any indications within our own organization that things are on the up-swing, although, as you know much better than I, there are certain indications that they are, but it has not gotten to us yet, just as the depression did not get to us until some period after the big lay off occurred, until people had exhausted their resources, and they did not come to us. Now we've got - I just came back from a week's vacation last night, so I haven't got absolutely

H.M.Jr: I don't want that.

Harrington: We have about two million eight hundred fifty employment right now, and that is about as far as we can go.

H.M.Jr: Why? Money?

Harrington: Within the limit of the appropriation.

H.M.Jr: Two million eight fifty.

Harrington: Yes. I mean, we can go up to two million nine, possibly.

Bell: But that is the average.

H.M.Jr: But you have reached your peak now?

Harrington: About reached it for the average, and as you know, under the terms of the Act, in order to use all these appropriated funds by the end of January, the President has to declare an emergency, and I presume that would take the form of a communication to Congress, wouldn't it?

Bell: I don't believe so; maybe a proclamation or something like that.

W.M.Jr: Dan had one thing he wanted to bring up, and that was this question of Federal projects in competition with State projects.

Bell: I talked a little to the Colonel out there and we have had several cases where they claimed they couldn't get W. P. A. labor to start those projects. Particularly is that true in the Navy - some few cases in the Army. The State Administrators of W. P. A. claim that they do not have the labor to give to the Federal department to carry on the Federal projects. Now we come down to the question as to whether or not a State Administrator should be instructed to give priority to Federal projects. I realize, as you said out there, that there is a question of public relations. They have gone to these sponsors and entered into certain agreements and put up a certain amount of money to carry on these state projects, with the understanding that W. P. A. would furnish labor.

W.M.Jr: This is not something I'm pushing. I just want information.

Harrington: I have this spotty - not much information.

Bell: I do too, but it comes into the picture this way: We have allocated W. P. A. funds on a minimum basis, with the understanding that we would get W. P. A. labor for a certain amount of it.

Harrington: Let's take a case in our front yard. There are two aspects to this thing, and that is the Naval Academy.

Bell: That's right.

Warrington: We have only about forty people at work in the whole county. It's just fortunate that that's the situation. There isn't unemployment. The only way that we could put labor into Annapolis would be to transport it from Baltimore, which is a perfectly physical possibility, but not particularly desirable because your transportation costs run up too high, and you can't ask the people to pay a daily round trip out of security wage, and there just isn't any labor available locally to use on the Naval Academy in connection with the W. P. A. grant. That is one way which it turns out.

The other is - I can't put my finger on the instance at the moment - but as Mr. Bell says, our Administrators have made contracts or arrangements or understandings with a city that they will do a certain job of, say a street paving job, and we will furnish a certain amount of labor, and in order to put labor on in an adjacent Navy Yard or Army Base, for example, we will have to say to the sponsors, "We can't do this." No reason why it shouldn't be done except it does not help public relations. They have no contract with us.

I would like to have a chance to go back and take a look at this thing and see what it looks like, and to what degree we can remedy it. I have to confess, Mr. Secretary, that I've taken a week's vacation and I just got back last night.

W.M.Jr: Fortunately, this is not one of these times where they hold a pistol on your head and say, "Answer that," but I am leaving and Dan raised this, and I was curious, and I was hoping that all the money of would go to work quickly and when I asked why this was, one of the excuses given

Bell: It also involves this: If Williams is not going to furnish labor where we have allocated funds, we are going to have to reserve some of that to allocate to these people.

McReynolds: Supplementing allocations already made.

W.M.Jr: Harry Hopkins can get in touch with you.

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- Bell: Yes. He does call attention to one case in Norfolk.
- Harrington: In Norfolk we haven't got much of a load; that's the trouble there. I am pretty sure, as far as the Norfolk Navy Yard is concerned, that is the trouble.
- Bell: I was a little bit surprised the other day - you may recall about three months ago we had a case come up in Norfolk where the Navy objected they could not get any labor to carry on their naval construction in Norfolk, and they went to Williams' Administrator down there, and he wouldn't give up any labor because he wanted to keep his projects going, but I got a request for money the other day in which they said that W. P. A. labor is available, so I don't know which one to believe. That came as a report from the Secretary of the Navy.
- W.N.Jr: I have nothing else, unless there is something you want to volunteer.
- Harrington: I'd just like to ask you if you have seen our neighbor's airport yet.
- W.N.Jr: Yes. It's very good, and he told me that he had twenty-seven planes - emergency and family and one thing and another. That was last month, and I was a little pleased that when I fly over the one you are doing at West Point you can see they haven't made much progress since last fall.
- Harrington: Guess I'd better go over that.
- W.N.Jr: It's very good. The only thing I know - Harry was with me; I brought him back from Boston, and we landed there and I sent him on down to Newark. I introduced him to the foreman there - and there's that one thing, and that's the trees of the one end. They are having difficulty - they are all locust - all dead. If they could buy about one hundred yards of those trees it would make it much safer.
- Harrington: I'll see what progress we can make.
- W.N.Jr: Other than that I think it's swell; it's a swell airport.
- Harrington: I haven't actually seen it, except early in the game.

July 8, 1938.

Dear Mr. Keller:

It was most kind of you to write me as you did under date of July 6th. I am much interested in your letter and the preliminary figures you quoted, as well as in your comment on the situation today.

With cordial regards,

Sincerely,

(Signed) H. Morgenthau, Jr.

Mr. K. T. Keller,
President, Chrysler Corporation,
341 Massachusetts Avenue,
Detroit, Michigan.

GHF/dbs

CHRYSLER CORPORATION

Detroit, Michigan

R. T. NELLER
PRESIDENT

July 6, 1938.

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

Dear Secretary Morgenthau:

A lot has happened since I last saw you in Washington, notably the confidence the stock market has shown in recovery expectations. I still feel as I did when I was down there that we are going to have better business this fall.

While our overall reports of sales do not indicate much improvement, I do hear from dealers here and there who have had the unusual experience of doing more business in a week than they did in the previous month. This is particularly true out where they are harvesting the wheat.

The preliminary figures on retail sales have been running as follows:

Week ending 6/4/38 - 10,551; week ending 6/11/38 - 11,164;
week ending 6/18/38 - 10,995; week ending 6/25/38 - 10,713;
week ending 7/2/38 - 11,543.

These figures represent from 45 to 46% of last year in the different weeks; last year being quite unusual for retail demand hung on late into the summer, and better than in many previous years.

Our plants are still all in production, which confirms what I told you, that we were not contemplating shutting down, and our inventories in the hands of dealers are cleaning up better than we forecasted several months ago.

Knowing, as you do, that this is a seasonal business and that new models do have a very stimulating effect on retail deliveries and demand for cars, I can hardly see how our retail sales before the introduction of the new models can reflect the condition of the country. Our entire organization now thoroughly believes we are going to get off to a very good start in the

-2-

fall months and that employment will consequently be increased in our plants.

Yours very truly,

K. T. Keller
K. T. KELLER

KTK.LS

July 8, 1938

Secretary Hergenthan

Herman Oliphant

For your information -

The Monopoly Committee met yesterday and adjourned until Fall. Peoples and I attended. Much of the time was spent in discussing procedural details of no general interest. The scope and allocation of the work was discussed, and, in substance, these were left to the representatives of the executive departments to determine. Each department submitted a preliminary and general statement of what it might contribute. These will be the subject of detailed discussion and decision by the executive representatives next Tuesday. Copy of the Treasury's tentative outline is attached.

Senator Logan had insisted on the insertion of the following in the resolution creating the committee:

It shall investigate the subject of governmental adjustment of the purchasing power of the dollar so as to attain the 1926 commodity price levels.

The consensus of the committee was to do nothing about this.

(Signed) Herman Oliphant

Enc. 1

CC: Mr. Easton
Mr. O'Connell
Admiral Peoples

HDS:vm
7/8/38

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(Copy of HQ's agenda taken to meeting in O'Mahoney's office at 10:30 9/7'36)

THE TREASURY

The data and personnel available in the Treasury indicate the following areas in which it might make the most substantial contribution to the study of monopolies and competition:

A. Government purchases in relation to the general problem:

1. The bids and other monopolistic practices encountered in government purchasing;
2. Government specifications in relation to patents and other phases of monopoly control;
3. The cumulation and timing of government purchases in relation to fixed and excessive prices;
4. Cost studies in cases of excessive prices on government purchases as one method of control of such prices.

B. The supplementation of the general prohibitions of our anti-trust laws by adding thereto specific prohibitions, the twofold aim being to increase the effectiveness of our anti-trust laws and to meet much of present complaint that the business community does not know what it may and may not lawfully do. This study would explore the extent to which it would be possible or useful to go in enacting detailed prohibitions of specific forms of monopolistic organizations and specific types of undesirable competitive practices. It would involve a reexamination of all English and American legislation and decisions, supplemented by a comparative study of like problems and procedures in other nations of the Western world. The aim

would be a series of specific provisions which would, among other things, codify or reverse the rules applied in the mass of judicial decisions under the Sherman, Federal Trade Commission and the Clayton Acts, as well as the rules applied by the Federal Trade Commission in cases that have not been passed on by the courts.

C. A reexamination of the procedural aspects of our anti-trust laws. This would involve an historical, comparative and analytical study of the effectiveness and fairness of our entire procedure in anti-trust (and comparable) litigation. It would include the exploration of possible additional and more effective sanctions. Thus, the procedural aspects of gearing our anti-trust laws into any plan for Federal incorporation might be examined in this connection. The merits of the claim commonly made that we need a procedure for passing on the legality of particular organizations and competitive practices in advance of their use by the business community should be fully examined and possible procedures for meeting any such need found to exist should be explored.

HO -law
Typed 7-7-33

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 8, 1938.

TO Secretary Morgenthau
FROM Mr. White

Subject: Recent British losses in Mexico and China

Summary

We estimate the losses recently sustained by the British investors in China and in Mexico to be between \$300 and \$400 million.

British losses in China

1. British investments in China, excluding Hong Kong, were estimated several years ago to have been \$1,000 to \$1,250 million. (American investments in China were estimated to be \$100 million.)

2. We estimate that the total British losses in China to date has been between \$200 and \$250 million.

(a) The physical loss to British property was relatively slight and probably amounted to less than \$25 million.

(b) The total amount of Chinese government securities held by the British were approximately \$250 million. These bonds have fallen in value approximately 50 percent, indicating a loss to the British investors of about \$125 million.

(c) There has been a curtailment of business in the Shanghai area of about 60 to 70 percent. The loss of income to the British has, on this basis, been between \$50 and \$100 million in the past year. These latter are recurrent losses so long as present conditions prevail in the Shanghai area.

Increased business and profits in the Hong Kong area have in part offset these losses.

Secretary Morgenthau - 2

3. These are the losses to date. The extent of the losses to be finally incurred cannot be even guessed at. Everything depends upon the outcome of the war and the role England plays in the final months of the fight.

British losses in Mexico

British losses in Mexico resulting from the recent Mexican policy with respect to oil and lands is probably between \$100 and \$150 million.

The total value of British oil properties expropriated in Mexico is subject to a great deal of dispute. The British claim their oil properties are worth \$250 million. In contrast, our Department of Commerce has estimated in 1937 our oil holdings, which are almost as great as British holdings, to be worth only \$70 million. An estimate of \$100 to \$150 million for the British oil properties is not unreasonable. This sum may not be entirely lost to the investor for Mexico may make some payments.

The expropriated lands formerly owned by the British, for which no compensation has as yet been made, is probably between \$10 to \$20 million.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE June 8, 1938

TO Secretary Morgenthau
 FROM Mr. White

Subject: British losses in China and Mexico

1. British investments in China, excluding Hong Kong, are estimated at £200 millions to £225 millions.

The most recent thorough study of British investments in China, made in 1931, reached the conclusion that British investments in China amounted to £245 million, of which £20 million was in Hong Kong. Since 1931 there probably has not been any important change in the total volume of investments.

Industrial and commercial investments:

Shanghai	£150 million
Hong Kong	20 "
Rest of China	30 "

British owned Chinese government obligations, including railroads

45 "

£245 million

Classified by type of investment, the industrial and commercial investments are as follows:

Transportation, including shipping	£ 28 million
Public utilities	10 "
Mining	4 "
Manufacturing	36 "
Bank and finance	24 "
Real estate	42 "
Trade	50 "
Miscellaneous	<u>6</u> "

£200 million

(Prepared by Mr. Glasser and Mr. Hooker - Division of Monetary Research)

Secretary Morgenthau - 2

2. Between \$200 and \$250 million of these investments have been lost in the past year of warfare.

(a) Chinese government securities, including securities of government owned railroads, have on the average fallen in value by approximately 50 percent in the past year, judging from the quotations on the London stock exchanges for these securities. These investments amount to roughly £50 million. Therefore, the capital loss may be estimated to be about £25 million.

(b) Surveys of the property damage in Shanghai indicate that the physical destruction of British properties in the Shanghai area was relatively small. Although there was great destruction of industrial property in Shanghai during the three months of warfare in that area, reports indicate that the damage was mainly to Chinese owned property, and that British and other foreign owned properties suffered only minor physical damage. The physical loss was probably less than £5 million. British textile mills in China were almost all located in Shanghai. Most of them already have resumed operations; only a few suffered minor damage during the hostilities.

(c) In addition to the loss in the value of security holdings and of physical property, is the loss of current income from curtailed volume of business. From the information available it appears that the British industrial and commercial enterprises are now operating at less than one-third of the pre-hostilities level. The foreign trade of Shanghai during the month of May 1938 was between 25 and 30 percent of the trade of the year before. The employment in industrial establishments in the Shanghai area is between 25 and 30 percent. On the basis of these figures we conclude that the British enterprises have suffered a loss of business of 60 to 70 percent. Since the business enterprises probably earned at least 10 percent profit on investment and since the British investments in Shanghai business enterprises were estimated to be about £150 million, the loss of current income resulting from the curtailed business would seem to be from at the rate of £10 to £20 million a year.

Secretary Morgenthau - 3

This loss of income is, of course, a continuing one so long as conditions in the Shanghai area remain unchanged.

These losses are offset in part by the increased volume and profitability of British trading with China through Hong Kong.

3. The extent of losses to be finally incurred depends upon the arrangements made by Britain with the victorious country after hostilities cease.

The extent of the losses to be incurred by British capital is unforeseeable for it depends upon the duration of hostilities and the arrangements made by the British with the government in final control of the Shanghai area and the important railroads.

If the Japanese are victorious, the British investments face these dangers:

(a) The Japanese may refuse to service Chinese government foreign obligations and railroad securities.

(b) Japan may place restrictions on British trading and industry which will reduce the profitability, and therefore, the value of the investments. Unfair competitive advantages are already being obtained on a large scale by Japanese merchants.

Should Japan be forced by events to give up control of the Shanghai area, Britain may well regain much of her former position. It is even conceivable that her investments in China, once relieved from the growing intensity of antagonism in China which characterized the years preceding Japanese invasion of Shanghai, will be more profitable than ever.

4. British losses in Mexico consist mostly of loss of oil properties.

As far as can be ascertained, no figures have ever been given out officially as to the value of the expropriated oil properties. The figure most often cited in newspaper columns and reports is \$450 million. In a report

Secretary Morgenthau - 4

recently received from Mexican Commercial Attache Lockett, he states he has received confidential information that the 17 oil companies have placed this value on their properties. He did not break this figure down, but the values most accepted are that the Mexican Eagle (British) represents \$250 million, and the other oil companies \$200 million.

It is known that during the last few years American companies have kept their expenditures to the absolute minimum whereas the Mexican Eagle has built new refineries and plants, and has, in addition, expended large sums in exploring and exploiting the Poza Rica field. At the time of expropriation all the reconnaissance and initiatory work had been completed, and with the field outlined, the Poza Rica field was known to be one of the richest in the world. It has been estimated that the company expended \$20 million in finding this field, and it is just now at the point where returns on the investment could have been expected.

The total value of British oil properties expropriated is probably between \$125 to \$175 million. Despite the rupture of diplomatic relations between Mexico and Great Britain, Mexico has declared her intentions to pay for the properties. It would appear likely, therefore, that British interests will get something out of their investments. An estimate of losses from \$100 to \$125 million would seem to be a reasonable one.

In recent years Mexico has expropriated, without compensation, agricultural lands of approximately 43 million acres. Of this amount it is estimated that one-fifth was originally owned by foreigners, or approximately 9 million acres. It is further estimated that the bulk of these lands were American owned, leaving 3 to 4 million acres as being possibly formerly in the hands of British citizens. There is no way to ascertain the value of this acreage, but an estimate of from \$10 to \$20 million is not unreasonable.

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file



IN REPLYING
ADDRESS THE SURGEON GENERAL
U. S. PUBLIC HEALTH SERVICE
AND REFER TO

TREASURY DEPARTMENT

PUBLIC HEALTH SERVICE

WASHINGTON

July 8, 1938

Memorandum for: The Secretary of the Treasury.

From: The Surgeon General.

(Through Administrative Assistant Wm. H. McReynolds.)

In further reference to the nutrition problem,
I am enclosing a joint memorandum concerning proposed
studies of nutrition agreed upon by the Bureau of Home
Economics and the Public Health Service.

Thurston

COPY

July 5, 1938

Memorandum for: Mr. Francis R. Wilcox,
Agricultural Adjustment Administration.

The following report represents further consultation between Doctor Stanley and Doctor Parran regarding the nutritional studies which were discussed in your office on June 23, 1938.

Reference is made to Doctor Stanley's memorandum to you under date of June 28th. This report, therefore, will supplement but not repeat the report of Doctor Stanley.

Studies of Nutrition and Health Recommended by the Bureau of Home Economics and the Public Health Service Jointly.

1. The Washington Study. It is agreed that the small spot study of diets among relief families in Washington will be completed at the expense of the Public Health Service but will not be extended to other cities unless the results of the Washington survey indicate that further studies of this type will be desirable.

2. Assembly and Analysis of Available Data. The Bureau of Home Economics has collected and partially analyzed records and estimates of the food consumption of about 2,400 families throughout the country with food expenditures at levels comparable to those of relief families. It also will bring together data available from other agencies — some still unpublished — on the food consumption of families on relief. These data will include five printed or mimeographed reports on the food consumption of 1,356 relief families. A summary of this material should be completed by approximately October 1, or by January 1 at the latest.

3. Studies by the Surplus Commodities Corporation. It is understood that the Surplus Commodities Corporation is making studies to determine the effect of surplus food distribution upon the normal food-buying habits of the recipient families. The Bureau of Home Economics and the Public Health Service are interested in keeping in touch with the results of these studies.

4. Bureau of Home Economics Study of the Content and Adequacy of Diets of Relief Families. The Public Health Service and the Bureau of Home Economics agree that the study proposed by Dr. Stanley in her memorandum of June 28 should be carried out. It will furnish valuable information on the food consumption of relief families, the effect upon nutritional status of under-consumption of the major types of food, and the influence of the addition of surplus commodities to the diet. The Bureau of Home Economics will have primary responsibility for this study with the cooperation of the Public Health Service, especially on the medical and health aspects. Doctor Stanley has estimated the cost of this study to be \$30,000 and preliminary results should be available within one year. (See detailed statement attached.)

5. Public Health Service Study of Physical Health and Nutrition. The Public Health Service and the Bureau of Home Economics agree that the study of physical health and nutrition, which had been planned by the Public Health Service, should be carried out. This was initially planned as a cooperative study between the Public Health Service, Cornell Medical School, and the Milbank Memorial Fund (at a cost to the Public Health Service of \$31,400.) More recently it has been planned to secure assistance from the W.P.A. which would reduce the Public Health Service cost to approximately \$15,000.

This study will be carried out among children at a high school in New York City. The detailed plan of the study is attached. It is estimated that preliminary results will be available at the end of the present fiscal year. It is planned that the Public Health Service will be primarily responsible for this study, with the cooperation of the Bureau of Home Economics, especially on the dietary aspects.

Careful consideration of the two studies by the Public Health Service and the Bureau of Home Economics makes it possible to indicate that no undesirable duplication of work will be done and that each study will serve to supplement the other, particularly since there will be close cooperation and collaboration in the prosecution of the investigations.

The immediate purpose of the last two studies would be to determine what the diet of low income families tends to be and the physical and mental results to be expected from diets of this level; also to determine what changes in health status can be obtained by more adequate feeding. It is believed that the results of these can be related to the national picture by more general studies referred to in Nos. 1 and 2.

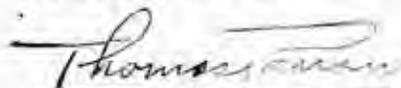
-3-

In other words, the studies proposed, in the opinion of the two agencies concerned, represent the most desirable directions in which we should seek further knowledge in order to determine the extent to which additional food consumption by relief and low income families will contribute to the advancement of the national health.

After determining the present interrelationship between health and dietary status, it is hoped that in the same areas and among the same families, additions of food supplying nutrients which are found to be deficient in the dietaries, may be furnished in order to get a convincing "before and after" picture of the relation of food consumption to health status.

The two agencies recommend that funds for the conduct of the two studies (No. 4- \$30,000, and No.5- \$15,000) be made available from appropriate Federal funds. It is hoped that the needed financial support can be provided.

Day Monroe, Acting Chief,
Bureau of Home Economics



Thomas Parran, Surgeon General
U. S. Public Health Service

BUREAU OF HOME ECONOMICS, U.S. DEPARTMENT OF AGRICULTURE.

Studies of the Content and Adequacy of Diets of Relief Families.
(Item No. 4)

Practically no information is available on the effect of low food consumption on nutritional status. An appropriation of \$30,000 is requested for a special study of food consumption coupled with feasible measures of nutritional status of relief families in one or more selected localities.

Families on relief are an important population group. Detailed data on their food consumption should be obtained and correlated with indices of physical status, in order to appraise the effect on nutrition or underconsumption of the major types of food, and the influence of the addition of surplus commodities to the diets. It is also desired to compare the diets of families now on relief with diets for similar groups in 1928 and 1933. Such information is needed to develop a sound social and agricultural policy.

Records (estimates and accounts) of food consumption will be obtained from families and individuals at intervals during the year of study. In addition, dietary histories will be obtained. The findings on food consumption will be classified by the extent to which the diets support a satisfactory nutritive status of family members, by the type of relief received by the family, and by the level of expenditure for food. The consumption figures will also be compared with those for non-relief families at low income levels in 1935-36 and with the consumption of families receiving relief in 1928 and 1933.

For correlation with the food consumption data there will be made suitable physical and dental examinations, and selected specific

and nonspecific measures of nutritional status. One or two nonspecific over-all indices of nutritional status will be combined with selected specific indices, for which there are established methods. The preferred nonspecific index would consist of anthropometric measurements (height, weight, body proportions, repeated to show change); the preferred specific indices, roentgenograms of the bones of the wrists and hands for measurement of skeletal development of children, and measurements of visual adaptation to darkness as a measure of adequacy of vitamin A of persons of all ages.

These two specific indices were selected because previous studies made by the Bureau of Home Economics of diets of non-relief families indicate that of the known food essentials calcium and vitamin A are the ones most frequently consumed in inadequate quantities by families with low food expenditures. These indices would be checked at frequent intervals so that the trend of nutritional status attendant with the food consumption pattern could be studied. The Bureau of Home Economics has a background of experience in making anthropometric measurements, has made fundamental studies of vitamin A requirements of human subjects, and has obtained data on visual adaptation for normal and vitamin A-deficient subjects, both children and adults, which can be used in comparisons.

The results of this study will add to our knowledge of the effect of diet on health, as well as to data on the food consumption of an important group of our population.

PUBLIC HEALTH SERVICE STUDY OF PHYSICAL HEALTH AND NUTRITION
(Item No. 5.)

Evidence is not available which shows whether or not, or to what extent, growth and health of the general population is being affected by inadequate diets. It becomes necessary, therefore, to determine precisely what physical and mental impairments might be corrected by the improvement of diets. Immediately useful knowledge on these questions probably can be obtained from studies which include, broadly, the simultaneous investigation of foods consumed and the state of health. The effects of subnormal diets, however, are complex, and probably cumulative. Moreover, these effects can be measured accurately only by very complete individual health and dietary studies, made at intervals over an extended period of time. In addition, it may be assumed that the most pronounced forms of malnutrition appear in children since growth and development impose added dietary requirements.

Satisfactory studies of this character should include the following:

- 1) Records of food consumption, made either continuously or at frequent intervals during the course of one year. Such records would permit an evaluation of important seasonal fluctuations in dietaries and would reveal the extent to which deficient dietaries are consumed for prolonged periods of time.

2) Complete physical examinations, including those special measurements and tests which detect the onset of deficiency disease before they have reached their manifest or severe stages.

3) Continuous or repeatedly collected records of physical and mental efficiency during periods of one year. Such data may be expected to reveal the lowered vitality and loss of productivity which may constitute an important manifestation of inadequate diets.

The approach to the general problem of nutrition has two fundamental objectives:

- 1) To obtain specific information on the actual impairments of health which result from the consumption of subnormal diets.
- 2) To develop a practical routine methodology for use in appraising nutritional status.

A study, from the perspective outlined above, is proposed as a cooperative undertaking with the Departments of Pediatrics and Preventive Medicine of the Cornell Medical School, The Milbank Memorial Fund, and the Public Health Service. Observations would be collected from students in the Seward Park High School in New York City. This group is selected because the children to be studied are predominately from relief and low income families and because it is known that the school health services can be adapted readily to such a study. Records for the following would be collected:

- 1) Dietary histories
- 2) Records of illness and of school progress
- 3) Medical histories and physical and dental examinations
- 4) Special physiological examinations
 - a) Dark adaptation test for vitamin-A
 - b) Galvanic reflex test for calcium
 - c) Anthropometric measurements; height, weight
 - d) Roentgenographs of wrist and hand
- 5) Special blood examination
 - a) Hemoglobin
 - b) Red blood count
 - c) White
 - d) Differential count
 - e) Ascorbic acid
 - f) Blood vitamin-A
 - g) Blood phosphatase
 - h) Serum calcium

As a preliminary to this investigation, it is proposed to include in the dietary surveys of relief families in Washington, Detroit, Atlanta and Omaha, a physical examination by competent physicians of a sample of the population canvassed. Two physicians in each city would examine approximately one-fifth of the individuals covered by the survey. These physicians would conduct careful physical examinations, together with measurements of height and

weight and estimates of nutritional status. The results of this supplementary investigation would show only the severe effects of dietary deprivation and will point the way for the immediate corrective measures that may be most urgently needed.

BUDGET

Salaries.....	\$25,120.00
8 Physicians (2 months).....	\$3,800.00
1 Director	5,000.00
3 Technicians.....	7,200.00
1 Nutritionist.....	3,800.00
3 Clerks.....	4,320.00
Material and supplies.....	4,800.00
Travel and per diem.....	1,500.00
Total.....	<u>\$31,420.00</u>

COPY

United States Department of Agriculture
Bureau of Home Economics
Washington

June 28, 1938.

Dr. Thomas Parran,
Surgeon General,
Public Health Service,
Washington, D. C.

Dear Dr. Parran:

I am sorry to learn from your secretary that you are out of town this afternoon, since I must leave tonight for the American Home Economics Association meeting in Pittsburgh, to be gone three days.

Enclosed is a copy of the memorandum which I prepared for Mr. Wilcox, setting up the considered opinion of our group in regard to the proposed dietary studies; also a copy of the proposed project, with a tentative budget. The project is not outlined in very much detail, since I thought the detail would need to be filled in by conference between the specialists in the two groups.

In support of our feeling that we have sufficient data on the low income diets, I am enclosing a tabular statement indicating the number of families for which we have food consumption for 1935-36. We estimate that relief families probably have food valued at one or another of these three levels when you consider the amount which they buy under the relief allowance plus the surplus commodities now being distributed.

I have recently been to Detroit where I have seen the distribution with more auspicious circumstances than at Cleveland, and we are working with Surplus Commodities on a plan for indicating in advance the types of food which will be available and providing for the maximum distribution possible under the Act under which the Corporation operates.

I shall be back in town Saturday and hope I may see you then or on Tuesday. I shall have to leave Washington Tuesday night for another two or three days, but then expect to be back until the study can be started.

Sincerely yours,
(Signed) Louise Stanley
Chief

Enclosures:

C O P Y

June 28, 1928.

MEMORANDUM TO MR. FRANCIS R. WILCOX
Agricultural Adjustment Administration

Dear Mr. Wilcox:

I am heartily in sympathy with the proposal of Dr. Parran that a joint study of relief diets be made by the Public Health Service and the Bureau of Home Economics cooperating. We shall be interested in the results from the preliminary study now being undertaken by the Public Health Service in Washington to determine the diets of relief families of different categories. We recommend that before a large group is sampled, even here, some study be made of the preliminary returns to determine whether the schedule ~~in use~~ will provide data that can be analyzed, checked, and made comparable with previous studies. If it is proposed to apply this study in other areas, the Washington study should be made a methodology study.

We feel that any hurried "spot study" will not add very materially to our knowledge of relief diets. We have collected and brought together data from five studies (1956 families) of relief diets and are now engaged in locating other studies made during the last two years and still unpublished. These we propose to assemble and summarize.

It is our belief that relief diets are largely a function of the monetary value of foods available and traditional diet habits. We have from the Consumer Purchases Study many data on families with food consumption at a level comparable to that of relief families, and on the degree of inadequacy of such diets. These are drawn from various sections of the country and can be compared with diets at higher levels of cost in the same localities.

While spot studies in selected areas may bring out the present picture, it is a rapidly changing one and unless tied in with the economic situation of the family offers little in the way of constructive help. We know the situation is bad; we know it is worse in some areas than in others; we know how it can be improved. It would seem desirable, therefore, to put the major portion of the effort into the long-time study mentioned by Dr. Parran, which will give more detailed information as to the physical effects of inadequate diets.

We are submitting a suggested plan for a more detailed dietary study to be made over a longer period of time with accompanying physical and physiological studies, following the general plan outlined by Dr.

Parran. This was discussed informally by representatives of the two groups in a meeting in this office. The details of this plan should be worked out by the specialists in the two bureaus and the final plan should be approved by the Surgeon General, the chief of this Bureau, the director of the Surplus Commodity Corporation and a representative of WPA. In this study, the operating units will be the Bureau of Home Economics and the Public Health Service. The Bureau of Home Economics will be the responsible agent for plans for the collection of information on diet and for such physiological tests as are measures of the adequacy of special required nutrients such as the dark adaptation test for vitamin A. (The Bureau has made a special study of methods for study of dark adaptation under the Secretary's appropriation for fundamental research). Also, this Bureau would be in a position to direct the taking of the anthropometric measures that are specially significant for comparison of the low income group studied with the data which we have for normal population groups. We have measured during the past year some 70,000 children between the ages of four and fourteen.

The Public Health Service will be responsible for the medical histories, the medical, physical and dental examinations, the records of illnesses and any blood examination which is decided upon as being desirable, and will cooperate with the Bureau of Home Economics in the interpretation of the roentgenographs of the wrist and hand.

On this basis we are submitting a proposed budget covering approximately \$30,000, which will be covered by an Exhibit A to be submitted to the Surplus Commodity Corporation, and propose further that steps be taken to set up a WPA project here in Washington for handling the statistical analysis of the data. After further conference on the details of the plan it may seem desirable to ask for State WPA projects between the cooperating agencies and a more detailed set of plans. Such plans should get in by August 1.

Sincerely yours,

Louise Stanley
Chief

LS:EO

Period covered by field observations, 1 year

A. Tests of nutritional status of 250 families in one unit of the study	
1. Visual adaptation tests on 1,000 persons 4 times yearly	
1 biophotometer operator - - - - -	\$2,600
1 assistant - - - - -	1,440
2. Anthropometric measures of 1,000 persons at beginning and end of study	
1 supervisor of field work and statistical analysis - - - - -	2,600
1 assistant - - - - -	1,440
3. X-rays of 500 children at beginning and end of study, and analysis of results	
1 Roentgenologist half time - - - - -	2,600
4. Dentist (part time) - - - - - 2,000	
Physicians (part time) - - - - -	2,000
B. Dietary study in one area	
1 nutritionist - - - - -	3,800
4 to 5 assistant supervisors of field work and tabulation- - - - -	8,400
Field workers and statistical clerks for this part of the study will be provided through a Works Progress Administration project.	
C. Equipment and supplies - - - - -	1,500.
D. Rental of space - - - - -	600
E. Travel, incidentals, clerical help - - - - -	1,020
Total	\$30,000

Studies of the Content and Adequacy of Diets of Relief Families.

Practically no information is available on the effect of low food consumption on nutritional status of families on relief. These families are an important population group, and more detailed data on their food consumption should be correlated with indices of physical status, in order to appraise the effect of underconsumption of the major types of food and the influence of the addition of surplus commodities to these diets. Such information is needed to develop a sound social and agricultural policy. This appropriation is requested for a special study of food consumption coupled with feasible measures of nutritional status of relief families in selected localities.

Records (estimates and accounts) of current consumption will be obtained at quarterly intervals during the year of study, also a dietary history, suitable physical and dental examinations, and selected specific and nonspecific measures of nutritional status of the body.

One or two nonspecific over-all indices of nutritional status should be combined with certain specific indices (for which there are established methods) and these measurements will be correlated with the diets. The preferred nonspecific index would consist of anthropometric measurements (height, weight, body proportions, repeated to show change); the specific indices, roentgenograms of the bones of the wrist and hands for measurement of skeletal development of children and measurements of visual adaptation to darkness as a measure of adequacy of vitamin A of persons of all ages.

These two specific indices were selected because previous studies made by the Bureau of Home Economics of diets of nonrelief families indicate that of the known food essentials calcium and vitamin A are the ones most frequently consumed in inadequate quantities by families with low food expenditure. These indices would be checked at frequent intervals so that the trend

of nutritional status attendant with the food consumption pattern could be studied.

The Bureau of Home Economics already has a background of experience in making anthropometric measurements, in fundamental studies of vitamin A requirements of human subjects, and has studied visual adaptation in relation to normal and vitamin A-deficient subjects both on children and adults which can be used for comparisons.

The findings on consumption will be classified by ability of diets to support a satisfactory nutritive status by type of relief received and by level of expenditure for food.

Distribution of families at three low expenditure levels,
by degree of urbanization, region, and color of family.

Degree of urbanization, region, and color of family	Total number of families	Families spending yearly per food expenditure unit		
		Under \$35	\$35 - \$ 69	\$ 70 - \$104
Large and middle-sized cities (1936)		Number	Number	Number
New England	174	0	0	3
North Central	676	1	23	110
Mountain-Pacific	632	0	2	57
Southeast, white	239	0	3	32
Negro	143	5	36	54
All regions	1864	6	64	256
"Wage-earner" cities (1935)				
North Atlantic	843	0	0	117
East North Central	381	0	0	70
West North Central	112	0	0	16
South Atlantic	98	0	0	20
East South Central	282	0	17	114
West South Central	39	0	0	11
Mountain	76	0	0	10
Pacific	441	0	0	21
South, Negro	222	0	84	83
All regions	2494	0	101	462

Distribution of families at three low expenditure levels,
by degree of urbanization, region, and color of family

Degree of urbanization region, and color of family	Total number of families	Families spending yearly per food-expenditure unit ^{1/}		
		Under \$35 Under 70¢	\$35-\$69 .70 - 1.30	\$70-\$104 1.30-2.00
Small cities				
New England	128	0	3	14
East North Central	179	0	4	25
West North Central	89	0	0	13
Mountain	163	0	3	22
Pacific	148	0	1	15
Southeast, white	83	0	7	13
Negro	68	4	27	17
All regions	858	4	45	119
Villages				
New England	71	0	0	3
North Central	175	0	4	35
Western	45	0	0	2
Pacific	147	0	0	13
Southeast, white	256	1	10	69
Negro	207	11	84	53
All regions	901	12	98	175
Farms				
New England	104	0	1	7
North Central	270	0	1	38
Western	36	0	0	4
Pacific	142	0	2	14
Southeast, white	545	3	48	172
Negro	262	11	109	89
All regions	1,359	14	161	324

^{1/} 1936 prices.

Distribution of families at three low expenditure levels,
by degree of urbanization, region, and color of family.

Degree of urbanization, region, and color of family	Total number of families	Families spending yearly per food-expenditure unit ^{1/}		
		Under \$35	\$ 35 - \$ 69	\$70-\$104
Small cities				
New England	442	0	3	37
East North Central	582	0	30	112
West North Central	516	1	13	84
Mountain	236	1	7	33
Pacific	462	0	5	35
Southeast, white	371	0	42	100
Southwest, Negro	181	15	96	43
All regions	2790	17	196	444
Villages				
New England	365	0	1	35
North Central	1091	1	43	227
Western	377	0	8	67
Pacific	468	0	4	57
Southeast, white	1656	4	131	440
Southeast, Negro	801	65	327	241
All regions	4758	70	514	1067
Farms				
New England	515	0	8	93
North Central	2522	6	156	822
Western	607	0	43	159
Pacific	498	0	10	80
Southeast, white	2802	15	425	1003
Southeast, Negro	762	45	336	243
All regions	7706	66	978	2400

^{1/} 1936 prices

July 8, 1938

My dear Miss Le Hand:

I am attaching the memorandum which you requested on July 5, 1938, regarding the results of the message of the President to the Congress, dated June 1, 1937, on tax avoidance.

Sincerely,

/s/ H. Morgenthau, Jr.

Secretary of the Treasury.

**Miss Margaret A. Le Hand,
Private Secretary to the President,
The White House.**

Original sent to the White House 7/8/38 at 3:30 P.M. by CGH

(This is the initialed carbon copy)

SSM/arg

RM

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The message of the President to the Congress, dated June 1, 1937, listed eight devices by means of which some individuals were attempting to avoid their tax liabilities. In addition, the message called to the attention of the Congress three instances in which the law itself relieved taxpayers of an equitable share of the tax burden. These eleven matters will be discussed hereinafter.

In response to the President's message, Congress created a Joint Committee on Tax Evasion and Avoidance which was empowered to hold hearings, take testimony and examine income-tax returns. The committee held public hearings from June 17, 1937 to July 28, 1937, at which sessions members of my staff and I submitted evidence in support of the disclosures made by the President. In a report to Congress, dated August 5, 1937, the committee stated:

"The printed record of the public hearings held by the committee amply sustains the statements made by the President of the United States in his message."

The detailed legislative recommendations of the committee culminated in the Revenue Act of 1937, which was approved on August 26, 1937. It may be mentioned that this Act was passed unanimously by both houses of Congress. The provisions of this legislation are discussed below; the discussion follows topic by topic the eleven types of tax minimization listed in the President's message.

Foreign Personal Holding Corporations.

The Revenue Act of 1937 effectively closed this loophole by treating the income of the foreign entity as if it were legally, and not merely equitably, the income of the shareholders. The United States shareholders now are taxed upon their proportionate shares of the foreign personal holding company income whether or not it is actually distributed to them.

Foreign Insurance Companies.

It has been found that the cases of fictitious foreign insurance transactions discussed in the message could be reached under the existing law. About \$75,000 has been collected by the Department in deficiency payments from five or six persons who utilized such devices, and payments are expected from others.

Domestic Personal Holding Companies.

The use of these companies as tax-avoiding devices was checked by the 1937 Act, principally by the provision increasing the applicable surtax rates to 65 percent on the first \$2,000 of their undistributed income and 75 percent on the remainder. The rates of personal holding company surtax are now so high that, considered with the normal tax on corporations, they will equal the highest surtax rates applicable to individuals.

Incorporated Yachts and Country Estates, and Incorporated Talent.1/

The 1937 Act includes a provision intended to prevent personal holding companies which own yachts and country estates from deducting as losses those maintenance and operating expenses which are actually personal expenses of the stockholders. The Act accomplishes this by providing that the expenses of operation and maintenance of such properties, to the extent that they exceed the rent received therefrom, shall be disallowed except under special circumstances.

Some individuals sold their personal services to their own corporations, which in turn sold such services for a greater amount. The excess compensation retained by the corporation was taxable at lower rates than if such income had been received by the person performing the services. The 1937 Act closed this loophole by providing that such compensation should be included in "personal holding company income," taxable at 65 or 75 percent if not distributed.

Artificial Deductions for Interest, Losses, etc.

As amended by the 1937 Act, the law disallows certain artificial losses arising out of family and other transactions having no business significance. To the earlier law's provisions disallowing losses from sales between members of a family and between an individual and a corporation which he controlled, were added provisions disallowing losses between other persons having special relationships. These include losses from sales or exchanges (a) between two corporations controlled by the same individual; (b) between grantor and fiduciary of a trust; (c) between fiduciaries of two trusts of which the same person is grantor; (d) between fiduciary and beneficiary of a trust. In addition, the rules for the determination of stock ownership in a corporation were strengthened to an important degree.

The 1937 Act also denies a deduction for accrued interest or business expense when such interest or expense is owed to a person not dealing at arm's-length with the debtor, unless the debtor pays this amount within two and one-half months after the end of the taxable year. This provision prevents taxpayers from obtaining artificial deductions based on the difference in the reporting of income under the cash and accrual methods. Before this amendment, it had been found that even when a special relationship existed between debtor and creditor, a debtor who kept books on the accrual basis might obtain a deduction for accrued interest which he had not actually paid, whereas his creditor who was on a cash basis would not, of course, report as income the accrued interest owed to him.

1/ The incorporated talent device was not separately listed in the President's message, but evidence regarding it was presented to the Joint Committee by the Treasury Department.

Multiple Trusts for Relatives and Dependents.

This problem has been met to some extent by a provision in the 1937 Act denying the \$1,000 personal exemption to trusts which accumulate income. The 1938 Act allows to trusts a credit of \$100 against net income, to take care of small, inconsequential accumulations of income. The report of the Joint Committee indicated that the question of multiple trusts would receive further consideration, and the Department is continuing its search for a satisfactory formula to present to Congress.

Husband and Wife or Father and Children Partnership.

No legislation directly affecting this device has yet been enacted. The Department is assembling data which may eventually provide a basis for legislative changes imposing no hardship upon bona fide family associations. Meanwhile, the Department will continue to contest cases in which the evidence indicates that the family partnership serves merely a tax-saving function.

Pension Trusts.

The Revenue Act of 1938 partially closes this loophole by providing that an employee's pension trust will not be exempt from tax if, prior to satisfaction of all liabilities to employees under the trust, it is possible to use the corpus or income of the trust for other purposes. Further amendment may be necessary in order to withdraw the present tax concessions recorded contributions to trusts set up solely for stockholder-officials and high-salaried executives.

Percentage Depletion in the Oil, Gas and Mining Industries.

No legislative changes have been made with respect to this important matter. The law still permits companies in these industries to take deductions for depletion although they have already recovered the cost of the property. The Department is prepared at any time to submit to Congress data supporting amendment of the depletion provisions.

The Division of Income between Husband and Wife in the Eight Community Property States.

Full consideration of this subject has also been deferred by Congress. The Department is continuing its studies of the problem both in the income and estate tax fields.

Taxation of Non-Resident Aliens.

In accordance with the President's recommendation, the rates of income tax applicable to wealthy non-resident aliens were raised by the 1937 Act. Such an individual having a net income in excess of \$21,600 from sources within the United States now is required to pay tax at the same rate that a citizen or resident would pay.

SS:ARG

XXM

A. Run

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 8, 1938

TO Secretary Morgenthau
FROM Herman Oliphant

For your information -

The Monopoly Committee met yesterday and adjourned until Fall. Peoples and I attended. Much of the time was spent in discussing procedural details of no general interest. The scope and allocation of the work was discussed, and, in substance, these were left to the representatives of the executive departments to determine. Each department submitted a preliminary and general statement of what it might contribute. These will be the subject of detailed discussion and decision by the executive representatives next Tuesday. Copy of the Treasury's tentative outline is attached.

Senator Logan had insisted on the insertion of the following in the resolution creating the committee:

It "shall investigate the subject of governmental adjustment of the purchasing power of the dollar so as to attain the 1926 commodity price levels."

The consensus of the committee was to do nothing about this.



Enc. 1

THE TREASURY

The data and personnel available in the Treasury indicate the following areas in which it might make the most substantial contribution to the study of monopolies and competition:

A. Government purchases in relation to the general problem:

1. Tie bids and other monopolistic practices encountered in government purchasing;
2. Government specifications in relation to patents and other phases of monopoly control;
3. The cumulation and timing of government purchases in relation to fixed and excessive prices;
4. Cost studies in cases of excessive prices on government purchases as one method of control of such prices.

B. The supplementation of the general prohibitions of our anti-trust laws by adding thereto specific prohibitions, the twofold aim being to increase the effectiveness of our anti-trust laws and to meet much of present complaint that the business community does not now know what it may and may not lawfully do. This study would explore the extent to which it would be possible or useful to go in enacting detailed prohibitions of specific forms of monopolistic organizations and specific types of undesirable competitive practices. It would involve a reexamination of all English and American legislation and decisions, supplemented by a comparative study of like problems and procedures in other nations of the Western world. The aim

2.

would be a series of specific provisions which would, among other things, codify or reverse the rules applied in the mass of judicial decisions under the Sherman, Federal Trade Commission and the Clayton Acts, as well as the rules applied by the Federal Trade Commission in cases that have not been passed on by the courts.

C. A reexamination of the procedural aspects of our anti-trust laws. This would involve an historical, comparative and analytical study of the effectiveness and fairness of our entire procedure in anti-trust (and comparable) litigation. It would include the exploration of possible additional and more effective sanctions. Thus, the procedural aspects of gearing our anti-trust laws into any plan for Federal incorporation might be examined in this connection. The merits of the claim commonly made that we need a procedure for passing on the legality of particular organizations and competitive practices in advance of their use by the business community should be fully examined and possible procedures for meeting any such need found to exist should be explored.

July 3, 1938

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(Signed) Herman Oliphant

Enc. 1

CC: Mr. Gaston
Mr. O'Connell
Admiral Peoples

HD:ven
7/8/38
7

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HD -lew
Typed 7-7-33

July 8, 1938.
2:02 P. M.

H.M.Jr: Hello.

Operator: Mr. Cochran. Go ahead.

H.M.Jr: Hello.

H. Merle Cochran: Hello, Mr. Secretary.

H.M.Jr: How are you?

C: Fine, thank you. The Ambassador is out of town, Mr. Secretary. He went up to Rheims to be given, ah, freedom of the city.

H.M.Jr: Oh, that's nice. Ah -

C: He won't be back until in the morning.

H.M.Jr: Well, I got his letter about, ah, wanting to - giving me a luncheon while I was there.

C: Yes.

H.M.Jr: And, ah, I wanted to talk to him about it; I didn't know - ah - if I do that, do I have to call on the Minister of Foreign Affairs? - If I'm there - do anything officially?

C: He didn't, ah - he hadn't told me about the luncheon - ah - and I showed him the letter which you sent me the other day.

H.M.Jr: Yes.

C: And two or three of them had asked me and I told them that you were doing nothing till you came back.

H.M.Jr: Yes.

C: And if you go to a luncheon as you come through, I should think you'd almost have to call.

H.M.Jr: I'd have to call?

- 2 -

- C: Ah - I mean, did you think it best that, as you arrive or as you - ah - return from down South?
- H.M.Jr: Well, in his letter he said that when I come back nobody will be there - in August.
- C: Oh yes, there'll be some people here.
- H.M.Jr: There will be?
- C: Bonnet will be here; I saw Marchandean yesterday. He said he would be here - the Minister of Finance.
- H.M.Jr: Uh huh.
- C: And, ah, I had lunch at the Bank of France today, and they asked about you.
- H.M.Jr: Yeah.
- C: And Fournier, the Governor, said that he'd either be here or within two hours of Paris.
- H.M.Jr: Uh huh.
- C: And wants me to let him know when you come through; that he'd want to come in town to see you.
- H.M.Jr: Well, I didn't know if I was going to do this, whether I might better not maybe spend, say two days in Paris, and then not come back at all to Paris on my way back.
- C: I see.
- H.M.Jr: See?
- C: Either date that you - I mean any time now, after the twenty-second of July, ah, is the dead season in Paris, because ordinarily most of the figures leave after the fourteenth.
- H.M.Jr: I see.
- C: A few are staying on because, ah, of the British visit, you know - the Royal visit - which will be the nineteenth to the twenty-first.
- H.M.Jr: Yeah.

- 3 -

- C: So that week-end that you arrive - ah, my opinion is that most of them would be out then - or as many out then as in August, if that be true.
- H.M.Jr: Well, I think I'll call up Bullitt on Monday.
- C: Yes.
- H.M.Jr: And talk to him about it.
- C: He hasn't mentioned it to me at all, so I - I
- H.M.Jr: He didn't let you know?
- C: I mean we - we hadn't exchanged any ideas; he'd said nothing to me about it, so I - I - I don't know just what his ideas are.
- H.M.Jr: Well, I'll call him up Monday or Tuesday. That's certainly time enough, isn't it?
- C: Oh yes.
- H.M.Jr: What?
- C: Of course, it - it appears in the press here today that you had, ah, given out a statement that you were going straight through.
- H.M.Jr: Yes.
- C: It was in the Agence Economique / ^{here} today, and I've given that information to the Minister of Foreign Affairs a couple of days ago when I saw Jules Henry about the, ah, state_{ment}, you see?
- H.M.Jr: Yes.
- C: And he told me that Bonnet will be here, in August.
- H.M.Jr: I see.
- C: I also gave that information to Marchandau yesterday, and to the Bank of France today, and it appeared in the press.
- H.M.Jr: Uh huh.

- 4 -

- C: That you were going straight through, and would make - ah, wouldn't stop, but during the last week of the stay in France, you might call on some personages. I think that's the way the press had it.
- H.M.Jr: Well that's right. Now
- C: That was in the Paris papers today.
- H.M.Jr: Ah, Jimmy Dunn sent word over - you're coming up to meet us when we arrive?
- C: Yes. I'll come up to Boulogne to - to - to help the show there.
- H.M.Jr: Where will you meet us?
- C: At - at Boulogne.
- H.M.Jr: Thank you.
- C: That - that's where your - the Dutch ship touches.
- H.M.Jr: Yeah, that's right. Well, ah, that'll be very nice.
- C: No, I'll be delighted to - to get up.
- H.M.Jr: That'll be very nice.
- C: And, ah, I've made the reservations on the train. I've got you three doubles and one single.
- H.M.Jr: Fine. Do you save any ...
- C: Ah, the train leaves at five-fifty; gets you there at eight twenty-two the next morning.
- H.M.Jr: Do you save
- C: And, ah, I had word back today that you didn't want to take up the tickets till you get here. That's the railway tickets.
- H.M.Jr: No, I said we would take them up. Ah - I sent word we would take them up.

C: You mean you - you want me to def' - to definitely get the railway tickets now?

H.M.Jr: Well, if there's any question about holding the reservations.

C: Oh no, no. We can do the whole thing.

H.M.Jr: Oh - oh, well then, all right. I don't know whether you save on the French railway round trip or not.

C: You do - you save quite a bit.

H.M.Jr: Well, then why not wait until we get there?

C: Wait till you get here because we can get them - the sleeping cars I - I have to buy separately.

H.M.Jr: Yes.

C: Before that date.

H.M.Jr: Yes.

C: But the railway tickets I can get on that day - Sunday, or Saturday night - whichever we want.

H.M.Jr: And I sent word to Butterworth that he should come over and spend the day with us.

C: I see.

H.M.Jr: So that - just so that we could all be together.

C: That's ah - that's on Sunday?

H.M.Jr: Well, the twenty-fourth - whatever that is.

C: That's on Sunday.

H.M.Jr: The twenty-fourth.

C: Yes. That - that's a Sunday that you're here.

H.M.Jr: Oh, is that a Sunday?

C: Yes.

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

C: Yes.

H.M.Jr: All right. Well, I'll call up the Ambassador Monday or Tuesday.

C: All right. I'm going down to Basel tonight.

H.M.Jr: Good.

C: Ah, Knoke and, ah, his friend are here.

H.M.Jr: Who?

C: Knoke..

H.M.Jr: Oh yes.

C: Ah, he - he was at the luncheon today. They gave us a nice lunch down at the Bank.

H.M.Jr: Fine.

C: We all went down to that.

H.M.Jr: ..Fine.

C: Well, listen -what train -ah, you ^{and} / your family make your train reservations for the boat train while you're on the boat.

H.M.Jr: Oh, do we?

C: Ah, I mean you can do it that way, or I can get it here, but usually

H.M.Jr: Yeah.

C: There's a transportation man on the

H.M.Jr: All right. .

C: On the ship itself.

H.M.Jr: All right.

C: Think so.

H.M.Jr: I'll do that.

C: And I'll buy my ticket round trip, to Boulogne.

H.M.Jr: Good.

C: If you want to - to have the man put it by the - a seat near yours.

H.M.Jr: I'll ask for a seat for you in our compartment.

C: Fine. So - I'll buy my railway ticket round trip.

H.M.Jr: All right.

C: Fine.

H.M.Jr: Thank you.

C: Goodbye.

H.M.Jr: Goodbye.

July 8, 1938.
2:48 P. M.

H.M.Jr: Hello.

Operator: Mr. Bell. Go ahead.

Daniel W. Bell: Yes.

H.M.Jr: Hello, Dan.

B: Yeah.

H.M.Jr: Ah, what I want to say is this: I just spoke to Randolph Burgess, and they all seem to be in favor of a seven-eighths.

B: Seven-eighths.

H.M.Jr: I told him I'd call him up between ten and eleven, Washington time, ...

B: Tomorrow morning.

H.M.Jr: Then I'll call you.

B: Yeah.

H.M.Jr: You'll be here won't you?

B: Oh yes - ah, you're going away tonight?

H.M.Jr: Yep.

B: Oh, I see. Yeah, sure, I'll be here all morning. I'll be here early tomorrow morning, and then we'll start right on the circular.

H.M.Jr: All right. It looks like seven-eighths.

B: It looks like seven-eighths?

H.M.Jr: It would be fairly safe to run it off.

B: Well, I think we'll just work on it tonight then.

- 2 -

H.M.Jr: Right.
B: Fine.
H.M.Jr: All right.
B: Thanks a lot.
H.M.Jr: Goodbye.

July 8, 1938.
2:51 P. M.

H.M.Jr: Thank you. Hello.
Operator: Dr. Burgess is out for about ten minutes.
H.M.Jr: Oh goshi Where is he?
Operator: She said he's out of his office. I'll ask her
if she can find him right away.
H.M.Jr: Well, hurry it up, will you?
Operator: Right. Right.

.

2:54 P. M.

H.M.Jr: Tell me the news, Randolph.
Randolph
Burgess: Well, ah, the - ah - there are more votes in
favor of seven-eighths.
H.M.Jr: Yeah.
B: Than anything else.
H.M.Jr: Yeah.
B: The country banks talk about one per cent.
H.M.Jr: Yeah.
B: There are some of the New York City banks talk
about three quarters.
H.M.Jr: Yeah.
B: There are a few of them who would prefer one
per cent at a premium of a half.
H.M.Jr: Who -
B: But there are more of them would like seven-eighths at par.

- 2 -

H.M.Jr: Ah hah.

B: Than any other single vote.

H.M.Jr: Ah hah.

B: So I think that's the thing to do, as far as the situation looks today.

H.M.Jr: Well, I'll call you up tomorrow, say between eleven and twelve.

B: All right.

H.M.Jr: You be at the office?

B: I'll be at the office - yes.

H.M.Jr: Yeah. And then we can make up our mind then.

B: We've had a good Government market today; there's been some real demand for these bonds.

H.M.Jr: Yeah.

B: I think the new bond is getting pretty well cleaned up now.

H.M.Jr: Good.

B: The holdings of the dealers are very small.

H.M.Jr: Good.

B: And I think most of the fellows who bought it to sell again are - are reasonably well cleaned up.

H.M.Jr: Well, I - I - there seems to be a real demand there.

B: Yes, there does. They - they've taken those ones you sold very nicely.

H.M.Jr: Well, I'm not going to sell any tomorrow; I'll keep out of the market tomorrow.

B: Yeah.

- 3 -

H.M.Jr: I - I don't want to sell any tomorrow.

B: No. Well, we haven't done a thing with our account. We'll wait until after this party's over again.

H.M.Jr: Well, I think we'll be out of the market Saturday and Monday.

B: Yeah.

H.M.Jr: We'll keep out of it Saturday and Monday.

B: Very good.

H.M.Jr: And any ... How - how can you sell bonds when you're so short - of bonds?

B: Oh, well we could - we could sell long and buy medium bonds.

H.M.Jr: Yeah. You're going to let your whole - all your income go?

B: Well, not all of it, but we've got - we've got a great big block of that new bond, you know. We got ...

H.M.Jr: Oh.

B: eighty-six million. That's out of proportion to our other holdings.

H.M.Jr: I see. I see.

B: So we could switch some of that for a middle-term bond - something like that.

H.M.Jr: Uh huh. Well, Randolph, I'll call you between eleven and twelve tomorrow.

B: Very good, Henry. I'll be here.

H.M.Jr: O. K.

B: Goodbye.

July 9, 1938.
10:40 A. M.

Archie
Lochhead: make the record.

H.M.Jr: Now, what are the markets today, please?

L: Well, first of all the stock market started - ah - started on an off tendency.

H.M.Jr: Yeah.

L: And the - the first rate showed about one point off, but by the end of the hour they'd recovered and they're now up point forty-four for the industrials

H.M.Jr: I see.

L: and the, ah, rails are up slightly, and the, ah, and the utilities up slightly. Ah, foreign exchanges are quiet; commodities, really no change on at all; cotton just a shade lower.

H.M.Jr: Commodities?

L: Slightly lower. Cotton is slightly lower; wheat is about the same. There's no index, of course, today, on Saturday.

H.M.Jr: And Governments?

L: The Government bonds are quiet, but very steady - no price changes from yesterday.

H.M.Jr: Yeah.

L: Ah, there's been nothing new - I mean there's been no developments, ah, to change anything on the - on prices at all.

H.M.Jr: Now, if you people listen, I'll have Miss Spangler hook me up with Dr. Burgess.

L: All right.

H.M.Jr: We'll hear what he has to say.

L: Right.

- 2 -

H.M.Jr: Hello. Hello.

L: What's that?

H.M.Jr: Can you get Miss Spangler?

L: Let's see - well ----

H.M.Jr: There's no - you see that little button to press, the lowest one.

L: Tried our - I see.

H.M.Jr: The white button.

L: All right, we pressed it.

H.M.Jr: Hello.

Operator: Yes sir.

H.M.Jr: Miss Spangler.

Operator: Yes.

H.M.Jr: Connect me up with Dr. Burgess, in New York, please.

Operator: All right. Just a minute, now.

H.M.Jr: Miss Spangler.

Lockhead: (Better push it again.)

Operator: Hello.

H.M.Jr: Yes.

Operator: I'm ready.

H.M.Jr: Miss Spangler.

Operator: Yes.

H.M.Jr: Let the men in the office listen.

Operator: Yes, I will. All right.

All right.

- 3 -

H.M.Jr: Hello.

Randolph
Burgess: Hello.

H.M.Jr: Hello - Randolph?

B: Hello, Henry.

H.M.Jr: Can you hear me?

B: I can hear you - yes.

H.M.Jr: Because I've got some people in my office listening.

B: Yes. Yes.

H.M.Jr: You'll have to talk fairly loud.

B: All right. - Well, I don't see any reason to change our judgment of yesterday.

H.M.Jr: You don't?

B: I think that the seven-eighths is the right thing to do. You could do it for - for three quarters.

H.M.Jr: You could.

B: But I think that would be a little too close.

H.M.Jr: Uh huh.

B: I think if you did that, the issue would be absorbed almost wholly in New York; it would go to a very moderate premium, and, ah, it might be a little chancy if anything came out, and, ah,

H.M.Jr: Well, now, Randolph

B: ... To do this well, it's developing

H.M.Jr: Hello.

B: a market for later issues.

H.M.Jr: On - on seven-eighths, what do you figure that the minimum premium will - it will sell at - the minimum?

- 4 -

- B: Oh, it's bound to sell at a quarter of a point, and I think it will sell at a half a point premium, or
- H.M.Jr: You do?
- B: Or it might go as high as three quarters.
- H.M.Jr: But at least - at least a quarter?
- B: Oh, I don't see how it could be short of that.
- H.M.Jr: Uh huh.
- B: The best guide I think you can use on it is the, ah
- H.M.Jr: Well the fact that you even talk about a three quarters of a per cent, makes me feel quite secure on seven-eighths. Is that right?
- B: Yes. I feel pretty sure about that.
- H.M.Jr: Have you any doubts on the seven-eighths?
- B: Not the slightest, no.
- H.M.Jr: Not the slightest?
- B: No.
- H.M.Jr: Well won't, - who are our customers apt to be?
- B: Oh, you'll get, ah, - the banks will come in very generally, and, ah,
- H.M.Jr: Well now
- B: some of the insurance companies.
- H.M.Jr: Randolph.
- B: Yes.
- H.M.Jr: Is all the machinery well oiled - they know all about it?
- B: I think so - yes.
- H.M.Jr: . What?

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B: I think so.

H.M.Jr: I mean, the Federal Reserve know - Banks all know about it?

B: Yes. Yes.

H.M.Jr: Have you found that there's much interest in it?

B: Oh, a great deal of interest - yes. They're all waiting for it.

H.M.Jr: Oh, they are?

B: Yeah.

H.M.Jr: And at seven-eighths you - you can - you feel confident?

B: I feel confident you'll get a wide distribution at seven-eighths.

H.M.Jr: Uh huh. Well, now let me talk to my gang and I'll call you back in five minutes.

B: Very good.

H.M.Jr: Will you keep your - will you - will you wait, and I'll call you back in ^{about} five minutes.

B: Very good - I'll be right here.

H.M.Jr: Thank you.

B: You bet.

Lochhead: Hello.

Operator: Hello.

Lochhead: Yes.

Operator: All right. Go ahead.

H.M.Jr: Let - let me talk to Taylor a minute.

Lochhead: Just - coming right on.

-6-

Taylor: Hello.

H.M.Jr: Wayne?

T: Yes, Henry.

H.M.Jr: How do you feel?

T: I think she'll go all right at 7/8.

H.M.Jr: You got any doubts?

T: No.

H.M.Jr: Has anybody there got any doubts?

(Pause)

H.M.Jr: Hello?

T: Yes. They think that the one-quarter^{premium}, which is what they say is a minimum premium, Burgess's minimum premium, ...

H.M.Jr: Yes.

T: ... is very much on the conservative side; that it ought to do it about a half.

H.M.Jr: Uh-huh.

T: As a minimum.

H.M.Jr: Uh-huh. Well, that's plenty.

T: Yes.

H.M.Jr: The fact that he even mentioned three-quarters surprises me.

T: Yes. As you know, Jesse, I think, would a little rather do it as a one.

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

T: But that's - that's just - it's an expressed preference but not any more than that.

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H.M.Jr: No. Well, he also told me that he'd leave it to me.

T: Yes.

H.M.Jr: "rich he, of course, has to.

T: No, I - ah - I had talked with him yesterday, and he's - he feels perfectly all right about it, but would like to have it on the rich side, you see.

H.M.Jr: On the what?

T: On the generous side.

H.M.Jr: Well, if the - I figure that if my figures are correct, ...

T: 7/8 is.

H.M.Jr: ... is - an eighth on 200 million ...

T: Yes.

H.M.Jr: ... two hundred fifty thousand a year.

T: Yes.

H.M.Jr: Which is seven hundred fifty thousand for the issue.

T: Right.

H.M.Jr: Well, I don't see any sense of giving that away.

T: No.

H.M.Jr: What?

T: Absolutely, not.

H.M.Jr: No - I mean I can see his point, but I - I'm - I feel that this thing ought to - if we don't get a billion subscription, five times over-subscribed, I'll be disappointed.

T: Well, I don't think there will be any question about it.

H.M.Jr: Yes. Well then, there's no sense of making it

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T: No, no.

H.M.Jr: What?

T: Oh, absolutely not.

H.M.Jr: Yes. Let me talk to Bell a minute.

T: Just a minute.

Bell: Good morning.

H.M.Jr: Dan, how do you feel?

Bell: I think it's all right.

H.M.Jr: All right.

B: Sounds pretty good.

H.M.Jr: What?

B: Sounds all right, and there's plenty of gravy there.

H.M.Jr: You do?

B: Yep.

H.M.Jr: How does George feel?

B: George thinks it's very safe.

H.M.Jr: And Harris?

B: Harris does too. Everybody here seems to be satisfied with it.

H.M.Jr: What?

B: Everybody here seems to be well satisfied.

H.M.Jr: All right.

Well, if you boys will stay there a minute on the phone, I'll talk to Jones and then I'll talk to Burgess.

B: All right.

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H.M.Jr: If ...

B: You're going to - you're going to talk directly to Mr. Jones.

H.M.Jr: Right now.

B: Because they're waiting over there to have a Board meeting to give us a letter.

H.M.Jr: I'll do it right now.

B: And then I take it you're coming back tomorrow - I mean Monday.

H.M.Jr: Yes. Why?

B: Well, there'll be certain papers that you ought to sign.

H.M.Jr: Well, I'm not - may not get in until quite late, though.

B: Uh-huh. Well, we - we thought that the letter to Jesse probably ought to be signed by you, and probably the circulars going into the Register.

H.M.Jr: Well, if there's any question on

B: But that can be done tomorrow evening.

H.M.Jr: What?

B: That can be done tomorrow evening.

H.M.Jr: I won't be back Sunday evening.

B: I mean Monday evening, excuse me. I mean

H.M.Jr: All right.

B: Fine. Well, we'll sit here and wait.

H.M.Jr: Do - do you know which button to press for Mrs. Spangler? It's the biggest - like a bell button there.

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B: It's been pressed.

Operator: Hello.

H.M.Jr: Mrs. Spangler.

Operator: Yes, sir.

H.M.Jr: Give me Mr. Jesse Jones and let the people in my office listen. Then when he hangs up, Dr. Burgess again.

Operator: All right.

H.M.Jr: After that I'll talk to the people in my office.

Operator: Right. Just a minute please.
(Pause)
Mr. Jones.

H.M.Jr: Hello.

Jesse Jones: Hello.

H.M.Jr: Jesse?

J: Yes.

H.M.Jr: Henry Morgenthau.

J: Yes.

H.M.Jr: I've talked and I've made a final check-up, Jesse, and we think the issue will go very well at 7/8.

J: At 7/8.

H.M.Jr: Yes.

J: And so that's what you think you'll put it out.

H.M.Jr: Yes.

J: All right, sir.

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H.M.Jr: That's what I recommend.

J: All right.

H.M.Jr: If it's all right with you.

J: Oh, perfectly all right with me. Your judgment's better than mine about it.

H.M.Jr: Well, we feel very comfortable at 7/8.

J: Well, you sound like you were up in the mountains.

H.M.Jr: I'm up at the farm.

J: That's fine. Well, I congratulate you and so you'll order - you'll put it in accordingly.

H.M.Jr: Well, I figured this way, Jesse. One eighth means \$750,000 over three years.

J: Yes. Well, that - we want to save that.

H.M.Jr: And I don't know how I can make any money for you any faster.

J: All right, and I'll - we've got some little work to do here, and I'll tell the boys right now.

H.M.Jr: I thank you.

J: Goodbye.

H.M.Jr: Goodbye.

Operator: Hello.

H.M.Jr: Yes.

Operator: Dr. Burgess?

H.M.Jr: Yes.

Operator: Go ahead.

Burgess: Hello.

H.M.Jr: Hello, Randolph?

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B: Yes, Henry.

H.M.Jr: Make it 7/8.

B: O.K.

H.M.Jr: What?

B: O.K.

H.M.Jr: 7/8.

B: That's going to be very satisfactory.

H.M.Jr: I don't hear you.

B: That will be very satisfactory.

H.M.Jr: I - I still don't hear you.

B: That will be satisfactory.

H.M.Jr: All right.

B: I'm sure it will be a great success.

H.M.Jr: I - I think so.

B: Yes.

H.M.Jr: Well, thanks for the help.

B: All right, sir.

H.M.Jr: I'll talk to you Monday.

B: Good. Goodbye.

Operator: There's your office, Mr. Morgenthau.

H.M.Jr: All right.

Operator: Go ahead.

H.M.Jr: Hello.

Taylor: 7/8 she is.

H.M.Jr: Yes. And if - tell Bell if he has any papers that he wants me to sign - I mean if there's any question he better put a man on the train, but otherwise I can sign them Monday night.

A: No question, he says.

H.M.Jr: What?

T: He says there's no question.

H.M.Jr: No question.

T: Yes.

H.M.Jr: All right. Golly, I signed a lot of papers yesterday.

A: (Laughs) Well, this is - the output is a little larger than usual.

H.M.Jr: All right. Now - gosh, I forgot to tell Herbert Gaston. I'll tell him when I get through talking to you men. Anybody want to tell me anything?

T: It's hotter than hell down here.

H.M.Jr: Well, it isn't very cool here, but by comparison it's comfortable.

T: Right.

H.M.Jr: You all have my sympathy.

T: Thank you, sir.

H.M.Jr: What else?

T: Oh, I don't - I don't - I don't know of anything really.

H.M.Jr: I told Harris not to sell any more 2's today or Monday.

T: He's got that.

H.M.Jr: Yes. What else?

T: We're going to let this go right - immediately, now.

H.M.Jr: That's right.

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T: Yes.

H.M.Jr: All right.

T: Now do you want to talk to Herbert?

H.M.Jr: I'll ask Mrs. Spangler if I can talk to him.

T: All right, I'll buzz her for you.

H.M.Jr: Thank you.

T: Goodbye.

H.M.Jr: Goodbye.

Operator: Hello.

H.M.Jr: Mr. Herbert Gaston.

Operator: All right.



TREASURY DEPARTMENT
WASHINGTON

July 9, 1938.

MR. McREYNOLDS:

I am handing you herewith a copy of my last progress report to Mr. Magill, dated July 7.

I believe that you would be interested to notice specially what appears on page 5.

The indicated saving of approximately \$6,000,000 per annum is based upon a comparison between the number of office employees actually on the rolls on January 1, 1938, and the number employed on July 1, 1938, after the fixing of the new quotas.

My boys tell me that had the comparison been made with the number of office employees who would have been required to handle the social security tax (Title VIII) system as it was originally projected (involving monthly tax returns and quarterly information returns), the computed annual saving would have been upwards of \$7,500,000.

You heard me tell the Secretary yesterday that the number of employees dropped on June 30 was about 900. I find that this is in error to the extent of about 100 employees, the actual number being something less than 800. This, however, is merely the number of persons, mostly permanent employees, who were dropped at the close of business on June 30. As you will notice from my tables, the over-all number of persons dropped, of course including temporary employees, was much larger. Naturally, the reduction process was commenced several months ago, when we first began to feel the effects of the new system. Practically all temporary employees assigned to social security tax work had been released by June 1.

GRAVES.

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July 7, 1938.

MEMORANDUM FOR MR. MAGILL:

Re: Survey of Bureau of Internal Revenue.

The following covers the work of our group since my last report to you, dated May 20:

Income-Tax Procedure.

(a) Studies of Revenue Agents' Divisions.--Surveys of the following revenue agents' divisions have now been completed: Boston, Brooklyn, Newark, Philadelphia, Nashville, Cleveland, Dallas, and Los Angeles. The San Francisco division is under survey at the present time. Other surveys are in abeyance, pending the further extension of the Los Angeles plan for the settlement of contested cases.

(b) Studies of Income Tax Unit.--The detailed study of the procedure involved in the operations of the several divisions of the Income Tax Unit has been substantially completed.

(c) Effect of Decentralization upon Bureau Organization.--Particular attention is being given in this study to the matter of planning the organization which will be needed in the Bureau as the result of the expected complete decentralization of income-tax administration under the so-called Los Angeles plan. The establishment of the Pacific Division of the Technical Staff on July 1 will mean roughly a 10 per cent reduction in the settlement work now devolving upon the Bureau. On January 1, when the Chicago and New York Divisions will begin to function with relation to pre-90-day cases, the Bureau's settlement work will be cut down to about one-half its present volume. As Staff Divisions are set up subsequently in the remaining sections of the country, the Bureau's direct intervention in settlement procedure will of course cease altogether, and it will thereafter exercise only supervisory and service functions in relation to income-tax matters. (This of course applies equally to estate- and gift-tax matters.) The intention is to develop fully, within the next few weeks, a plan for the Bureau's organization and procedure under these rearrangements.

(d) Analysis of Old Cases (1928 and prior years).--This study has been completed and all tables have been prepared. They are now being subjected to final verification.

(e) Analysis of Unagreed Cases, fiscal year 1936.--This study covers all unagreed cases originating during the fiscal year 1936 in the Second New York, Philadelphia, Cleveland, Nashville, and Los Angeles field divisions. The basic tables for the Second New York and Nashville Divisions have been completed. A limited number of special tables are in process and others are being held for desired information on special aspects. The material for the Cleveland Division is in final shape for tabulation, which will require approximately a week's time. It will be necessary to code in the neighborhood of 500 additional cases for the Philadelphia and Los Angeles Divisions, which arises from the fact that the original selection of cases did not conform to the period being studied.

(f) Extension of Los Angeles Plan.--The Pacific Division of the Technical Staff began to function on July 1, with jurisdiction over income-, profits-, estate-, and gift-tax cases (excepting those where criminal prosecution is contemplated) originating in the area west of the Rocky Mountains. On June 28 and 29, at Commissioner Holvering's request, I conducted a conference at San Francisco which was attended by the principal officers, both administrative and legal, of the new Staff Division, as well as by the internal revenue agents in charge at Honolulu, Seattle, San Francisco, Salt Lake City, and Los Angeles, and their chief assistants, for the purpose of explaining and discussing the details of the procedure which is involved under the new plan.

On May 31, the Commissioner recommended to the Secretary, and the Secretary approved, the establishment of a similar Staff Division at New York City, with jurisdiction over income-, profits-, estate-, and gift-tax cases originating in New York State. This is to be effective on August 1 as to docketed and 90-day cases, and on January 1, 1939, as to pre-90-day cases.

On June 7, the Commissioner recommended to the Secretary, and the Secretary approved, the establishment of a Staff Division at Chicago, covering the States of Wisconsin, Illinois, and Indiana. This is to be effective on September 1 as to docketed and 90-day cases, and on January 1, 1939, as to pre-90-day cases.

As stated in another connection, the three Staff Divisions here mentioned will account for approximately half the number of contested cases handled by the Bureau. Our studies indicate that eight additional divisions will be required, with headquarters as follows: Boston, Philadelphia, Baltimore or Washington, Atlanta,

Cleveland or Detroit, Houston or Dallas, St. Louis or Kansas City, and St. Paul. I doubt whether it will be practicable to proceed with the establishment of these eight additional divisions until after January 1. They can, however, all be established, in my opinion, in the early part of 1939.

(g) Procedural Changes.--Since my last report, considerable attention has been given by our group to the drafting of instructions to the field covering changes in the procedure applicable to the handling of tax cases. In the main, these were made necessary by, or are necessary to lay a proper foundation for, the decentralization of settlement work. They include the following:

I. T. U. ORDER NO. 348, dated June 1, 1938, revising the procedure to be followed by internal revenue agents in charge in the classification and assignment of returns for examination.

Com.-Mimeograph, R. A. No. 911, dated June 21, 1938, fixing the procedure for the closing of income-, profits-, estate-, and gift-tax cases by internal revenue agents in charge of field divisions operating under the decentralized plan. This includes new forms of 30- and 90-day letters, and form letters to be used by internal revenue agents in charge in notifying taxpayers of the procedure to be followed to secure reference of their cases to the Technical Staff.

Com.-Mimeograph, R. A. No. 909, dated June 21, 1938, extending to estate- and gift-tax cases the procedure applicable in income-tax cases to the assessment of deficiency taxes agreed to by taxpayers, and deficiencies permitted to default after the statutory notice.

Com.-Mimeograph, R. A. No. 910, dated June 21, 1938, fixing the procedure to be followed in connection with the valuation of securities, and in the conduct of collateral investigations, in estate- and gift-tax cases, in field divisions operating under the decentralized plan.

Com.-Mimeograph, R. A. No. 912, dated June 21, 1938, modifying the form of statutory notice of deficiency in income-, profits-, estate-, and gift-tax cases.

I. T. U. ORDER No. 350, dated June 30, 1938, giving instructions to field officers with regard to the preparation of statutory deficiency notices in income- and profits-tax cases.

Copies of these instructions are attached.

(h) Consolidation of Functions Relating to Unjust-Enrichment Returns and Processing-Tax Claims.—As I advised you in my last report, I submitted to the Commissioner on May 14 a recommendation for the establishment, under the Income Tax Unit, of a new division to take care of the Bureau's work in connection with unjust-enrichment taxes and processing-tax claims. Such a division was established by the Commissioner on June 1. In addition to the handling of unjust-enrichment cases, the new division has taken over the bulk of the Bureau's work on processing tax claims heretofore handled by the Miscellaneous Tax Unit. The most important task which has been performed by the new division since its establishment on June 1 has been in connection with the recruitment and training of the necessary personnel for the conduct of field investigations. Of the total required force of approximately 450 examining officers, approximately 150 have now been chosen. All new appointees are being given a two-weeks training course in the Bureau before being sent to the field.

Miscellaneous Tax Procedure.

(a) The survey of the Capital Stock Tax Division has been completed. We have under consideration a proposal to combine the capital stock tax return with the income tax return on Form 1120. This of course would require legislation, and a draft of a proposed bill has been informally referred to the Chief Counsel for study and report back to me. Should this proposal be found to be practical, and should the necessary legislation ultimately be secured, it will result in the elimination of the present Capital Stock Tax Division of the Miscellaneous Tax Unit (now employing 146 persons), and the absorption of its work by the Income Tax Unit without any appreciable burden upon the latter Unit. The proposed change would also materially cut down the work in the offices of the Collectors of Internal Revenue.

(b) Under the reorganization of the work on processing-tax claims above referred to, only minor claims for the refund of floor taxes remain within the jurisdiction of the Processing Tax Division of the Miscellaneous Tax Unit, together with a limited number of small claims for the refund of compensating customs duties. It is estimated that the work on these smaller claims will be completed not later than the end of the current fiscal year, and at that time the Processing Tax Division will go out of existence.

(c) Surveys of the following divisions of the Miscellaneous Tax Unit are still in process: Sales Tax, Estate Tax, Silver and Bituminous Coal Tax, and Tobacco Tax.

Social Security Tax Procedure.

(a) The survey to determine new personnel quotas in the 64 collection districts under the revised procedure for the handling of social-security taxes, as mentioned in my last report, has been completed, and the new quotas fixed as of July 1. The result is set down in the following statement:

Number of office employees assigned to social-security tax work in Collectors' offices, January 1, 1938.	4,402
Number assigned under revised quotas, July 1, 1938.	<u>932</u>
Reduction in force due to revised procedure	<u>3,470</u>

This reduction in force represents an annual saving in salaries amounting to about \$5,400,000. Combining this with the reduction attributable to the decentralization of the audit of tax returns under Title VIII, the total saving resulting from procedural changes in the handling of the social security taxes amounts to approximately \$6,000,000 a year. It should be understood, however, that a substantial part of this saving has been applied to the employment of additional personnel in connection with other tax functions in Collectors' offices. This will be clear from the following:

Statement Comparing Office Personnel
in Collectors' Offices, January 1 and July 1, 1938.

Assignment of Employees	Number		Increase or (Decrease)
	Jan. 1, 1938	July 1, 1938	
Social security taxes....	4,402	932	(3,470)
Processing taxes.....	639	275	(364)
Other taxes.....	3,231	4,725	1,494
W. P. A. employees.....	118	118	—
Total.....	8,390	6,050	(2,340)

(b) Following is the status of the work in Collectors' offices in connection with Title VIII returns filed for the March quarter, due on or before April 30:

<u>Item</u>	<u>Number</u> <u>(July 1, 1938)</u>
Taxpayers of record.....	1,778,006
Returns filed.....	<u>1,728,215</u>
Apparent delinquents.....	<u>49,791</u>
Returns filed.....	1,728,215
Audited and transmitted to Social Security Board.....	<u>1,697,006</u>
On hand, pending audit or adjust- ment.....	<u>51,209</u>

(c) Our group continues to keep closely in touch with the handling of social-security tax matters, and, since my last report, have, with the collaboration of Bureau officers, prepared instructions providing for the further simplification of the procedure involved in the field in the handling of Title VIII returns.

Collectors' Offices.

The survey of collectors' offices in the metropolitan area of New York is in abeyance, due to the necessity of assigning our personnel to other projects for the time being.

Chief Counsel's Office.

The survey of the Chief Counsel's office continues.

Assignment of Personnel.

Personnel attached to our group is assigned as follows:

General	2
Income-tax procedure	16
Miscellaneous and social-security tax procedure	9
Collectors' offices	4
Chief Counsel's office	<u>5</u>
Total	<u>36</u>

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**FEDERAL RESERVE BANK
OF NEW YORK**

J July 9, 1938.

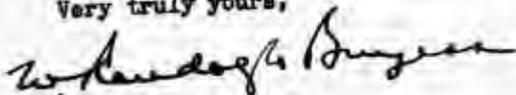
Dear Mr. Secretary:

Owing mainly to the Standard Oil Company of New Jersey issues, corporate flotations this past week rose to \$100,000,000. The \$50,000,000 Standard Oil 2 3/4 debentures of 1953 at 99 and the \$35,000,000 of 1 3/4 to 2 1/2 per cent notes of 1943-7 at par (of which \$4,000,000 ~~was~~ ^{was} purchased privately by the Rockefeller Institute for Medical Research) were all sold and quoted at premiums on the offering day. Both are rated Aaa by Moody's. The proceeds are for new capital expenditures, and the rates of interest are probably new low records for industrial borrowing.

The only other sizable corporate issue this week, \$10,000,000 Crown Cork and Seal Company debenture 4 1/2s of 1948, rated Ba, also for new capital, moved slowly and was available in the guaranteed investment market at a discount of a point or so from the offering price of 99. Although perhaps the least successful offering since last fall, it is not likely to cause embarrassment to the underwriters and its slow movement is no indication that the market for high grade obligations is approaching saturation. A fairly steady sequence of new bond or debenture issues is expected, now headed by the \$30,000,000 of Southwestern Bell Telephone Company 3s of 1968, due next Thursday.

Municipal bond awards this week amounted to \$4,800,000. Such issues continue to be well taken; so that inventories are still very low.

Very truly yours,



W. Randolph Burgess
Vice President

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



OFFICE OF THE CHIEF
SECRET SERVICE DIVISION

TREASURY DEPARTMENT
WASHINGTON, D. C.

377'

A. S. L.
7-12

**Re Reorganization of Secret Service Division
under the direction of Secretary Morgenthau**

July 9, 1938

Memorandum for the Secretary

From the Chief, Secret Service Division.

In compliance with your request there is submitted herewith information relating to the reorganization of field offices of the Secret Service Division since you were appointed Secretary of the Treasury. The following fifteen changes in supervisory positions were made since January 1, 1934, as a result of improper conduct, inefficiency or other causes warranting disciplinary action:

<u>Date</u>	<u>Name</u>	<u>Action Taken and Basis for Action</u>
<u>AGENTS IN CHARGE</u>		
3-1-35	Jarvis, Richard L. Washington, D. C.	Relieved in charge White House Detail; salary reduced \$1,000; transferred to Memphis; drinking.
7-1-35	Brown, Bert C. Detroit, Mich.	Removed from the Service; connection with "Famous Brands" Corporation and failure to make proper income tax returns.
8-9-35	Straight, Alan G. New York, N. Y.	Relieved as Agent in Charge; salary reduced from \$4500 to \$3200; transferred to Detroit office; inefficiency in conduct of the office.
8-24-35	McHugh, Edward J. Buffalo, N. Y.	Relieved as Agent in Charge; Buffalo headquarters changed to Syracuse; inattention to duty.
8-31-35	Rebentish, Adolph Dallas, Texas.	Resignation requested; accepted with prejudice; debts; neglect of duty; association with women of objectionable character; false reports.
9-14-35	Ashb, William W. Los Angeles, Cal.	Resignation requested; accepted without prejudice; drinking.

<u>Date</u>	<u>Name</u>	<u>Action Taken and Basis for Action</u>
6-1-36	Smagol, Leo A. St. Louis, Mo.	Relieved as Agent in Charge; ineffecticiency.
6-15-36	Buck, Harry H. Cincinnati, Ohio.	Resignation requested; accepted without prejudice; drinking; association with questionable woman; intimate with criminal.
8-7-36	Boutwright, Cuddy L. St. Paul, Minn.	Transferred to Salt Lake City; alleged improper investigation of activities of Department of Justice.
1-1-37	Raidy, James H. Burlford, Conn.	Transferred to Birmingham; not competent as Agent in Charge.
1-1-37	Morris, Fred W. Memark, N. J.	Transferred to New York City; not fitted for Agent in Charge.
2-15-37	Brutton, Bartholomew Baltimore, Md.	Transferred to Philadelphia; drinking; neglect of duty.
12-2-37	Burper, William C. Cleveland, Ohio.	November 26, 1937, was notified services discontinued December 1, 1937, with prejudice. December 1, 1937, recommendation made that resignation be accepted without prejudice, which was approved; connection with "Famous Bravads" and disregard of Secretary's instructions.
7-1-38	Kett, John A. Buffalo, N. Y.	Transferred to New York City; incompetent as Agent in Charge.
7-1-38	Houghton, William H.	Relieved as Supervising Agent; incompetent to manage large district.

SUPERVISING AGENTS

In 1937 the administration of the field work of the Secret Service Division was greatly improved through your action in establishing fifteen Treasury Department enforcement districts of from one to four states under the control of supervising agents. Formerly the work of the Secret Service Division was conducted through thirty-six independent offices directed by

agents in charge located at various points throughout the country, and the change to fifteen districts was made because the efficiency of the thirty-six offices and the degree of cooperation existing between them were not satisfactory. In addition to the fifteen district headquarters offices we have established sixteen branch offices in cities which in the past had no local representative of the Secret Service, and we now have forty-two branch offices directed by fifteen supervising agents. Valuable assistance in connection with the reorganization of field offices was rendered by Mr. Harold H. Groves, the former Coordinator of the Treasury Department Law-Enforcement Activities. The coordination of the Treasury Department agencies has been continued by the present Coordinator, Mr. Elmer L. Trey, with very satisfactory results, and close contact is now established between the Secret Service Division and other enforcement agencies of the Treasury Department.

As a part of your reorganization program the official designation of field representatives has been changed from Operatives to Agents. All agents of the Service were given for the first time a thorough course of training in the production of genuine money at the Bureau of Engraving and Printing and at the Philadelphia Mint. They were also given an intensive course in law-enforcement and criminal law for a period of two weeks under the instruction of experienced agents of the Treasury Department Training Section. For the first time in thirty years a seminar of all field Supervisory Agents was held in Washington in June of 1938.

The agents have been trained in the use of firearms by experts of the U. S. Coast Guard. During the period since January 1, 1934, there

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has not been a case in which embarrassment has been caused the Treasury Department on account of the injury or death of bystanders or of suspects or defendants through the careless or unjustifiable use of firearms at the time raids or arrests were being made.

On July 1, 1937, the supervision of 210 uniformed guards protecting the immense values at the Treasury Building and the Bureau of Engraving and Printing was assigned to the Chief of the Secret Service. The efficiency and appearance of this organization has shown a marked improvement. When the Secret Service took over this function, 46 men, or 22% of the force, were officially qualified by the Coast Guard in the use of firearms, and at the present time 167 men, or 83-1/3% of the force, are so qualified.

Through the reorganization an important change in the policy of the Division was made possible in connection with the notification of and education of the public in reference to dangerous counterfeit notes in circulation throughout the country, and warning notices are now extensively used. Heretofore, an extremely limited number of crude warning notices were issued by the field offices, and slight effort was made by supervisory agents to instruct the public. Present procedure requires agents to instruct merchants and bankers in groups, and an intensive educational campaign has been conducted. It is felt that at the present time merchants and bank employees are counterfeit conscious to a greater degree than ever before, and that losses of retailers through the acceptance of counterfeits are likely to be materially reduced. During the last three months agents carrying out this new policy called at 104,194 retail stores in New York City and vicinity, displaying to the merchants

specimens of counterfeit notes and leaving an illustrated circular describing methods to detect counterfeit notes. The agents also conducted neighborhood meetings at which 20,743 merchants and bank representatives in New York City were instructed on how to detect counterfeit notes and the proper action to promptly take to aid the Government in apprehending the professional passers. During this period approximately 560,000 warning notices describing the principal counterfeit notes in circulation at that time in New York City and vicinity were distributed through the cooperation of banks, through personal calls by the agents, and through our mailing lists. Many letters commenting favorably on the action of the Department in educating the public have been received. It is planned to continue the efforts of the Secret Service along this line in order to aid merchants in better protecting themselves against counterfeit notes which may appear in the future.

Below is a statement reflecting a favorable trend in the amount of counterfeit notes in circulation which were surrendered by banks and other sources during the fiscal years 1934 to 1938, inclusive, and it will be noted that the losses incurred by the public have been materially reduced.

	<u>Notes Not in Evidence</u>	<u>Coins Not in Evidence</u>
1934	\$ 743,046.43	\$71,321.78
1935	1,037,784.73	69,745.63
1936	734,323.23	67,535.37
1937	519,346.86	67,510.21
1938	378,682.10	50,219.91

In addition to the action taken in connection with the fifteen Agents in Charge it was also necessary to take action in reference to thirty-six employees, and a list is attached reflecting the facts in these cases. During the period covered it was necessary to separate

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from the Service, for cause, thirty-three employees, and eighteen were demoted or transferred. The removal of the supervisory agents and field agents who were not functioning to advantage, the selection of new supervising agents who are capable, the establishment of fifteen Treasury Department enforcement districts to conduct the field work, and other changes directed by you have accomplished satisfactory results.

The very active and personal interest evidenced by you in directing these constructive changes in connection with the reorganization of the Secret Service Division, and the wholehearted cooperation extended by you, the Administrative Assistant to the Secretary, and the Coordinator of Treasury Department Enforcement Activities in reference to the reorganization and all other matters concerning this Division, made it possible for the present personnel of the Division to carry out your program without difficulty, and also made our work at all times very pleasant.

Many of the agents of this Service have strongly expressed their satisfaction over the many constructive plans that have been inaugurated and accomplished by you in the Secret Service Division since you became our Secretary, and I am sure that their expressions reflected the sentiment of the entire organization. For the personnel of this Division I desire to take this opportunity to express our sincere appreciation for your earnest efforts and for the consideration which you and your staff have shown to us.


Chief, Secret Service

fjs/b/w.

Admiral

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<u>Date</u>	<u>Name</u>	<u>Action Taken and Basis for Action</u>
1-31-34	Bell, John B New York, N. Y.	Resignation requested; accepted without prejudice; misconduct.
2-15-34	Connolly, Bernard J. New York, N. Y.	Discontinued with prejudice and later resignation accepted; various charges of misconduct.
2-19-34	Russell, Roswell J. St. Louis, Mo.	Resignation requested; accepted without prejudice; incompetent.
1-5-35	Towalee, Alfred C. Washington, D. C.	Transferred from White House to Louisville; use of intoxicating liquor.
2-21-35	Drescher, Geo. C. Washington, D. C.	Transferred from White House to Washington District Office; use of intoxicating liquor.
11-20-35	Flynn, Joseph, A.P. Syracuse, N. Y.	Resignation requested; accepted with prejudice; debts.
3-31-36	Penny, Joseph M. Dallas, Texas.	Resignation requested; accepted without prejudice; debts.
3-31-36	Sloan, Henry J. Los Angeles, Cal.	Resignation requested; accepted without prejudice; misconduct.
6-11-36	Goodyear, Wm. P. Detroit, Mich.	Resignation requested; accepted without prejudice; incompetent.
6-30-36	O'Halloran, Wm. F. New York, N. Y.	Discontinued at expiration of appointment; incompetent.
6-30-36	Shelhorse, James B. New York, N. Y.	Resignation requested; accepted without prejudice; various charges.
7-30-36	Tebbutt, Cecil C. San Francisco, Cal.	Resignation requested; accepted without prejudice; drinking.
9-17-36	Brought, Ira I. Washington, D. C.	Transferred from White House to Detroit; asleep on post.
9-30-36	Munday, Laffoy C. Albuquerque, N. M.	Resignation requested; accepted without prejudice; drinking and misconduct.
10-2-36	Wittchen, Otto H. Cincinnati, Ohio	Resignation requested; accepted with prejudice; misconduct; use of liquor and drugs.
10-15-36	Schaefer, Cleveland Cincinnati, Ohio	Removed from the Service with prejudice; drinking and association with questionable woman.
12-31-36	Moffett, Preston G. Buffalo, N. Y.	Resignation requested; accepted without prejudice; failure to cooperate with other officers.

AGENTS (continued)

<u>Date</u>	<u>Name</u>	<u>Action Taken and Basis for Action</u>
1-4-37	Dronsey, Robert F. Washington, D. C.	Transferred from Special Detail to Washington District Office; embroilment with police officer while on duty.
2-13-37	Ferry, Roy G. New Orleans, La.	Resignation requested; accepted without prejudice; drinking; debts; and improper conduct while on White House Detail.
2-28-37	Booth, Frank H. Baltimore, Md.	Discontinued without prejudice; debts; worthless checks.
3-1-37	Almosey, Geo. A. Baltimore, Md.	Transferred to Newark; borrowing money; activities unofficial matters; slovenly appearance.
5-17-37	Hitt, William B. Baltimore, Md.	Resignation requested; accepted without prejudice; incompetent.
7-22-37	Hare, Alex. P. Washington, D. C.	Resignation requested; accepted without prejudice; use of intoxicating liquor.
7-27-37	Cooley, Edward L. Omaha, Neb.	Resignation requested; accepted without prejudice; drinking; improper conduct while on Presidential Detail.
8-21-37	Kilner, George T. Jacksonville, Fla.	Resignation requested; accepted with prejudice; drinking; false reports; failure to appear in court.
11-8-37	Rubano, Peter A. New York, N. Y.	Transferred to Baltimore; careless with contraband.
1-3-38	Mahan, Arthur T. Harrisburg, Pa.	Transferred Harrisburg to Pittsburgh; not fitted to cooperate with others.
3-7-38	Phillips, Stanley B. New York, N. Y.	Transferred New York City to Philadelphia; inefficient.
4-2-38	Leibman, Richard E. New York, N. Y.	Resignation requested; accepted without prejudice; debts; borrowing money and association with criminals.
4-6-38	Brooks, John N. Washington, D. C.	Resignation requested; accepted without prejudice; excessive use of intoxicating liquor.
6-30-38	King, James A. New York, N. Y.	Resignation requested; accepted without prejudice; incompetent; lack of interest.
<u>CLEUS</u>		
1-31-34	Campion, Edgar W. Scranton, Pa.	Resignation requested; accepted without prejudice; debts.

CLERKS (continued)

<u>Date</u>	<u>Name</u>	<u>Action Taken and Basis for Action</u>
2-15-35	Rensud, Edwin E. Seattle, Wash.	Resignation requested; accepted without prejudice; drinking and debts.
1-10-36	Leake, Paul St. Paul, Minn.	Resignation requested; accepted without prejudice; incompetent.
10-6-37	Cipriano, Philip Los Angeles, Cal.	Resignation requested; accepted without prejudice; incompetent.

CHAUFFEUR

3-15-37	Shaner, Leon E.	Resignation requested; accepted without prejudice; neglect of duty.
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AAA 307

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: July 9, 1938, noon.

NO.: 1090

CONFIDENTIAL.

I had a talk last night with Marchandean in which we discussed Professor Rist's views on the financial situation in France. The Finance Minister said ~~that~~ he did not intend to adopt the proposals put forward by Rist. He thought that not until November would the Government face any really great financial difficulties. It is generally anticipated that the situation will become serious at the end of September, but Marchandean does not think so.

He said he would be obliged to float very large loans in the autumn. He believed that French investors would not take up the new loans if he should adopt Rist's plan of stopping amortization, which, coupled with the interest rate on outstanding bonds or taxing the public lands, would shake confidence. In Marchandean's opinion, if Rist's proposals were adopted now the result would be exactly opposite from that which is anticipated by Rist.

Marchandean said that Rist's proposals might become practical if during the summer the general political situation in Europe should improve so that there seemed to

be

- 2 -

be a real prospect of peace and a possibility that expenditures for armaments might be reduced. Investors in government bonds would know that, at the present time, any savings effected by stopping amortization and reducing rates would have to be spent at once on new airplanes and other material for carrying on war.

Please forward to the Secretary of the Treasury a copy of this telegram.

BULLITT.

RECEIVED
EA: LWW

THE SECRETARY OF THE TREASURY

WASHINGTON, D. C.
OFFICE OF THE SECRETARY OF THE TREASURY

REB

TELEGRAM SENT

GRAY

July 9, 1938.

1 p. m.

AMEMBASSY

PARIS (FRANCE)

454.

FROM THE SECRETARY OF THE TREASURY FOR COCHRAN.

For release, morning newspapers, Monday, July 11, 1938.

The Secretary of the Treasury, on behalf of the Reconstruction Finance Corporation, is today offering for subscription, at par and accrued interest, through the Federal Reserve banks, \$200,000,000, or thereabouts, of notes of the Reconstruction Finance Corporation, designated 7/8 per cent notes of Series N. The notes will be dated July 20, 1938, and will bear interest from that date at the rate of 7/8 per cent per annum payable semiannually. They will mature on July 20, 1941, and will not be subject to call for redemption prior to maturity.

The notes will be fully and unconditionally guaranteed both as to interest and principal by the United States. They will be exempt both as to principal and interest

REB

2-#454, To Paris, July 9, 1 p. m.

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.

HULL
(FL)

EA:FL:LWW

SAME TO: LONDON, NO. 335,
FROM THE SECRETARY OF THE TREASURY FOR
BUTTERWORTH.

JR

PLAIN

London

Dated July 11, 1938

Rec'd 2:40 p.m.

Secretary of State,
Washington.

621, July 11, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

Exchange movements were occasioned today by the recurrence of currency rumors. The dollar was affected by persistent reports regarding the possibility of stabilization at the old parity and accordingly moved below 4.93. Likewise there was an extraordinary demand for gold, 309 bars being dealt in at fixing with substantial dealings thereafter. The franc continues under considerable selling pressure though the market as yet can cite no specific reason or reasons for this somewhat sudden increase in pessimism.

KENNEDY

KLP:WWC

TREASURY DEPARTMENT

Confidential

INTER OFFICE COMMUNICATION

DATE July 11, 1938

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation, week ending July 9, 1938

Summary

(1)

The current business trend is obscured somewhat by shut-downs for the Fourth of July holiday, but an upturn in new orders for steel and other products provides a significant indication of improvement in the immediate business outlook. New steel orders last week reached the second highest volume since March, while our combined index of orders for products other than steel rose to a new high for the year.

(2)

A reaction in stock and commodity prices from present levels seems in prospect, since

- (a) Stock prices have been carried to levels that are to some extent artificial, due to heavy short covering in a thin market.
- (b) The demand for commodities has shown signs of falling off at current price levels.
- (c) A decline in sterling to a new low for the year is a deflationary price influence.

(3)

Improving railroad earnings, higher retail sales, and reports of increasing employment are encouraging features in the business outlook. Among the unfavorable factors, however, is an increase in cement prices, which will tend to raise construction costs.

New orders improve

Extended shut-downs in many industries over the Fourth of July holiday tend to obscure the current business trend, but a substantial increase in new orders last week provides strong evidence of underlying improvement. (See Chart 1.) Steel orders have increased to the second highest total since March, at a time when orders would normally be declining. For products other than steel, our combined index shows an increase for last week to a new high for the year. Continued heavy buying of textiles was largely responsible for the increase.

The rising trend of orders, if continued, should lead to increased industrial activity in the near future, since evidence appears to show that inventories have been reduced to a level where they are no longer an important handicap.

The steel situation

New orders for steel last week rose to the equivalent of 33 percent of capacity, as compared with 26 percent the previous week, despite reports indicating that buyers have been hesitant about entering the market because of price uncertainties created by changes in the basing point system. In the Pittsburgh area, the most important steel district, orders booked during June are reported as 10 to 15 percent higher than in May.

In Chart 2 we show by weeks the rate of steel ingot output for the United States and for each of the major steel districts, together with steel scrap prices. The trend of scrap prices is important as an index of underlying demand. The substantial upturn in the important Pittsburgh district appears particularly encouraging.

Steel operations this week have been sharply reduced by the Fourth of July holiday, dropping to 22 percent of capacity from 29 percent last week. An underlying upward trend of operations is indicated, however, by the fact that some important districts reduced operations only slightly despite the holiday, while operations in the Wheeling and Birmingham districts were actually increased. These latter districts, as shown on the right of the chart, have been running consistently above the average for the country as a whole. Steel trade reviews indicate that production generally will be stepped up next week, with operations at Pittsburgh rising about 6 points and at Chicago about 9 points.

Pig iron buyers in some districts have quickly responded to the recent sharp reduction in prices, which many consider too drastic to last. In the St. Louis district, particularly, buyers have rushed in to cover their third quarter requirements, and some have bought even further ahead. The Chicago, Cleveland, and Buffalo districts also report heavy buying, while in other districts buying has been more moderate. The price situation is strengthened by the fact that stocks of pig iron appear to be well depleted. A report on foundries in the Philadelphia Reserve district shows pig iron inventories 62.5 percent below those of a year ago.

The number of blast furnaces in operation on July 1 was reduced to 70, or 29.4 percent of the total of 238 available, which compares with 72 furnaces, or 30.3 percent, on June 1. This contrasts with a peak of 81.0 percent in August of last year.

Price decline appears probable

Stock and commodity prices appear to have reached levels from which a reaction, rather than a further rise at this time, appears more probable. In the commodity markets, three factors appear significant as indicating the probability of a setback:

- (1) Following recent price upturns, the demand for some commodities has noticeably fallen off, suggesting that for the time being the price advance may have gone too far.
- (2) Speculative positions have apparently been built up in some commodities. In copper, for example, the extent of recent buying is indicated by the fact that sales since June 1 have been equal to about 45 percent of the total stocks of refined copper in this country, far too much for industrial requirements.
- (3) A decline in sterling exchange to a new low for the year (See Chart 3) is a deflationary price influence, regardless of its cause. The decline is attributed in some quarters to a rumor that sterling will be stabilized at its old par in connection with the pending trade agreement. As will be noted on the chart, changes in sterling during 1938 have tended to anticipate changes in commodity prices.

In the stock market, the probability of a reaction from present levels is suggested by the following facts:

Secretary Morgenthau - 4

- (1) The industrial average has recovered 45 percent of the entire decline since last fall, although business activity remains close to bottom levels.
- (2) Stock prices were high in relation to current earnings even before the rise started; in other words, they were at that time already discounting some business improvement.
- (3) A substantial part of the rise has been due to heavy short covering in a thin market, and to that extent has been artificial. Contributing to the thinness of the market has been the fact that odd-lot buyers have withdrawn a considerable volume of stocks from the floating supply. In Chart 4, a confidential S.E.C. chart, it will be noticed that 11,000,000 shares have been taken by odd-lot buyers since July 1, 1937. Such buying is largely for cash, and the shares have therefore tended to pass out of the floating supply, thus forcing recent buyers to bid up prices excessively.
- (4) Buying of stocks by businessmen, which should represent a more informed type of buying, is reported to have been noticeably lacking. While admitting that the trend has turned, businessmen may not agree that the outlook is sufficiently improved to justify present stock prices.

Further evidences of improvement

Gross revenues of the railroads during June are expected to show a contra-seasonal increase over May, judging from reports now being received. A large part of the gain is due to a more than seasonal increase in carloadings during the latter part of June, partly because of a heavy wheat movement and partly because of a pickup in traffic on the Eastern industrial roads. Both of these influences seem likely to continue, in view of the large wheat crop and improving business.

As a direct result of the change in the business trend, employment during July seems likely to turn upward, in place of the usual seasonal decline. Railroad employment increased during June, and reports indicate that additional employes have been added since the 1st of July. Newspapers have begun to print news items from various industries, telling of factories reopening and employes being added, particularly in consumer goods lines.

Secretary Morgenthau - 5

An improved inventory situation is suggested by a recent tendency toward a levelling out of the decline in business loans, following a substantial drop since the middle of last October. This appears to indicate that, in the net, borrowers now are less inclined to reduce their outstanding loans than they were a few weeks ago, which may indicate that pressure to liquidate inventories is coming to an end. Excluding a July 1 repayment of \$39,500,000 by the U. S. Steel Corporation, the decline in business loans by New York banks during the past four weeks has averaged only \$2,500,000 a week, as contrasted with a previous average decline of \$12,000,000 a week since the first of the year.

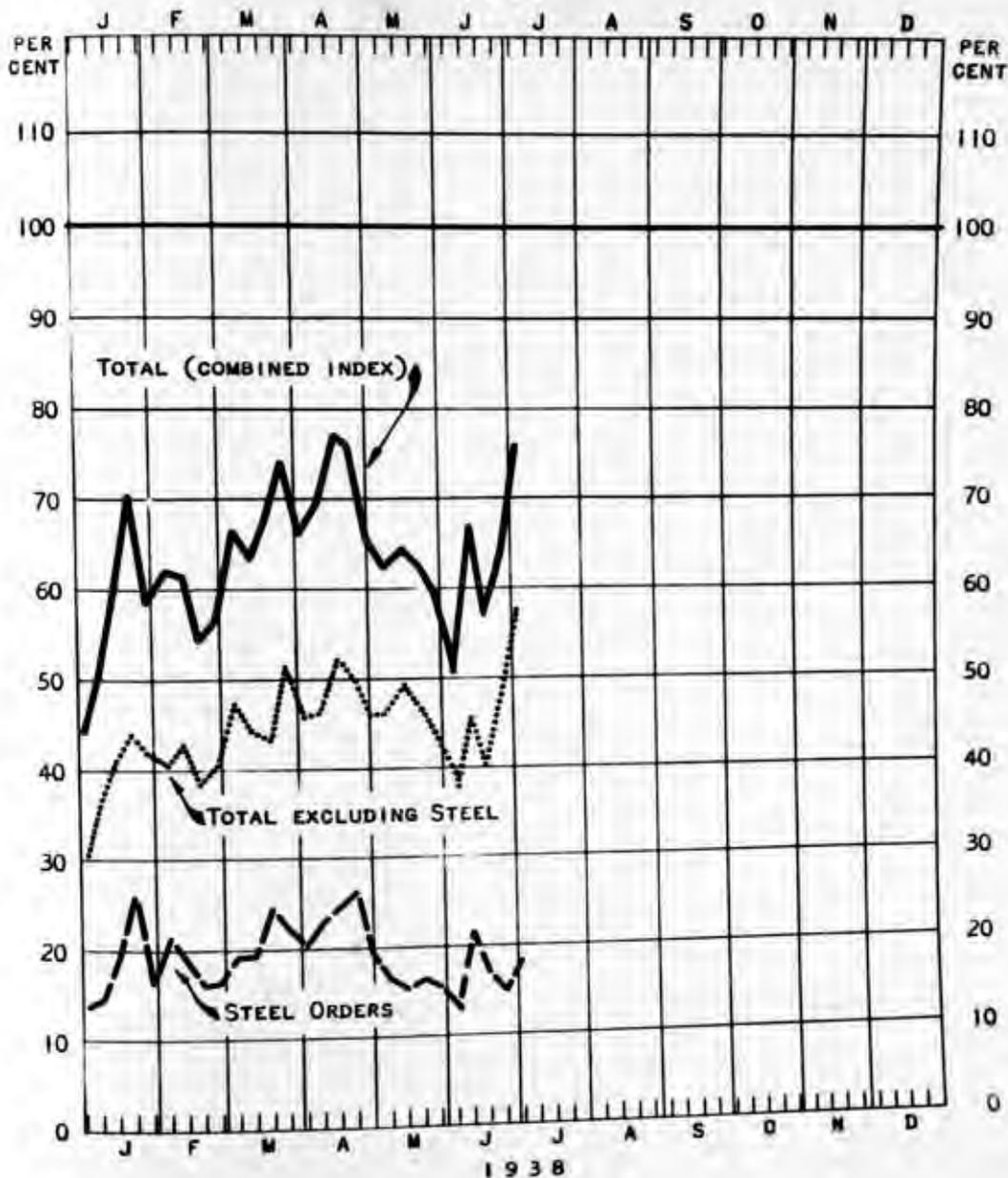
Department store sales continue to gain in relation to last year, though their summer decline has begun. For the week ended July 2 the difference narrowed to 9.6 percent under last year, as compared with 18.6 percent at the end of May. In Chart 5, it will be noted that sales in the Boston, New York, Minneapolis and Richmond Reserve districts showed the greatest gains during June, while a downward trend has been evident in certain areas that showed a favorable trend during May, notably in the Dallas and Atlanta districts. It is not known to what extent these may reflect differences in seasonal trends in the various districts.

The revival of business confidence has brought an increased demand for higher-priced automobiles. The larger Packards were sold in the first 20 days of June at a rate indicating that June will be the best month since their introduction last September, and will be about 19 percent above May. Cadillac sales have increased during June, with the 6 months of this year showing the best results of any such period since 1929, with the exception of 1937. The market advance is said by Ward's Reports to have been responsible for a considerable number of sales in recent days.

An unfavorable development, on the other hand, has been an increase in cement prices in certain areas, although in some sections prices have been slightly reduced. In the important consuming areas of New York and Boston, advances ranging from 17 to 50 cents a barrel are being put into effect, which largely offsets reductions that had been made near the end of 1936. In Philadelphia the price has been reduced by 27 cents a barrel, and in other limited areas by 10 cents a barrel, apparently to meet foreign competition.

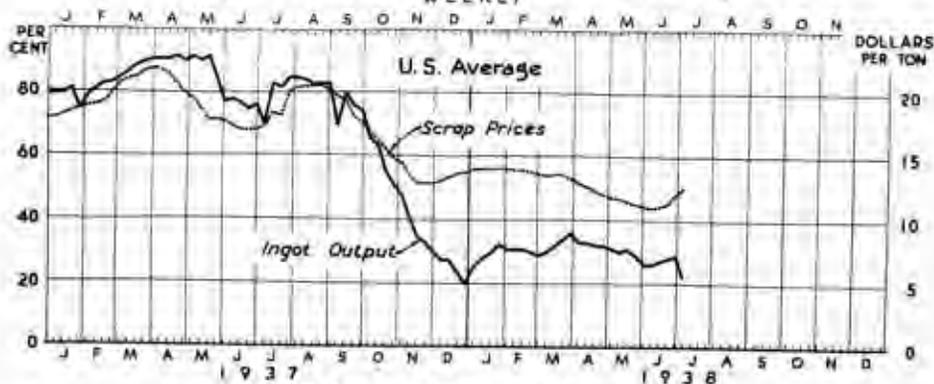
INDICES OF NEW ORDERS
1936 = 100

1938



STEEL OUTPUT AND SCRAP PRICES

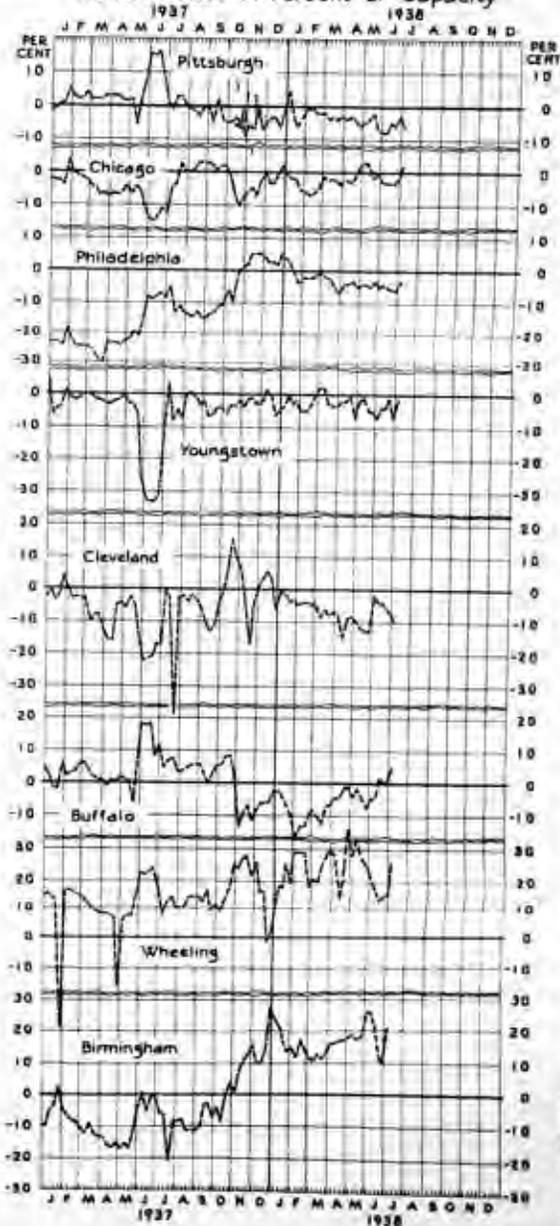
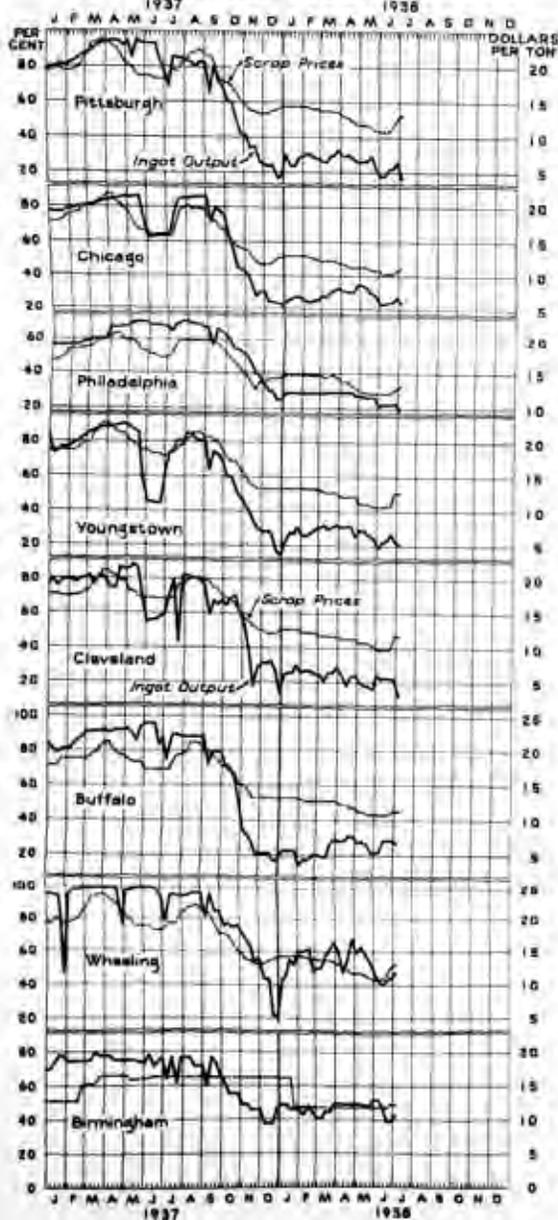
Ingot Output in Percent Capacity
WEEKLY



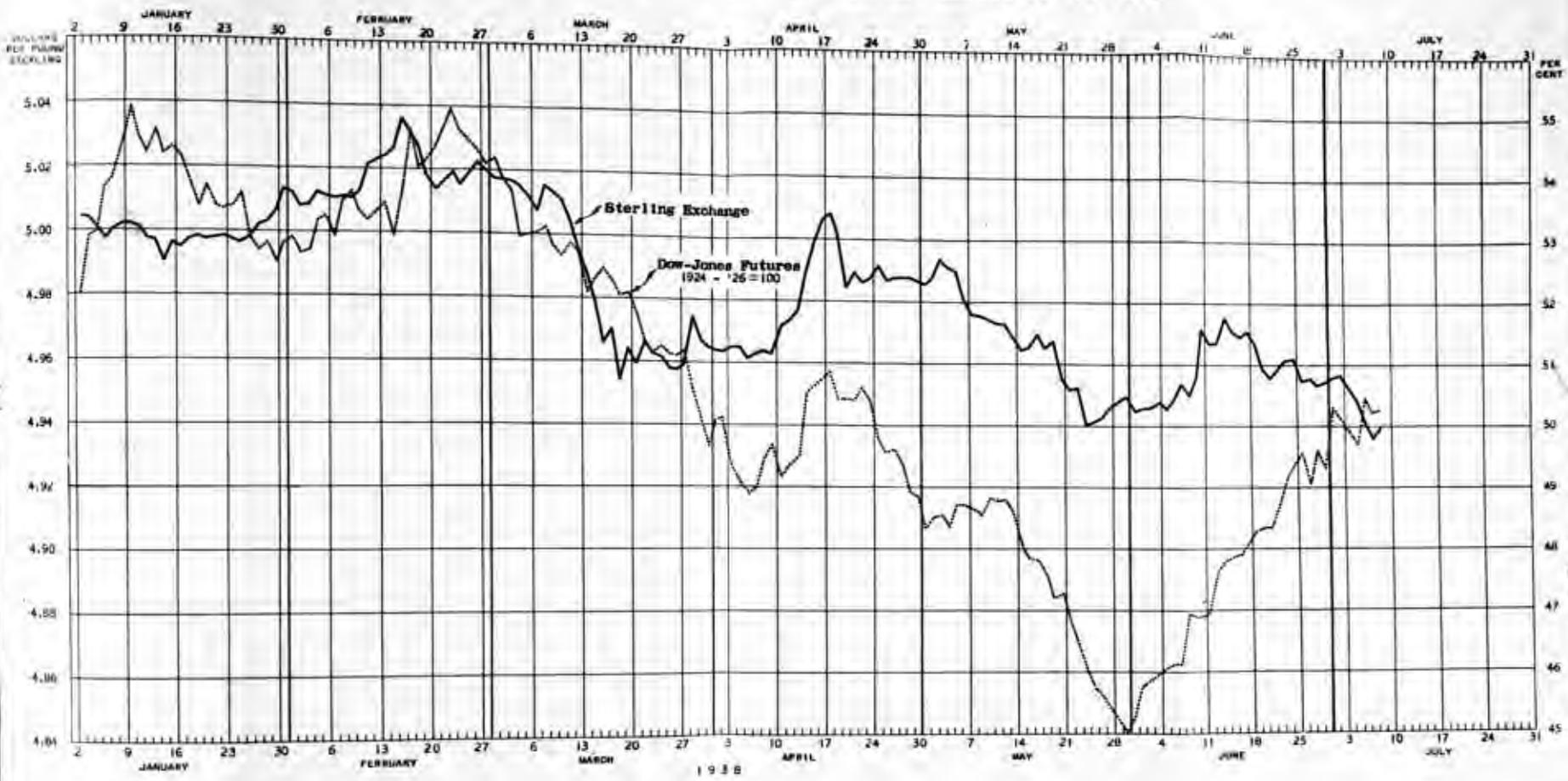
PRINCIPAL PRODUCING DISTRICTS

Ingot Output and Scrap Prices
in Each District

Difference Between District Rates and
National Rate in Percent of Capacity



STERLING EXCHANGE AND PRICES OF COMMODITY FUTURES

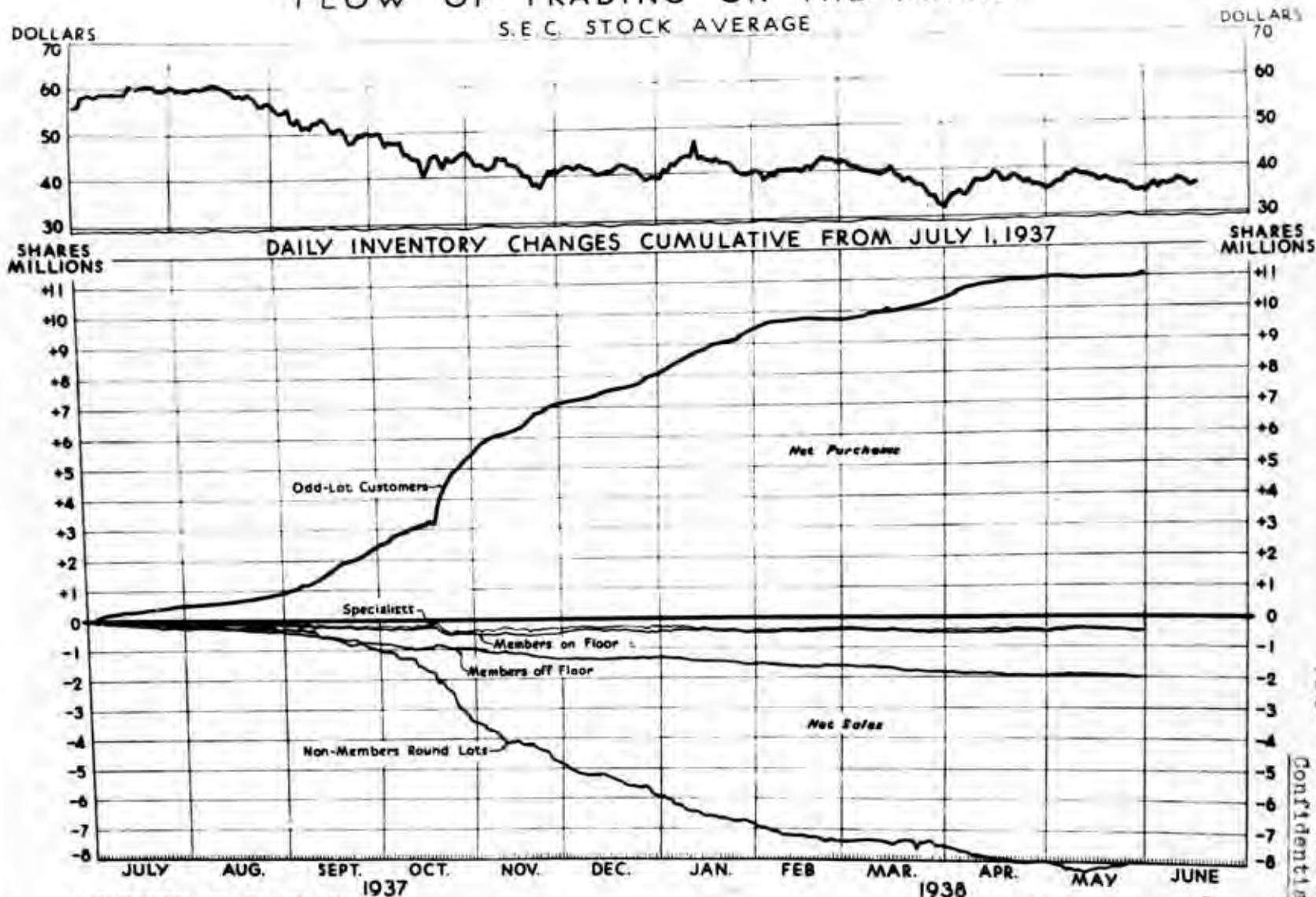


Office of the Secretary of the Treasury
Division of Research and Statistics

M - 68 - B

FLOW OF TRADING ON THE N.Y.S.E.

S.E.C. STOCK AVERAGE

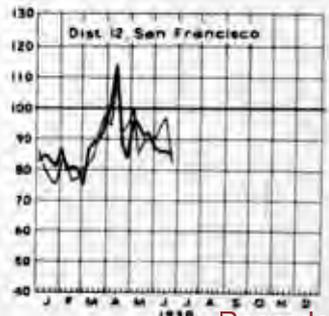
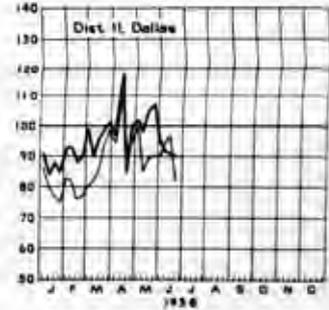
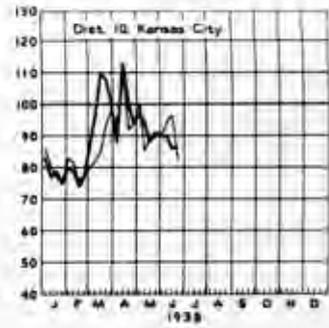
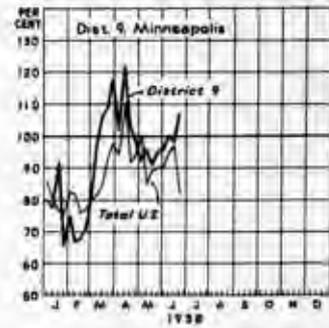
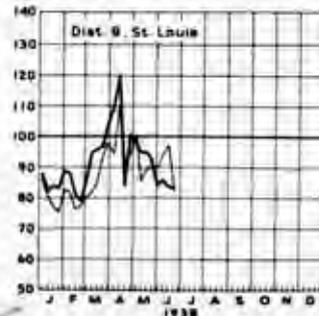
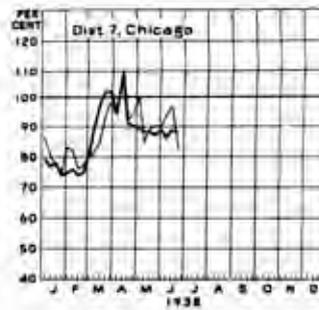
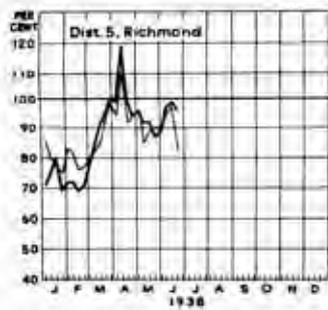
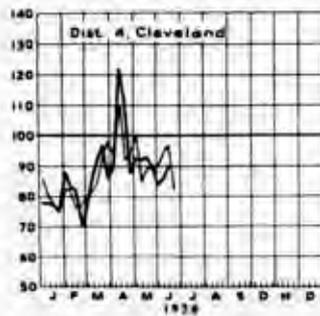
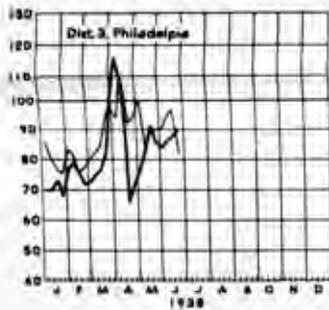
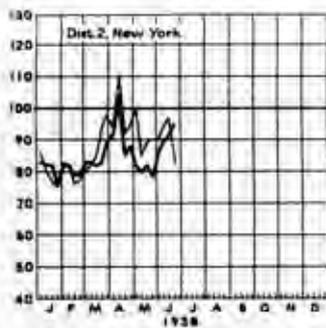
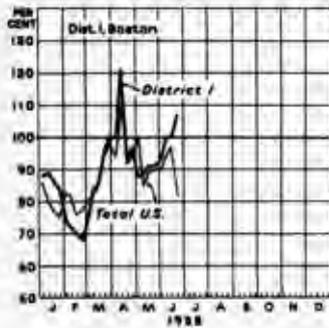


400

Confidential Chart

DEPARTMENT STORE SALES

By Federal Reserve Districts



632 

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE July 11, 1938

To Secretary Morgenthau

FROM M. A. Harris

A short review of the U. S. Government
security market during the past week

Treasury bonds advanced 2 to 7/32nds further during the past week with the average price rising about 1/8th of a point. Longer issues showed the greatest strength, with the new 2 3/4s advancing 6/32nds to 102 3/32nds bid, a new high since trading began on the Stock Exchange in this issue, which appears to indicate that the floating supply has been rather satisfactorily absorbed. Trading was rather active, including a substantial amount of switching, and this activity was ascribed by some to the new regulations of the Comptroller of the Currency. Prices of government guaranteed issues were little changed and it is felt by some that these issues are being restrained somewhat by the recent proposals to issue additional guaranteed obligations in the future.

The Treasury note market was very quiet with prices moving slightly lower. The long and short maturities declined 1 to 3/32nds, while the intermediate issues were 3 to 6/32nds lower. The larger losses by the intermediate issues are due to preparations for the 3-year R. F. C. note.

The Corporate Bond Market

Further gains were recorded by domestic corporate bonds during the past week although gains by the medium and lower grades were not as substantial as those of the previous week. Lower priced and speculative

rail issues recorded the largest gains, particularly the bonds of the eastern railroads, due to the basic passenger coach rate increase to 2 1/2 cents a mile. Trading was active at times and the volume of turnover was sizeable.

Moody's average price of BAA issues rose 3/4 point. The BAA average for rails rose 7/8 of a point to a level 9 3/4 points above June 18, the utility average rose about 3/8ths of a point to a level 4 points above June 18 and the industrials about 1/4 of a point to about 3 3/4 points above June 18.

High grades, after showing no net change in the previous week, advanced about 1/4 of a point to a level 1 1/4 points above June 18. Rails advanced in the average about 1/2 point, utilities 1/4 point and industrials showed no net change.

New Security Issues

The only issues of importance coming out last week were the \$85,000,000 debentures and notes of the Standard Oil Company of New Jersey and \$10,000,000 debentures of the Crown Cork & Seal Company. Both of these issues were well received, particularly the former.

Dealers' Portfolios

Total holding of government securities by dealers declined \$19,400,000 further last week. The decrease the previous week was \$17,600,000. The only change of importance was a decline of \$16,000,000 in total Treasury bond holdings.

(In millions of dollars)

	<u>Holding July 2</u>	<u>Holding July 9</u>	<u>Change</u>
Treasury bonds	30.7	14.7	- 16.0
" notes (1 year)	48.2	45.2	- 3.0
" " (1-5 yrs.)	42.2	46.5	+ 4.3
" bills	3.1	1.3	- 1.8
H. O. L. C. bonds	8.8	7.8	- 1.0
F. F. M. C. bonds	<u>3.9</u>	<u>2.0</u>	<u>- 1.9</u>
	136.9	117.5	- 19.4

Federal Reserve System Account

There were no transactions during the week as the July 6th maturity of Treasury bills amounting to \$47,786,000 was replaced by purchases on July 2nd, for delivery July 6th, of a similar amount of the new 91-day Treasury bills maturing October 5, 1938.

Treasury Investment Accounts

The following transactions were executed in the market:

Purchases

\$1,000,000 2 3/4s of 1958/63 a/c Government Life Insurance Fund

Sales

\$3,000,000 2 1/2s of 1949/53 a/c The Secretary of the Treasury -
Special Account.

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Monday, July 11, 1938.
7-9-38

Press Service
No. 13-90

The Secretary of the Treasury, on behalf of the Reconstruction Finance Corporation, is today offering for subscription, at par and accrued interest, through the Federal Reserve banks, \$200,000,000, or thereabouts, of notes of the Reconstruction Finance Corporation, designated 7/8 per cent notes of Series N. The notes will be dated July 20, 1938, and will bear interest from that date at the rate of 7/8 per cent per annum payable semiannually. They will mature on July 20, 1941, and will not be subject to call for redemption prior to maturity. They will be issued only in bearer form with coupons attached, in denominations of \$1,000, \$5,000, \$10,000 and \$100,000.

The notes will be fully and unconditionally guaranteed both as to interest and principal by the United States. They will be 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.

Subscriptions will be received at the Federal Reserve banks and branches, and at the Treasury Department, Washington. Subscriptions will not be received at the Reconstruction Finance Corporation. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust

- 2 -

company. Subscriptions from all others must be accompanied by payment of 10 per cent of the amount of notes applied for.

The right is reserved to close the books as to any or all subscriptions or classes of subscriptions at any time without notice. Subject to the reservations set forth in the official circular, all subscriptions will be received subject to allotment. Payment for any notes allotted must be made or completed on or before July 20, 1938, or on later allotment.

The text of the official circular follows:

RECONSTRUCTION FINANCE CORPORATION

407

7/8 PERCENT NOTES OF SERIES N, DUE JULY 20, 1941

Dated and bearing interest from July 20, 1938

FULLY AND UNCONDITIONALLY GUARANTEED BOTH AS TO INTEREST AND PRINCIPAL BY THE UNITED STATES, WHICH GUARANTY IS EXPRESSED ON THE FACE OF EACH NOTE

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

1938
Department Circular No. 588

TREASURY DEPARTMENT,
Office of the Secretary,
Washington, July 11, 1938.

Public Debt Service

I. OFFERING OF NOTES

1. The Secretary of the Treasury, on behalf of the Reconstruction Finance Corporation, invites subscriptions, at par and accrued interest, from the people of the United States for notes of the Reconstruction Finance Corporation, designated 7/8 percent notes of Series N. The amount of the offering is \$200,000,000, or thereabouts.

II. DESCRIPTION OF NOTES

1. The notes will be dated July 20, 1938, and will bear interest from that date at the rate of 7/8 percent per annum, payable semiannually on January 20 and July 20 in each year until the principal amount becomes payable. They will mature July 20, 1941, and will not be subject to call for redemption prior to maturity.

2. The notes will be issued under authority of an act of Congress (known as "Reconstruction Finance Corporation Act") approved January 22, 1932, as amended and supplemented, which provides that the notes shall be fully and unconditionally guaranteed both as to interest and principal by the United States and such guaranty shall be expressed on the face thereof; and that they shall be 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, These notes shall be lawful investments, and may be accepted as security, for all fiduciary, trust, and public funds the investment or deposit of which shall be under the authority or control of the United States or any officer or officers thereof.

3. The authorizing act further provides that in the event the Reconstruction Finance Corporation shall be unable to pay upon demand, when due, the principal of or interest on notes issued by it, the Secretary of the Treasury shall pay the amount thereof, which is authorized to be appropriated, out of any moneys in the Treasury not otherwise appropriated, and thereupon to the extent of the amounts so paid the Secretary of the Treasury shall succeed to all the rights of the holders of such notes.

4. The notes will be acceptable to secure deposits of public moneys, but will not bear the circulation privilege.

5. Bearer notes with interest coupons attached will be issued in denominations of \$1,000, \$5,000, \$10,000 and \$100,000. The notes will not be issued in registered form.

III. SUBSCRIPTION AND ALLOTMENT

1. Subscriptions will be received at the Federal Reserve banks and branches and at the Treasury Department, Washington. Banking institutions generally may submit subscriptions for account of customers, but only the Federal Reserve banks and the Treasury Department are authorized to act as official agencies. Others than banking institutions will not be permitted to enter subscriptions except for their own account. Subscriptions from banks and trust companies for their own account will be received without deposit but will be restricted in each case to an amount not exceeding one-half of the combined capital and surplus of the subscribing bank or trust company. Subscriptions from all others must be accompanied by payment of 10 percent of the amount of notes applied for. The Secretary of the Treasury reserves the right to close the books as to any or all subscriptions or classes of

subscriptions at any time without notice.

2. The Secretary of the Treasury reserves the right to reject any subscription, in whole or in part, to allot less than the amount of notes applied for, to make allotments in full upon applications for smaller amounts and to make reduced allotments upon, or to reject, applications for larger amounts, or to adopt any or all of said methods or such other methods of allotment and classification of allotments as shall be deemed by him to be in the public interest; and his action in any or all of those respects shall be final. Allotment notices will be sent out promptly upon allotment, and the basis of the allotment will be publicly announced.

IV. PAYMENT

1. Payment at par and accrued interest, if any, for notes allotted hereunder must be made or completed on or before July 30, 1938, or on later allotment. In every case where payment is not so completed, the payment with application up to 10 percent of the amount of notes applied for shall, upon declaration made by the Secretary of the Treasury in his discretion, be forfeited to the United States.

V. GENERAL PROVISIONS

1. As fiscal agents of the United States, Federal Reserve banks are authorized and requested to receive subscriptions, to make allotments on the basis and up to the amounts indicated by the Secretary of the Treasury to the Federal Reserve banks of the respective districts, to issue allotment notices, to receive payment for notes allotted, to make delivery of notes on full-paid subscriptions allotted, and they may issue interim receipts pending delivery of the definitive notes.

2. The Secretary of the Treasury may at any time, or from time to time, prescribe supplemental or amendatory rules and regulations governing the offering, which will be communicated promptly to the Federal Reserve banks.

HENRY MORGENTHAU, JR.,
Secretary of the Treasury.