

DIARY

Book 145

October 8 - October 13, 1938

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*AA*

RAW

PLAIN

London

Dated October 8, 1938.

Rec'd 8:45 a.m.

Secretary of State,  
Washington.

1144, October 8, noon.

FOR TREASURY FROM BUTTERWORTH.

1. In connection with the subject matter of my 1128 of October 5, 5 p.m., it is worthy of note J.M. Keynes should conclude a letter to THE TIMES with the following suggestion:

"In the circumstances of the moment I suggest that the balance of trade position and the net disinvestment in this country's foreign assets which is probably going on (about which we have as usual no adequate statistics) also needs particular attention -- not indeed by an aggravation of tariffs but by a new and now necessary machinery for linking up exports with imports so as to make sure that those from whom we buy spend a reasonable proportion of the proceeds in corresponding purchases from us. We can no longer afford to leave the barter aspect of foreign trade to look after itself".

It

-2- 1144, October 8, noon, from London.

It is safe to predict that in ensuing months this type of suggestion is going to come very much to the fore.

2. Reuter reports that a Czechoslovak financial delegation headed by Pospischil, formerly Governor of the National Bank, is expected to reach London today "to open negotiations concerning the economic reconstruction of the new Czechoslovakia".

3. With Paris closed and therefore no demand for dollars against offerings of francs the dollar has not been actively bid and the volume of trading has been small. The rate has remained around 4.78 5/16. Gold fixing of 257 bars at 145s.4 1/2d. constituted a premium of 1/2d and the British authorities gave a substantial part of the fixing. The British authorities indicated to the market that they were prepared to take francs at 179 but little business has transpired.

KENNEDY

HPD

PARAPHRASE OF TELEGRAM RECEIVED FROM EMBASSY AT RIO  
DE JANEIRO, BRAZIL, DATED OCTOBER 8, 1 p.m.

Secretary of State,

WASHINGTON.

234, October 8, 1 p.m.

My telegram No. 233, October 4.

I am informed by the Director of Exchange of the Bank of Brazil that exchange will be granted this week for daily quotas and maturities from August 27 to August 30, inclusive. Exchange has also been granted on October 5 for August 26. I have also been informed that purchases of German compensation marks except for cotton, coffee and cocoa have been resumed.

Notify Commerce.

CAFFERY.

RECEIVED

OCT 11 1966

THE SECRETARY OF STATE  
WASHINGTON, D. C. 20520

Gilbert A. Dailey  
House  
October 8, 1938. 4

The following is my recollection of the events leading up to the action taken by the Honorable M. H. Magruder, Collector of Internal Revenue, Baltimore, Maryland, during the month of August, 1938, when he asked the deputy collectors of Internal Revenue under his jurisdiction to come to his office, at which time he read a prepared statement to them, the purpose of which was to explain Treasury Department Circular No. 518, promulgated August 2, 1934, and supplemented September 10, 1934, covering the political activities of Treasury employees:

Prior to August 11, 1938, I have no recollection of ever having met Collector Magruder and apparently with this in mind the Collector of Customs for the Baltimore District, the Honorable Gilbert A. Dailey, telephoned me asking if he and Mr. Magruder could call at my office on Thursday, August 11, and possibly have lunch with me. I replied I would be very glad to have lunch with them on that date.

Collector Magruder stated he was in a quandary as to how far his political activities were proscribed by the Treasury Department circulars mentioned above, promulgated in the year 1934. He stated that several of his deputies had made inquiries as to what they should do in the primary contest then being waged between Congressman Lewis and Senator Tydings - how he intended to vote and whether he had any instructions to give them as to what actions they could take or could not take, some of them claiming that they wanted

- 2 -

to do whatever the Collector desired etc. The Collector stated that he had told them they could follow their own inclinations; that in effect they were to let their conscience be their guide; and that he had no instructions whatsoever to give them in this matter at that moment but that probably at a later date he might advise them as to his own position.

He further stated that he had determined, after due reflection, to not only vote for Congressman Lewis in the primary but to do whatever he could to help him without violating the Treasury orders already mentioned, and wanted to know if he was prohibited from advising any of his deputies, either individually or collectively, whom he intended to support in the primary campaign and advise them as to the extent of the political activities in which they could engage. I advised him I thought that neither Treasury Circular No. 518 or supplement thereto in any way prohibited him from advising anyone how he intended voting and he was not restricted to freely give his reasons therefor. As a matter of fact, I secured a copy of Treasury Circular, dated June 5, 1934, addressed to all officers and employees of the United States Treasury Department, together with Department Circular No. 518, dated August 2, 1934, and supplement thereto, dated September 10, 1934, and pointed out the activities these two circulars permitted a Treasury employee to engage in, as well as the prohibitions named therein. I advised Collector Magruder that, in my opinion, there was nothing in either of these circulars to prohibit him from advising any of his deputies making inquiry as to how he intended voting, but I felt in fairness to them he should again call their attention to the Treasury

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circulcers already cited and to be very careful not to make any statement which might be construed as trying to influence them in the exercise of their political prerogatives.

I further told him I thought it advisable to write out the statement he intended making to them so that it could not be misunderstood or subsequently misconstrued, and to further protect him I suggested that he submit said statement to me before reading same to his deputies that I might suggest any changes which I considered advisable. He promised to have this statement prepared and sent to me the next day, August 12. However, the letter to Commissioner Helvering enclosing a copy of his prepared statement was dated August 17, 1938. It will be recalled that Secretary Morgenthau, Commissioner Helvering, and Mr. Gaston were all absent on vacation on August 11, when Collector Magruder visited my office, and I also left Washington on Saturday, August 13, for a vacation. The statement which the Collector prepared was sent to me by my office and, as subsequently stated in Collector Magruder's letter of September 14 to Senator Sheppard, Chairman of the Campaign Expenditures Committee, I made two changes in same and telephoned my office to advise the Collector of the nature of the changes and tell him that he could release said statement if and when he desired.

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I returned from my vacation on September 6th, the day after Labor Day, and about September 12th Collector Magruder called at my office and read to me a copy of a letter which he proposed sending to Senator Sheppard, calling attention to the fact that he had requested permission to appear before the Campaign Expenditures Committee for the purpose of answering certain statements made by Senator Tydings in his campaign to the effect that the permanency or security of positions of non-civil service employees in Collector Magruder's office depended upon how they voted in the primary. The letter was a protest against the action taken by the committee, refusing him this request, and its decision that the Collector had violated the "spirit" of the statute. The further purpose of the letter was to advise the committee as to the steps he had taken prior to reading his statement to the non-civil service employees of his office, including the information that he had called on me and recited practically the same facts as related by me above in this memorandum.

His letter contained the additional statement that in accordance with what he conceived to be the "propriety of things", and in deference to Senator Tydings, he had gone to the Senator's office to advise him of the Collector's intention to support the Senator's opponent, Congressman Lewis. He also brought out the fact in his letter that Senator Tydings questioned his right to take this action and that the Collector advised the Senator in his judgment it was proper, fortified as he was by authority from the Treasury Department.

- 5 -

He also related in his letter to Senator Sheppard that the Press having heard that he had read a statement to his non-civil service employees, wanted a copy, and not being able to secure same " \* \* \* began immediately to ventilate what it supposed \* \* \* he had said, endeavoring to create the impression in the public mind that the Collector had coerced his employees to support Congressman Lewis, and that he himself had been forced to declare for the Congressman, and it was due to this misstatement of the facts that he had sought and obtained authority from the Treasury Department to release a statement to the Press.

His letter, copy of which appears in the file, concluded with the statement that he was of the opinion that the Senator's Committee, with the information easily obtainable, might have accompanied its findings with some statement in his behalf, to the effect that he had been authorized both to read and to publish the statement issued, and he sincerely felt he was entitled to a statement from the Committee, which in some measure would tend to lessen the personal sting, and at the same time counteract a false impression in the public mind.

I saw no objection to permitting him to address such a letter to Senator Sheppard, but consulted Mr. Gaston before granting him permission to mail it. I telephoned Mr. Gaston, who came to my office, and after the Collector had again read the letter aloud to us, Mr. Gaston agreed that it would be perfectly all right for him to mail said letter, after one or two minor changes had been suggested and made.

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The attached file contains a memorandum from Mr. Gaston showing that a few days after August 29th, the date of his return to the office, Collector Magruder called on him and he authorized him to give to the Press the statement which he read to his employees.

*Stephen B. Gibbons*

Oct. 8. 1938

10

To: The Secretary  
From: Mr. Gaston



Supplementing Mr. Gibbons' statement of this date, I can add the following:

I returned to Washington from vacation on Monday, August 29. A few days after my return I received a visit from Collector Magruder, who asked me whether it would be proper to give to the newspapers a copy of the statement which he had previously read to his employees with the sanction of his superiors. He said that the newspapers had printed the fact that he had read such a statement but that the contents of the statement had not been accurately reported. He showed me a copy of a statement which he said was the same as that he had read to his non-civil service employees in his office.

After reading the statement I said I saw no reason why it should not be given out to the press and advised him to take that action. I added that the statement itself was a wholly proper one for him to make publicly, but that the only thing that might be questioned was the propriety of his action in reading it to employees in a Federal office.

He gave the statement to the press the same or the next day.

Oct. 8, 1928

11

To: The Secretary  
From: Mr. Gaston



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The attached file contains a memorandum from Mr. Gaston showing that a few days after August 23th, the date of his return to the office, Collector Magruder called on him and he authorized him to give to the Press the statement which he read to his employees.



TREASURY DEPARTMENT

INTERNAL REVENUE SERVICE

BALTIMORE, MD.

October 3, 1938.

OFFICE OF THE COLLECTOR  
DISTRICT OF MARYLAND  
IN REPLY REFER TO

*To the Secretary  
from B.B.  
10/5/38*

The Honorable Stephen B. Gibbons,  
Assistant Secretary of the Treasury,  
Treasury Department,  
Washington, D. C.

My dear Mr. Gibbons:

Pardon my delay in acknowledging your letter of September 23, 1938, in which you enclosed me clipping from the Baltimore Sun of September 20th, headlined, "Morgenthau Backs Action Of Magruder" - "Treasury Head Refuses To Make Any Move Against Collector Here" - "Step Held Presaging Open War With Senate Campaign Committee", written by P. C. Trussell of the Washington Bureau of the Sun.

It was a very splendid statement, and I appreciate the candor of Mr. Morgenthau.

I had already seen the paper containing the statement, and have it for my scrap book.

I thank you exceedingly for your interest in the matter.

Sincerely yours,

*W. H. Magruder*

Collector.

MRM:RSB

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October 3, 1938.

The Honorable Stephen B. Gibbons,  
Assistant Secretary of the Treasury,  
Treasury Department,  
Washington, D. C.

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I thank you exceedingly for your interest in the matter.

Sincerely yours,

(Signed) M. H. Magruder

Collector.

STEFAN B. GIBBONS  
OFFICE OF

MMH:ESB

1938 OCT 2 AM 8 22

RECEIVED  
OFFICE OF THE COLLECTOR

TREASURY DEPARTMENT  
Washington

September 10, 1934.

20

Office of  
The Secretary

POLITICAL ACTIVITY OF TREASURY EMPLOYEES

1934

Supplement to  
Department Circular No. 518  
of Aug. 2, 1934.

To Officers and Employees of the Treasury Department:

As a result of numerous inquiries received by the Treasury Department requesting information as to whether holding a certain office or engaging in a particular activity violates a specific section of Treasury Department Circular No. 518, regarding political activity of Treasury employees, heretofore issued by me on August 2, 1934, the following explanation of said Circular No. 518 is issued for the guidance of Treasury Department employees not under Civil Service:

Generally, the regulations are not intended to curtail or interfere with the exercise of a person's civic rights and duties as a citizen.

The instructions contained in said Circular should not be construed:

1. To restrain an employee from voting as he or she desires or from expressing his or her opinion, privately or publicly, on political subjects.
2. To prevent any such employee from voluntarily contributing to the campaign fund of the party of his choice, if such contribution is made freely and without coercion or improper solicitation, and is not made to a person in the service of the United States.
3. To prevent any such employee from introducing speakers, or from making speeches on public questions or the work of a particular office, provided offensive partisanship is not displayed in said speeches.
4. To prevent such employee from attending a county, state or district convention as a member or a delegate, if such employee does not act as Chairman of the convention, attempt to use the power of his public office to control or manipulate the proceedings or display such obtrusive partisanship as to cause public scandal.
5. To prevent such employee from holding positions on boards of education, school committees, public libraries, religious or eleemosynary institutions incorporated, established or sustained by State or municipal authority.

Employees of the Treasury Department may engage in the above-mentioned activities, provided the attention required by such activity does not interfere with the regular and efficient discharge of the duties of their office in the Treasury Department, and provided the time used for such activities is charged against the employees' annual leave or leave without pay. Under no circumstances should any such activity be performed at the Government's expense.

HENRY MORGENTHAU, Jr.,  
Secretary of the Treasury.

TREASURY DEPARTMENT  
Washington

21

August 2, 1934.

Office of  
The Secretary

POLITICAL ACTIVITY OF TREASURY EMPLOYEES

1934

Department Circular No. 518

To Officers and Employees of the Treasury Department:

The following regulations with respect to political activity of officers and employees of the United States Treasury Department will become effective September 1, 1934. From and after that date no officer or employee of the Treasury Department will be permitted:

1. To hold any other public or political office.
2. To become a candidate for a political office.
3. To be a member or officer of any official committee of a political party, or of any other committee that solicits funds for political purposes.
4. To own, edit, or manage a political publication.
5. To display such obtrusive partisanship as to cause public scandal.
6. To attempt to manipulate party primaries or conventions.
7. To use his position to bring about his selection as a delegate to conventions.
8. To act as Chairman of a political convention.
9. To assume the active conduct of a political campaign.
10. To use his position to interfere with an election or to affect the result thereof.
11. To neglect his public duties.

These regulations are not to be construed as abating any of the provisions of the laws of the United States with respect to the political activity of Government officers and employees, nor are they to be construed as modifying, changing, or repealing any existing regulations of the United States Civil Service Commission with respect to the conduct of classified employees.

Copy of these regulations shall be placed in the hands of every employee of the Treasury Department and no violation of the provisions contained herein will be excused on the ground of lack of knowledge.

HENRY MORGENTHAU, Jr.,  
Secretary of the Treasury

TREASURY DEPARTMENT  
Washington

June 5, 1934.

TO ALL OFFICERS AND EMPLOYEES OF THE UNITED STATES TREASURY DEPARTMENT:

I desire to call to the attention of all officers and employees of the United States Treasury Department, including all officers and employees of Bureaus and subordinate branches of the Treasury, provisions of the laws of the United States respecting political activity by Government employees and the solicitation of contributions for political purposes. The law on these subjects is summarized in a recent bulletin of the United States Civil Service Commission, a copy of which I am enclosing. I particularly desire to direct attention to two sections which:

- (1) Make it unlawful for any officer or employee of the United States to solicit or receive political contributions from any other officer or employee, and
- (2) Make it unlawful for any person, whether an employee of the United States Government or not, to solicit or receive political contributions in any room or building occupied by Government offices.

I quote these two sections of law:

U.S. Code, Title 18, Section 208 (Criminal Code, Sec. 118)

It is unlawful for any Senator or Representative in, or Delegate or Resident Commissioner to, Congress, or any candidate for, or individual elected as, Senator, Representative, Delegate, or Resident Commissioner, or any officer or employee of the United States, or any person receiving any salary or compensation for services from money derived from the Treasury of the United States, to directly or indirectly solicit, receive, or be in any manner concerned in soliciting or receiving, any assessment, subscription, or contribution for any political purpose whatever, from any other such officer, employee, or person.

U.S. Code, Title 18, Section 209 (Criminal Code, Sec. 119)

No person shall, in any room or building occupied in the discharge of official duties by any officer or employee of the United States mentioned in section 208 of this title, or in any navy yard, fort, or arsenal, solicit in any manner whatever or receive any contribution of money or other thing of value for any political purpose whatever.

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These provisions of the statutes are sweeping and definite in their terms. It is my intention that they shall be understood and obeyed both in letter and spirit by every employe of the United States Treasury Department.

The law of the United States guarantees to every Federal employee the right to be completely free from solicitation by superior officers, or by fellow employees, to contribute to political funds. It guarantees to all Federal officers and employees the right to be free while engaged in their work in a building occupied by Federal offices from any such solicitation by any person whomsoever.

I am determined not to tolerate any infraction of these provisions of law, either direct and open infraction of them or any effort to accomplish in an indirect way what they forbid. Wherever they are violated by persons in the employ of the Treasury Department it is my intention that those who are guilty shall, as soon as their guilt is established, be removed from the Federal service and further that the evidence against them shall be furnished to prosecuting authorities. I intend to exercise the same vigilance to protect Treasury employees from invasion of their rights by those who are not Treasury employees.

Whenever any employee of the Treasury Department learns of any violation of these sections, I shall count it a favor if he or she will communicate directly with me. I give my personal pledge that no employee shall suffer any prejudice in his or her status as a Government employee by reason of making such a complaint or giving such information.

I invite the cooperation of all of you in obtaining complete and faithful obedience to and observance of the spirit of the law.

Sincerely yours,

HENRY MORGENTHAU, Jr.

Secretary of the Treasury.

# WARNING

## POLITICAL ACTIVITY OF CLASSIFIED EMPLOYEES PROHIBITED

Political activity by classified employees in city, county, State, or national elections, whether primary or regular, or in behalf of any party or candidate, or any measure to be voted upon, is generally prohibited.

Officers are prohibited from requesting or requiring any political service or any political work from subordinates.

**Civil Service Rule I:** No person in the executive civil service shall use his official authority or influence for the purpose of interfering with an election or affecting the results thereof. Persons who by the provisions of these rules are in the competitive classified service, while retaining the right to vote as they please and to express privately their opinions on all political subjects, shall take no active part in political management or in political campaigns.

The restrictions as to political activity apply to temporary employees, employees on leave of absence with or without pay, substitutes, and classified and unclassified laborers.

Some of the forms of activity held to be forbidden by the rule are—

Serving on or for any political committee or other similar organization.

Serving as officer of a political club, as member or officer of any of its committees, addressing such a club or being active in its organization.

Serving in connection with preparation for, organizing, or conducting a political meeting or rally, addressing such a meeting, or taking any other active part therein except as a spectator.

Giving public expression to political views, engaging in political discussions or conferences while on duty or in public places, canvassing a district or soliciting political support for any party, faction, candidate, or measure.

Manifesting offensive activity at the polls, at primary or regular elections, soliciting votes, assisting voters to mark ballots, or getting out the voters on registration or election days.

Acting as recorder, checker, watcher, or challenger of any party or faction.

Assisting in counting the vote, or engaging in any other activity at the polls except marking and depositing the employee's own ballot.

Serving in any position of election officer, unless the election law of the State requires service regardless of Federal employment and provides a penalty for refusal to serve.

Publishing or being connected editorially, managerially, or financially with any political newspaper or writing for publication or publishing any letter or article, signed or unsigned, in favor of or against any political party, candidate, faction, or measure.

Becoming a candidate for nomination or election to or holding local office.

Distributing campaign literature, badges, or buttons, or wearing such badge or button.

Distributing or displaying campaign stickers, signs, or pictures of candidates on automobiles or in windows.

Circulating, but not signing, political petitions, including initiative and referendum, recall, and nomination petitions.

Assuming political leadership or becoming prominently identified with any political movement, party, or faction, or with the success or failure of any candidate for election to public office.

## PRESIDENTIAL OFFICERS

### THE FOLLOWING APPLIES TO INCUMBENTS OF EXCEPTED OR UNCLASSIFIED POSITIONS

Presidential appointees are forbidden by statute to use their official authority or influence to coerce the political action of any person or body, to make any contribution for a political object in any other office or employee of the United States, or to solicit or receive contributions for political purposes from other Federal officers or employees, or to discriminate among their employees or applicants for political reasons. The use of such authority or influence to interfere with an election or affect the results thereof is also forbidden by the civil-service rules. Officers are prohibited from requesting or requiring any political service or any political work from subordinates.

Otherwise, a presidential appointee will be allowed to take such a part in political campaigns as is taken by any private citizen, except that under regulations issued by many of the Departments he will not be permitted—

To hold a position as a member or officer of any political committee that solicits funds.

To display such obtrusive partisanship as to cause public scandal.

To attempt to manipulate party primaries or conventions.

4. To use his position to bring about his selection as a delegate to a convention.

5. To act as chairman of a political convention.

6. To assume the active conduct of a political campaign.

7. To neglect his public duties.

**Postmasters.**—The following order has been issued by the Postmaster General:

A presidential postmaster's conduct is governed by the rules and regulations of the Postmaster General. He must not use his executive authority or influence to influence or coerce any person or body. The conduct toward the public should be that of one rendering that the service must be strictly impartial, and that all persons should be treated with the same attention and courtesy. Presidential postmasters, however, do have a right to engage in political matters, so long as the required time and attention are given to postal duties. Postmasters should, however, bear in mind that a post office must not be used as political headquarters or for parties, political conferences.

## POLITICAL ASSESSMENTS, SOLICITATIONS, AND DISCRIMINATIONS

Sections 115, 117, 121, and 122 of the Criminal Code (see 18 Stat., 1115), provide that no legislative officer, officer elect, or candidate for election, and no executive, judicial officer or employee shall solicit or receive or be induced to solicit or receive any money or contribution for political purposes from any other officer or employee of the Government; that no solicitation or receipt of political contributions shall be made by any person in any room or building occupied in the discharge of official duties by any officer or employee of the United States; that no officer or employee shall be discharged or dismissed for refusing to make any contribution for political purposes; and that no officer or employee of the Government shall directly or indirectly give or lend money to any other officer or employee in the service of the United States or to any Member or Delegate to Congress any money or other valuable thing for the promotion of any political object whatever.

Section 123 of the Criminal Code provides that whoever shall violate any provision of the foregoing sections shall be fined not more than \$5,000 or imprisoned not more than three years, or both.

Further information is contained in Circular 193, many of which may be obtained from the Commission, its District Managers, or any local civil service office. It is the duty of any person having knowledge of the violation of any of the foregoing provisions of the Civil Service Rules or Criminal Code to report the facts to the U. S. Civil Service Commission, Washington, D. C.

Special Agent  
May, 1933

U. S. CIVIL SERVICE COMMISSION.

Regraded Unclassified

*Political Activity  
Magruder, M. H.*

25

September 23, 1938.

Dear Mr. Magruder:

I have received your letter of September 16th, with regard to your authority for the statement that you made to the employees of your office before the recent Maryland primary.

You have undoubtedly since the date of your letter seen the published statement of Secretary Morgenthau in this matter. However, for your ready reference I am enclosing a clipping from the Baltimore Sun of September 20th, from which you will note that the Secretary advised the Senate Campaign Investigating Committee that your statement as well as the use to be made of it had received Departmental approval, and that he saw no reason for further action.

Of course we all regret that this incident was made the subject of an investigation by the Senate Committee. However, from the standpoint of the Department, as you can see, this is considered as a closed matter at this time.

Sincerely yours,

(Signed) Stephen B. Gibbins

Assistant Secretary.

Honorable M. H. Magruder,  
Collector of Internal Revenue,  
Baltimore, Maryland.

Enclosure.

FCR/dls/hm

*JEP* *MS*

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Sincerely yours,

Assistant Secretary.

Honorable M. H. Magruder,  
Collector of Internal Revenue,  
Baltimore, Maryland.

Enclosure.

FCR/dls/hm

FROM: MR. GASTON'S OFFICE

TO:

Mr. Sibbons

I have already informed the newspapers that his statement was authorized and they have so reported.

The Secretary has written to Sheppard that Magruder's affidavit stating he had hearing approval is entirely correct. JCS

FRCM MR. GIBBONS TO--

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Mr. Acken  
Mr. Anslinger  
Mr. Ballinger  
Mr. Dow  
Mr. Gorman  
Mr. W. R. Johnson  
Miss Klawans  
Mr. Mark  
Mr. Moyle  
Mr. Rose ✓  
Miss von Toerne  
Admiral Waesche  
Mr. Wood

*Bull's Eye  
Sept 20*

Please see me.

S.B.G.

Date

*9/19/38*

Baltimore, Md.  
September 16, 1938.

The Honorable Stephen W. Gibbons,  
Assistant Secretary of the Treasury,  
Treasury Department,  
Washington, D. C.

My dear Mr. Gibbons:

In view of the fact that I had authority from the Treasury Department both to read and to publish the statement, which has been subject to the Campaign Expenditures Committee's investigation, and in view of its conclusions to the effect that, I had violated the "spirit" of the statute, I earnestly feel that the Treasury Department should give to the press something in confirmation of the fact that I had complete authority not only by reason of Circular No. 518, but by virtue of the Supplement, to read and to publish the statement.

You can well understand it was not with any pleasure, because of my long friendship with Senator Tydings, that I supported Congressman Lewis; but I did so because I was in accord with the Administration.

I understand that the Circular plus the Supplement was issued by the Treasury Department after careful consideration, and the findings reached after two decisions of Attorneys General of the United States.

As the matter stands now, by virtue of the Campaign Expenditures Committee's decision, I am branded as a violator of the "spirit" of the statute, without any official statement from the Treasury Department to the effect that I was clearly within my rights both in the reading of the statement to my employees and its publication in the newspapers. You can well see the public is of the opinion that I violated the "spirit" of the statute, and is completely ignorant of the fact that despite the ruling of the Committee, I did not violate even the "spirit" of the act in so far as the interpretation of the statute is concerned by the Treasury Department.

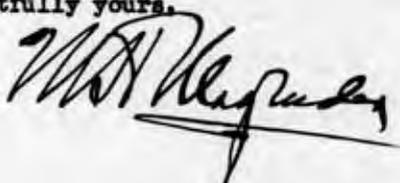
In other words, I want the public to know through the press, and I imagine the press would at least now publish a statement, if it can be procured from Mr. Morgenthau, to the effect, in so far as the Treasury Department is concerned, that I was clearly within my rights and I did not violate the "spirit" of the law. I feel I am amply justified in making this request, in view of the circumstances.

I am enclosing you herewith copy of my letter to Senator Sheppard, and likewise a copy of the statement I both read and published, in order that the Secretary of the Treasury may have before him all the facts.

I am enclosing also the preface to what I read, which was verbal, but which is accurate, because I in fact memorized this language before I uttered it.

I will appreciate the joint cooperation of Mr. Gaston and yourself in this matter.

Respectfully yours,



MEM:HSB  
Encls.

Upper Marlboro, Md.  
September 14, 1938.

Senator Morris A. Sheppard, Chairman,  
Campaign Expenditures Committee,  
U. S. Capitol,  
Washington, D.C.

Dear Sir:

Mr. Joseph Cannon, one of the investigators of your Committee, called me yesterday, and in substance stated that in a speech delivered by Senator Tydings in Baltimore, reference was reportedly made to certain Federal employees who had declared against his Senatorial candidacy, and the language allegedly used by him indicated these employees had been coerced into the support of Mr. Lewis by persons occupying commanding positions in the Federal Service, and in view of these implications, your Committee was anxious to learn if there was any justification for this statement.

If I correctly understood Mr. Cannon, you are advised that no person either without or within the Federal Service, by word or action, said anything or did anything that could be remotely construed as force, or threat, or coercion against me.

When the newspapers announced it was the purpose of your Committee to investigate the matter of my statement to my employees, you will recall my having sent you a telegram asking the privilege of appearing before

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it for the purpose of answering the charges preferred by Senator Tydings to the effect, in substance, I had indicated to my employees in the statement read that the permanency or security of their positions depended upon how they voted in the primary. It was my desire, and I feel I had the right to appear before your Committee and inform it of the entire circumstance; and having before it all the facts, its findings would be the result of full and complete information. I was not accorded this right, and your Committee's decision was in substance that I had violated the "spirit" of the statute. I am not passing on the correctness of this decision, but I feel had your Committee been given the complete picture, there would have been some palliating statement accompanying your published findings.

Believing, as I did, that some in the office might be inclined to transgress the definite limitations on political activities, and knowing the predilection of others, and having been asked by many what my own position might be in the Senatorial primary, I thought it advisable to consult the Assistant Secretary of the Treasury, the Honorable Stephen Gibbons, with the purpose of obtaining his advice both as to the wisdom of calling their attention to the provisions of Circular 518, together with the Supplement, and at the same time the propriety of answering the inquiry of many as to my own position. I called on Mr. Gibbons, discussed the matter with him, and he concurred conditionally, provided

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I should submit the proposed statement to him for approval. This I did, stating that he was of course free to delete anything that was not strictly in accord with the provisions of both the Circular and the Supplement. He deleted a single sentence and suggested one substitution; and thus corrected, it was read. It was intended to be a matter between my employees and me only, with no idea of publication.

Preceding this statement, and in accord with what I conceived to be the propriety of things, and in deference to Senator Tydings, I went to his office to let him know of my intention to support his opponent. From my point of view, it was manifestly a matter of both duty and profound respect for him. In this conversation I told him I intended to advise my employees I was for Lewis, and why I was for him. He questioned my right to do this. I told him, in my judgement, it was proper, fortified as I was by authority from the Treasury Department.

Shortly after reading the statement, the press heard about it and wanted a copy. I was out so far as the press was concerned, because having no intention in the beginning of publishing the statement, and no authority in fact for its publication, it was withheld. The press began immediately to ventilate what it supposed I had said, and endeavored to create the impression in the public mind that I had coerced my employees to support Lewis. This propaganda went on relentlessly for several days; the public drawing two inferences; first, that I had been forced to declare for Lewis, and second, that I in turn had coerced my employees to

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do likewise. In order that the public might know that neither was the case, I sought and obtained authority from the Treasury Department to release the statement to the press.

I have given you the particulars in detail. You have the statement, together with the preface. You have my affidavit, which contains among other things, the recital that I was authorized by one Assistant Secretary of the Treasury to read the statement, and by another Assistant Secretary of the Treasury to publish the statement. The proof of my having obtained authority both to read and to publish, could have been obtained without delay or difficulty by your Committee from Mr. Gibbons or Mr. Gaston of the Treasury Department, before your announcement that I had violated the "spirit" of the statute.

My chagrin, if I may be permitted to state it, is that your Committee with the information easily obtainable, might have accompanied your findings with some statement in my behalf to the effect in substance that I had been authorized both to read and to publish the statement I issued. I am coldly branded by your Committee as a violator of the Federal Statute, without a solitary word on your part of extenuation.

I sincerely feel I am entitled, even at this late date, to a statement from your Committee, which in some measure at least, will tend to lessen the personal sting and at the same time counteract a

a false impression in the public mind.

Respectfully yours,

MHM:HSB

I have asked you here to talk to you about a matter that concerns you as employees in the Internal Revenue Service as well as myself as Collector of Internal Revenue, and what I am about to say to you I am putting in writing in order that there may be no misunderstanding, no misinterpretation, and no misquotation.

I have asked you here for the purpose of discussing with you the purport and effect of Department Circular #518, promulgated August 2, 1934, supplemented September 10, 1934 defining the political activities of Treasury Employees with special reference to the forthcoming Democratic Senatorial Primary to be held throughout Maryland on September 12th next. I am addressing myself solely to Democrats, because none other can participate therein, and solely to Democrats not under Civil Service.

I am assuming that none of you are at this time holding any other office and that none of you are candidates for political office.

You and I are definitely free to vote as we please and are likewise free to openly express our preference for any candidate for United States Senator. You and I have the unquestioned right to refrain from voting if we so elect.

You and I can make campaign contributions voluntarily, but not to a person in the service of the Government. You and I can make speeches provided they are without offensive partizanship on public questions.

You and I are free to serve as delegates to the State Convention.

You and I have no right however to use Government time during office hours to engage in political activities. You and I can neither solicit nor receive in any Federal building money or other things of value for any political purpose whatsoever.

With this brief resume of the definite things we are free to do and the definite things we are excluded from doing, let me make this further statement in response to a question which many of you have asked

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me, "Whom will I support for United States Senator in the primary election on September 12th"? I am willing to answer this question definitely, name the person and state the reasons which impell me to make a choice, with the distinct understanding that you shall be free regardless of any preference I may have to follow your own inclinations and vote for the candidate of your choice.

Those of you who were appointed by my predecessor, Mr. Ray, when he came into office were in fact sponsored by persons who were definitely in accord with the policies of the administration.

You will recall that when I came into office in September, 1935, I re-appointed all of you, and this was in complete accord with the wishes of your sponsors, who together with others, were likewise my own sponsors. You know, of course, that my own is a Presidential appointment and subject to senatorial confirmation. When I came in then in September, 1935 and you were all covered by blanket re-appointment, our sponsors, and I were beyond question in complete accord on administration policies.

Now with regard to those of you who have been appointed since. All of you, with few exceptions, have had the same sponsors. I have acquiesced in this sponsorship with the fond hope and the keen desire that some how, in some way, one of your sponsors and one of mine might continue to support at least a major portion of administration policies. It is now manifest that this is not the case. So when I came into office all my sponsors were with the administration. If some of them have seen fit to change their attitude, I see no reason why I should be persuaded to alter mine. Consequently, I shall support David J. Lewis for United

States Senator in the September 12th primary.

This attitude of mine, by repetition, is for the purpose only of letting you know my position and the reason for my choice. It must be understood that you are to have complete freedom in making your own choice, and whether that choice is in accord with mine or contrary to mine must rest finally with you. It must be understood, also, that you are free to exercise your civic rights and duties as a citizen.

Magruder, M. H.  
JCH

ASSISTANT SECRETARY OF THE TREASURY

40

August 23, 1938.

Memorandum:

Returned by Mr. Gibbons from Westhampton approved except that he suggested the omission of the last sentence in the third paragraph on page 1, reading as follows: "You and I have the right to unoffensively seek the aid of others in helping the candidate of our choice." He also suggested changing the last line on page 1 from "the Custom House" to "any Federal building" -- both of which amendments are noted on the copy of Mr. Magruder's remarks attached.

The original papers were returned to Mr. Schoeneaman in Internal Revenue direct, he and Mr. Carter having been advised by phone.

JCH

August 23, 1938.

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ASSISTANT SECRETARY OF THE TREASURY

August 20, 1938.

Mr. Gibbons:

I am attaching memorandum of August 19th from Mr. Carter, Acting Commissioner of Internal Revenue, enclosing a letter of August 17th to Mr. Helvering, who is absent of course, from Mr. Magruder, Collector of Internal Revenue at Baltimore, together with a statement regarding political activities which he proposes to discuss with the employees of his office, and about which he has apparently had conversation with you.

George Schoeneman phoned me this morning and called attention to the fact that Mr. Magruder is asking for a reply within 48 hours, so I am sending this to you by special delivery with the suggestion that, if possible, you phone me Monday morning and let me know whether this statement meets with your approval. Upon receipt of advice from you, I will advise Mr. Carter by phone.

I am attaching for your ready reference an extra copy of the Secretary's orders on political activity.

(Ogd) Frank

August 19, 1938.

AIC:TES

MEMORANDUM for

Assistant Secretary Gibbons:

I am transmitting herewith a communication addressed to this office under date of August 17, 1938, by Collector M. H. Magruder of the Maryland Collection District, with enclosed statement which he proposes to make to the employees of the Maryland District in order that any transgression of Treasury Regulations concerning political activity may be avoided. It will be noted that Mr. Magruder has submitted this statement to the Treasury Department, through channels, as the result of a suggestion made to him by you in order that you might have an opportunity to delete whatever part of the statement, in your judgment, should be omitted.

This office has reviewed Mr. Magruder's proposed statement and is of the opinion that his interpretation of the regulations is a proper one, and inasmuch as the statement has been prepared in accordance with your suggestion I assume that there is no reason why this office should question the propriety of Mr. Magruder's making the comment that he proposes.

It will be noted that Collector Magruder desires information concerning this matter within the next forty-eight hours, and I would be pleased to have the benefits of your advice in the premises in order that his request may be complied with.

Commissioner.

Enclosures.

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TREASURY DEPARTMENT  
Internal Revenue Service  
Baltimore, Md.

Office of the Collector  
District of Maryland

August 17, 1938.

PERSONAL

Honorable Guy T. Helvering,  
Commissioner of Internal Revenue,  
Washington, D.C.

My dear Mr. Helvering:

In view of the fact that on the 12th of September next there will be a United States Senatorial Primary in Maryland, and the employees in this office are being daily importuned by candidates for support, applicable particularly to Senatorial Candidates, and in view of the further fact that Application Circular #518, promulgated August 2, 1934, supplemented September 10, 1934, definitely limits the political activities of the Treasury Employees, I have in mind the thought that I should call the employees attention to the Department Circular above mentioned in order that the extent of their political activities might be called to their attention, to prevent transgression.

In this connection a number of the employees in this office have asked me my own position with regard to the two United States Senatorial Candidates in Maryland. Under the circumstances I feel constrained to advise them definitely my position in this matter.

I recently discussed this matter with the Honorable Stephen Gibbons, Assistant Secretary of the Treasury, and he concurred in this suggestion. In fact, he suggested that any thing I might feel necessary to be said should come through regular channels, and then to be submitted to him for approval, with the understanding that he was privileged to delete whatever in his judgment should be omitted.

I am enclosing what I have prepared with the request that it be transmitted to Mr. Gibbons. I urge promptness in this regard, in fact I would like to have a reply, if obtainable, within the next 48 hours.

Very truly yours,

(Sgd) W. H. Magruder

W. H. MAGRUDER,  
Collector.

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Encl.

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TREASURY DEPARTMENT  
Internal Revenue Service  
Baltimore, Md.

Office of the Collector  
District of Maryland

August 17, 1938.

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Honorable Guy T. Helvering,  
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Washington, D.C.

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W. H. MAGRUDER,  
Collector.

MHM:EG

Encl.

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TREASURY DEPARTMENT  
Internal Revenue Service  
Baltimore, Md.

I have asked you here for the purpose of discussing with you the purport and effect of Department Circular #518, promulgated August 2, 1934, supplemented September 10, 1934, defining the political activities of Treasury Employees with special reference to the forthcoming Democratic Senatorial Primary to be held throughout Maryland on September 12th next. I am addressing myself solely to Democrats, because none other can participate therein, and solely to Democrats not under Civil Service.

I am assuming that none of you are at this time holding any other office and that none of you are candidates for political office.

You and I are definitely free to vote as we please and are likewise free to openly express our preference for any candidate for United States Senator. You and I have the unquestioned right to refrain from voting if we so elect. ~~You and I have the right to unoffensively seek the aid of others in helping the candidate of our choice.~~

You and I can make campaign contributions voluntarily, but not to a person in the service of the Government. You and I can make speeches provided they are without offensive partizanship on public questions.

You and I are free to serve as delegates to the State Convention.

You and I have no right however to use Government time during office hours to engage in political activities. You and I can neither solicit nor receive in ~~the Capitol House~~ <sup>any Federal Building</sup> money or other things of value

for any political purpose whatsoever.

With this brief resume of the definite things we are free to do and the definite things we are excluded from doing, let me make this further statement in response to a question which many of you have asked me, "Who will I support for United States Senator in the primary election on September 12th"? I am willing to answer this question definitely, name the person and state the reasons which impel me to make a choice, with the distinct understanding that you shall be free regardless of any preference I may have to follow your own inclinations and vote for the candidate of your choice.

Those of you who were appointed by my predecessor, Mr. Ray, when he came into office were in fact sponsored by persons who were definitely in accord with the policies of the administration.

You will recall that when I came into office in September, 1935, I re-appointed all of you, and this was in complete accord with the wishes of your sponsors, who together with others, were likewise my own sponsors. You know, of course, that my own is a Presidential appointment and subject to senatorial confirmation. When I came in then in September, 1935 and you were all covered by blanket re-appointment, our sponsors, and I were beyond question in complete accord on administration policies.

Now with regard to those of you who have been appointed since. All of you, with few exceptions, have had the same sponsors. I have acquiesced in this sponsorship with the fond hope and the keen desire that some how, in some way, one of your sponsors and one of mine might continue to support at least a major portion of administration policies. It is now manifest

that this is not the case. So when I came into office all my sponsors were with the administration. If some of them have seen fit to change their attitude, I see no reason why I should be persuaded to alter mine. Consequently, I shall support David J. Lewis for United States Senator in the September 12th primary.

This attitude of mine, by repetition, is for the purpose only of letting you know my position and the reason for my choice. It must be understood that you are to have complete freedom in making your own choice, and whether that choice is in accord with mine or contrary to mine must rest finally with you. It must be understood, also, that you are free to exercise your civic rights and duties as a citizen.

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TREASURY DEPARTMENT  
Internal Revenue Service  
Baltimore, Md.

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I am assuming that none of you are at this time holding any other office and that none of you are candidates for political office.

You and I are definitely free to vote as we please and are likewise free to openly express our preference for any candidate for United States Senator. You and I have the unquestioned right to refrain from voting if we so elect. ~~You and I have the right to unoffensively seek the aid of others in helping the candidate of our choice.~~

You and I can make campaign contributions voluntarily, but not to a person in the service of the Government. You and I can make speeches provided they are without offensive partisanship on public questions.

You and I are free to serve as delegates to the State Convention.

You and I have no right however to use Government time during office hours to engage in political activities. You and I can neither solicit nor receive in <sup>any Federal building</sup> the ~~Custom House~~ money or other things of value

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With this brief resume of the definite things we are free to do and the definite things we are excluded from doing, let me make this further statement in response to a question which many of you have asked me, "Who will I support for United States Senator in the primary election on September 12th?" I am willing to answer this question definitely, name the person and state the reasons which impel me to make a choice, with the distinct understanding that you shall be free regardless of any preference I may have to follow your own inclinations and vote for the candidate of your choice.

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- 3 -

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## TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,  
Monday, September 12, 1938.  
9/10/38.

Press Service  
No. 14-51-A

Secretary Morgenthau today made public the following letter to Senator Morris Sheppard as Chairman of the Special Committee to Investigate Campaign Expenditures of the Senate:

TREASURY DEPARTMENT  
Washington, D. C.

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Office of the Secretary

September 9, 1938.

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My dear Senator:

Noticing on my return last week from vacation that during my absence questions had been raised before your committee as to political activities by Treasury employees, I wrote to you sending you copies of the regulations on this subject that I have issued for the guidance of all employees of this Department.

The subject is, as you know, one in which I have taken a great deal of interest ever since I assumed my present duties. I have been anxious not only that all employees of this Department should abide both by the letter and the spirit of the law on this subject, but that they should refrain from taking any position or committing any acts whose propriety could be questioned in view of their responsibilities as revenue-collecting agents of the Government.

Investigations which I caused to be made in 1934 revealed outright violations of the law with respect to solicitation of political contributions, and as a result several officers were required to resign and disciplinary action was taken in other cases. The regulations which were issued following the first of these developments demanded strict obedience to the law as it was understood in the Treasury Department and also established regulations for Treasury employees more exacting in a number of particulars than the statutes, as you will no doubt have observed on reading them.

- 2 -

Reports in the newspapers, however, lead me to believe that the position that you have taken on one matter--that of political contributions--differs from that taken by the Treasury Department. The supplement of September 10, 1934, to Department Circular No. 518 of August 2, 1934, contains the following:

"The instructions contained in said circular should not be construed:

\* \* \*

"2. To prevent any such employee from voluntarily contributing to the campaign fund of the party of his choice, if such contribution is made freely and without coercion or improper solicitation, and is not made to a person in the service of the United States."

I am led by reports in the newspapers to believe that your position is that the law forbids any political contributions whatever by Federal employees, whether made under these voluntary conditions or not, and that in arriving at that position you have been guided by the provisions of Sections 208 and 211 of Title 18 of the U. S. Code, which forbid, respectively, the receiving by a Federal officer or candidate for Federal office of political contributions from Federal employees, and the giving by Federal employees of political contributions to a Federal officer or candidate for office.

In taking the position that neither of these sections is intended to prevent the making of voluntary contributions to party campaign funds by Treasury employees, we have been guided by decisions of Attorneys General in prior Administrations. Both sections are derived from provisions of the same import in the Act of January 16, 1883.

- 3 -

(22 Stat. 403, 406) which was construed by the Attorney General in 1896 (21 Op. Atty.Gen. 298). The Attorney General stated (at page 299):

"It is well settled that the intention of this act was not to forbid voluntary contributions for political purposes by persons in the employ of the Government, but to protect such persons from solicitation or coercion with respect to such contributions. Knowing the difficulty of detecting the actual operation of means and influences whose employment had become a public evil, Congress absolutely prohibited the solicitation or receipt of political contributions by all persons in the Government service in any place or in any way, and forbade such solicitation or receipt by any person in any room or building occupied in the discharge of official duties. All who are in the Government service are thus protected against the possibility of actual coercion and from that of the coercion implied in the relation of the person soliciting or receiving to the Government or implied in solicitation or receipt in a public office; but Congress did not attempt to prohibit solicitation by or payment to persons not in the Government service otherwise than in Government offices."

The position of the Attorney General in that opinion was reiterated with approval in (1902) 24 Op. Atty. Gen. 133,135.

We have been unable to find in the regulations of the Civil Service Commission with respect to employees in the classified service any further guidance on this question of voluntary contributions.

I remain, as I have always been, determined that the conduct of Treasury employees shall be above reproach in any respect as to which I have the right to act under the law. I am anxious, therefore, to have all authoritative guidance possible, and I would be glad to have you indicate any respects in which you think the limits of political activity permissible to Treasury employees have been transcended.

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In addition, I would ask:

- (1) Is it your view that the Treasury regulations, copies of which have been sent to you, permit acts which are repugnant to the letter or spirit of the law,
- (2) Do you contend that it is a violation of the law for a Federal employee to make a voluntary contribution to the campaign fund or to the general funds of a political party,
- (3) Is it your position that it is a violation of the law for such an employee to make a voluntary contribution to a fund which is to be used for the purpose of advocating a particular candidate for Federal office in a primary campaign?

I shall greatly appreciate hearing further from you on this subject.

Very truly yours,

(Sgd) HENRY MORGENTHAU, JR.

Secretary of the Treasury.

Honorable Morris Sheppard  
Chairman  
Special Committee to Investigate  
Campaign Expenditures  
United States Senate.

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# ENTIRE SENATE TO STUDY CASE OF MAGRUDER

1938

Probe Committee Flatly  
Opposes Vindication By  
Treasury Department

FHA Upheld In Dismissal  
Of Henry W. Webb, Di-  
rector For Maryland

By GERALD GRIFFIN

[Washington Bureau of The Sun]

Washington, Oct. 6.—Flatly disagreeing with the position taken by the Treasury Department, the Senate campaign investigating committee today expressed its emphatic disapproval of the activities during the Maryland primary campaign of M. Hampton Magruder, collector of internal revenue at Baltimore.

The committee announced that it will submit its report and recommendations on the Magruder case to the Senate. The nature of the recommendations the committee may decide to make was not disclosed.

#### Statement By Committee

After considering Magruder's announcement of his support of Representative David J. Lewis in the Maryland primary campaign and after studying the letter of Henry Morgenthau, Jr., Secretary of the Treasury, approving Magruder's action, the Senate committee issued a statement saying:

"The committee does not agree with the position taken by the Secretary of the Treasury.

"On the contrary, the committee believes the action of the collector of internal revenue at Baltimore was a violation of the spirit, if not the letter of the law, that it was a breach of the Treasury Department's own regulations, that it was violative of sound administrative principles, that no excuse is to be found for it and that the action of the collector is to be severely condemned.

#### To Report To Senate

"The committee will make its report on this case to the Senate with such recommendations as it may deem proper to make."

Completing its record of another case involved in the Maryland primary, the committee found, after considering the report of its investigators, that the dismissal of Henry W. Webb, State director of the Federal Housing Administration, was not due to his alleged refusal to support Lewis against Senator Tydings.

The Webb dismissal had been placed before the committee by A. E. Hungerford, who also ran in the Democratic Senatorial primary. Officials of the FHA previously had denied that Webb's discharge was connected with the election, and the Senate committee today thus substantiated the FHA's contention.

#### Other Probe Pending

Senator Morris Sheppard (Dem., Texas), chairman of the committee, said that nothing further has been heard from the Postoffice Department regarding its investigation of the political activities of Mrs. Maude R. Toulson, postmistress at Salisbury, who supported Lewis.

Senator Sheppard, in discussing the committee's sharp criticism of Magruder and Secretary Morgenthau, declined to go into possible recommendations dealing with this specific case. He reiterated his suggestion, however, that legislation be proposed at the next session of Congress to prevent a repetition of such activity.

Magruder was cited by the committee last month as having violated the spirit of the civil service laws when he called his non-civil service employes into his office and announced that he was supporting Lewis in the primary. At that time the committee sent its findings to Morgenthau and

asked him what he proposed to do about the case.

Morgenthau, replying to the committee a week after the election in which Senator Tydings was renominated, said he was unable to discover any reason for further action on his part.

He pointed out that the Treasury Department, in advance, had given its approval to Magruder's statement to his staff, and he disagreed with the Senate committee's interpretation of laws relating to the political activities of Government employes.

The matter rested at that point until the committee, called into session today, voted its disapproval not only of Magruder's action but of Morgenthau's defense of that action.

#### Civil Service Act Cited

Senator Sheppard indicated that the committee members were unanimously convinced that Magruder's announcement was contrary to the provisions of the Civil Service Act which prohibits civil employes of the Government from using their official authority or influence to coerce the political action of any person.

The committee deferred until tomorrow or possibly Saturday its study of its investigations into charges arising from the Pennsylvania, Kentucky and Tennessee primaries.

Today, in addition to reporting on the Magruder case, the committee announced that "at the proper time" it will submit to the Senate its findings and recommendations relating to Homer M. Adkins, collector of internal revenue at Little Rock, Ark.

#### Probe Turns To Indiana

Adkins and other Federal officials in Arkansas were charged with undue

political activity in behalf of Senator Hattie W. Caraway.

The committee did not disclose the nature of its findings in this case, merely stating that it found there was no need for further investigation.

It voted to investigate charges in Indiana relating to political activity among WPA employes and decided to continue its investigation of the Illinois and Wisconsin primaries.

In another case, Albert Hilliard, unsuccessful opponent of Senator Pat McCarran for the Democratic Senatorial nomination in Nevada, had charged that George Turpin, of Reno, had been dismissed as a deputy United States marshal because of alleged political activity in behalf of Hilliard.

#### Turpin Ouster Upheld

The committee found that Turpin had been engaged in "excessive political activity" and that he was removed properly, on that account.

It found no basis for a charge that employes of the HOLC at Sioux Falls, S. D., were being dismissed for political purposes.

Charges of Representative Gomer Smith, who was defeated in the Senatorial primary in Oklahoma by Senator Elmer Thomas, were found to be so general as to furnish no basis for investigation. Smith was informed of this finding and thus given the opportunity to present specific complaints.

#### To Watch Georgia Contest

Dealing with a notice filed with the committee by Eugene Talmdage explaining that the Georgia Senatorial primary result was to be contested, the committee decided to observe the results of this contest before determining whether it has any jurisdiction in the matter.

Other charges arising in the Georgia primary, in which Senator Walter F. George ran ahead of Talmdage and Walter S. Camp, are still under investigation by the Senate committee.

## SENATE TO GET CASE OF TREASURY AIDE OCT 7 1938

Committee Will Urge Action  
Against Baltimore Collector  
Accused of Political Activity

~~Law Suit Planned~~

MORGENTHAU IS CRITICIZED

Disagreeing With His Defense  
of Magruder, Report Holds  
That Letter Violated Law

Special to The New York Times.  
WASHINGTON, Oct. 6.—The Senate Committee on Campaign Expenditures will report to the Senate the action of Secretary Morgenthau in approving the alleged political activity of M. Hampton Magruder, Collector of Internal Revenue at Baltimore, during the recent primary elections. Recommendations as to steps to be taken would be made to the Senate, the committee announced, but their nature was not indicated.

Mr. Magruder was charged by Senator Tydings's campaign committee with having summoned employees to his office, where he read to them a statement in which he said that he would vote for Representative Lewis, who was Mr. Tydings's opponent for the Democratic Senatorial nomination. Secretary Morgenthau upheld the action of the collector.

The Senate committee, however, held Mr. Magruder's action to be a violation of the spirit, at least, of the law governing the political activities of Federal employees under civil service, and also of the Treasury Department's own regulations, which should be "severely condemned."

### Statement of the Committee

Announcing its action on the Secretary's letter concerning the charge against Mr. Magruder, the committee today said:

"The committee has considered the reply of Secretary Morgenthau of Sept. 16 to the letter of the committee of Sept. 12 to Secretary Morgenthau, submitting the committee's findings in the case of M. Hampton Magruder, Collector of Internal Revenue at Baltimore.

"The committee does not agree with the position taken by the Secretary. On the contrary, the committee believes the action of the Collector of Internal Revenue at Baltimore was a violation of the spirit, if not the letter, of the law that it was a breach of the Treasury Department's own regulations; that it was violative of sound administrative principles; that no excuse is to be found for it, and that the action of the collector is to be severely condemned.

"The committee will make its report on this case to the Senate with such recommendations as it may deem proper to make."

### Civil Service Law Involved

The committee originally found that Mr. Magruder had violated Paragraph 5 of Section 2 of the Civil Service Law, and also the regulations of the Treasury which prohibit any official from "attempting to interfere in a primary election or to use his position to influence or affect the outcome thereof."

The committee called Mr. Magruder's case to Secretary Morgenthau's attention. In a reply sent on Sept. 16, Mr. Morgenthau said that he was "unable to discover any reason for any further action."

Mr. Morgenthau added that the Treasury had approved of the statement Mr. Magruder read to his subordinates and said the "use he made of it had had departmental approval."

Senator Sheppard, chairman of the campaign expenditures committee, indicated that there had been a heated discussion of what the committee should do. Some committee men had suggested calling Mr. Morgenthau before the committee.

The committee found also that Secretary Morgenthau wrongfully upheld Homer M. Atkins, Internal Revenue Collector for Arkansas, in what the committee called "undue political activity" and said that at the proper time and without further investigation of the case it would make its statement of findings and recommendations to the Senate.

As to the dismissal of Henry M. Webb as Maryland State director of the Federal Housing Administration, the committee found that it had not been due to his support of Senator Tydings. It also held that George Tarple, deputy Maximal, at Reno had been properly dismissed for political activity.

## Censure Voted Magruder for Primary Work

### Senate Committee Refuses to Accept Morgenthau's Defense of Baltimore Aid Who Opposed Tydings

From the Herald Tribune Bureau  
WASHINGTON, Oct. 6.—The Senate Campaign Investigating Committee today formally condemned the Maryland primary intervention of M. Hampton Magruder, Baltimore's Collector of Internal Revenue, and voted to report the case to the Senate for appropriate action. The committee's decision was arrived at despite the fact that Henry Morgenthau Jr., Secretary of the Treasury, had officially cleared Mr. Magruder of all charges.

The committee's action, forestalling possible repercussions in the next session of Congress, was set forth in a statement made public by Senator Morris Sheppard, Democrat, of Texas, chairman as follows:

"The committee has considered the reply of Secretary Morgenthau of September 18 to the letter of the committee of September 13 to Secretary Morgenthau, submitting the committee's findings in the case of M. Hampton Magruder, Collector of Internal Revenue at Baltimore. The committee does not agree with the position taken by the Secretary. On the contrary, the committee believes the action of the Collector of Internal Revenue at Baltimore was a violation of the spirit, if not the letter, of the law, that it was a breach of the Treasury Department's own regulations, that it was violative of sound administrative principles, that no excuse is to be found for it, and that the action of the collector is to be severely condemned.

"The committee will make its re-

port on this case to the Senate with such recommendations as it may deem proper to make."

#### Senators at Meeting

Participating in the committee meeting today were Senators Sheppard, Pat Harrison, of Mississippi, and Joseph C. O'Mahoney, of Wyoming, all Democrats, and Wallace H. White Jr., Republican, of Maine.

In clearing Mr. Magruder, Secretary Morgenthau had revealed that the collector's action in reading to a group of non-civil service employees in his Baltimore office a statement of his intention to vote for Representative David J. Lewis for Senator as against Senator Millard E. Tydings, in the September 18 primary, had been approved by the Treasury Department officials in advance of the reading.

At the same time, the committee announced that it would present to the Senate "its findings and recommendations" in the case of Homer Adkins, Collector of Internal Revenue for Arkansas.

#### Other Decisions Deferred

On three other major cases involving the Democratic primaries in Pennsylvania, Kentucky and Tennessee, the committee deferred action until tomorrow, Senator Sheppard announcing that the final decision would be reached probably by the end of the week.

The Pennsylvania investigation, said to have been completed, turns on a letter soliciting campaign funds from Works Progress Administration workers sent by the Pennsylvania Democratic state committee over the signature of Senator Joseph F. Guifey. The Kentucky investigation involved double-barreled charges of the use of Federal funds in the campaign of Senator Alben W. Barkley and state funds in behalf of the unsuccessful campaign of Governor A. B. ("Happy") Chandler.

The same charges were made in Tennessee, where Senator George E. Berry, Democrat, who split with the Administration, was defeated for the Senatorial nomination by A. Tom Stewart.

## Funds Inquiry Condemns Magruder

Washington Post  
Contradicts Morgenthau  
Broke 'Spirit of Law'  
To Recommend Action

**OCT 7 1938**  
The Senate Campaign Expenditures Committee, vigorously disagreeing with Secretary of the Treasury Morgenthau, last night "severely condemned" M. Hampton Magruder, Baltimore internal revenue collector, for political activity in the Maryland primary.

The committee announced it will report the case to the Senate later with suitable recommendations.

The group had discussed behind closed doors Morgenthau's letter of September 18, in which he approved the action of Magruder in advising his Baltimore office that he favored Representative Lewis, who lost to Senator Tydings in the Senate race.

The committee charged previously that Magruder's action violated civil service law. Morgenthau answered he did not so consider Magruder's action.

Yesterday the committee reported:

"The committee does not agree with the position taken by the Secretary. On the contrary, the committee believes the action of the collector of internal revenue at Baltimore was a violation of the spirit, if not the letter, of the law; that it was a breach of the Treasury Department's own regulations; that it was violative of sound administrative principles; that no excuse is to be found for it, and that the action of the collector is to be severely condemned."

Senate action on the Magruder case is considered unpredictable, but some committee members said that the most likely result would be a resolution censuring Magruder.

### State Agents' Report

The committee met yesterday to consider agents' investigation reports from nine States where charges have been made. Today progress reports will be heard from investigators recently returned from Pennsylvania, Tennessee and Kentucky.

The committee reported it had found no basis for charges that Henry Webb had been dismissed as head of the Maryland office of the Federal Housing Administration because he refused to support Lewis Tydings made that charge and Arthur E. Hungerford, third man in the Maryland race, filed a similar charge before the committee.

While keeping other Georgia matters under investigation, the committee decided to observe progress of the contest there by former Gov. Eugene Talmadge, who lost to Senator Walter F. George in the Senate primary and who denied the result's finality.

### Plan Indiana Inquiry

Continuing an Illinois investigation, the committee then voted to investigate Indiana charges of political activity among WPA workers. Senator Morris Sheppard of Texas, committee chairman, told reporters that Oklahoma charges made by Representative Gomer Smith, defeated in the Senate primary by Senator Elmer Thomas, were so general "as to furnish no basis for an investigation."

The committee further found that George Turpin, of Reno, Nev., had been engaged in "excessive political activity" and had been justly removed from his post as deputy United States marshal. This answered charges to that effect made by Albert Hilliard, who lost to Senator Pat McCarran last month.

Considering South Dakota, the committee's investigator found no basis for a charge that employees of the Home Owners Loan Corporation were assessed for political purposes. After voting to continue a Wisconsin investigation the group adjourned until today.

# Vote Quiz Snubbed By Morgenthau

SEP 20 1938

## He Refuses to Punish Magruder for Aid

### To Lewis'

Washington Herald

Secretary of the Treasury

Morgenthau yesterday sharply snubbed the Senate Campaign Committee investigating charges Internal Revenue collectors engaged in political activities in Maryland and Arkansas.

Morgenthau wrote the committee the collectors had done no wrong and he intended to take no action against them.

### Defends Magruder

The Maryland case involved Collector M. Hampton Magruder, of Baltimore, who read a statement to his employees, announcing his support of Representative David J. Lewis in the recent primary, won by Senator Millard E. Tydings. The committee branded this political activity.

"Mr. Magruder's statement in his affidavit that the document he read to non-civil service employees of his office had previously been approved by his superiors in the Treasury Department fully accord with the facts. Not only the document but the use he made of it had departmental approval," Mr. Morgenthau said.

"In response to your request for a statement as to what action I intend to take in this matter, please be advised that I am unable to discover any reason for any further action on my part."

### WPA Charge Dropped

The Arkansas case involved a collector, accused by Representative John McClellan of supporting his opponent, the successful Senator Hattie Caraway. Once again, Morgenthau declared:

"The result of the investigation indicated that the charges were without basis. In the circumstances, there would appear to be no further need for investigation or action in this case."

The rebuffed committee meanwhile announced its agents found no substantiation of a charge that WPA workers in Wisconsin were being solicited for funds to aid the renomination of Senator F. Ryan Duffy, Democrat.

## MORGENTHAU FIRM FOR LEWIS BACKER

**New York Times**  
Says Baltimore Collector's  
Statement in Primary Had  
Treasury Approval  
SEP 20 1938  
SHEPPARD STILL OBJECTS

Senate Campaign Committee  
Renews Inquiry on Guffey  
Letters in Pennsylvania

WASHINGTON, Sept. 19 (AP)—Secretary Morgenthau said today that M. H. Magruder, internal revenue collector at Baltimore, had the Treasury's approval of a statement read to non-civil service employes expressing his preference for the candidacy of Representative Lewis in Maryland's Democratic primary. Mr. Lewis, supported by President Roosevelt, was defeated by Senator Tydings.

Mr. Morgenthau advised the Senate Campaign Expenditures Committee that not only had Mr. Magruder's superiors approved the statement, "but the use he made of it had had departmental approval."

Senator Sheppard, chairman of the committee, said on Sept. 11 that he believed Mr. Magruder's action was "in violation of the spirit of Paragraph 4 of Section 2 of the Civil Service Act."

"In response to your request for a statement as to what action I intend to take in this matter," Mr. Morgenthau wrote in reply, "please be advised that I am unable to disclose any reason for any further action on my part."

Mr. Sheppard said the reply had not changed his opinion that Mr. Magruder's action constituted a violation of the law.

The Senate committee has ordered a further investigation of a letter mailed to Pennsylvania Democrats in August over the purported signatures of Senator Guffey asking contributions to the State Campaign Committee. A committee investigator previously interviewed Mr. Guffey, who had denied, through his secretary, any knowledge of the letter being sent to Federal office-holders.

Senator Sheppard said an investigator will go to Pennsylvania for additional inquiry and a complete report would be laid before the committee about Oct. 1.

# Morgenthau Won't Punish Magruder

Washington Post

Says Baltimore Aide

Had His Approval in  
Backing Lewis Against

Tydings

SEP 20 1938

By James D. Slocum

Secretary Morgenthau yesterday exonerated M. Hampton Magruder, internal revenue collector at Baltimore, of any wrong doing in the Tydings-Lewis Senatorial campaign as demands for recounts belabored the bitterly contested Democratic gubernatorial and Baltimore Congressional primary results.

The Secretary of the Treasury informed the Senate Campaign Expenditures Committee that Magruder had his full approval when he read a statement supporting Representative Lewis to a group of non-civil service employees under his jurisdiction.

The committee had referred the matter to Morgenthau after finding that the internal revenue collector had violated the spirit of the civil service act. Senator Tydings had filed the complaint against Magruder.

## Morgenthau Refuses Action

Secretary Morgenthau advised Chairman Sheppard (Democrat), of Texas, that Magruder's superior not only had approved the statement he made in behalf of the senatorial candidate backed by President Roosevelt, but "the use he made of it as well."

"In response to your request for a statement as to what action I intend to take in this matter," he said, "please be advised that I am unable to discover any reason for any further action on my part."

Senator Sheppard said that Morgenthau's reply had not changed his opinion that Magruder's act constituted a violation of the law.

Meanwhile, in Baltimore Representative Palmisano, chairman of the House District Committee, demanded a recount of all votes in the Third Congressional District before his rival, Tommy d'Alessandro, was declared the victor by 58 votes. According to an official canvass completed late last night, the final official vote was: d'Alessandro, 12,971; Palmisano, 12,918.

The upset in Palmisano's calculations of Sunday, when he predicted that he would win by 27 votes, came in the Eighteenth Ward, which was tabulated late yesterday. Instead of carrying it by nine votes, as he expected, Palmisano lost it by 26.

His demand for a recount came after d'Alessandro had made a similar demand Saturday. D'Alessandro, however, indicated he would withdraw his demand if his present estimate proves correct.

The two congressional candidates have seen-sawed in the primary returns since the unofficial count started last Monday night. Until the official tabulation began, d'Alessandro claimed a victory by 48 votes.

The recent, it was said, probably will delay final results for four or five days because of increasing demands for recounts in close Maryland counties in the gubernatorial tug-of-war.

## Four Counties Involved

With Mayor Edward W. Jackson and Attorney General Herbert R. O'Connor juggling for enough second-choice votes to assure nomination at the convention September 28, recounts were underway last night in four counties.

O'Connor forces had asked for recounts in three of the counties in which Jackson led. They are Frederick, Allegany and Anne Arundel.

Jackson aides instigated the recount in Queen Anne's County, where O'Connor was ahead. An investigation of reports of vote-buying also was underway.

The recount in Frederick County was the latest to be ordered. It will not begin before Thursday, according to G. Hunter Bowers, president of the board of election supervisors. Jackson carried the county by a margin of 238 votes.

While the retabulation began in the Allegany courthouse at Cumberland before a packed crowd of O'Connor and Jackson supporters, it was said that the outcome may not be known for five or six days. Jackson's first-count lead was 34 votes.

If the recount gives the county's seven votes to O'Connor, the young attorney general will be able to clinch the nomination, it appeared yesterday, without the aid of the seven votes from Prince Georges County. The latter votes will be controlled by Lansdale G. Sencer, fourth gubernatorial candidate, as the majority of second-choice votes were marked William Gordy, Jr., who was a poor third in the race.

The suit filed by O'Connor's aides in Anne Arundel County alleged irregularities in the counting of votes in all of the county's 48 polling places, which Jackson carried 4,418 to 4,968.

The number of demands for recounts has astonished many Maryland voters who believed that the automatic balloting machines, used for the first time in the recent primary, would forestall such customary political maneuvers.

As there are no written ballots, the recount consists merely of a check of figures recorded by the voting machines against figures reported by the election judges.



TREASURY DEPARTMENT

PROCUREMENT DIVISION

WASHINGTON

October 8, 1938

OFFICE OF THE DIRECTOR

MEMORANDUM TO THE SECRETARY:

Re: Treasury Underground Garage

For nearly three years we have been trying to obtain funds for a parking garage beneath the South Garden of the Treasury building. Under date of July 5, 1938 we proposed to Secretary Ickes that unexpended balances for 6 completed projects under P.W.A. funds amounting to \$232,000 now on the books of the Procurement Division, be transferred into a new project for the Treasury Underground Garage as per copy of letter hereto attached.

This project will provide parking accommodations for approximately 100 cars. This is one of the projects included in the Ten-Year Program recently recommended by the President's Committee appointed to study federal housing needs in the District of Columbia; it has been before P.W.A. and the Budget on several occasions in an effort to secure the special appropriation therefor.

We have now pointed the way by providing the funds ourselves. All we need is authority from P.W.A. to combine the unexpended balances under six other projects, which have been completed and standing to our credit, into a new account for the Treasury Underground Garage.

*[Signature]*  
Director of Procurement

*let.*

14,000

232,000  
6  
-----  
139,000.

July 5, 1938

Honorable Harold L. Ickes,  
Federal Emergency Administrator  
of Public Works,  
Washington, D. C.

My dear Administrator:

It is requested that \$232,000 be allotted to the Treasury Department for the purpose of constructing a parking garage beneath the south garden of the Treasury building, this sum to be provided from allotments heretofore made for projects under control of this Department. It is recommended that the allotment requested be provided from funds which are hereby released from the following projects in the amounts indicated.

| <u>Federal Project<br/>Number</u> | <u>Project</u>  | <u>Amount</u>     |
|-----------------------------------|---|-------------------|
| 7                                 | Alhambra, California, Post Office                           | \$10,076.57       |
| 35                                | Atlantic City, N.J., Post Office                            | 44,138.08         |
| 43                                | Richmond, Virginia, Parcel Post Bldg.                       | 11,582.67         |
| 105                               | New York City, N.Y., Postal Sta. "D"                        | 18,074.66         |
| 438                               | Phoenix, Arizona, Post Office                               | 14,128.02         |
| 443                               | Washington, D.C., Extension to<br>Internal Revenue Building | <u>134,000.00</u> |
|                                   |   | \$232,000.00      |

The projects above listed are now completed, and, with the exception of projects No. 438 and 443, the amounts released exhaust the unobligated balances of the funds.

For the past several years the parking and handling of official automobiles and trucks at the Treasury building has presented a difficult problem. The only entrance available for trucks, and for automobiles engaged in anything other than passenger carrying business, is in the narrow areaway along the west side of the building. Space for the parking of official cars is extremely limited. Necessary parking by Members of Congress and officials of other departments having business at the Treasury interfere seriously at times with the movement of mail and delivery trucks, particularly in the

Honorable Harold L. Ickes

-2-

Underground Garage  
Treasury Department

manipulation of the large money trucks operating between the Treasury building and the Bureau of Engraving and Printing. Virtually no space is regularly available for parking accommodations for Congressmen and officials of other departments except a small space on 15th street, authorized by the Traffic Bureau, which is wholly inadequate. There is no interior court available for parking, similar to that provided at most of the other departmental buildings in the City.

In order to relieve the existing situation it is proposed to excavate the southwest lawn of the Treasury, and the greater portion of the terrace along the south front, and to provide under this area parking accommodations for approximately 100 cars.

The project contemplates the construction of an underground parking area of reinforced concrete flat slab type designed structurally to support the existing lawn, approaches, and statue just south of the building. Some forced ventilation will be necessary. Facilities will be provided for parking only, no provisions for repairing cars being contemplated. Upon completion of construction work the existing lawn, approaches, and statue will be restored to their existing condition with no change in the exterior appearance of the building and grounds.

A careful study of the cost of the proposed work has been made, and it is estimated that in order to do the necessary work, including the cost of plans, specifications, superintendence, and office expenses, the amount of \$232,000 above requested will be required.

Attention is invited to the fact that this project is one of those included in the Ten-Year Program recently recommended by The President's Committee appointed to study Federal housing needs in the District of Columbia.

Your early and favorable action on the above recommendation will be greatly appreciated.

Very truly yours,

(S) H. Morgenthau, Jr.

Secretary of the Treasury.

October 8, 1938

TELEGRAM TO:

THE PRESIDENT

HIDE PARK NEW YORK (VIA WHITE HOUSE PRIVATE WIRE)

WOULD APPRECIATE YOUR SETTING ASIDE NEXT WEEK SUFFICIENT  
TIME FOR JOHN HANES, DAN BELL AND MYSELF TO DISCUSS WITH  
YOU NEXT YEARS BUDGET AND TAX PROGRAM

HENRY MORGENTHAU JR

October 8, 1938

Dear Dr. Kung:

Many thanks for your letter of August 30, 1938. You can rest assured that Mr. Chen will receive my heartiest cooperation in exploring those problems that are our mutual concern.

Naturally we have been aware of the importance of China's economic development and were cognizant of the progress she was so rapidly making. I share your keen disappointment at the tragic interruption of that progress, and fervently hope with you that China will soon be able to again concentrate its efforts and resources on its constructive program.

It is indeed reassuring that the Chinese nation is actuated by ideals which we are proud to think have so much in common with those of the United States, and I hardly need assure you that we here are watching with the deepest interest and sympathy the unfolding of events in the Pacific.

With best wishes for the success of your economic endeavors and kindest personal regards,

Sincerely,

Hoan, Jr.

Dr. H. H. Kung,  
The Executive Yuan,  
Chungking, China.

(Note: ltr mailed via the CHINA CLIPPER which leaves San Francisco Wednesday, 10/12/38 - as per secretary's instructions - mas)(11:45 a.m. 10/8/38)

HOW:lrs  
10/5/38

FILE COPY

## THE EXECUTIVE YUAN

NATIONAL GOVERNMENT, CHINA.

PERSONALChungking, China.  
August 30, 1938.

Dear Mr. Morgenthau:

As Mr. K. P. Chen, Adviser of the Ministry of Finance, is coming to your country, I take great pleasure in sending you this message of greetings and remembrance which I trust will find you in the full enjoyment of your health.

Mr. Chen's second mission to your Capital reminds us once more of the courtesy and kind consideration which you showed to him and his colleagues during their first mission in 1936 and also the friendly cooperation which your Government extended through you to make his mission a success. Both of these I recall with renewed appreciation.

As Mr. Chen is no longer a stranger to you and in view of your friendship in the past, I have every reason to believe that in his present mission he will enjoy again your kind reception and ready assistance. For this fact allow me to express my appreciation in advance.

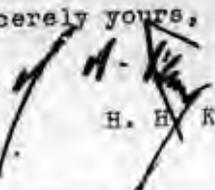
I am sure you will agree with me that the interruption of China's progress in economic and financial development which has been caused by Japan's armed aggression is a great tragedy in history. Left alone, we would have been able to continue and hasten our program of reconstruction which had already acquired a momentum that was remaking the country and improving the trade relations between China and America as well as other countries.

However, we are resolutely and courageously facing the urgent problems that confront us in the present crisis and we are optimistic that, with our resources and the assistance of friendly peoples, our economic structure will stand up well under the strain imposed by the hostilities. Needless to say, the continued assistance and cooperation of America will not only help us in the successful prosecution of this war against aggression and anarchy but will be even more valuable when we come to tackle the greater problems that will arise at the end of the hostilities. Signs of the time unmistakably show ever growing community of ideals and interests between our two nations, and it is my sincere hope that the unfolding of the Pacific history will find us joining hands closer than ever in the protection and promotion of these common ideals and interests.

In this spirit, may I express the hope that, through your invaluable assistance, Mr. Chen's present mission may yield results that will further cement the economic bonds and friendly relations between our two countries.

With kindest personal regards, I am,

Sincerely yours,

  
H. H. Kung.The Honourable Henry Morgenthau, Jr.,  
Secretary of Treasury,  
Washington, D. C.

October 8, 1938

To: The Secretary

From: Mr. Hanes

For your information I am putting down the items which I took up with you Thursday afternoon on the way home.

(1) As I reported to you, I have worked out with Guy Helvering a short form of income tax blank which will be sent to corporations having gross income under \$250,000. and net income under \$25,000. This form will be reduced in size from the present long and tedious form of six pages to a much simplified version of only four pages. The Bureau of Internal Revenue estimates that the number of corporations effected by this change will be approximately 460,000. This will leave approximately 70,000 corporations that will be required to file on the long forms. I believe this will be tremendously well received publicly and, at the proper time when all details have been completed, I wish you would make appropriate references to it in your press conference.

(2) We have agreed upon a change in Form 1040 which is purely mechanical, making the fold at the end rather than at the side, or book form, as at present.

(3) Mr. Stam again urged, on behalf of the Joint Committee, that we actively support the Committee in the enactment into law of the Internal Revenue Code. The Joint Committee is anxious to have this presented for one of the first acts of the new Congress. I have advised Mr. Stam that we are willing to support them in this effort.

(4) I have asked Guy Helvering to send to the field for copies of all form letters used in communications with taxpayers. Guy is very sympathetic to our idea that these form letters should be watched very carefully as a matter of good public relations policy, and that we insist upon Revenue Agents using a standard form of courteous approach to all taxpayers.

(5) I advised you regarding the discourteous treatment of Mr. Wayne Taylor, through his secretary, by a Mr. Burnham in the Bureau of Internal Revenue. I am going to follow this matter up with Mr. Helvering.

RECONSTRUCTION FINANCE CORPORATION  
WASHINGTON

HENRY JONES  
MEMBER OF THE BOARD

October 8, 1938

Dear Henry:

I hope you will give further consideration to the matter of offering a substantial RFC note issue at this time as the market is probably as favorable as it ever will be.

When the Corporation was established, Congress knew we would be called upon to make loans that would entail extraordinary risks, and that inevitably substantial losses would occur. That has been and continues to be the situation.

Congress gave the Corporation the benefit of government credit by unconditionally guaranteeing its borrowings, and, as you know, the time limit for such borrowings was fixed at not exceeding five years.

Repayments of our loans have probably averaged nearer three years than any other time. So, as I have often stated to you, our directors feel that we are entitled to and should be given the benefit of the government rate.

As stated in our conference yesterday, we have outstanding with the public notes maturing December 15th, Series K, in amount of \$299,072,666.67. We owe the Treasury approximately \$600,000,000.

We would like you to give consideration to offering say \$500,000,000 at this time with such maturities, between one and five years, as best suits your purpose. Then, when the December notes come due, we can either pay them or offer an exchange.

Sincerely yours,

  
Chairman

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

Federal Surplus Commodities Corporation  
Summary of Commodities Procured -  
Fiscal Year 1938 and Fiscal Year 1939 to date

(Figures in thousands)

| Commodity                 | Unit    | Total<br>fiscal<br>year<br>ending<br>6/30/38* | 7/1/38       | 7/7/38        | 7/14/38       | 7/21/38       | 7/28/38      | 8/4/38        | 8/11/38       | 8/18/38       | 8/25/38       | 9/1/38       | 9/8/38        | 9/15/38       | 9/22/38       | 9/30/38       | Total<br>7/1/38<br>to<br>10/5/38 |
|---------------------------|---------|---|--------------|---------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|--------------|---------------|---------------|---------------|---------------|----------------------------------|
|                           |         |   | to<br>7/6/38 | to<br>7/13/38 | to<br>7/20/38 | to<br>7/27/38 | to<br>8/3/38 | to<br>8/10/38 | to<br>8/17/38 | to<br>8/24/38 | to<br>8/31/38 | to<br>9/7/38 | to<br>9/14/38 | to<br>9/21/38 | to<br>9/29/38 | to<br>10/5/38 |                                  |
| 1) Apples (Dried)         | Pounds  | 14,557  | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | -                                |
| 2) Apples (Fresh)         | Bushels | 5,625   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | -                                |
| 3) Apricots (Dried)       | Pounds  | 2,990   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | 3             | 3                                |
| 4) Beans (Dried)          | Pounds  | 56,800  | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | -                                |
| 5) Beans (Snap)           | Bushels | 33  | 5            | 4             | 8             | 9             | 3            | 4             | 1             | 1             | 1             | -            | -             | 1             | 1             | -             | 38                               |
| 6) Beets (Fresh)          | Bushels | 11  | 6            | 7             | 18            | 13            | 9            | 5             | 6             | 5             | 5             | 2            | 2             | 2             | 39            | 65            | 184                              |
| 7) Blackberries (Canned)  | Cases   | -   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | 80                               |
| 8) Butter                 | Pounds  | 15,035  | -            | -             | -             | -             | -            | -             | -             | -             | -             | 130          | 338           | 2,343         | 3,377         | 5,109         | 11,297                           |
| 9) Cabbage                | Bushels | 990   | 26           | 40            | 31            | 45            | 62           | 36            | 30            | 66            | 81            | 56           | 134           | 165           | 357           | 370           | 1,497                            |
| 0) Cane syrup             | Gallons | 237   | 107          | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | 107                              |
| 1) Carrots                | Bushels | -   | 1            | 2             | 11            | 7             | 7            | 6             | 7             | 10            | 12            | 8            | 15            | 8             | 7             | 6             | 107                              |
| 2) Cauliflower            | Crates  | -   | -            | -             | -             | -             | -            | -             | -             | -             | -             | 19           | 2             | -             | -             | -             | 21                               |
| 3) Celery                 | Bunches | 1,174   | -            | -             | -             | -             | 17           | 65            | 39            | 15            | 13            | 4            | 8             | 8             | 9             | 5             | 183                              |
| 4) Cereal (Whole wheat)   | Sacks   | 408   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | 14                               |
| 5) Cheese                 | Pounds  | 3,446   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | -                                |
| 6) Corn                   | Sacks   | -   | -            | -             | -             | -             | -            | 1             | 4             | 3             | -             | -            | -             | -             | -             | -             | 8                                |
| 7) Cotton                 | Bales   | -   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | 4             | -             | 5             | -             | 10                               |
| 8) Cotton fabric          | Yards   | 1,133   | -            | -             | -             | -             | -            | -             | 10            | 49            | 1             | 89           | 44            | 14            | -             | 3             | 150                              |
| 9) Cottonseed oil         | Pounds  | 9,780   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | -                                |
| 0) Eggs (Shell)           | Cases   | 270   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | -                                |
| 1) Fish                   | Pounds  | 3,677   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | -                                |
| 2) Flour                  | Barrels | 2,699   | -            | -             | -             | -             | -            | 279           | -             | -             | -             | -            | -             | -             | -             | -             | 279                              |
| 3) Grapefruit             | Boxes   | 401   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | -                                |
| 4) Grapefruit juice       | Cases   | 552   | -            | -             | -             | -             | -            | -             | -             | -             | -             | 464          | -             | 7             | -             | -             | 471                              |
| 5) Grapes                 | Tons    | 8   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | -                                |
| 6) Labels                 | Labels  | -   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | 15,560        | -             | -             | -             | 15,560                           |
| 7) Mattress Ticking       | Yards   | -   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | 2,550         | -             | 2,550                            |
| 8) Milk (Dry skis)        | Pounds  | 21,520  | -            | -             | -             | -             | -            | -             | -             | 2,681         | 5,260         | -            | -             | 320           | -             | -             | 8,961                            |
| 9) Milk (Fluid)           | Quarts  | 12,497  | 497          | 515           | 523           | 528           | 525          | 538           | 530           | 531           | 522           | 509          | 515           | 524           | 415           | 534           | 7,206                            |
| 0) Onions                 | Pounds  | 3,000   | -            | -             | 300           | 25            | 8            | 11            | 22            | 16            | 12            | 7            | 39            | 53            | 181           | 78            | 752                              |
| 1) Oranges                | Boxes   | 1,932   | 2            | 48            | 59            | 57            | 38           | 46            | 49            | 55            | 50            | 50           | 66            | 55            | 64            | 54            | 693                              |
| 2) Paper bags             | Bags    | 21,825  | -            | -             | -             | -             | -            | -             | -             | -             | -             | 9,075        | -             | -             | -             | -             | 9,075                            |
| 3) Peaches (Dried)        | Pounds  | 2,534   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | 1,223         | -             | 2,300         | -             | 3,523                            |
| 4) Peaches (Fresh)        | Bushels | 8   | 2            | 4             | -             | -             | -            | -             | -             | -             | 31            | 96           | 73            | 17            | 12            | -             | 229                              |
| 5) Pears (Fresh)          | Boxes   | 318   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | -                                |
| 6) Peas (Canned)          | Cases   | 862   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | -                                |
| 7) Peas (Dried)           | Pounds  | 6,000   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | -                                |
| 8) Peas (Fresh)           | Bushels | -   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | -                                |
| 9) Potatoes (Sweet)       | Bushels | 440   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | 42            | 232           | 2,301                            |
| 0) Potatoes (White)       | Bushels | 4,315   | -            | 466           | 483           | 120           | 44           | 167           | 266           | 142           | 219           | 108          | -             | -             | -             | -             | -                                |
| 41) Potato starch & flour | Pounds  | 2,562   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | -                                |
| 42) Prunes (Dried)        | Tons    | 55  | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | 5             | 5             | 3             | -             | 13                               |
| 43) Prunes (Fresh)        | Bushels | -   | -            | -             | -             | -             | -            | -             | -             | 11            | -             | -            | -             | -             | -             | -             | 11                               |
| 44) Raisins               | Tons    | 15  | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | -                                |
| 45) Rice (Milled)         | Pounds  | 73,190  | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | -                                |
| 46) Tobacco               | Pounds  | 3,500   | -            | -             | -             | -             | -            | -             | -             | -             | -             | -            | -             | -             | -             | -             | 145                              |
| 47) Tomatoes (Canned)     | Cases   | 50  | -            | -             | -             | -             | -            | 7             | 130           | 15            | 22            | 16           | 20            | 4             | 1             | -             | 114                              |
| 48) Tomatoes (Fresh)      | Bushels | 282   | 3            | -             | -             | 1             | -            | -             | 18            | 22            | 22            | 16           | 20            | 4             | 1             | -             | -                                |

October 8, 1938

Treasury Department, Division of Research and Statistics.

\* Weekly figures reported by Federal Surplus Commodities Corporation are based on telegraphic reports and are unrevised.

Fiscal year totals have been revised to include all contract cancellations and other adjustments.

Regraded Unclassified

|             | 1939         | 1940         |
|-------------|--------------|--------------|
| Receipts    | \$5,100.     | \$4,850      |
| Expenditure | 6,836        | 7,426        |
| W.P.F.      | 2,149        | 1,500        |
|             | <u>8,985</u> | <u>8,926</u> |
| bal.        | \$13,985.    | \$4,076      |

Oct. 10, 1938

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 10, 1938.

TO Mr. Taylor

FROM Mr. Murphy *H2 m*

Subject: Reconstruction Finance Corporation loans on the preferred stock of banks.

From the commencement of operations to August 31, 1938, the Reconstruction Finance Corporation had disbursed \$1,081,879,000 for the purchase of preferred stock and capital notes and debentures of banks and had received repayments of \$536,755,000, leaving a net amount outstanding as of that date of \$545,124,000.

As of the same date the total amount of loans made on the preferred stock of banks (no loans are made on capital notes or debentures) amounted to \$15,149,000 and repayments to \$8,289,000, leaving a net amount outstanding of \$9,860,000. As of that date, therefore, total disbursements for loans on preferred stock amounted to only about 1.7 percent of total disbursements for the purchase of preferred stock, etc., and the amount of loans on preferred stock outstanding amounted to only about 1.8 percent of total holdings of preferred stock, etc.

The attached table gives the number of borrowers in each State, the amount disbursed on preferred stock loans to March 31, 1938 (the last date for which such a breakdown is available) and the amount of preferred stock loans outstanding as of that date. It should be noted that the number of borrowers is not identical with the number of banks, since in many cases loans are made to several different borrowers with respect to the same bank.

The above information was obtained from published reports of the Reconstruction Finance Corporation as time did not permit securing new tabulations for the purpose of the present memorandum. Mr. Griffin of the Reconstruction Finance Corporation tells me that as of the present time 386 loans (in some cases more than one to a borrower) are outstanding with respect to 138 banks. It is, of course, the number of banks concerned that is of the most significance.

About half of the total outstanding amount of loans on preferred stock of banks is represented by the following three loans:

Mr. Taylor - 2

|  |                    |
|--|--------------------|
| September Company, with respect to the<br>Anglo-California National Bank of<br>San Francisco               | \$2,294,000        |
| Trentrustco, with respect to the<br>Trenton (New Jersey) Trust Company                                     | 1,730,000          |
| First National Company of Birmingham,<br>with respect to the First National<br>Bank of Birmingham, Alabama | <u>707,000</u>     |
|  | <u>\$4,731,000</u> |

No other loans, Mr. Griffin tells me, are outstanding in amounts comparable to these three.

Mr. Griffin informs me that most of the loans are on "B" preferred instead of "A" preferred stock and have been made in order to extend the banks more financial assistance than the Corporation thought justified in extending on the security of the stock alone. Most of the exceptions to this are cases where the "A" stock bore double liability and the Corporation made loans against it rather than purchasing it, in order to protect itself against the double liability. The loan to the September Company is a particular exception as it is made on "A" preferred stock without double liability.

Loans secured by preferred stock in general bore a rate of 6 percent prior to July 1, 1933, of 5 percent from July 1, 1933 to April 1, 1934, of 4 percent from April 1, 1934 to November 10, 1935, and of 3½ percent thereafter. The last reduction was conditional upon the borrowers agreeing to apply any differential between the return on the underlying bank preferred stock and the interest due the Reconstruction Finance Corporation to the reduction of the loan. Old loans have, in general, been given the benefit of the reduction in rates on new ones. These rates are not uniform with those on purchases of preferred stock, etc. This rate is now 3 percent.

The loan to the September Company is an exception to the rule on interest rates also. It was disbursed on June 28, 1933, and the rate was 5 percent from the date of disbursement until April 1, 1934, and has been 4 percent thereafter, although the company has agreed to apply the differential between the return on the underlying bank preferred stock (6 percent) and the interest charged by the Reconstruction Finance Corporation to the reduction of the loan.

Attachment.

## Reconstruction Finance Corporation

Loans on Preferred Stock of Banks and Trust Companies  
to March 31, 1938

| State               | Number of<br>borrowers | Amount<br>disbursed | Amount out-<br>standing |
|---------------------|------------------------|---------------------|-------------------------|
| Alabama.....        | 9                      | \$ 3,148,575        | \$ 1,040,966            |
| Arizona.....        | 1                      | 50,000              | 24,962                  |
| Arkansas.....       | 7                      | 549,500             | 348,635                 |
| California.....     | 5                      | 2,531,300           | 2,304,393               |
| Connecticut.....    | 1                      | 149,800             | 14,999                  |
| Florida.....        | 7                      | 134,200             | 40,195                  |
| Georgia.....        | 1                      | 25,000              | .....                   |
| Idaho.....          | 1                      | 25,000              | .....                   |
| Illinois.....       | 1                      | 12,500              | 10,213                  |
| Iowa.....           | 1                      | 50,000              | .....                   |
| Kansas.....         | 2                      | 25,000              | 24,972                  |
| Maine.....          | 4                      | 525,500             | 508,076                 |
| Maryland.....       | 1                      | 30,630              | .....                   |
| Massachusetts.....  | 3                      | 506,000             | 196,708                 |
| Michigan.....       | 2                      | 432,200             | 316,719                 |
| Minnesota.....      | 8                      | 174,025             | 149,573                 |
| Mississippi.....    | 1                      | 22,650              | 13,967                  |
| Montana.....        | 1                      | 10,000              | 2,900                   |
| Nebraska.....       | 106                    | 2,563,000           | 701,406                 |
| New Jersey.....     | 29                     | 3,226,950           | 2,155,228               |
| New York.....       | 42                     | 1,979,200           | 1,406,668               |
| North Carolina..... | 3                      | 175,000             | 19,654                  |
| North Dakota.....   | 1                      | 20,000              | 19,900                  |
| Ohio.....           | 1                      | 2,400               | 2,273                   |
| Oklahoma.....       | 6                      | 526,500             | 14,611                  |
| Pennsylvania.....   | 12                     | 383,450             | 247,074                 |
| South Dakota.....   | 1                      | 6,100               | 4,430                   |
| Tennessee.....      | 2                      | 300,000             | 95,000                  |
| Texas.....          | 5                      | 151,250             | 111,196                 |
| Virginia.....       | 1                      | 15,000              | .....                   |
| West Virginia.....  | 1                      | 200,000             | 140,350                 |
| Wisconsin.....      | 3                      | 83,000              | 46,841                  |
| Wyoming.....        | 2                      | 115,000             | 46,419                  |
| Total.....          | 271                    | 18,148,730          | 10,308,326              |

CONFERENCE WITH THE PRESIDENT ON THE 1940 BUDGET AND THE  
POSSIBILITY OF INCREASING TAXES.

October 10, 1938.

Besides the President the Secretary of the Treasury, Assistant Secretary Hanes and Mr. Bell were present.

The Secretary asked me if I would give the President a picture of the 1940 Budget as compared with the 1939 estimates. I told the President that the Budget summation issued in July showed for the fiscal year 1939 estimated receipts of \$5,000,000,000 and estimated expenditures of \$8,985,000,000, leaving a deficit of \$3,985,000,000; that of the total estimated expenditures \$2,149,000,000 represented the WPA program, including an additional \$500,000,000 to be secured from Congress next February. I told him that the tentative revenue estimates which I had received from the Treasury for 1940 aggregated \$4,850,000,000, representing a reduction of \$150,000,000 from the estimates for 1939. Also I understood that in this 1940 figure there is an increase of \$250,000,000 in miscellaneous internal revenue and a reduction of \$400,000,000 in income taxes, or a net reduction of \$150,000,000. On the expenditure side, exclusive of any amount whatever for WPA the estimate indicates expenditures of \$7,426,000,000, leaving a deficit of \$2,576,000,000.

The President then said "Well, if you add \$1,500,000,000 for WPA and I doubt if we can get by with any less, then we would have a deficit of \$4,000,000,000 for the fiscal year 1940." He seemed quite disturbed and shocked at the figures. He then indicated that what we

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might do from here on is require a reduction in Hopkins monthly expenditures as Mr. Ickes monthly expenditures increased. He thought that possibly there was not the same ratio of employment but we could work out some method to show a proportionate reduction.

There was then some discussion of the tax situation. Mr. Hanes explained that in order to obtain \$2,000,000,000 in additional revenue it would be necessary to increase the rates in the lower brackets, lower some of the exemption provisions, and increase quite materially the estate and inheritance taxes. He thought it was possible to increase the annual revenue from estate and inheritance taxes of about \$400,000,000, to about \$1,000,000,000, and that we also might get as much as \$800,000,000 or \$1,000,000,000 from more than doubling the rates between the net income of \$8,000 and \$75,000.

The President then said that in his opinion he had to have something he could sell to the country -- we just could not send up a budget for \$4,000,000,000 deficit or even 2½ billion deficit and ask for an increase in taxes of \$2,000,000,000 without some very good plan to educate the taxpayer. He did not think that he could ask a person who now was paying \$35 to \$50 to increase his tax to \$70 to \$100 a year. He thought that he might point out to those people that the expenditures which unbalance the Federal budget in 1940 are two items - (1) large increase in expenditures for national defense, and (2) relief of unemployment, and on this basis ask them to pay a special tax for the purpose of paying for these expenditures, with the understanding that when the

-3-

national income reaches 75 or 80 billion dollars a year the tax would automatically be decreased by a certain percentage. No definite conclusions were reached as to just what should be proposed but the President asked Mr. Hanes if he would give further study to the matter and at the next meeting two weeks from today give him a chart of the increases under the plan proposed by Senator LaFollette in the last session of Congress and work up alternate plans for increasing the revenue. He asked him particularly to study the problem of special taxes so that the country could expect that as soon as the national income was sufficient to produce revenue to run the Federal Government on a normal basis, the special taxes could be reduced and finally eliminated.

*sub B*

## GROUP MEETING

October 10, 1938.  
9:30 A. M.

Present: Mr. Oliphant  
Mr. Gaston  
Mr. Haas  
Mr. Taylor  
Mr. Hanes  
Mr. Gibbons  
Mr. White  
Mr. Upham  
Mr. McReynolds  
Mrs. Klotz

H.M.Jr: Mac - McReynolds?

McReynolds: Herbert (meaning Herman - Mr. Oliphant) had a draft of a letter to Sheppard.

H.M.Jr: (Telephone) Excuse me. Hello. O. K.

Huh?

Klotz: (Low)

McReynolds: Herman had a draft of a letter to Sheppard that I think you will probably agree is the proper answer. As far as I can see, except in the newspapers, there doesn't seem to be any issue.

H.M.Jr: Let's read it out loud.

Oliphant: It's being retyped, and will be in in a very few minutes - by the time you get around to me.

H.M.Jr: All right.

McReynolds: You may want that today; (hands H.M.Jr. memo) this is a memorandum on the conference on - that Delano memorandum. There is a memo Peoples gave me this morning, in the event you talk to anybody further about that Treasury garage; it's just a reminder of ..... (talking low.

H.M.Jr: George, did you write a memorandum about that conference over at Mr. Hull's?

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Haas: Yes sir.

H.M.Jr: Did you? (Speaks to Mrs. Klotz.)

McReynolds: (Speaks to Mrs. Klotz - low)

H.M.Jr: What else, Mac?

McReynolds: I have nothing.

Upham: Mr. Delano will be here about ten o'clock, and he suggested the possibility of us having a little meeting with Mr. Foley, to have him report to us what went on.

H.M.Jr: I can't do it today.

Upham: Perhaps the rest of us ....?

H.M.Jr: Yes, you people can; I can't do it; I'd like for him - I want to see Foley later on, but I can't do it today.

Upham: We could arrange it some other time, if you prefer.

H.M.Jr: I can do it at three thirty.

Upham: All right. Fine.

H.M.Jr: Huh? You want to do that?

Upham: Yes, that's fine; I'll just step out and tell him not to come over now.

H.M.Jr: All right.

Upham: Excuse me.

H.M.Jr: Harry?

White: There is a draft of that ready any time today you want it.

H.M.Jr: Will you give it to Mrs. Klotz?

White: Well then - well, all right; yes, I'll give it to her.

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H.M.Jr: What about the map?

White: That's being ....

H.M.Jr: See that Mrs. Klotz gets that, so I can take it to the White House at lunch. The other thing, I don't want to take to lunch. What else?

White: (Nods "Nothing.") That's all.

H.M.Jr: Steve?

Gibbons: I have written out the history of this Magruder thing, any time that ..... Mr. Gaston read it, and you told us to write out what's happened.

H.M.Jr: Yeah.

Gibbons: Any time you want it.

McReynolds: (To Mr. Gaston:) Well, your memorandum - and you have his memorandum?

Gaston: No, Steve has the whole thing, including my supplementary memorandum.

Gibbons: I don't think there's any use of your bothering with it now. It's all brought up to date.

H.M.Jr: Well, I'd like to read it.

Gibbons: All right, I can leave it with you.

H.M.Jr: Harry, give it to me.

(Memo from Mr. Gibbons to Mr. White, to Mrs. Klotz, and she hands it to H.M.Jr.)

H.M.Jr: Thanks. I'll take that home.

Gibbons: That's all.

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

Hanes: You said you wanted to take up that National Resources Committee suggestion.

H.M.Jr:

Yes. Let me tell you what's happened; let me tell everybody what's happened.

During the past year, on various occasions, the National Resources Committee suggested that there be a Fiscal Committee appointed, of which I should be Chairman, Mr. Eccles a member, Mr. Douglas a member, a member from the National Resources Committee, the Director of the Budget. Mr. Delano was over here once, and we had quite a talk about it. Then on August 20, they wrote a memorandum to the President. The President asked me to speak to them about it.

I just never had the chance. So on Friday I had Delano, and Merriam, and this fellow Ruml, for lunch, and Mac was there. I told them this: that as far as I was concerned, that if anybody thought they could help me on fiscal policy that I'd welcome them with open arms, but that it was a very important matter, and what I suggested was a trial marriage, and that if the President was willing - up to now he never had been - but as we progressed on our budget and tax matters, that I would invite these gentlemen, informally, to come over and sit down with me, and I would explain to them, as we progressed - we'd be more than pleased to listen to their advice, and that nothing had been lost to date because we hadn't even had our first meeting with the President. If that was agreeable to him, I'd be more than agreeable to do it that way.

So I am going to ask the President at lunch today whether it is agreeable to him, you see? What I didn't say to them, but I say to my own crowd - they mentioned it themselves - their own record of success hasn't been very startling. As they mentioned, they haven't even been able to settle where the Bureau of Forestry is controlled. Mr. Delano is head of the Interdepartmental Committee to solve the housing problem, and has never been able to do anything.

But they are pushing, and there are able people on it; there are honest people on it. God knows, if I can get any help, I am more than pleased to get it, but I didn't want to formalize this thing.

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Mr. Bell pointed out that under the law the responsibility is his and mine, and we wouldn't have the right to divide that responsibility, but we certainly have the right to consult. And the way I always feel, if the people down here helping the President think they've got something to contribute, why, come on in; the water's fine.

So that's what I told them, you see? And I don't know how the President will feel. Up to now he's - he's showed me their memorandum on tax matters, and other matters, and he's always, for some reason or other, always kind of leaned backward. Whether he wants me to invite these people in and consult and confer with them, as the facts progress - develop, I don't know, but I am going to recommend it to him at lunch, and we'll see what happens.

The only suggestion I made was I didn't want S. E. C. on it at the beginning, because I can't see what they could contribute. I said, if we, as we went along, came to that blind spot where we were always saying, "If we only had a representative of S. E. C. here..." that would be time enough to invite them in, but I can't see where they would fit in at the beginning.

You agree?

Hanes:

I do, yes.

H.M.Jr:

Huh? And furthermore, I told them, in strictest confidence, every time we've had a committee with S. E. C. there's always been a leak; there's always some power (?) that's got it sooner or later. I know our experience on hot money, two or three years ago, when we were working on it, it wasn't very long before Mr. Gourrich - is that his name? ....

Hanes:

Gourrich.

H.M.Jr:

... spilled the whole beans - the whole thing appeared. I don't know - I forget who he told it to, but he told it to somebody. We have always had that experience.

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With the Budget we just can't have a leak, or with the tax program; it's too dangerous. I told them that in strictest confidence. I told them if every time we met on it, we thought, "Oh, if we only had a representative of S. E. C.," why we'd invite them over very quickly. That's where this thing ..... And tell Mr. Blaisdell - what's his name?

Hanes: Blaisdell.

H.M.Jr: Tell him where it stands. These people working with me, of course, will sit with me, and if Mr. Ruml, or Mr. Merriam has got something to contribute, swell. They're only going to send one person - didn't say who.

I don't know how you feel about it, Mac; I didn't have a chance to ask you.

McReynolds: Well, I can't see a lot in it; they set it up, a purely informal arrangement, calling them in as consultants, and incidentally, to which they all three agree. I see no danger to it. I think the matter of a formal committee - creation of a formal organization to take away from you and the Budget is a major responsibility that you have. Under the law I think it's out of the question.

Hanes: Where had the suggestion come from? Was it coming from the National Resources Committee originally?

H.M.Jr: Mr. Delano personally came over, within the last twelve months, and tried to sell it to me. I think their idea is a very pretty one - that we plan expenditures; a question of looking forward; we ought to have a list of Public Works ready that we can uncork at the right time, and I take it, although he didn't say so, that while times are good, begin to cork the bottle up, and that pressure of prosperity in this country is hooked up with our spending money for Public Works.

I think the idea, as I say, is a very pretty one, but unfortunately when you sit down with the President and get down to planning the Budget and the taxes, it's never worked out that way, and, as I say, I didn't want - "I appreciate the sincerity of you people," but I didn't want to

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be sarcastic, so I didn't say, "Why don't you first solve the problem of the number of acres Harold Ickes placed under irrigation, and the amount of new land that he furnishes in connection with Wallace's program to grow less."

there are  
I mean, /so many things that - when the engineers of the War Department create a new river, and open up a new area, that there is nothing there to maintain the area, or anything else. I mean, there are so many of these big broad national resources problems, which they never touch, but I don't want anybody to say that I think I know it all, because I realize how little I do know on the question, and if they think they've got something to contribute, ..... There are only so many sincere fellows in Washington, and I think these men are absolutely sincere.

So if they've got something to boost the economists who work down the line under it, and if they think they've got something to help, why, fine. And instead of having Mr. Eccles go up on the Hill and talk against our program, and Mr. Jones go up and talk against our program, and Mr. Kennedy go up and talk against our program, maybe they will talk it over here. I don't know; I doubt that, but maybe they will.

McReynolds: It will give them something more to talk about.

H.M.Jr: I am willing to try it, because I realize we've got practically an impossible task, and we are talking about the spending program for '39-'40, on the eve of election. And if they think that this pasture looks green, let them come on in and let them get indigestion the way I've had it; let them have acute indigestion.

Taylor: Well, the worst you can get out of it is a net plus, isn't it?

H.M.Jr: Yes. I can't - these fellows are sincere fellows; they are honest fellows; they are intelligent fellows. They think there is a great mystery about this thing. I'd be tickled to death to have them do what the President calls a "rule of thumb."

McReynolds: What you have proved so far doesn't go to the point of what they make in their memorandum, of building up a separate organization of this committee, to run - doing that will run alongside the Treasury's Budget.

H.M.Jr: If the President's willing, and I am going to recommend it openly and honestly, I'd be delighted to have them come in and take a look at the great mystery of how we make the Budget. I'd love to have them see how we all get it fixed - if Wallace gets an extra half a million without our knowing anything about it; and while we're on this subject, we are going to see the President .... (few words misunderstood) ... back processing tax on farm products. You want to put that in your portfolio? You can just put that in your portfolio; we can just ask the President whether that's so or not.

That's a good illustration, see? I don't want to be too sarcastic, but I've been through it now for four years, and if these boys have got something to contribute, fine. Particularly interesting will be to see if this trend is going to be up or what are they going to do about Public Works.

So that's that story.

You got anything else?

Hanes: No.

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

(Speaks aside to Mrs. Klotz.)

(Nods to Mr. Taylor.)

Taylor: (Nods "Nothing.")

H.M.Jr: I spoke to both Eccles and Harrison last night about the possibility of refunding those three hundred million notes of the R. F. C. on the first of November, and I see that somebody has given out a story on "R. F. C. Note Issue Now Regarded as Probable," so Harrison thought it was all right,

and Eccles said he'd let me know Tuesday. Would you mind calling up Marriner and telling him I'd like to know by three o'clock today? On account of this story I think I'd better say something about it. Do you know how much it is?

Taylor: Just under three hundred.

H.M.Jr: Is it two and a quarter?

Taylor: What?

H.M.Jr: Is it two and a quarter.

Taylor: I've got an idea it's two ninety-seven, or something.

H.M.Jr: You haven't got the rate?

Taylor: I've got that memo from Jesse.

H.M.Jr: Jones was over here asking whether we could borrow additional money; I told him, "No, this thing would look silly at this time for us to take on another three hundred cash." I told him to wait, and two or three-year money - when the R.F. C. notes were available we could borrow on their credit rather than ours, because all of our short term stuff is filled up. He saw that, and then he said, "What about my three hundred million which comes dues on the fifteenth of December?" I hadn't thought about it because he's always sold those to the banks over the phone. He suggested that we anticipate that, in as much as we'd expect to handle nine hundred million of our own.

So I think we might just as well do it on November first and get it out of the way. There is no reason why Eccles can't tell us this afternoon. I mean, he doesn't need until tomorrow; might just as well do it. The banks all hold it anyway.

Anything else?

Taylor: (Nods "No.")

H.M.Jr: George?

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Haas: I have nothing with me; there will be a few things come in during the morning.

H.M.Jr: You are coming in at ten thirty?

Haas: That's right. During the morning I'll have your business statement.

H.M.Jr: And Taylor and Hanes are coming in.

Haas: I have that material which you asked for.

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

Gaston: I have this letter to Senator Sheppard. This was drafted mainly by Mr. Oliphant, in consultation with Mr. Cairns and me. You want to go into it at all now?

H.M.Jr: Yes, please.

Gaston: Mr. Sheppard's letter said that in response to our various questions, said that our various regulations were not repugnant to the letter and the spirit of the law, but they did not cover the subject in that they did not make specific reference to Section 211 of the Code which forbids employees to give voluntarily, directly or indirectly, to an officer of the United States, a Senator or Representative, Delegate, and so on, who is a candidate for office. In this reply we are thanking him for his advice, but pointing out that we did circulate to the employees, in 1934, and again in August of this year, a Civil Service regulation which specifically calls attention to Section 211, and paraphrases that Section.

There was nothing in the letter of Senator Sheppard's in criticism of the Treasury Department except that statement that they did not think our regulations covered the subject, in failing to cover 211. We are showing them that they did.

Now that story in the Times, the head and the lead were entirely gratuitous; they were not based on anything in the Committee's letter at all.

H.M.Jr: That's what I thought. You mind reading the letter? How long is it?

Gaston: The letter is only a couple of pages.

H.M.Jr: Let's read it out loud.

Gaston: "My dear Senator Sheppard:

"I have received your letter of October 7, 1938 in answer to my letter of September 9, 1938 and I appreciate your response to my request for your observations on the spirit as well as the letter of the law governing political contributions by Federal employees.

"Referring to your answer to my first question, I am gratified to learn that your Committee is of the opinion that the Treasury regulations are not repugnant to either the letter or the spirit of the law. Concerning your further suggestion in this connection that the Department's regulations should make specific reference to Section 211, Title 18, U. S. Code, I may say that United States Civil Service Commission Form No. 1982, warning against political activities, contains a specific reference to, and a paraphrase of, Section 211 (see copies attached). The Treasury Department on June 5, 1934 and August 23, 1938 circulated this Form to all the employees of the Department.

"I am further gratified to note that your views in response to my second question coincide with the opinion in the Treasury Department that it is not a violation of the law for a Federal employee to make a voluntary contribution to a political party. Concerning your further observation that contributions by Federal employees to any special committee promoting the campaign of a Senator or Representative would violate Section 211, that also has been the position of the Treasury. In addition, I am sure you will agree with me that your reference to such special committee is a reference to but one of many possible devices prohibited by the term 'directly or indirectly' in Section 211. The instructions given to Treasury employees by the circulation of Form 1982 mentioned above were not limited to any single device.

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"Again I am pleased to observe that your Committee's response to my third and final question merely states what, in effect, the Treasury Department stated to all its employees on September 10, 1934 in the underlined portion of paragraph 2 of the Treasury's regulations of that date:

"The instruction contained in said circular should not be construed: \* \* \*

'2. To prevent any such employee from voluntarily contributing to the campaign fund of the party of his choice, if such contribution is made freely and without coercion or improper solicitation, and is not made to a person in the service of the United States.'

"I appreciate your cooperation because the subject is, as I have advised you, one in which I have taken a great deal of interest ever since I assumed my present duties."

- E.H.Jr: Now how do you think we can handle that Times matter, because it is certainly most unfair? What suggestion have you got?
- Gaston: I think ....
- E.H.Jr: Ah - excuse me. (Short pause.) Go ahead.
- Gaston: I think about the only way is to call attention to the fact in a press conference that several of the stories were grossly unfair on this matter; that they introduced matter that wasn't covered by the Committee at all.
- Oliphant: You have done several things to prevent improper political activities, that's not been mentioned by the Committee. There's quite a lot of reserve ammunition there. I think it would be well, when the unfairness of these stories is mentioned, that you also give them some of the various things you have done. For instance, you prohibited - our regulations prohibited an employee being a member of one of these committees, and a number of other things where we have gone farther than the law requires.

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H.M.Jr: Could you have those ready by four o'clock?

Gaston: Yes.

Oliphant: Gaston has all these figures.

H.M.Jr: Herbert, you've got to go further than a press conference. My thought is this, that you call up Arthur Krock and ask him to see you, and ask him whether he wants to handle it here, or should you go up on the five o'clock train this afternoon and see Sulzberger - one or the other. Because certainly, nobody in the Government has taken more pains than I have to keep politics out of the Department. It is grossly unfair - and prejudiced.

McReynolds: Deliberate.

Oliphant: I don't think any Department has taken as much pains as the Treasury Department.

H.M.Jr: It's just a question of whether Krock wants to handle it, as head of the Washington Bureau, or whether he wants you to take the five o'clock train and go up and see Sulzberger. I'd like one or the other.

Gaston: All right, I think that's fine; I'll call Krock.

H.M.Jr: If Krock will handle it, it's all right; if he won't you call up Sulzberger and tell him you're coming up on the five o'clock train, and will he see you. I'd just as leave call him myself.

Gaston: You want it definitely handled, one way or the other.

H.M.Jr: I want it positively handled; have the handling of this ..... with the President's handling of the Administrative changes in Wallace's office. Wallace makes a change and he gets wonderful newspaper cooperation. Here we've got a record which is better than any other Department's in Washington, and we get this sort of thing. Now it's a question of public relations; it's a question of handling it right. The Times writes a thing like this, and the Star writes that .....

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Gaston: .....cartoon.

H.M.Jr: .....cartoon, and everything is picked up over and over.

Taylor: Did you read Ernest Lindley this morning?

H.M.Jr: No.

Taylor: You ought to; you'd like it.

H.M.Jr: Well, you get it for me, Mrs. Klotz.

I want it either - I don't want Krock to say we went over his head and didn't give him first chance. If he doesn't, then you take the five o'clock train and go up and see either Sulzberger or James.

Gaston: The Tribune story was also bad; it wasn't as bad as the Times though. I am just wondering if somebody in the Committee didn't suggest these ideas to them.

H.M.Jr: Possibly. Possibly. I mean, where we've got a clean record - I mean, I've been so careful not to compare this Department with any other Departments in Washington, because that wouldn't be fair; that if the Committee is so holy now, why don't they ask for the rules and regulations of every Department in Washington. I want to get four years of work and repute over that there is no Department in Washington that's been handled as carefully as this has been, politically. I don't want to let it go. I feel this very keenly, just to see four years of effort go down the sewer because the Times takes this position.

Oliphant: I agree with Gaston - the handling of this specially, but I also think we've been a little modes. You've got a record here on this thing - it's as clean as can be, but you haven't told it to anybody. I'd like to see in black and white a statement of all the things done to keep politics out of the Treasury.

H.M.Jr: Let's do it .....

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- Gaston: I don't know a feature of it that hasn't been covered pretty extensively in the papers.
- Gibbons: I think Herman is right. No other Department has had the nerve to do what you have done.
- H.M.Jr: All true, Steve, but we can't say we are better than the next Department.
- Gibbons: No, no; just recite what you have done, or have somebody - have some columnist write what you have done.
- H.M.Jr: It's got to be done; you've got to start right with the meanest one, and that's the toughest.
- Taylor: Don't you think it could be handled in the form of a letter, either from you or from somebody else in the Treasury? I think, to the Times for instance, Steve could do it.
- Gibbons: I think we could get Arthur Krock to.
- Taylor: Herbert could do it, or I'd be glad to do it - "As a personal experience," and give the record.
- H.M.Jr: I don't pretend to be an expert at this; Herman and Gaston are, and I want him to concentrate on this thing and handle it, see? I appreciate it, Wayne; it's all right. When he gets through, I don't want to be in position for Krock to say, "Why didn't you give me a chance? I'd have handled it." The person to handle it is Krock. If he doesn't want to handle it, I'd like Sulzberger to know about it, but I don't - I mean, the person to do it, and think about it, and concentrate on it is Gaston.
- Gaston: Krock is spiteful; he probably will handle it in an unsatisfactory way, but I agree with you that we ought to go to Krock first.
- Oliphant: I wouldn't want Krock to handle it.
- H.M.Jr: He did mention it once before, and it wasn't too bad; he's handled this Sheppard thing once before.

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I don't want Krock to be in a position to say, "Well, I am the manager of the Washington Bureau; why didn't they come to me first?"

Gaston: Surely; that's right.

H.M.Jr: And if you tell Krock that I want Sulzberger to know about that, he will put it right on the wire to Sulzberger; he'll enjoy it. I want him to see the head; I want him to see Sheppard's letter, and our answer. And then just let their editorial board of the New York Times just read those two things and let them decide. I mean - that is, I just want - I want Sheppard's letter and my answer brought to the attention of the editorial board of the New York Times.

Gaston: You see the Magruder thing isn't involved in this at all.

H.M.Jr: Will you take it?

Gaston: Yes, but .....

H.M.Jr: But I'd like it done today. Then we can give this out at four o'clock.

Gaston: Yes.

H.M.Jr: Then we'll also get a list of .... (talking too low to hear.)

Oliphant: Get that in black and white.

H.M.Jr: Pardon?

Oliphant: Get that in black and white.

H.M.Jr: Yes, by four o'clock. Will you see it (letter to Senator Sheppard) goes up by hand.

Gaston: Yes.

H.M.Jr: No, I appreciate, Wayne, awfully, but, as I say, I get off my chest how I feel about it; anybody that's been with me knows how meticulous we have been here, and it gets down to a question of selling it; now, that's Herbert Gaston's job.

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- Taylor: All right; you think it over. I know what I have suggested; I think that may be the form in which it .....
- H.M.Jr: It may be.
- Taylor: ..... in which it can be utilized.
- H.M.Jr: You've been here long enough to know. For instance, if I call up Sulzberger, and don't speak to Krock, and Krock gets sore - and he has an excuse to be dirty - he most likely will be dirty anyway, but I don't want to give him any excuse to be dirty, see? He most likely will be dirty about it anyway, but, ah - .....
- Taylor: I think, if I may make another suggestion, if Herbert will talk to Krock from the standpoint of how to handle it, rather than whether he will or not, he will get better results, don't you think so?
- H.M.Jr: Well, we know Krock.
- Gibbons: Well - if you can depend on him.
- H.M.Jr: Yeah. Well, I .....
- Gibbons: Our last battle was on this fellow McGrath, with Jimmy, you know - the Collector up in Boston, and then to have a thing like this come out .....
- H.M.Jr: And what I went through with Senator Roy (Robert) Bulkley, in Cleveland.
- Gibbons: You can go right on through the line - Buffalo, Cleveland, Detroit'.....
- McReynolds: .... and Newark.
- Gibbons: Newark.
- H.M.Jr: There is a whole list.
- Gaston: There's two California men we compelled to resign from the Young Democratic League. It wasn't a clear case of being a Party committee, or a committee which solicited funds, but we made them resign.

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- H.M.Jr: We run up against the Duffy machine twice - the fellow in Philadelphia - what's his name?
- Gaston: Fix.
- H.M.Jr: Fix. And this fellow Dave Lawrence; Dave Lawrence resigned and became his campaign manager.
- Gaston: Joe Wolf, at St. Paul, resigned as Collector of Internal Revenue.
- H.M.Jr: Seventeen (or twenty-seven) men and women have resigned political positions since I came in - members of the National Democratic Committee.
- Gibbons: They were all collecting money for the Treasury, and at the same time, collecting money for the National Democratic Committee.
- Gaston: You've got to remember this, if the newspapermen all know that - and this whole thing is an effort to show that the Department in the Government which is the cleanest in political matters - they'll try to hang something on the Administration by attacking something on the political side and attempting to show them up.
- H.M.Jr: I still believe, and I'm willing again to be a pollyanna, if these facts can be brought to the attention of the editorial board of the New York Times - that's what I want - editorial board of the New York Times, and let them decide. I think I'll get a fair deal.
- Gibbons: I think you would from the Tribune.
- Oliphant: I think Gaston is probably right. The newspaper men know of these individual cases, but the cumulative effect of sweeping them all together - that's the story.
- Gibbons: This is just the news - what happens.
- H.M.Jr: Well, please make it number one, Herbert, will you?
- Gaston: Yes - surely.
- H.M.Jr: O. K. Mac, will you stay, please.

RE BUDGET

October 10, 1938.  
10:30 a.m.

Present: Mr. Hanes  
Mr. Taylor  
Mr. Bell  
Mr. Haas

H.M.Jr: We'll start with Professor Bell.

Bell: Mr. Haas gave me a figure on Saturday of - quite rough - and the revenue for 1940 is estimated at \$4,850,000,000.

H.M.Jr: Four billion how much?

Bell: ....850 million dollars.

H.M.Jr: For what year?

Bell: 1940. As compared with \$5,000,000,000 for the fiscal year 1939. I understand in that estimate there is an increase in miscellaneous revenue of about \$250,000,000 and there is a loss of \$400,000,000 in income tax estimated, so - making a loss for the year of about \$150,000,000.

Now for the fiscal year 1939 we estimate that we'll spend on everything \$8,985,000,000, giving us a deficit of \$3,985,000,000. Of that \$8,985,000,000, \$2,149,000,000 represents WPA.

When we come to the fiscal year 1940 - and this is a rough expenditure estimate based on the appropriation estimates now in the office adjusted by some of the systems - the regular expenditures, including some of the public works, will amount to about \$7,400,000,000, or \$600,000,000 above the regular expenditures for 1939. Of course, we have no estimate for WPA for 1940, but I just put down a figure of a billion and a half dollars, making \$8,926,000,000 for the fiscal year 1940, which is just about the same as 1939, leaving a deficit of \$4,076,000,000.

Now, those are very rough figures, and it may be that we can get that expenditure figure down some; but we can certainly expect a substantial increase in the regular departmental expenditures in 1940 over 1939.

H.M.Jr: It's good you (Hanes) had your stomach ache Saturday.

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Hanes: Got another one now.

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

Bell: This brings it down into the pit of the stomach.  
The WPA figure I just stuck in there. I don't know what that will be.

H.M.Jr: Danny, is that last figure for 1940 - is that for the fiscal year beginning in July of next year?

Bell: Yes, July 1, 1939.

Hanes: Uh-huh. That shows a budget deficit of approximately what?

Bell: Four billion 100 million, say, in round figures.

Hanes: As against three billion 800 million?

Bell: Three billion 985.

H.M.Jr: Practically the same thing.

Taylor: Roughly hundred million increase.

Bell: Hundred million increase in deficit over '39, which is accounted for by loss in revenue, practically. See, I've taken the same - I've taken a billion and a half WPA, which is 649 million less than is contemplated to be spent this year, but that figure can very well be two billion before we're through with it.

H.M.Jr: Well, when you say four billion 850 revenue for '40, you're figuring as though there were no change in the tax bill.

Haas: That's right.  
I'll tell you, if you want a rough idea of it, what we're figuring on business activity.

H.M.Jr: Yes, I do.

Haas: This is just a working thing, Mr. Secretary. We have to go over this thing carefully again. But here's

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about what it looks like for the calendar year - on the Federal Reserve Board index, calendar year '38, 82; calendar year '39, 87.

H.M.Jr: This is average.

Haas: Average on FRB. And the fiscal year '39, FRB would average 86; for the fiscal year 1940, 91. In order to get these averages, here's how it would look each month. Gets up to 98.

Bell: What was the low in '38?

Haas: 76.

H.M.Jr: That's very conservative.

Bell: I think so too.

Taylor: 91 for fiscal '40.

Bell: 82 for '38.

Hanes: Supposed to be 90 this month.

H.M.Jr: It's - well, it was 90 for September.

Hanes: Oh, for September.

Haas: That's their guess on it.

Hanes: That's their guess, but it isn't accurate yet.

Haas: It'll be around there.

Bell: You mean end of September; doesn't average all the way through.

Haas: You get the month of September. We just stuck it in that way. It may come out - the first figures are more optimistic, but it may work out about 90.

Bell: I should think 82 would be very conservative as an average for calendar year '38, and if things continue I should think 87 for '39 would be.

Haas: Yes, our figure - this five figure that we've got - we'll probably get more than that.

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H.M.Jr: Five?

Haas: You know, the five billion figure for '39. That's conservative. I think we'll be happy we made it that way.

H.M.Jr: I'll never forget when I went over to the President - went over with two figures, one based on an average of 90, one on an average of 95 on Federal Reserve. I recommended 90. If we took 90, it would have meant that the deficit was just over one billion dollars, see? So he says, "No, I'll take the figure 95, because it looks better to have a figure under a billion dollars." But your figure of 90 - was 90 for the year, this fiscal year - is not going to be very far off. But I think that beginning from January 1 on - I think it will be well above 90.

Haas: I think the five billion estimated for this fiscal year will be low. That'll be good. And this is probably a little on the conservative side. But I sort of thought - I mean for a preliminary, better to start that way.

Bell: I do too.

H.M.Jr: How much public works in the seven billion four have you got - for public works?

Bell: Five hundred million. That's Ickes' stuff.

H.M.Jr: Is that all?

Bell: That's - there's the general public works of about 600 million, which is continuing projects.

H.M.Jr: but you've got new in there 500 million.

Bell: That's part of the billion dollar program this year, and what's hanging over from last year.

H.M.Jr: Let's call it - how do we get a nine billion dollar program for next year? Seems terrible.

Bell: Let me tell you something.

H.M.Jr: God, it just seems ....

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Hanes: Let's see where you get it.

Bell: We've got a 25 million dollar increase in the Civilian Conservation Corps; that's assuming they're going to keep the same number of camps. I don't think you can get rid of any.

Got a hundred million dollar increase of expenditures on account of Ickes. Next year we're going to feel the brunt of this problem.

\$36,000,000 in Railroad Retirement Board; \$38,000,000 in Rural Electrification. \$75,000,000 in United States Maritime Commission; now that may come down some, but they've got a lot of ships.

\$8,000,000 in Veterans. Then your Agricultural Adjustment program; a hundred million of that represents these parity payments, and if they're not going to be made this year they'll hang over till next year - \$212,000,000. \$200,000,000 for farm tenancy. May cut that.

\$35,000,000 for your general public works.

H.M.Jr: How much for general public works program?

Bell: \$35,000,000. Be a substantial increase in general public works program because of action Congress took last year - flood control, rivers and harbors, so forth.

\$8,000,000, Department of Commerce. Now, Department of Commerce lost Aeronautics, but they gained \$20,000,000 for Census, so they're up \$8,000,000 net.

Interior is up four - very small. Justice is up six. Navy Department is up 123 million. Post Office deficiency will be up ten.

Treasury Department's up 129: 57 million on interest and ....

H.M.Jr: Where's the other?

Bell: ... 24 million on refunds and about 50 million old age reserve.

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War Department's up \$28,000,000, which is very small, because War Department's increasing very fast.

There you are. They just add up, and add up big amounts - 75 and 100 million dollars, quick. Every department is on the increase.

- H.M.Jr: What are those pretty pictures there?
- Bell: And they've got good justification for it because of additional laws.
- Hanes: Something - you mentioned here one day that you'd like to see a picture of what the various steps of the revenue would be in case the national income did go to a hundred billion dollars. So George Haas has been working and figuring as a base... - George, you better explain this.
- Haas: Go ahead.
- Hanes: He's taken this, say, as the base. This was actual - this is where we were: 60 billion income, 82 for the Federal Reserve Board index, and 80 for the Bureau of Labor Standards wholesale prices.
- H.M.Jr: What year is that?
- Hanes: This is 1938.
- Haas: Just hypothetical.
- Hanes: Hypothetical, not the actual. But that's what we believe '38 will be: estimated revenue, four billion 982 million, including payroll taxes.
- H.M.Jr: Yes. What's this?
- Hanes: This is based on a 70 billion dollar income, with the Federal Reserve Board index at 108 and the Labor Bureau prices at 85.
- H.M.Jr: Excuse me - is that a sign - if that's 70, that has to be 108?
- Haas: No, the reason I put these others here, Mr. Secretary - several combinations of these things and other factors

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would give 70.

H.M.Jr: I see.

Haas: But that's to give some idea of what combination we took. As a matter of fact, see, even to get up to a hundred billion dollars we had no inflation from - that is, no increase - get that much increase in production; if you had some inflation this curve would be way up here, because of price increases.

H.M.Jr: In other words, wholesale prices can go to a hundred. What year is that based on?

Haas: we took a decade.

Hanes: Next ten years.

H.M.Jr: Production would have to go to 149 in order to get a hundred billion dollar national income.

Haas: With prices only going to there, to a hundred.

H.M.Jr: And then you show down there ....

Hanes: That's the percentage that the various taxes yield. Income tax this year would be 36 percent, this miscellaneous revenue 40 percent, and that's the percentage under those conditions. This is the percentage with the hundred billion dollars income; income tax would go to 43 percent, 29 percent for miscellaneous.

H.M.Jr: Just let's - excuse me, and we'll go over this again - supposing we had a 70 billion dollar income. How much revenue would that produce?

Hanes: Six billion seven.

H.M.Jr: I get you. That's very nice. That's the whole picture. That's swell, George.

Hanes: It seems to me that the answer to this revenue problem from both ends - both the expenditures on one side and the income on the other - is that increase in national income. If we don't get that, it's going to be an awful headache to raise the amount of revenue necessary.

H.M.Jr: That's a swell job, George.

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Taylor: At 80 you get off the nut.

Hanes: Well, you balance before 80.

Taylor: Approximately at 80 you're off.

Hanes: From the fact your extraordinary expenses would come down because of the unemployment relief program.

Bell: You mean you'd balance the budget if you got rid of some relief.

Hanes: You would automatically with an increase in business cut down your relief.

Bell: In theory you should.

H.M.Jr: Well, you would.

Hanes: We're being somewhat theoretical, naturally. We're dealing in guesses.

This is the same thing with the actual revenue of the Treasury, leaving off the payroll taxes. You see? This is exactly the same thing, except that we just leave off the payroll taxes, assuming that those payroll taxes are going to be put in trust funds.

H.M.Jr: And inasmuch as the payroll taxes wash each other out. That gives ....

Hanes: That gives you the true picture.

H.M.Jr: This is better to show to the President. I'd show him that one first.

Hanes: You might leave that other one here entirely. Leave it here.

H.M.Jr: I think - I mean the purpose of this is a dress rehearsal, and Dan can check me - I mean if he's only allowed a half hour, we get in there 20 minutes late, so we get just - get ten minutes. I'd just show him one. What do you think?

Hanes: It's nice to see what the result would be. But that has really the true picture there.

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- Bell: What's the difference between them, again?
- Haas: Took off the payroll taxes, both Railroad Retirement and Social Security old age.
- Bell: I see. O.K.
- H.M.Jr: They wash each other. So might just as well, Dan. What?
- Bell: That's all right.
- Now, how much trouble is it to do these things by tens - Federal Reserve index?
- Haas: Well, what we did it by, Dan, was by the national income. We can do it by fives; if you want the national income then we'll get another figure down here for the production index and the price index.
- Hanes: Take your production index at about 100.
- Bell: These have to have some relation, don't they, anyhow? See, what I had in mind, Mr. Secretary, in writing a story around this table, was to say that when the Federal Reserve Board index is at 85, we ought to get an income of so much - that is, taxes - and when it's at 95 we ought to get so much.
- H.M.Jr: George's way - instead of that you talk in terms of 70 billion, 80 billion, 90, 100.
- Bell: That might be better.
- Taylor: I think it is.
- H.M.Jr: I think if you make it 75, it's too much to break it down.
- Bell: No, I'm not thinking of breaking that down. That's probably better, to do it this way. Rather than putting this (national income) in multiples of ten, I think - was thinking of putting that (FR index) in multiples of ten.
- H.M.Jr: Of course, the Federal Reserve index is something - I can hear the President - "a man on the street"

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doesn't understand, but he does know what 60 billion dollars is."

Haas: And your taxes, Mr. Secretary, based on ....

H.M.Jr: George, that's a beautiful job.

Hanes: Danny, when you get to 70 billion dollars income - take 1937, when you had a 69 billion dollar income; the Federal Reserve Board figure was 110, and this figure was 86.

Bell: Yes.

Hanes: So that figure - and we produced six billion 200 million dollars of revenue. No we didn't either. Six billion two less your security taxes.

Bell: Had five or six hundred million dollars. That isn't far off.

Haas: You can't compare that exactly, because you have a lag in taxes. There is no lag here; this is tax liability.

Bell: But it isn't far off.

Hanes: That picture is about right, because if you take off from six billion two your security taxes you'd be right back to five billion 558, what that figure shows.

Bell: After these are thoroughly checked, is there any objection to using a thing like that publicly?

Haas: Well, here's one objection to using it, but it may not be serious. Before we have used it publicly, I'd like to get a group of some other people down and try out some questions I had in my own mind about it.

Hanes: I've got some questions too. I wouldn't do it yet. We just started this.

Bell: I mean for the budget message, see, in January.

H.M.Jr: Being checked by able people, there is no reason why... I think it's - I've never seen it more clearly put on one page than that. You'd have a

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month to check - two months to check this thing.

Haas: Here's the kind of thing ....

Taylor: Still be using the same principles and same type of presentation.

Hanes: Just a question of getting our economy back on a basis where we will yield the revenue and cut out the necessity for this relief; that's all there is to it.

H.M.Jr: Well, I'd - let me put it. That's one attitude to take, see, that we've just got to sit back and see until this thing comes up to that point, and then these other things will naturally slough off, see?

There's another viewpoint to take - I mean I'm not saying I'm taking it - and the other viewpoint is that you accelerate recovery if, for instance, in Hopkins' case he stops, say, taking on any new men from now on, which means how many thousand - natural turnover would be ....

Bell: Well, it's probably five percent a month, the turnover.

H.M.Jr: Well, I mean that, for instance, if he just took no new men on relief, his payroll would go from three billion one - go off to 100, 150 million a month. See what I mean? I mean gradually let this thing - not lay off anybody, but just not take on any people. That's the way we handled it before, see?

Bell: And you might have to freeze it for - freeze a certain figure during the cold months, take on enough people to take up the slack.

H.M.Jr: Incidentally, isn't he running way behind his ....

Bell: Oh yes, I asked Colonel Harrington the other day - three million, one hundred and some thousand, as compared with an average of two million eight.

H.M.Jr: Of course, we've always got to be practical, and I don't think there's much sense in putting up a holler on this until the day after elections.

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Bell: That's right.

H.M.Jr: But I just wonder - I'm thinking out loud; this is the first time we've sat around the table - one alternative is that we simply - the Administration does everything to increase the national income to a hundred billion dollars, and we admit from now on it's going to cost nine billion dollars to run this government, see? The other attitude is that if we've got recovery now and are going to spend 600 million dollars for public works anyway, why put in another 500 million on top of that, you see, and why not....

I'll bet you a nickel that if I went in to the President of the United States and showed him nothing, just said, "Mr. President, what's in your mind the uppermost figure that would run this government next year? Let's each write it down" - I bet you he'd put down about eight, huh?

Bell: Probably.

H.M.Jr: He'd put about eight; and I just wondered whether eight wouldn't be a good mark to shoot for, - it's nine this year - whether we're asking an awful lot if we ask them to trim this thing a billion dollars.

Bell: You can't trim it to eight next year if he has any sizable amount for WPA. Can't be done.

H.M.Jr: How much you got in there for Agriculture?

Bell: Got too many things started.

H.M.Jr: How much you got in there for Agriculture?

Bell: A billion 370.

H.M.Jr: Well, if he didn't give ....

Bell: That's hangover, a lot of it.

H.M.Jr: But supposing he didn't give Ickes anything new.

Bell: I'm in favor of that.

H.M.Jr: And just gave Agriculture 500 million dollars.

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- Bell: Well, it's all right to talk about giving Agriculture 500 million dollars as an appropriation, but Agriculture has got funds that are available in 1939 that will not hit the Treasury until 1940, and that's where you're stuck. And that's also true of Ickes. It's also true of your general public works program. That's to the extent of almost - the three put together, about eight or nine hundred million dollars.
- H.M.Jr: All true, Dan, but I'm just - all the more reason - I mean if you want to get this thing down ... How much are we committed to for Agriculture without - before we vote another dollar, and public works?
- Bell: Well, I haven't got those figures.
- H.M.Jr: This is a great surprise to me. I didn't - I didn't think it would go over eight, had no idea it would approach nine.
- Bell: Of course, you've got a billion and a half WPA in there, you know.
- H.M.Jr: I know, but even with that ....
- And then there's the other thing, question of whether you don't want to wait for recovery, and do you want to increase the taxes?
- Hanes: Of course, every time you increase the taxes, you just delay getting to that real business recovery just by that much, that's all. You're just taxing where you're weakest every time you raise those taxes. Now the amount of tax increase that's going to be required if you're going out to raise seven billion dollars - it's going to put a ....
- H.M.Jr: Have you got some pictures on it?
- Hanes: Yes. I haven't got any charts showing it, but I've got a rough outline of the figures.
- H.M.Jr: Where - what would you do?
- Hanes: You'd get it from your individual income tax by raising from one billion one to two billion. That's one. You'd get it from your estate and gift tax by raising from

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400 million, which is the present yield, to about a billion. That's where your two large increases come; that'll give you practically your total increase.

H.M.Jr: You mean it will give you two billion more?

Hanes: Give you two billion more. You'd have to raise your corporate flat tax probably to a figure of, we'll say roughly, around 20 percent.

H.M.Jr: What is it now?

Hanes: It's about 16½ percent flat now. But that involves also the taking off of your capital stock tax and your excess profits tax, which ought to come off really, because it will do more to stimulate your industrial mind than anything else. Not paying less dollars; actually paying more dollars, but in a very much more painless way, and not doing crystal-gazing such as he has to do now in trying to estimate what his capital stock is worth based on his earnings for the next three years. No human being can tell you that, and everybody in the Treasury is agreed that those two taxes - I say everybody; Ros and all the staff back here are agreed that those taxes ought to be removed, and we ought to. No one thinks we're going to get any less tax bill on the corporates, and the corporations themselves would be delighted if you would take those two taxes off and raise the other tax even as much as three and a half percent - on the flat tax; so they would pay more dollars, but it'd be very, very, much less burdensome.

Now that would give you approximately seven billion - give you approximately seven billion revenue based on - based on our present tax structure. That calls for the renewal of your excises and so forth. We're getting now out of your excise and miscellaneous taxes - we're getting 600 million dollars. This calls for a slight decrease, taking away some of the ones that don't produce much revenue but are terrible nuisances. Whether they will just want to renew them in block or not, I don't know. If they do, that will bring you a hundred million dollars more.

H.M.Jr: Well, supposing the President asks you this. Bell sits on the budget side. And let's just say he says,

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"All right, it's nine billion dollars." Then he turns to either you (Hanes) or me and says, "Do you think we should increase the taxes?" What would you say?

Hanes: Well, personally, if I had my way about it, I'd say that the way to get that revenue was out of the estate and gift taxes and out of the middle brackets in the income tax. Now, that's not going to be popular politically, as you all know. And lowering the exemption from \$2500 to \$2000 and from \$1000 to \$800 - it's going to bring about six million more people - variously estimated from four to six million people will be included in the next year's tax bill, as against the present very much smaller number than that. We had last year total taxes - total number of income taxes submitted were about seven million; that includes 500,000 of your corporate income taxes. Of that amount about two and a half million paid tax. This would bring about four million more people in the tax bill; that's not going to be popular with the Congress, you know as well as I do. That first bill becomes payable in March of 1940; now you know - and that being the election year, that's not going to be popular, for when a man thinks, "Well, great God, I'm bringing four million more people in this income tax" - that's not going to sit well, is it, Danny?

Bell: I shouldn't think so.

H.S.Jr: Well, estate and inheritance tax wouldn't bother them any.

Hanes: I don't believe it would bother them any. But that would call for a lowering of your present exemption, probably of \$40,000 - your present exemption - call for a lowering of that present exemption.

H.S.Jr: That wouldn't make an awful lot of difference, would it?

Taylor: Got an awful big increase from 400 to a billion.

Hanes: Yes.

Taylor: That is, I don't - I think it will sit all right, but I just wonder whether you're going to get that. Sounds like an awful big increase.

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Hanes: Of course, the income tax sounds like a big increase; it's a hundred percent increase in the income tax too. That isn't going to - that isn't going to sit well with the population. Don't think for a minute they're going to jump up and crack their heels over that one. And when you take the four million people you're going to add to that bill, there's going to be hell raised, no question about that.

But after all, you've got the problem. Here's the problem: how we going to raise seven billion dollars? That's the problem. And you've only got a few places to do it. You've got your liquor tax. There's a lot of people think the liquor tax is so high now that you're encouraging bootlegging.

H.M.Jr: I do. I was opposed to the raise of the quarter. I didn't want it to go above two dollars.

Hanes: There's a lot of bootlegging going on, of course. That will continue as long as it is profitable to blockade.

H.M.Jr: Have you got in your problems the consolidation of the estate and inheritance tax?

Hanes: We've been studying that thing for a long time. Personally, I'm in favor of moving that gift tax up closer to the inheritance tax. There's a lot of opposition to that, however. There's a lot of people say that they want to encourage gifts during lifetime, don't want us to have that tax same as the inheritance tax. And there's no - I don't think the minds in the Treasury are met on that subject at all.

But you see, here's what it would involve to raise two billion dollars from this income tax. You start off with a 10 percent tax at your lowest tax against your present lowest of 4 percent, and you go straight away at two thousand dollars to 12; two to three, to 14 against your present 4. Your highest tax now - I mean your lowest tax, is four and you jump to eight on \$5,000. Well, we jump to 18 percent on \$5,000 income, and it takes it right straight on up to your 70 percent bracket; it's just a tremendous increase throughout that whole middle bracket of income tax.

Bell: Lower the exemptions?

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Hanes: Lower exemptions from \$2,500 to \$2,000 married, and single to \$800. That'll bring approximately a million five hundred thousand new people under the income tax.

H.M.Jr: You lower the married from \$2,500 to ...

Hanes: ... \$2,000.

H.M.Jr: And the single?

Hanes: 800 from a thousand.

H.M.Jr: Of course, I've always felt ....

Hanes: You see, that's not a thousand dollars total income, that's a thousand dollars of taxable income. That doesn't mean, of course, ....

H.M.Jr: I always thought, unless you do that - I mean unless we increase the number of people that pay the tax - I mean we'll never get anywhere. I mean I don't do it so much for revenue purposes as I do to make these people tax-conscious. Got to make them tax-conscious. I think LaFollette's absolutely right on that.

Hanes: He only missed it by one vote in committee last time, I think.

Bell: Trouble with it, it's a little late.

H.M.Jr: He had a favorable vote, then they knocked it out, didn't they? He did it while they were at lunch.

Bell: In the committee.

H.M.Jr: Is that what it was? No, I think on the floor of the Senate.

Taylor: On the floor of the Senate.

H.M.Jr: Yes.

Hanes: Well, you've got another problem facing you there too. You've got 950 million dollars back taxes due on - under your processing tax alone.

H.M.Jr: Which isn't worth two cents. Might just as well write it off and lay off the people. I mean I've heard Wallace .....

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- Bell: Can't write off the refunds.
- H.W.Jr: Wallace started that he was going to get what, 150 million on that? What? Then he steadily dropped it - wasn't it 150? - and we've gotten what, 6 or 8?
- Hans: Yes.
- Hanes: No, I say I don't know what your total refund bill is going to be. Dan is figuring on some more refunds next year. Well, those - there hasn't been but some 16 million dollars refunded under that 950 million dollars of claims, and some time in the next two years you're going to have a lot more refunds on those processing taxes.
- H.W.Jr: George, whatever happened to that study I asked you and White to do over the summer as to the possible ceiling of the national debt? Remember? I asked you and Harry to do me a job on that.
- Hans: Oh, in the connection that you might make a speech or something.
- H.W.Jr: Yes.
- Hans: Well, we put together a lot of material on that. Have to gather it up now.
- H.W.Jr: Will you? Not for a speech but for this. I mean the question ....
- Hans: That thing was started on that basis.
- H.W.Jr: Well, the President will say, "All right, Henry, can you finance another four billion dollar deficit?" He's got a right to ask me that question, see?
- Hanes: There's been an awful lot written and a lot of guesses made on what the ceiling is. I'm sure I've never seen one that impressed me.
- Taylor: Just picking it out of the air.
- Bell: There isn't any.
- H.W.Jr: I'm just thinking. I mean I've - I'm not going to do it - never have - never going to go over there and

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run the baby act or pound the table, neither of which are effective, as Dan knows. And I don't know - want to make any statements to frighten him which I don't believe myself; but supposing he turns to me and he says, "Well, what are you worrying about? Can't you finance another four billion dollar deficit?" How about it, Wayne?

Taylor: (Shakes head doubtfully)

Bell: Well, whatever he says or decides today, you've got to finance another four billion dollar deficit. Whatever taxes you levy won't come in until '41. '40 is over the dam, it's gone.

Hanes: Here's another thing bothers me like the dickens: this terrific bill that comes from the states and the sub-divisions. Now, we took out of the community last year about 12 billion 700 million dollars.

H.M.Jr: For what?

Hanes: For taxes.

H.M.Jr: You mean state and local taxes.

Hanes: Both.

H.M.Jr: How much?

Hanes: 12 billion 700 million, out of 60 billion income.

H.M.Jr: You mean exclusive of national?

Hanes: No, total tax bill for government.

H.M.Jr: Is how much?

Hanes: 12 billion 700 million.

H.M.Jr: Where do you get that figure?

Bell: Better than 20 percent, adding Federal revenue in, state revenue, and sub-divisions. 12 billion 700 million.

H.M.Jr: What percent is that?

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- Hanes: It's a fifth.
- Bell: Better than 20 percent.
- H.M.Jr: Good figure. I just never heard that figure before.
- Hanes: Now, when you're talking about raising seven billion dollar - now the states are talking about raising ten; that's 17 billion dollars out of 60 billion, say. Well, my God, that's a luxury we just can't afford, that's all there is to it. Just comes a point where you can't go any further. You can't extract that much money.
- H.M.Jr: Well, I'm putting it a little differently. You say you can't extract it from the tax side, which for the moment is - I mean is your responsibility. You know what I mean when I say that.
- Hanes: Yes.
- H.M.Jr: On the other hand, can you extract another four billion dollars out of these boys?
- Hanes: I don't believe anybody in the world can answer you that question today. The thing will happen like happened in 1929, when we were extracting from the economy billions of dollars for new investment, and all of a sudden they just said, "It's enough, it's gone too far."
- H.M.Jr: What year?
- Hanes: 1929. And calamity hit us then, when we thought we were in a new era.
- Well, I've never seen anything by way of the ceiling on this Federal debt which impressed me at all as having anything concrete. It's a guess.
- H.M.Jr: What we're doing, John - the Government is extracting it now instead of private industry.
- Hanes: That's right. And I was saying, "Some day you'll extract until somebody ..."
- Bell: ... somebody says, "That's enough."

Hanes: "....somebody says, 'That's enough.'" It just spreads like wildfire. Banks quit buying, bonds go down, and we're in a mess.

S.M.Jr: What we had last January - we had a balanced budget, we had a picture .... When I made that speech on November 11 last year, we were just approaching the place where I hoped that private industry would take it up. And along came Mr. Ickes with his speech, Mr. Jackson with his speech, and those two boys, I think, are as much responsible as anybody for knocking the thing into a cocked hat. I don't know whether you (Hanes) agree with me or not.

Hanes: I agree with you.

S.M.Jr: But we were right at that point - take what we have now - take the fact that our inventory turned in November - the inventory picture began to get better last November; that's what George's figures show - and the thing turned, and if that thing would have come, private industry would have begun. We were on a cash basis - we were balanced on a cash drawer basis. But then those boys just came along and I think those two speeches just knocked the thing into a cocked hat, and a special session of Congress and everything else. But I don't see any encouragement for private industry if they see staring in their face another four billion.

Now, the only thing that I can see out of this thing, Dan, is, if we do this with the President, and I think he'll go along - I haven't said a word to him, see - that if we do this again, I'll say, "Look, Mr. President, we don't know - let's do the same trick we did again; let's only put in a billion for relief and see how long it goes. You've always said you don't know how far it's - you're not going to let anybody starve. Let's only put down a billion. Let's see where we are next March or April, and try it." I don't think I'll get anywhere. "Don't put down anything for public works; you've already got 600 million dollars. And only put in 500 million for agriculture. Let's see what happens."

Now, Wallace keeps saying - I think he argues that in our present five billion of taxes, 500 million is

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really earmarked for Agriculture, and Marvin Jones argues that way. What?

Sell: Marvin insists that it's 620.

H.M.Jr: Well, Christ, for my sake - I don't care, but I mean for this - I mean in this room.

Sell: That's right, in this room. But I care as far as Marvin is concerned.

H.M.Jr: In this room it's 500; as far as Marvin, it's 500. You and I are together on that.

I'm just trying to think out loud. I say, "Why don't we do this, Mr. President. See, we've actually got nothing to lose. Say 500 for Agriculture, a billion for relief, and nothing for public works, and explain that we're in the midst of an upswing, that you're trying to guess 18 months at a time, and that you will take another look at this thing the last month Congress is in session. And that you delay doing anything, on that basis, on your tax program until the last month in session. And then, depending on what Congress does, you'll hold that as a whip-handle on what you do in the taxes."

Now, if he did that - if he did that, what would that mean? How much would you save?

Sell: Five hundred million.

H.M.Jr: No, no. Five hundred million on relief. Nothing for public works.

Sell: I haven't got anything new for public works.

H.M.Jr: You got five hundred million.

Sell: Upon contract entered into. Got to be liquidated.

H.M.Jr: No, no, new. Didn't you put another five hundred million ....

Sell: General public works.

H.M.Jr: Yes.

- Bell: Just isn't any use arguing. Let me tell you. You've got a contract - got an authorization of about 250 million dollars for good roads. You've got a flood control bill on your books of about seven or eight hundred million.
- H.M.Jr: Dan, let me try. Let me put it up and let them knock it down. It's no harm to put it up and knock it down - for him to knock it down. If you only put in a billion for relief, you save five hundred, don't you, and nothing now for public works, because you've already got 600 million, haven't you?
- Bell: Have six or - five or six hundred million of expenditures. You'll have more than ....
- H.M.Jr: Nothing for - in the new budget for public works. How much?
- Bell: It would be five hundred million of the general public works program in the budget; that's new appropriation.
- H.M.Jr: All right, five hundred. And now only five hundred for Agriculture. How much?
- Bell: Well, we've got a billion .... - no, part of that is good roads - got a billion and 75 million; take 350 million.
- H.M.Jr: How much would <sup>you</sup> save?
- Bell: 350 million.
- H.M.Jr: Is that all? How much you got down for good roads?
- Bell: 225 million in Agriculture, most all of which - practically all of which is good roads.
- H.M.Jr: He was willing last year to go ahead on a hundred million for good roads, the average for the last five years. If you cut that 150, you'd have 500 million saved. Let's just put it down. Let's put it down. It doesn't do any harm. Be a billion and a half off.

And then if he'd do that and then say - instead of nine you'd have eight - you'd have a seven and a

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half billion dollar budget - and then say, "Gentlemen, I won't increase the taxes until I see what Congress does, and I'll hold back my tax program."

- Hanes: Any hope of starting another economy program in the enlargement of these administrative bureaus around here? Of course, they're just growing by leaps and bounds everywhere.
- Bell: That's true, but that isn't where your money is being spent.
- Hanes: That's not the big money, but you might ....
- H. H. Jr: But boys, you see? Just let me leave this. I'll be back in three minutes. Want to go in there because Archie isn't there. If the President went to the country with a seven and a half billion dollar program instead of a nine billion dollar one and then this thing was increased, then he can put it on Congress and then let the people fight with Congress. It gives us a chance, you and me, to make some speeches. It also gives him a chance to say, "We won't do anything about taxes, depending upon what Congress does." Then if Congress increases this by a billion and a half, he can say, "All right, it's up to Congress to raise another billion and a half in taxes." It gives the man something to trade with.
- Hanes: Yes, sure.
- H. H. Jr: And he says, "All right, Congress, if you increase this by a billion and a half, raise me another billion and a half taxes," instead of saying, "Congress, god-damn it, you've got to raise another billion and a half." It puts the burden on them.
- Hanes: It doesn't make the outlook so hopeless.
- H. H. Jr: Right. If things get so much better, maybe we won't need it. Maybe we can save a billion dollars. When I argue like this - I argue forcefully - I'm just thinking out loud.
- Hanes: Sure.
- H. H. Jr: But I'm thinking of something that would taste good and that the burden won't have to be - to be that we originate a plan to raise a billion and a half taxes.

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It isn't so crazy, is it, Wayne? Huh?

Taylor: No, sir.

(H.M.Jr goes out)

George, on this four billion plus, whatever your - I don't know what your state figure will look like in terms of .....

Haas: Four eight - you mean for 1940.

Taylor: I'm just thinking of whatever it may be in terms of deficit financing, and so on; and you've got your states, which will be local bodies, which will be doing some of that too, I assume. I don't know whether you've got any figures.

Haas: How do you mean? You mean taking out of national income?

Taylor: Yes.

Haas: Well, of course, on that, Wayne, they're really not taking out and throwing it in the ocean. What you're doing - you're diverting 20 percent of your national income and socializing it.

Taylor: (Nods yes)

Haas: That's what you're doing.

Taylor: What I'm getting at is, using these same figures that you have there ....

Haas: For the Federal? You mean this thing here.

Taylor: That same type of computation.

Haas: I see. And include the state and local income.

Taylor: There are certain things that you can go into in the past and show how much savings, let's say, the national income - a national income of 60 can produce. I'm talking about savings.

Haas: All right. I get what you mean.

Taylor: See what I mean?

Haas: Uh-huh.

Taylor: All right, if you take, let's say, five or six total between state and local out of your - your national savings out of a given income, what have you got left over for private? See what I mean?

Haas: For private savings.

Taylor: Yes, private capital.

Haas: In order to add to your plant and that sort of thing. We can make some estimates, but that's rather - I mean we can make some estimates on it.

Taylor: Well, the only ....

Haas: In other words, you're trying to find out whether there's anything there, and you're checking it.

Bell: You're using all your savings for taxes.

Taylor: Well, not in taxes. I'm talking about this. Let's say here's your market level, which is a given market level. It's full, you see. Let's say that your pail's about there, you see, and that's in balance. You've got national income which in the following year is going to produce so much in savings.

Haas: Uh-huh.

Taylor: Maybe that's ten billion, I don't know.

Haas: Yes, yes.

Taylor: All right, if you get this four billion or five billion or six billion deficit that's going - I mean for public purposes - I mean how much is there left over for your private purposes in the form of actual savings?

Haas: I get you.

Taylor: I think you'll - in order to try to answer the question that Henry's got on his mind - "All right, how long can you keep on doing that?"

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- Haas: Yes. Well, of course, there's other things.
- Taylor: There are other things in there, but .....
- Haas: It's balance between income, savings, and investment.
- Taylor: That's right.
- Haas: And government taxation.
- Taylor: Yes.
- Haas: Well, I'll tell you what we'll do. Let's put it together; lot of it will be guesses, but you'll see what it is.
- Taylor: You're reaching for an answer which we ought to have. Can't be an accurate one.
- Haas: It depends a good deal on the tax structure, where you're pulling this. Now, I mean where your - whether your revenue is coming out of people that ordinarily would have spent or if it's coming out of people who normally would save the money. See, it's where you're sucking it out.
- Taylor: If you'll go back far enough, you'll see - these boys that I hear about are reaching around for something, but I don't think they've got it.
- Haas: Two schools on it. Some of them think that in the past we got into trouble because we didn't draw enough; too much saving.
- Taylor: But if there was any over-saving period, you get into trouble. But there's some place there where she's kind of in balance.
- Haas: I think I can make a pretty good series of estimates, so we can see historically on that thing.
- Taylor: That's what I mean.
- Haas: I can put together estimates that have been made by different people, so you can see what the thing is.

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- Taylor: Let's say obviously if it's 49 or 50, or whatever it may be, there isn't any excess stuff.
- Haas: I get it now. I'll get that together.
- Hanes: Some fine day the thing will stop without anybody's knowing anything about it, or why.
- Haas: When they give up hope, it will stop. When they can't see any light for this thing to continue on... It may not be rational at all.
- Bell: It will stop if they get a chance to put their money some place else.
- Taylor: But the money has to be there, Dan.
- Haas: Yes, when they - it seems to me that it will stop when the - when a group of people who are important, so to speak, give up; they feel that the only outlet is that from here on you go into inflation, and that snock will cause a crack-up of the thing, and from that crack-up you get inflation. Rationally I think you can go a long ways farther than this. But you've got to handle it awful carefully. And that's why I think it's awfully important for the Secretary to ask the President to make up his budget that way, because that gives the public some hope. But to come out with the President's budget, the same four billion dollar deficit - I don't know; it may ride all right.
- Bell: Well, I think the attitude of the people on your four billion dollar deficit is in terms of your program from there on. You've got to have another four billion dollar deficit. There isn't any way out of it. But from there on is what you've got to hold out hopes for - 1941 - where you've got to begin.
- (H.M.Jr comes back)
- H.M.Jr: Dan, you can't go to the - the President can't send up a budget message asking for nine billion dollars. Just can't do it, that's all.
- Bell: Well, it's quite obvious on its face when you look at it.
- H.M.Jr: What?

Bell: It's quite obvious on its face when you look at it.

H.M.Jr: That it's nine billion?

Bell: Yes.

H.M.Jr: What?

Bell: Yes, sir.

H.M.Jr: Yes, but then if he does it my way - if he does it my way and cuts this thing a billion and a half and makes it a seven and a half billion dollar budget, then it gives him a chance; if Congress raises it, he says, "O.K., for every dollar you raise, give me another dollar's worth of taxes," and he's in a nice trading position.

Bell: Well now ....

H.M.Jr: The other way he says - the other way you're going to have him say, "The budget is nine billion and we're going to raise five - we're not going to raise any new taxes." Or are you going to have him say, "I want a billion and a half to two billion dollars more taxes," and he's got to take the full responsibility?

Bell: I talked a little to the President the other day about this same question that I discussed with you coming down in the car the other morning, and he seemed very much interested, and he said he'd like to see the thing worked out that I discussed with you and a story written around it. Now, it seems to me that what you've got to do is submit a budget for 1940 along the lines that I have shown - I showed you that today - and then discuss where the cuts can be made and what's got to be left in, and for which we've got to raise taxes in the future, and frankly admit that 1940 is over the dam and - in so far as the budget picture is concerned, after eliminating WPA. What we do on that will be a matter for decision along towards the end of Congress. And he did not seem to object to a committee to study this whole relief problem. And maybe before Congress adjourns you can have some very definite program on the future relief, both '40 and '41; if not '40, certainly '41. And after they set that program, then it will be time to lay the taxes around what is a national policy from there on.

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It seems to me that's the way you've got to tackle this thing. Got to admit that '40 is gone. Got to admit there's a billion dollar for public works in 1940 which you can't throw out the window at that time, because the contracts are entered into. But we say this figure of a billion dollars could and should be eliminated for the future.

Mr. Jr:

Ben, I think the committee is O.K., but I have yet to see any committee ever have any effect on the President. I have yet to see any committee have any effect on him.

Mr. Jr:

Of course, getting back for a moment to this revenue, there's a way - there's a way that a great deal of revenue could be raised and should be raised, in my opinion. I don't know as anybody agrees with me about this, but I've talked - I talked with Ros about it for hours on end, and I know there's a way here that can be found. Here's the thing, here's the figure that stirred my imagination. When I found out that our total five hundred thousand income tax blank returns from corporations showed a gross revenue for those five hundred thousand corporations of 30 billions of dollars, and out of the 30 billions, 10 billion of it - they were occupying the broad highway of trade and commerce and only 20 billion out of 30, or two-thirds, were paying any road tax.

Now, I began to study from what - my own knowledge of what happens in a corporation is this. You get down first your total sales. Then we get cost of sales, material and supply. That gives us what we know as gross revenue. And then we have in the tax law - the framework calls for a certain number of deductions, and there's where the scemenigans begin, and you come down to the apex of this inverted triangle, this thing we call a net profit, and it's a pin-prick. The result is that that 30 billion dollars here of gross revenue - we're only collecting income tax on 20 billion dollars of that gross.

Now, somewhere there is a place of moving that figure - that point there up to some place here, which is going to bring into the revenue somewhere approximating what ought to be in the revenue from that 30 billion dollars of gross income.

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- H.M.Jr: Well, what would your thought be? Go the whole hog and tax them on their gross revenue?
- Hanes: I wouldn't - that's so unpopular to talk about - I wouldn't call it that. I would approach that .... That would be the ideal situation, from my standpoint, but there you run afoul this suggestion that that is not based on the ability to pay, because the corporation that doesn't earn any money can't pay any tax.
- Bell: Many corporations in that triangle have deficits.
- Hanes: Huh?
- Bell: Many corporations will have deficits.
- Hanes: Many of them do. They're paying tax now in capital stock tax, of course. So that this they're hollering about - this is approaching - when you get up to that gross revenue, this is approaching a sales tax, general manufacturing and sales tax, in the last analysis. Just speaking now about raising revenue. In the final analysis, there's where you're going to come out if you're ever going to raise the revenue.
- H.M.Jr: It doesn't make me sick.
- Hanes: What?
- H.M.Jr: It doesn't make me sick.
- Hanes: It doesn't make me sick either, because we got - 57 percent of our tax bill comes in now through sales tax. And Mr. Wallace wants to put another sales tax on, 300 million or 500 million on food or clothing. Calls them processing taxes, but they're not processing taxes at all, but they're sales taxes.
- Taylor: As you say, John, you have to kick this ability to pay right out the window, don't you?
- Hanes: Uh-huh.
- Hanes: That's what your processing tax does.
- Taylor: I mean all those things of that kind.

- Hanes: That's what our excise taxes do. Getting down to the baby's milk on every one of those things, no question about it. But again, you're confronted with the reality.
- H.W.Jr: And of course, the consumer tax is the easiest to estimate and varies the least.
- Hanes: That's right.
- H.W.Jr: Is that right, George?
- Hanes: That was my impression too. This summer we made a study way back and we found out that they made larger errors on the miscellaneous taxes than on income, historically.
- H.W.Jr: Out the window with that one.
- Hanes: I was very much surprised at that.
- Hanes: That thing causes the Department of Internal Revenue more headaches perhaps than any other one thing, because the cost to the Bureau of verifying those figures, which - as I say, there's a lot of shenanigans going on; you know you're charging everything you possibly can to expense; it may be a capital expenditure, but it goes in the expense item. And those ....
- H.W.Jr: Well, maybe I'm not up-to-date and all the rest of that, but ....
- Bell: (Laughs)
- H.W.Jr: I'm just maybe an old-fashioned boy, but to face another four billion dollar deficit - I just can't see it.
- Taylor: That's a billion dollar deficit financing every quarter.
- H.W.Jr: Yes.
- Taylor: (Nods negatively and laughs)
- Hanes: And the fact that you've had it running since when, '31?

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H.W.Jr: We've got a lot of - we've had a lot of breaks. Gold coming here on account of lack of confidence in Europe, rather than confidence in America, knowing it's a place you can't bomb; at least, they don't think they can. All those things. But I think I'm right when I say that the increase in our gold is - just check this statement, George, will you; I mean you may not be able to check it - that the increase in gold we've gotten in the last four years, after you've deducted the newly-mined gold - every dollar of it has come out of France.

Haas: Out of France.

H.W.Jr: I think that statement is correct. Just check that once. Now, if that statement is correct, and I think it is within a few millions, see - that the gold we have acquired, after deducting the newly-mined gold of the world, has all come out of France - now, if that statement is correct, then you figure up how much France has got and you know how much more we can get, and it's damn little, see? I mean it almost works out that way.

Haas: That's very close.

H.W.Jr: What?

Haas: That's very close.

H.W.Jr: And it's never been put just that way, see? So the Japanese doesn't amount to so much, but if you look around where's the rest of the gold going to come from? The only place it's going to come from is newly-mined gold, and I think when all these people are worried and everything else about so much gold - you can take a look at that - it pretty near gets down to what we can get from now on, which is newly-mined gold and not much else, George?

Haas: That's about a billion two or something.

H.W.Jr: Yes. See? So ....

Taylor: Billion two annually.

Haas: Annually, yes.

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H.M.Jr: What?

Taylor: About a billion two annually.

H.M.Jr: Yes. What I'm getting at is that any great big flight of capital this way - I don't think the capital is left to come here; I think it's all pretty much here. Talking in general terms. Which enters into our financing. And if we got a 60 billion dollar revenue or 70 billion dollar revenue, is there four billions there of money which would go into Government bonds?

Taylor: That's while you were out what we were talking about.

H.M.Jr: What?

Taylor: If that's there, and we'll assume that it is there, how much is there left over for any other purpose of investment?

H.M.Jr: Well, my guess would be damn little.

Hanes: That's just about what we were putting into private enterprise in the period from 1925 to 1930. We were putting about five billion dollars annually back into the community. Haven't been doing it since then.

H.M.Jr: How much?

Hanes: About five billion.

H.M.Jr: I think my figures on that gold, George, are about right. Very easy to check.

Hester: Yes, I'll check.

H.M.Jr: Does that check with about what you (Taylor) .....

Taylor: (Nods yes)

Hanes: There is another thing that relates to all this, which is, offhand, we've been doing some work - Wayne has asked about the banking picture. I think the situation gets more and more difficult to handle, and I think the mechanism is an important part of the whole picture, and our banking structure is so fixed that it

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is a very awkward instrument to handle.

Taylor: Awful.

Haas: We've been working up something - Wayne thought there might be some legislation coming, we ought to be set, have something, but it has a direct bearing on this.

Taylor: If you're going to have the '39 deficit and the '40 deficit, and so on, to finance, this structure that you've got - way, .....

H.H.Jr: You mean with the reserves and all that stuff?

Taylor: (Nods yes)

Haas: And the big portfolios in the banks. You've got some tricks to work on that, but you can handle it very slick.

H.H.Jr: Have you any charts with you finished?

Taylor: I was just thinking the machinery may not be good enough.

H.H.Jr: Well, I'd like to listen, Couldn't do it this morning, but I want to listen.

Have you (Haas) got your bubble chart?

Haas: Yes.

Bell: Can I take - I'm going to write those figures in the last column, 1940 - I want to leave the WPA blank.

H.H.Jr: O.K.

Bell: Don't want to put any suggestions in his head of a billion and a half.

H.H.Jr: I want a seven and a half billion dollar picture. That's what I'm going to suggest to the President.

Haas: Mr. Secretary, these white bubbles are their estimates that they gave Dan in July, and here's how it actually worked out. This is a cash deficit we're looking at; in other words, when they weren't able to spend as

(No transcript content at this point; this page  
merely inserted to explain error in page numbering)

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much. And these orange ones are the recent estimates for these months.

H.A.Jr: This is the total?

Reas: This is total deficit, and on the expenditure side each month they were less than last year; and on the receipt side. This works out about 7 percent accumulated for those three months; spent 7 percent less than estimated. On the receipts, we got in 5 percent more than we estimated. This one is right on the head and this is a little over.

H.A.Jr: All right, now what else you got?

Reas: Next one is a breakdown of this curve here. Here's Harry Hopkins. In July he estimated this way - those white dots. He's up there. That's 193, this is 194, and he's moved these up to that level. I can show you before he had them down here.

Now, here's Ickes. You see, he's missed his sharply each time. But instead of cutting these down toward the end of the year, he raises his amount he's going to spend at the end of the year; but he figures each month he's going to do it faster.

Bell: Going to get up to that point.

Reas: He figures, in other words, he's not going to make what he's estimated for the total year, but he's going to make a little more .....

Here's national defense. Been running pretty close.

This is somewhat irregular in here. This is the interest, of course. And here's Agriculture; they fell down the last month.

And the big spender has done pretty well. Jesse Jones - he's got his - you see where he estimated on this side that much, and he took in that much more than that. And over here he said he was going to pay out, but he actually took some in net.

H.A.Jr: Good old Jesse. Why don't we give Jesse Hopkins's job, huh? What?

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Taylor: Switch jobs there, why, ....

H.M.Jr: Yes.

Haas: The boys figuring these percentages say, "He's giving us a lot of trouble, because he says we're going one way and he goes the other way. Can't figure percentage."

Bell: How much he's off.

Haas: How much he's off.

This is the first chart I showed you, on a different basis, showing cumulative. You see here the deficit; the 38 percent ran off the chart - less than estimated in July.

H.M.Jr: 38 percent.

Haas: And the expenditures are 7 percent less than estimated, and the receipts are 5 more.

H.M.Jr: Yes.

Haas: And the only purpose of this chart is it shows - it's cumulative here - the receipts, those three big items, and over here are the three different estimates sent in to Dan.

H.M.Jr: That would only confuse me and the President. I don't want to take that. Put that to one side, please.

Haas: Let's see. Well, this is the - this is the same thing as this, only for this breakdown, see?

H.M.Jr: Yes. But this breakdown is good, isn't it? Should he see this?

Haas: You have it there. Cumulative up to there. Hopkins is ahead ten percent, and you can see it over there.

H.M.Jr: Do I want to take this as well, or doesn't he get it all when he gets that?

Haas: I think he gets it all on that.

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Bell: I think so.

H.M.Jr: Don't you think so? What?

Wass: I think so. I think you'll be confusing it by more.

H.M.Jr: Those two.

Wass: Uh-huh.

H.M.Jr: I think those two, George.

Wass: All right.

H.M.Jr: Don't you think so?

Bell: Yes, I should think so.

H.M.Jr: Now, you've got the revenue one there, haven't you, the 60, 70, 80, 90? You've (Hanes) got that?

Hanes: Yes.

H.M.Jr: I've got this. What'll we do with this?

Wass: Sent to put these with that?

H.M.Jr: No, I think you handle that.

Wass: That's that estimate.

Bell: Jimmy's got one too, so you won't need to take it if you don't want to.

H.M.Jr: That's all right. I don't see that we can do much more, unless somebody else wants to make a speech.

Wass: Want a breakdown of those estimates. That's a detailed one.

H.M.Jr: All right.

Anything more?

Bell: No, I've said enough.

H.M.Jr: Wayne?

Taylor: (Nods nothing)

H.M.Jr: George?

Haas: Sir?

H.M.Jr: Want to say anything more?

Haas: No.

H.M.Jr: John?

Hanes: No, I haven't anything else.

Taylor: Not now. I feel awfully sick.

H.M.Jr: I had my stomach removed about two years ago.

Hanes: If we can just get some economic recovery in this country, this problem will get very, very much less burdensome. So I think we ought to - I think we ought to bend every effort to start with him on the basis of doing everything we can to encourage private enterprise to go back to spending money.

Bell: And of course, that raises the question as to what you're going to consider more or less of a normal year. If your national income - if you consider '38 a normal year, 70 billion dollars national income, then you start by raising taxes from a point much above your present budget estimate.

Haas: Ought to get your revenue up above that, but are we going to get 70 billion dollars?

Bell: No, but we had 70 billion plus in '38.

Haas: '37, you mean.

Bell: But your '38 budget was built on that.

Haas: That's right.

Bell: So that year you had 6 billion 300 million dollars of revenue. Now, if that's a normal year, then there's where your new taxes should start from, and not four and a half billion dollars. I mean if your theory is good, isn't that right?

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Hanes: Sure.

H.M.Jr: George, that one that shows a national revenue - would you have one done for me?

Haas: I can go back and get one right now.

H.M.Jr: You got one?

Haas: Yes.

H.M.Jr: Phone for it.

Well, the only possible place we differ is - my thought is that what I'm going to set up for the President to knock down is - we talk about a seven and a half billion dollar budget on the present tax structure, and then wait and see what Congress does; and then wait and see what Congress does, and then if they raise, for every dollar they raise we ask for another dollar of taxes. Now, the other way would be - does anybody think we ought to say, "Well, no matter what the budget is, we ought to ask for increased taxes"?

Hanes: I didn't hear that last. That no matter what your ....

H.M.Jr: I mean in his budget message should he ask for additional taxes over and above the five billion? Do you see? There's two things. What I'm saying to him is that he put this thing down to seven and a half billion, which would include a billion of new money for relief, and that's all; nothing for public works, nothing over 500 million for Agriculture. Now he puts himself in a position - "Now gentlemen, here it is. If Congress thinks we need more money or Congress thinks we require we get more money, O.K., but for every dollar over and above that I want a dollar of additional taxes."

Hanes: Are you going to make any recommendation to him as to what you think the tax bill ought to be in toto?

H.M.Jr: No, I'm going to let you do that.

Hanes: Well, I - I'm not in the position to do that.

H.M.Jr: No. Maybe you don't understand me. What I'm thinking

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of saying is, leave the taxes the way they are if the budget is seven and a half billion, see? But if Congress raises the budget over and above seven and a half billion, then he should ask Congress that for every dollar they raise above seven and a half billion, they should raise a dollar of new taxes. Let that be his program. Then if they shoot it up another billion, all right, we'll ask for another billion of new taxes.

- Bell: Yes, but that doesn't mean that you won't ask for any taxes up to the seven and a half.
- H.M.Jr: We'll ask for five billion.
- Bell: Five billion ....
- H.M.Jr: .... of taxes.
- Hanes: Keeping your 1938 ....
- H.M.Jr: ... levels. Not necessarily the same taxes, but the levels.
- Hanes: The level of taxes about the same.
- H.M.Jr: Yes, yes.
- Hanes: That's what ....
- Bell: You mean you're starting with a base of five billion now in the structure. Well now, if you've got a seven and a half billion budget, that means a two and a half billion deficit. Are you going to ask anything for that two and a half billion deficit?
- H.M.Jr: No, no, no, because I think it would just be foolish.
- Haas: Waiting for business to pick up.
- H.M.Jr: What I'm saying to you two gentlemen is, I'm willing to go across the street if you fellows will back me up and agree with me, because this is terribly important, to say to the President that if he will keep the budget down to seven and a half billion the Treasury is willing to stick on a five billion dollar basis of taxes. We want shifts within that, but we want five billion dollars, or a two and a half billion

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dollar deficit, provided the President will say in his budget message that if Congress raises the appropriation above seven and a half billion dollars, for every million dollars they go above it he's going to ask for a million dollars additional taxes. Do I make myself clear?

Woods: Yes. The reason I agree with you there is because in a normal year - I say in a normal year, if we get back to something like normal conditions, we'll get out of the present tax bill approximately six billion dollars. Now, if you can get him to agree to seven and a half billion dollars, you're not going to have a very large deficit in there; not going to be nearly as difficult to finance as the four billion dollar figure we're talking about.

W.S.Jr: But I think that's reasonable. I mean I want to be reasonable with him. And I think he'll grab at that, especially when he sees Dan's figures. And then he's got the whip-hand, and it doesn't put him in the position - and if he keeps dinging that home and lets us ding it home - "Now look what this means. Every time you go above a dollar, this is what it means, and this is where you've got to get it from" - instead of just going over there and saying, "For Christ's sake, we've got a four billion dollar deficit. Nothing we can do about it."

Woods: Don't you get this out of it, too, which is the most important thing in the whole lot: that you've got to have an 80 billion national income and you've got to make all your bets on getting that. Otherwise, you haven't got much chance. That is, saying instead of your hundred - why, your hundred - way, she comes in fine; but to actually get off the net, why, you've got to have 80.

W.S.Jr: Yes, but do you see now - instead of taking the position that we started with this morning, a four billion dollar deficit, let's do a little trading, not with the President but with the Congress. As a matter ..... what (to Bell)?

W.S.: (Remains silent)

W.S.Jr: That's all, and he's said it before; and I think that

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out of that, instead of having a four billion dollar deficit, maybe we'll get a three billion dollar deficit, and if we can save a billion dollars, why, I'd say that we earned our salaries. And it puts the President in a position that he's got the leverage, he can keep pounding this thing, and he can let the Treasury keep pounding and pointing out all the time what this means every time they put through another appropriation.

Gentlemen, Pat Harrison will just hate this thing - I mean if it's put on that basis.

Bell: I think you can do that for 1941, but for 1940 I think you're sunk.

H.M.Jr: Well, I don't.

Bell: Now, I don't say too much about fiscal years ....

H.M.Jr: Let me put it this way, Dan. You've got no objection to my trying this?

Bell: No, I haven't, and I certainly will be behind you.

H.M.Jr: O.K.

Bell: But I think we've got to look at the practical side of the thing.

H.M.Jr: Well, I'm trying to be practical.

Bell: The expenditures for 1941 are pretty well set, outside of your relief, WPA, and regular departments.

H.M.Jr: I just don't believe the President of the United States, if he wants recovery - and I think if he goes before the country with a message the first week of January that shows a nine billion dollar expenditure and a four billion dollar deficit - if there is any fight left in the people, whatever's left is going to be frightened out, that's all.

Bell: Well, that's just the reason that I've been worried about a budget message - to write a story around this

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thing that holds out hope for 1941 and 1942.

Hanes: Danny, I think your thought of dividing that budget message into two parts, your regular and normal expenditures of Government and these extraordinary expenditures - and your extraordinary expenditures are dependent entirely on our national income, so the problem then comes back to the basic one: how we going to get our national income up? That is, through increased ....

H. E. Jr: John, what you say fits into what I say. The President can say, "We've got seven and a half billion dollars expenditures, five billion dollars revenue based on the present level of business. But if business picks up, and I think it will ..."

Hanes: ".... and I'm going to do something to help it ...."

H. E. Jr: ".... and I'm going to do something to help it, and I want business to go ahead, why, this deficit may only be a billion or a billion and a half."

Hanes: That budget message could be made the most bullish business factor in this country if it is properly done, and could be made the most bearish business factor if it is badly done.

H. E. Jr: And if you don't mind my saying, Dan, here in the room, if we did it in the way - the way the figures say it, I think it would be the worst news that's come out of here in a long time - if we do it the way the cold figures are.

Hanes: That's right.

Bell: Well, by splitting them up, showing the categories they're for ....

H. E. Jr: The fellow adds it all up - all through and done, nine billion dollars expenditures, five billion revenue, four billion dollars deficit. And every headline in the country is going to scream "Four Billion Dollar Deficit Again" - after the eighth year, isn't it?

Let me stick my neck out there - it doesn't do a bit of harm - and let's do it this way. You show

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the President the cold figures, let him get the shock. Then I'll come along and say, "Now Mr. President, that's what the figures say, but will you consider this and sleep over it: this way - doing it this way, see?" And then he'll think it over. And I'm going to say, "Today's Monday, will you see us again Wednesday or Thursday after you've thought it over?"

Hanes: First of next week would be better.

H.M.Jr: He's going to be up in the country. Going up to Hyde Park again Friday or Saturday.

Taylor: Here's your selling talk right there (national income chart).

H.M.Jr: But he's going back to Hyde Park Saturday. He's going to be up there. Maybe he can see us up there.

Hanes: Be better if we could go up there and see him; have more chance at him. And also, after we get some slant about the way he's thinking today, we could have so much better ammunition ready for him next week.

H.M.Jr: we can ask him. You (Bell) weren't with Magill and me when we saw him up there, when we had that tax thing. It was just Magill and myself, wasn't it?

Bell: I guess so. I don't think I was there.

H.M.Jr: Oh boy, he saw us, but poor Ros never had such an uncomfortable evening in his life. Never slept a wink.

Hanes: Why?

H.M.Jr: The President went at him awfully hard. Ros came into my room when I was getting into bed. We spent the night there at Hyde Park. Oh boy, was he sick!

Bell: Laying the groundwork for Johnny.

Hanes: Have to get our armor on.

H.M.Jr: Well, we've never - Bell or I, we've never - we've always done it in a perfectly serious way, but we've never gotten dramatic, we've never gotten hysterical.

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Lew Douglas used to get hysterical about the thing. Never got him anywhere, never saved the country a dollar. Made him a sick man. Made him really a sick man. And as I say, it didn't do the country any good.

Well ....

- Hanes: Nothing to get excited about. My Lord, the facts are just - they're facts, and we didn't make them, so we can't change them. Now here they are and there's the problem.
- H.M.Jr: But Bell, I'm not going to take '40 for granted. I may be a damn fool, but I'm not going to do it.
- Bell: As I told you when I went over these figures, I thought I could reduce them somewhat and hoped George could raise his revenue estimates a little.

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE October 10, 1938.

TO Secretary Morgenthau  
FROM Mr. Haas  
Subject: The Business Situation,  
Week ending October 8, 1938.

Conclusions

(1)

A continuation of the general recovery movement, which for a time threatened to be interrupted by adverse developments abroad, may get under way now that the immediate war threat has been removed. The outlook, however, is by no means entirely clear, chiefly because of uncertainty over possible further developments in Europe.

(2)

Basic conditions in the United States, apart from the foreign situation, have continued to point to a general rising trend of business. The upturn in industrial production which began last June set in motion a cumulative series of recovery forces. Inventories have been reduced to manageable proportions. The monetary expansion program has continued to operate as a recovery factor. The spending program has been gaining momentum as a direct stimulus to business. Consumer buying has been maintained at a relatively high level in relation to production.

(3)

While evidence of a recent flattening out of the business trend has appeared in the seasonally adjusted data on steel and textile activity and in the New York Times index, the broad advance in stock prices this week, together with the fall expansion in automobile output, may bring a sufficient increase in industrial buying to turn the trend again upward.

(4)

The outstanding uncertainty at present is the probable trend of commodity prices. The failure of foreign currencies to show more than moderate recovery after the passing

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of the immediate war crisis suggests that other important deflationary influences still exist. While an increasing domestic demand may offset these influences, the relative strengths of these two opposing forces are yet to be determined.

#### The general business picture

With a general belief this week that the prospect of war has been removed, the basic forces of recovery in the domestic situation are again asserting themselves. Although overshadowed last month by the depressing influence of the European situation, which threatened for a time to nullify the effect of the national recovery program, basic domestic conditions have remained favorable for a general rise in the business trend. The monetary expansion program adopted earlier in the year had created an upward pressure on security and commodity prices. Industrial inventories by early summer had been reduced to manageable proportions. Industrial production had turned upward in June, under conditions which left little doubt that business had actually turned the corner. The usual cumulative effects of such a turn began to show themselves in increased business confidence, increased orders, increased production, and increased payrolls. With consumer buying maintained at a level in excess of production, a further step-up in production to meet this demand was indicated.

In August, however, it became evident that the strength of the upturn was being overcome by the ominous war developments in Europe, with accompanying deflationary pressure on commodity prices. New orders fell off steadily during August, and general price indices declined to new lows instead of rising with increased business activity.

Following the Munich peace agreement, the original forces of recovery have again come into play. The pressure of idle investment funds, together with a strong improvement in business optimism, has carried security prices to new high levels (See Chart 1), and caused an increased demand for industrial raw materials. Rising confidence in the American business outlook has brought increased foreign buying of our securities, which was a factor in this week's rise in industrial stock prices to new highs for the year. (See Chart 2)

The business outlook cannot be entirely clear, however, so long as the European situation remains in its present unsettled state, and so long as confidence in peace may easily be disturbed.

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The price situation

Of the four factors which had previously dictated a cautious appraisal of the near-term business outlook — (1) declining new orders, (2) an uncertain inventory situation, (3) weakening foreign currencies, and (4) an unsatisfactory trend of commodity prices --- the first two have taken a favorable turn. New orders have turned sharply upward, and the recent increase in business optimism has minimized the possibility of a renewed movement to liquidate inventories.

Foreign currencies, however, remain relatively weak, suggesting that commodity prices must still contend with important deflationary influences abroad. The fact that sterling exchange (See Chart 3) has improved only to the level immediately preceding the most critical days of the war scare, and the franc likewise, suggests that the Munich agreement has minimized but not removed the influences which have weakened foreign currencies and tended to depress commodity prices. Deflationary influences, apparently growing out of the European armament race, seem still to exist.

Commodity prices this week have failed to show the strong improvement that might have been expected in view of the marked rise in stock prices and the increase in industrial demand. While copper, hides, rubber, and some other individual commodities have shown satisfactory price increases, and the general trend during the past few days has been promising, the improvement so far has not been general enough to have much effect upon the broader price averages.

Increasing industrial demand would have a strong influence in raising the level of commodity prices, affecting particularly those commodities for which the supply situations have recently become more favorable. This may serve to offset further pressure from abroad, and maintain prices on at least a stable trend. The relative strength of the two opposing forces, however, is yet to be determined.

Business levelling out

Some evidence of a levelling out of the business trend has appeared in the seasonally-adjusted indexes for the two leading industries, steel and textiles, and in the New York Times index. Steel activity, seasonally adjusted, has remained at approximately the same level since the first of

Secretary Morgenthau - 4

September, and the adjusted index of cotton mill activity has shown a downward trend since the middle of August. These have been important factors in holding the New York Times index of business activity around the 85 level since the latter part of August.

The New England hurricane and floods may have had an influence on business activity, though the rehabilitation of that area is creating a strong demand for building materials and household goods, including structural steel for a great number of bridges that were washed out, which may provide a temporary stimulus to business in that section.

The war scare also had some effect on business. A drop in steel orders last week was attributed in the trade to that factor. Orders reported by the United States Steel Corporation declined to the equivalent of 42 per cent of capacity, which compares with 53 percent for the previous week. Following the peace agreement, trade reports indicate that demand has shown some improvement.

The weekly index of new orders for the first week of October (See Chart 4) declined to about the level of the second week previous, largely because of the drop in steel orders and some decline in textile orders. Normally an increase in orders could be expected to follow this week's broad upturn in stock prices, and trade reports seem to indicate that this has occurred. An increase in orders at this time of year is to some extent seasonal. Factory production normally reaches its fall peak in November, and the unadjusted Federal Reserve Board index must increase by 4 per cent from September to November to maintain the adjusted index at a constant level.

#### Current business news

The New York Times adjusted index for the week ended October 1 continued to indicate a levelling out of business activity, holding practically unchanged at 84.4, which compares with 84.3 for the previous week. Somewhat greater than seasonal advances in automobile production, cotton mill activity, and miscellaneous carloadings during the week were offset by slight declines in the steel, power, and lumber production indexes.

Automobile production, though retarded somewhat by labor troubles, has embarked decisively on its fall rise. Output increased nearly 50 per cent this week to 37,700 units, which

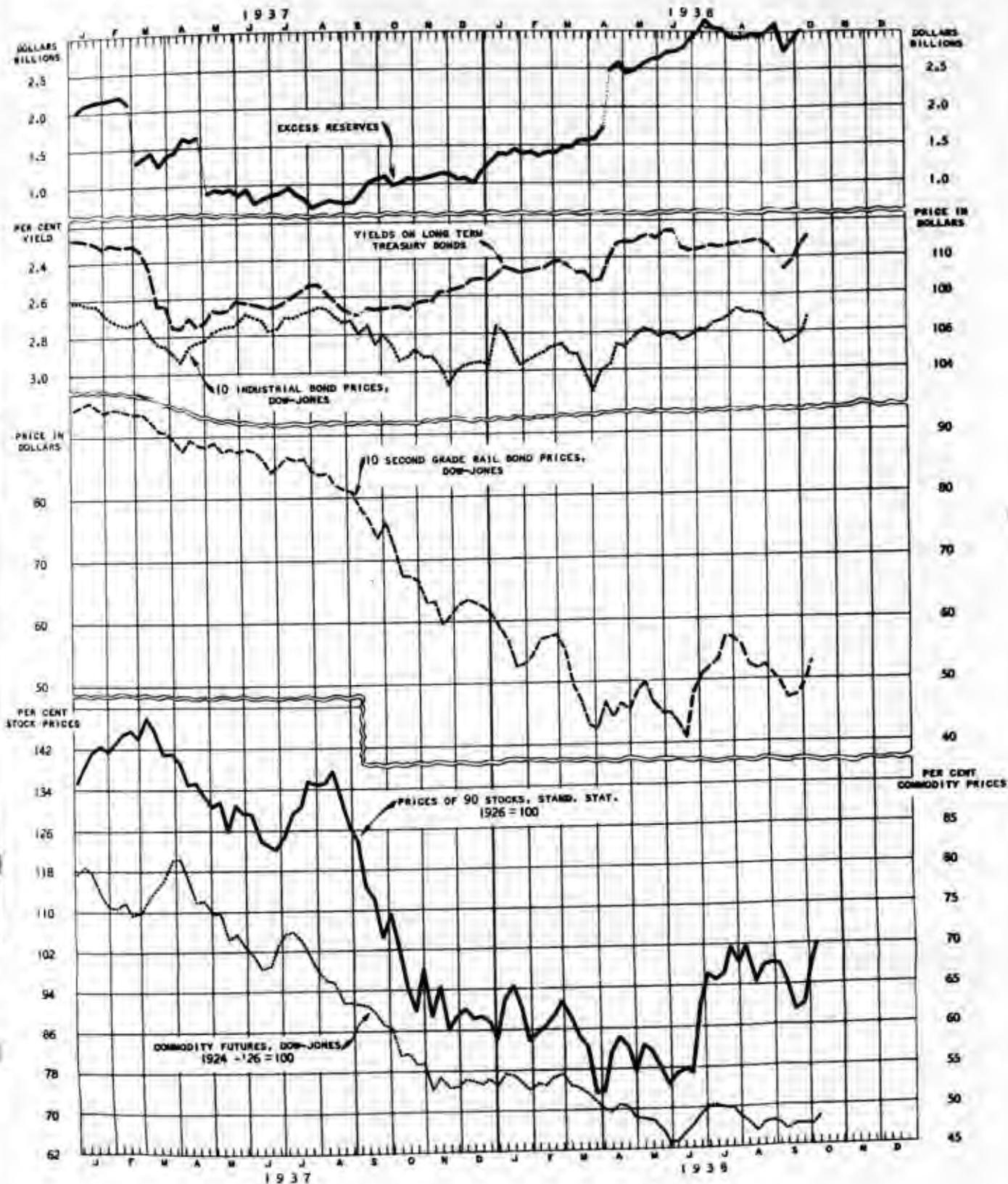
## Secretary Morgenthau - 5

compares with 25,400 units last week. The trend is closely approximating that of last year, though at a lower level, the corresponding week of last year showing an increase to 72,000 units as compared with the previous week's outturn of 45,900 units.

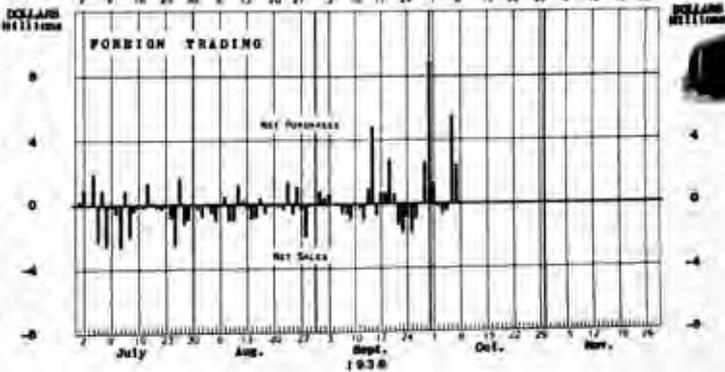
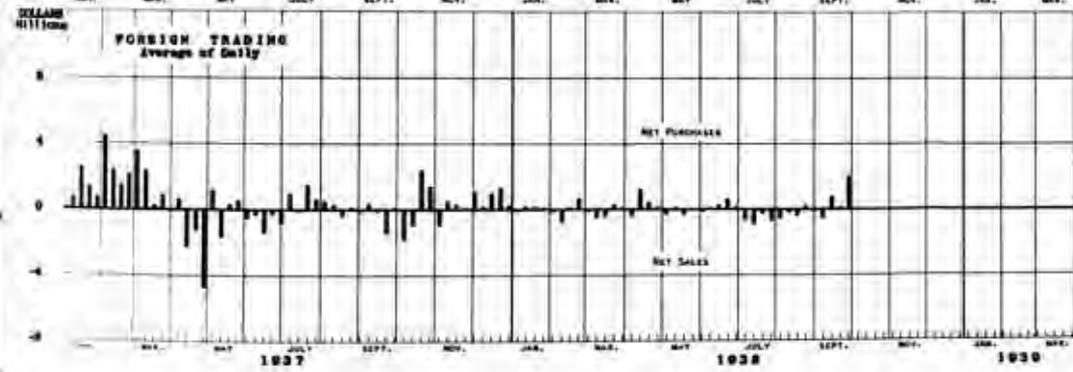
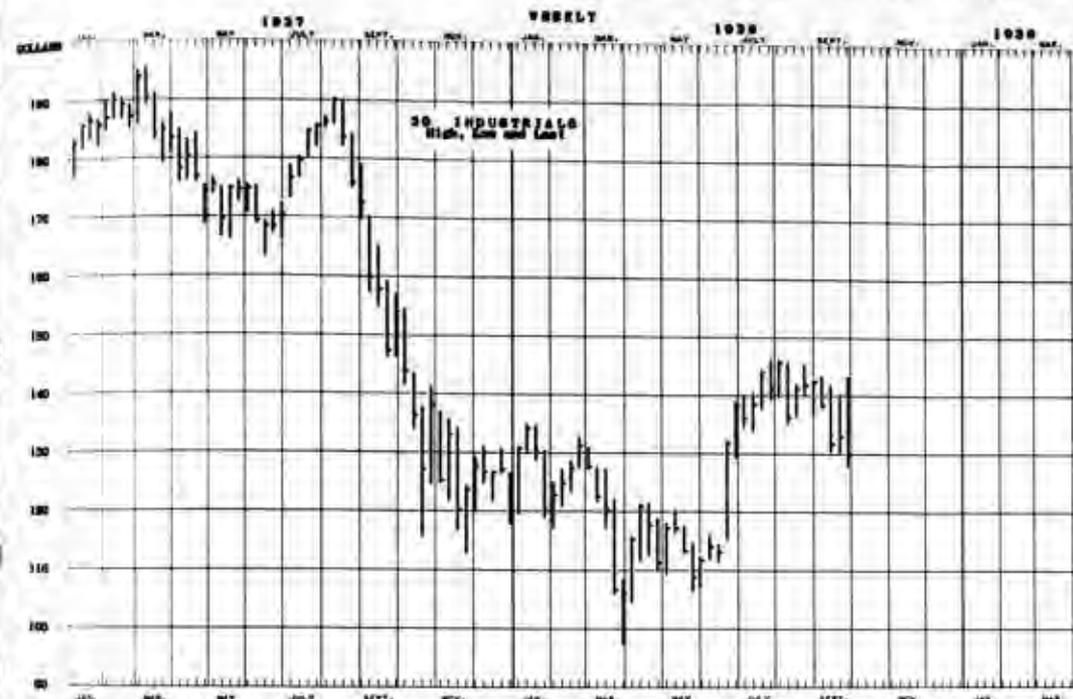
Steel operations increased this week to a new high for the year at 47.9 per cent of capacity, though on a seasonally adjusted basis the index remains within the range of the past month. Some further expansion in buying of automobile steel is reported, but the demand from this source remains disappointing in view of the advanced stage of production on new models. A substantial inventory of finished steel is reported to have been built up by the steel companies, particularly of automobile materials.

The increase in department store sales during the week ended October 1 was less than during the corresponding week last year, total sales during the week for 254 reporting firms being 15.2 per cent below last year, as compared with a decline of 6.2 per cent last week. While this was the week of the war crisis, another important influence in reducing sales was the fact that pay day came at the end of the week, while last year it was a day earlier. Reports on merchandise deliveries of 300 stores in metropolitan New York for the first four days of the following week show an average decline below last year of only 1 per cent, as compared with a decline of 10 per cent the previous week.

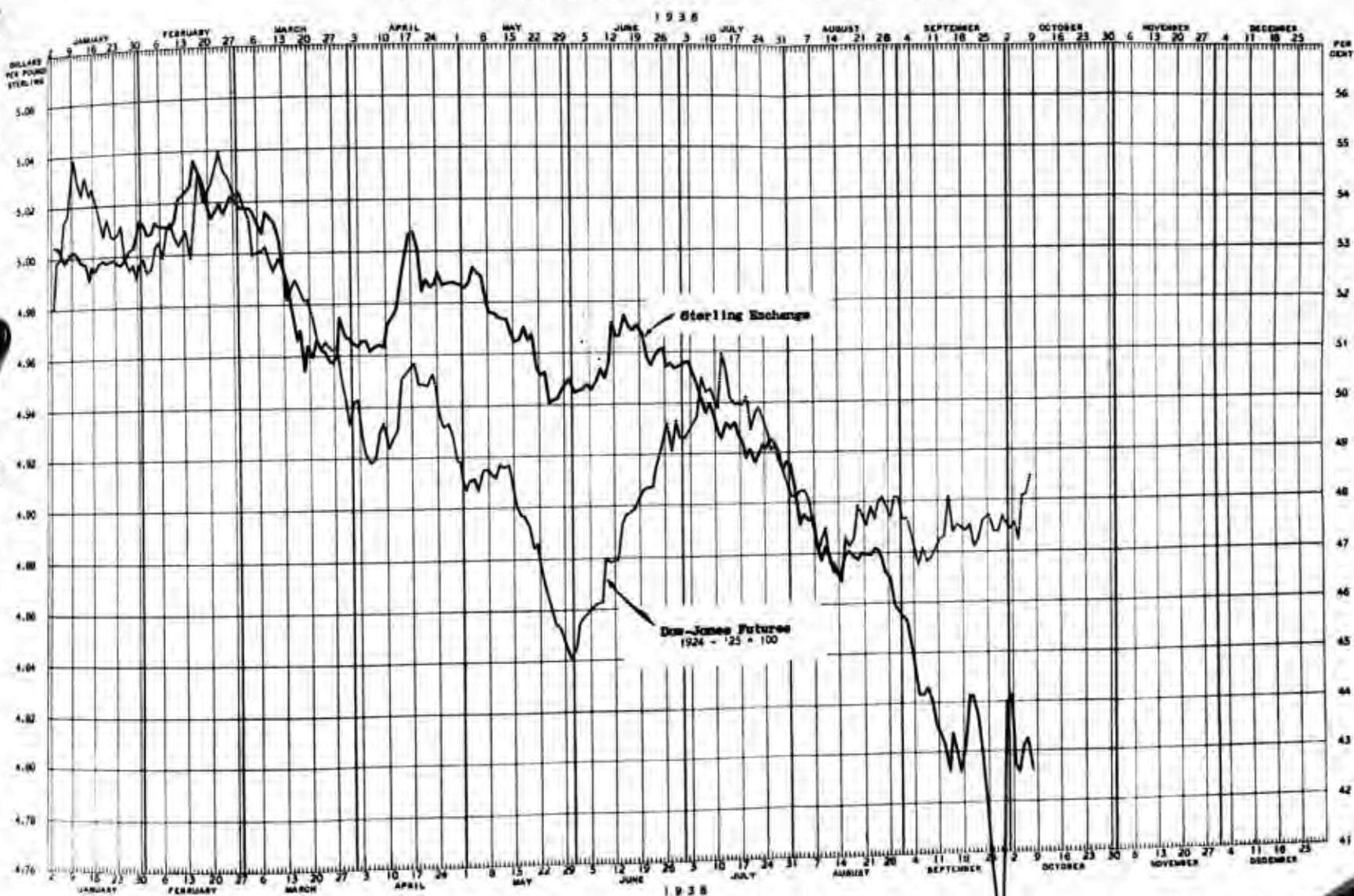
**EXCESS RESERVES, SECURITY PRICES AND COMMODITY PRICES**  
Weekly



STOCK PRICES AND FOREIGN TRADING IN DOMESTIC STOCKS  
Daily Movement, Dow-Jones Industrials and Foreign Net Purchases and Sales



STERLING EXCHANGE AND PRICES OF COMMODITY FUTURES

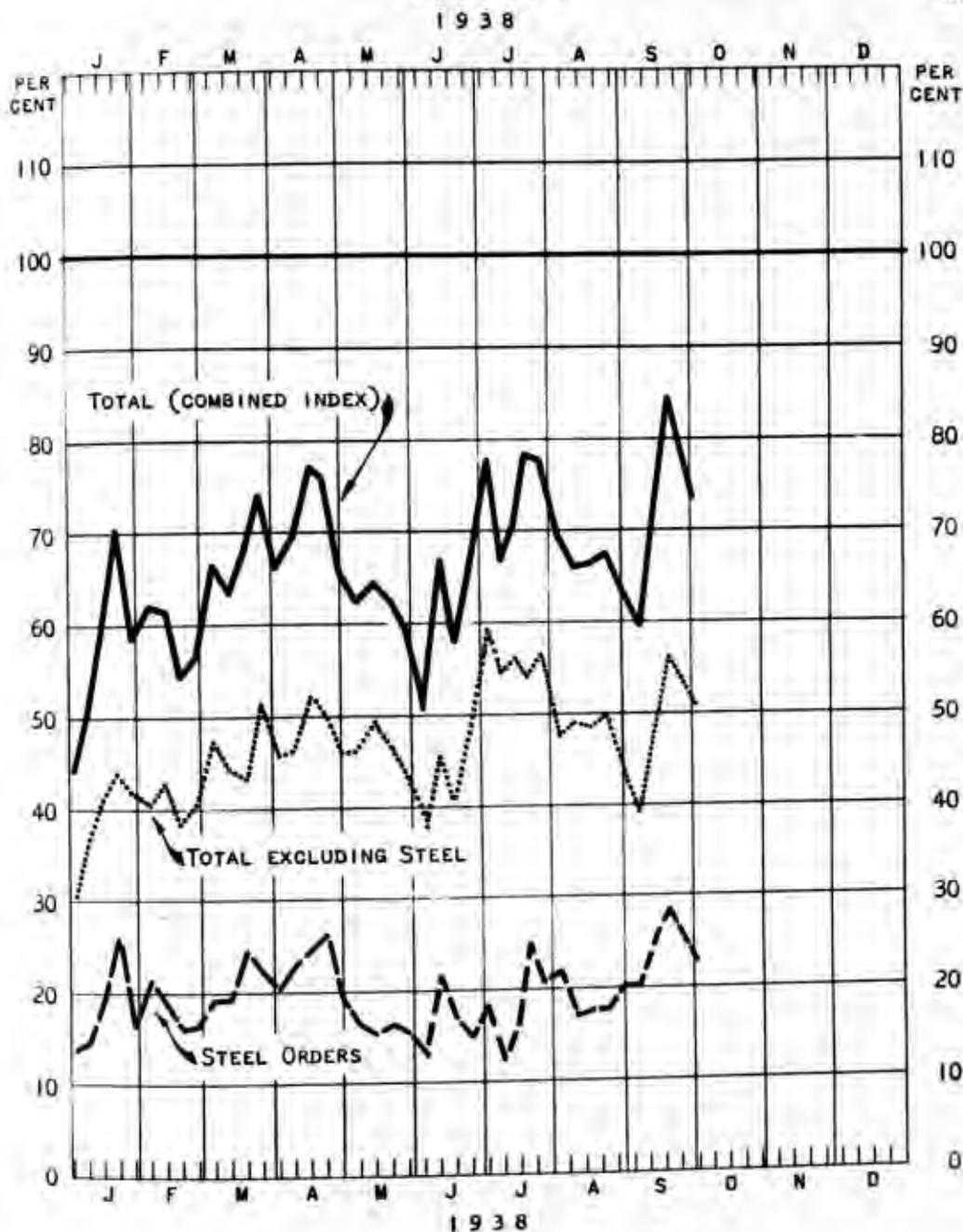


Office of the Secretary of the Treasury  
Division of Research and Statistics

# INDICES OF NEW ORDERS

1936 = 100

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Monday  
October 10, 1938  
12:04 p.m.

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HMJr: Hello.

Operator: Governor Harrison. Go ahead.

HMJr: Hello.

George Harrison: Oh yes, Henry.

HMJr: Hello, George.

H: Well, Henry, I've thought that over and I've talked it over here-with the men here in the shop.-

HMJr: Yes.

H: And in view of the story in the Wall Street Journal last week I made some very discreet inquiries of both Levy - Levy and Mills.

HMJr: Yeah.

H: And we all are pretty much in agreement that - ah - you ought to refund of course some exchange and you ought to do it as soon as you can.

HMJr: All right.

H: And I don't think you can do it before November one.

HMJr: No.

H: The time is a little short.

HMJr: Yeah.

H: And with Sproul and Matteson we rather feel that ah - you should not go out beyond the life of the corporation.

HMJr: No, no, we won't do that. That's - we have to stay within three years.

H: You've got to - you've got to stay with three years or less.

HMJr: Yeah.

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H: Ah - there are too many banks who wouldn't buy them.

HMJr: Yeah.

H: Ah - that means, I should think, that you would either open up the issue that was offered last June -

HMJr: Yeah.

H: - 3 years 7/8ths percent, now selling at thirteen thirty-secs premium -

HMJr: Yeah.

H: - or else put out a new 3 year one beginning in November.

HMJr: Well, that bridge we could cross - ah -

H: Yeah, that - that's just a question - at - at 7/8ths.

HMJr: Yes.

H: And that just depends upon the market at the time; you don't have to determine that yet.

HMJr: Could we do a - could we - we could do another 3 years and 7/8ths, couldn't we?

H: You could do it - ah - all right, I think, especially if you made an adjustment of interest.

HMJr: Uh huh. Well, all I wanted was just your opinion whether we should do it and you think we should.

H: Yeah, I think you should and we're all in agreement.

HMJr: Swell.

H: And I - Eccles called me about it too and I told him just what I told you and he's in agreement.

HMJr: O. K.

H: But you'd better let him speak for himself.

- 3 -

HMJr: I will and he can.  
H: (Laughs) All right, Henry.  
HMJr: Thank you. Goodbye.

Monday  
October 10, 1938  
12:07 pm

HMJr: Hello.

Operator: Mr. Williams.

HMJr: Hello.

O: Go ahead.

HMJr: Hello.

Aubrey  
Williams: Hello, Mr. Secretary.

HMJr: Hello, Aubrey.

W: Fine. ah - we're all ready to make that allotment of one hundred thousand dollars over there or such a portion of it as you all think that you would want immediately -

HMJr: Good.

W: But I think that I ought to sit down with you and talk over what - what - continuing if any responsibility you feel we might have with regards to the accounting for those funds.

HMJr: Uh huh.

W: Ah -

HMJr: That's all right - that sounds reasonable.

W: What - what - I'm trying to get away from here tonight. - Are you terribly tied up this afternoon?

HMJr: Yes, unfortunately I'm booked solid.

W: Gosh!

HMJr: Ah -

W: Uh huh.

HMJr: I mean I'm not tomorrow but today I'm booked solid.

- 2 -

W: But tomorrow you could?

HMJr: I could, yeah, I could do it in the morning.

W: Well, then I think I'd better stay here because I want to get this thing off -

HMJr: Right.

W: And I know you people are anxious to do it too.

HMJr: Yeah.

W: So what's your convenience in the morning?

HMJr: Well, how is ten-thirty?

W: Good enough.

HMJr: What?

W: I'll be there.

HMJr: Ten-thirty and then - ah - maybe we can talk a little bit about the general relief picture, -

W: All right.

HMJr: - which I am very much interested in.

W: I'll be very glad to.

HMJr: And what your plans are for the balance of this year.

W: All right. I'll be very glad to.

HMJr: Maybe, if it's agreeable to you I think maybe I'll have Bell here.

W: All right.

HMJr: What?

W: Fine.

HMJr: Is that all right?

W: Yeah.

HMJr: Yeah, I - I -  
W: Yes.  
HMJr: I haven't had a talk with you in a long time.  
W: Well, I'll be glad to do it -  
HMJr: So ah - supposing you say ten-thirty.  
W: All right.  
HMJr: That'll be fine.  
W: Ah - do you want to have Miss Lonigan in on this at the same time, or not?  
HMJr: Sure. We'll have her on the first part -  
W: All right.  
HMJr: And then we'll ask her to step out and we'll talk -  
W: All right.  
HMJr: - on the  
W: I'll be there at ten-thirty.  
HMJr: That a boy.  
W: Good bye, Henry.

Monday  
October 10, 1938  
3:48 p.m.

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HMJr: Hello.

Operator: Mr. Jones.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Jesse Jones: Hello, Henry.

HMJr: Hello, Jesse.

J: Yes.

HMJr: The reason I am calling you is this - ah - it's in regard to refunding your 300 million notes coming due on the fifteenth of December.

J: Yeah.

HMJr: And - ah - I've checked around and talked to the President and I thought we'd do it, if it's agreeable to you, as of November one.

J: Yeah. That's all right. I talked to Mulligan Saturday -

HMJr: Yeah.

J: - when I wrote that note and I - he didn't see much point in doing that and - but -

HMJr: Doing what?

J: In refunding those particular notes. But then ah - he thought you'd do it by November first.

HMJr: Yeah.

J: And refund the three?

HMJr: Just refund the three hundred. And then I'll talk to you about your interest rate.

J: All right.

- 2 -

HMJr: See?

J: All right.

HMJr: I'll make you happy on that.

J: All right.

HMJr: And ah - the reason - there was this story in the Wall Street Journal about it this morning and I have a press conference at four.

J: Yeah, well I - I know nothing about how that started - I read that too.

HMJr: And so I thought that I'd clear with Eccles and talk to George Harrison and if we were going to do it we'd better get the market ready for it, see?

J: Yeah.

HMJr: So I simply thought I'd say that the Treasury was going to do this for the R.F.C. as of November one.

J: All right.

HMJr: And - it's ah - it's an exchange of notes I guess.

J: All right.

HMJr: What?

J: That - yeah, that's what it is.

HMJr: Yeah - whatever it is - I mean we'll do it as of November one.

J: All right.

HMJr: Is that all right with you?

J: Fine.

HMJr: How are you feeling?

J: Pretty good.

- 3 -

HMJr: Take care of yourself.  
J: Thanks.  
HMJr: And I'll see you about the interest rate.  
J: All right. Thanks.

3:57 p.m.

Operator: Go ahead.  
HMJr: Hello, Jesse.  
Jesse  
Jones: Hello, Henry.  
HMJr: Yeah.  
J: What would you - why don't you give yourself  
a little latitude and say that in refunding  
those you might or might not add a little?  
I just thought -  
HMJr: Well -  
J: Huh?  
HMJr: Ah - the reason that we - we've got such a  
tremendous balance here, Jesse.  
J: Yeah.  
HMJr: And I just -  
J: Well, all right. Well, I just thought you might  
want to just leave yourself a little latitude  
on the -  
HMJr: Well, what I was going to say is I'm going to say  
we're going to refinance  
J: I see.  
HMJr: Because that covers a multitude of sins.  
J: All right.

- 4 -

HMJr: But -

J: I just thought maybe you might want to do that.

HMJr: But, frankly, if we give you what amounts to the market rate on what you owe the Treasury -

J: - perfectly all right.

HMJr: I - I hate to - I'll tell you right now so that there's no argument - we'll give you a one percent rate for this - for this period.

J: Yeah.

HMJr: You can't kick on that.

J: Well I just thought - that's perfectly all right. I just thought maybe you would - ah - want to leave a little latitude for just - for -

HMJr: Well -

J: Not - I didn't - what I mean was - not to be too specific -

HMJr: Oh. Well -

J: - this would be just exactly refunding. I thought if you refunded those three you might want to add a hundred or so.

HMJr: Well, I - I really think it would be a mistake. I - I -

J: Well -

HMJr: - think we'd all have to - I think I'd have to be apologizing.

J: Well, you handle it yourself to suit you.

HMJr: Is that agreeable with you?

J: Perfectly all right.

HMJr: Thank you so much.

J: Goodbye.

Monday  
October 10, 1938  
4:41 p.m.

HMJr: Marriner.

Marriner  
Eccles: Oh yes, Henry.

HMJr: I got your word about those R.F.C. notes and I announced it at my regular press conference at four o'clock. See?

E: Yeah.

HMJr: Then as to - ah - we can talk over tomorrow how we're doing all the rest of that. But on account of that Wall Street Journal story I wanted to get it out and let them know just what we were going to do. See?

E: Yeah. Wayne called me of course and I - ah - it's a matter that's - there really isn't very much to talk about on it.

HMJr: No. But - ah -

E: It's - the only - the one question I raised - that was the question of ah - of an exchange which involved rights or the -

HMJr: Well, there won't be any rights.

E: Well, but what I meant was that if it's an exchange of course there - it will mean they - that involves rights.

HMJr: Well - we can fix it. I - I hadn't thought of that until Wayne mentioned it.

E: Yes, that was the point I made and ah -

HMJr: Well we can

E: But it seems - it seems to me that that in itself wouldn't justify borrowing the money in the market and holding it for forty-five days at - and - and paying one and a half percent on the outstanding issue.

HMJr: Uh huh.

- 2 -

E: And -

HMJr: Well, I - I'd like to get your viewpoint tomorrow but I figured that the market ought to be ready and I want to save that date of November 24th for ourselves.

E: Yeah.

HMJr: Monday.

E: Yes.

HMJr: And give them as much notice as possible. Jesse was very anxious to get some new money but I told him there was no - no reason - I mean he isn't, I think, unbalance - I think he's taking money in.

E: Well, of course if you're going to get - for him to get new money - with all these - with all the balances and the gold that you've got in the Treasury it would be pretty difficult to explain to Congress.

HMJr: I told him it would be just silly.

E: And I - I - I absolutely think that it would be a mistake. Of course you are in this beautiful position, even though you announced last summer that the R.F.C. would likely get seven hundred million and they've only used two. You can - you can say that all that's happened is - it's just a matter of deferrment.

HMJr: That's exactly what - except I used the word "postponement."

E: Ah - that they'll get five hundred million and then you can use them to get it - some time next year in the Treasury they'll not get any new money.

HMJr: That's right.

E: And let them pay you and let them go to the market and you keep out of it.

HMJr: That's right.

- 3 -

E: And ah - so that that seems to me that the - that no one can say that - that there's any inconsistency merely because you have deferred it.

HMJr: That's right. Well, thank you so much.

E: All right. Goodbye.

HMJr: Goodbye.

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: October 10, 1 p.m.

NO.: 236

See my despatch No. 922 of September 26.

Today I am in receipt of a letter signed by the President and Director of Exchange of the Bank of Brazil, dated October 10, *(and paraphrase)* which reads in translation as follows:

"Reference is made to our letter of August 24, 1938 regarding the understandings reached between the Bank of Brazil and the Federal Reserve Bank through your intermediary. We have the honor to transmit the draft for the final agreement for the establishment of a gold fund of the Brazilian Government with the Federal Reserve Bank which we are authorized to sign on behalf of the Brazilian Government, the authority for which will be exhibited in time.

We request of Your Excellency that you kindly transmit the text of the enclosed draft to the fiscal agents of the United States Government and their opinion would be appreciated in order that we may conclude the contract in question."

The plan which this letter transmitted is identical with the one transmitted to the Department in my despatch under reference except for article 1 of "agreement" which now begins as follows: "in conformity with the agreement

signed

-2-

signed between the Secretary of the Treasury of the United States, Mr. Morgenthau, and the Minister of Finance of Brazil, Mr. Arthur de Souza Costa, by letter dated July 15, 1937 the Bank of Brazil in its capacity as official agent, et cetera."

The Federal Reserve Bank is requested by the Bank of Brazil to inform it through this Embassy at the earliest possible moment, by cable, if this plan is acceptable.

The Department is requested by the Bank of Brazil to inform the Federal Reserve Bank of New York that the shipment of gold bars forwarded on the SS WESTERN PRINCE on September 23 (reported in the last paragraph of my telegram No. 222 of September 24, noon) will be turned over to the Federal Reserve Bank of New York in accordance with telegraphic instructions today being sent to the Guaranty Trust Company. The ship arrived in New York October 12th. It is desired by the Bank of Brazil that the Federal Reserve Bank of New York accept this gold as the first deposit in connection with the new plan. Inasmuch as the Bank of Brazil now wishes to avoid selling this gold, this procedure is a change from the procedure reported in my telegram No. 222, of September 12 1 p.m.

Will you please inform Commerce.

CAFFERY

EA:DJW



DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
EA 832.5151/1196

October 11, 1938

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and encloses a copy of despatch No. 920, dated September 23, 1938, from the American Embassy at Rio de Janeiro, with its enclosures, namely, the text and translation of a letter from the Bank of Brazil acknowledging the receipt of the communication from the Federal Reserve Bank of New York which was transmitted to the Embassy by this Department's telegram No. 102, September 3, 4 p.m.

Copies of the despatch and enclosures have also been sent to the Federal Reserve Bank of New York.

Enclosure:

From Rio de Janeiro,  
No. 920, September 23,  
1938, with enclosures.

TRIPPLICATE

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Rio de Janeiro, September 23, 1936.

No. 980.

SUBJECT: Shipment of Gold to the United States.

ORIGINAL AND THREE COPIES BY AIRMAIL---CONFIRMATION COPY  
BY STEAMER.

The Honorable

The Secretary of State,

Washington, D.C.

Sir:

I have the honor to refer to the Department's telegram No. 102, September 3, 4 p.m., transmitting a strictly confidential communication from the Federal Reserve Bank of New York for delivery to the Bank of Brazil. This communication was delivered to the Bank of Brazil on September 5th and I am now in receipt of a reply dated September 21st, copy and

translation/

1/  
M

translation of which are enclosed herewith.

As the Department will perceive, this reply is merely in the nature of an acknowledgment and states that the communication of the Federal Reserve Bank is being studied by the Brazilian authorities. In order that the records may be kept complete, I suggest that the enclosure be forwarded to the Federal Reserve Bank of New York.

Respectfully yours,  
For the Ambassador:

R. M. Scotten,  
Counselor of Embassy.

Enclosures:

1. Copy of letter from the Bank of Brazil, dated Sept. 21, 1938.
2. Translation of above letter.

RMS/MVJ

File No. 851.51

A true copy  
of the signed  
original



(signed)

GGPY

BANCO DO BRASIL  
Direção Geral  
Endereço Telegraphico  
"BATELOSERAL"

E Favor Citar Na Resposta  
DITCA

Rio de Janeiro,  
(Caixa Postal 1156)  
21 de Setembro de 1933.

Exmo. Sr.  
Jefferson Caffery,  
U. S. Embaixador dos Estados Unidos da  
America do Norte.

Temos a honra de acusar o recebimento de sua carta de  
6 de corrente, em que V. Exa. teve oportunidade de transmitir  
a comunicação confidencial que nos foi feita pelo Federal Re-  
serve Bank do New York, a propósito dos entendimentos em curso  
sobre a possibilidade da constituição do fundo ouro nos Estados  
Unidos em nome dâste Banco e como agente do Governo brasileiro.

Foi para nós motivo de satisfação a escolha que mere-  
ceu a nossa proposta inicial, que fizemos devidamente autorizadas  
pelo Exmo. Sr. Ministro de Fazenda.

A referida comunicação foi transmitida ao mesmo Min-  
istro que acaba de nos autorizar a redigir os termos definitivos  
de dito acôrdo, hoje submetidos a apreciação do Governo e na con-  
formidade de tais entendimentos.

As providências que decorrerem dâsse exame indis-  
pensavel e que ainda não nos permittem uma resposta definitiva  
ao Federal Reserve Bank, serão levadas ao conhecimento de V. Ex.  
logo que sejamos autorizados a apresentar o projeto do acôrdo  
com todos os detalhes.

Quiera V. Exa. aceitar os protestos de nossa considera-  
ção.

Pelo BANCO DO BRASIL

(signed)

Marques dos Reis  
Presidente  
Tancredo Ribas Carneiro  
Diretor da Carteira

Enclosure No. 2 to Despatch No. 920 of September 23, 1938, from  
the Embassy at Rio de Janeiro.

TRANSLATION

BANK OF BRAZIL  
Administration

In replying, please cite:  
DTTGA

Telegraphic Address:  
"BATELAGRAL"

Rio de Janeiro,  
(P.O. Box 1180)  
September 21, 1938.

His Excellency  
Jefferson Caffery,  
Ambassador of the United States of North America.

We have the honor to acknowledge the receipt of your letter of the 8th inst., in which Your Excellency transmitted a confidential communication to us from the Federal Reserve Bank of New York, with regard to the discussions now taking place concerning the possibility of the establishment of a gold ~~fund~~ in the United States in the name of this Bank as agent of the Brazilian Government.

It is a matter of satisfaction to us that our initial proposition, which we made in accordance with instructions given by His Excellency the Minister of Finance, has been so received.

The above mentioned communication was transmitted to the Minister, who has just authorized us to formulate the definite terms of this agreement which has been submitted today for the consideration of the Government, in accordance with such discussions.

The steps resulting from this indispensable examination, which do not as yet permit us to make a definite reply to the Federal Reserve Bank, will be brought to Your Excellency's attention as soon as we are authorized to present the draft of the agreement with all details.

DEVI: ~~Accept~~, Your Excellency, the assurances of our considera-

tion.  
SEP 21 1938

For the Bank of Brazil:

(signed) Marques dos Reis  
President

Tancredo Neves Carneiro, Director of the Exchange Dept.

RECEIVED  
TREASURY DEPARTMENT  
SEP 21 1938  
(signed)

Department of State <sup>175</sup>

DEPARTMENT OF STATE  
BUREAU OF  
CONSULAR AFFAIRS  
DIVISION

EA

ENCLOSURE  
TO

Letter drafted

ADDRESSED TO

TREASURY

REB

GRAY

London

Dated October 10, 1938

Rec'd 3:40 p. m.

Secretary of State,  
Washington.

1154, October 10, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

British security markets have been uncertain today and the dollar has been bid. Given the background of trade and other factors affecting sterling in particular and the feeling of uncertainty about the outlook in general Hitler's speech of last evening has somewhat jangled the nerves of not a few in the city who are incidentally becoming acutely aware of the present position of inferiority.

The inferiority opening rate of the dollar was 4.78. The British authorities attempted to check the movement but the rate moved rapidly to 4.76 $\frac{1}{2}$ , where they made a decided stand. The rate has fluctuated between 4.76  $\frac{1}{8}$  and 4.76  $\frac{3}{8}$  the latter part of the day. The demand for dollars was not enormous but persistent; towards the end of the day the British authorities were less active,

New York

REB

2-#1154, From London, Oct.10,6p.m.

New York having come in with a tendency to sell dollars.

The gold price went from 145 shillings 10 pence at the fixing to 146 shillings one pence this afternoon. 287 bars were sold at the fixing.

KENNEDY

NPL



**PARAPHRASE OF TELEGRAM RECEIVED**

**FROM:** American Embassy, Paris, France

**DATE:** October 11, 1938, 9 a.m.

**NO.:** 1730

**FROM COCHRAN.**

This morning I returned from Basel, where the first meeting after summer recess was held by BIS directors.

The meeting's routine business involved discussion of the decline in the balance sheet of the Bank for September, which resulted from withdrawal of deposits by central banks to achieve liquidity during the recent crisis, and the conduct of affairs of the Bank during that time.

The international political crisis and its repercussions upon economic and monetary systems were the topics most discussed in informal talks.

I saw Schacht in the corridor, and he greeted me with an inquiry as to whether I had any bright ideas about a commercial agreement with Germany; he asked me to come into his office, and inquired as to what I thought of the latest moves made by his Government. I recalled my visit to him four years ago in Berlin, and reminded him that he had then said he hoped that Germany might soon have armed sufficiently for defense purposes and for satisfaction of national aspirations, so that he (then being Minister of Economics)

- 2 -

Economics) could convert the armament plants into heavy industrial concerns to manufacture goods for export.

I said to Schacht that I believed his country now had that chance if Hitler would only repay Chamberlain in kind and not go ahead to the foolish fate which was Napoleon's; Schacht agreed that this chance is now held out to Germany, if it will only be grasped by Hitler. Such a turn would provide a lead toward real peace in Europe, which should help toward normalization of trade and monetary affairs.

Schacht reviewed recent developments, and expressed his admiration for Chamberlain and his thanks that when that emergency arose Chamberlain and Daladier were in office. In his view the French people had maintained remarkable calm. His only criticism was sharply against Flandin.

In my conversation with Schacht, he was cheerful and cordial. However, some of my friends told me they found him more serious and inclined to be ironical. He remarked to one of my friends that the population of Germany had been brought up to 80,000,000 - but said how were they to feed them. To another friend he mentioned that some sore spots such as Memel and Eupen still remained. When I was talking with Schacht and he got on this line, I recalled the recent promises ~~and~~ made by Hitler, and suggested that their country stop with present achievements and not press

on

- 3 -

on for Cincinnati and Milwaukee.

One friend of mine visited Schacht in Berlin on his way to Basel; Schacht remarked to him that he thought German tactics had been "crude and unintelligent"; Schacht was fearful lest dangerous currency inflation result from the continuing high costs of Germany's adventures.

On Sunday one of my neutral friends at the B.I.S. had talked for four hours with Schacht and his German colleagues, insisting to them upon the opportunity Hitler now has to go down in history as a hero rather than a marauder by taking the initiative in peace measures which are constructive. My friend also told them that while Hitler had accomplished much through force and through threat of force, the world doubted that in peace he would be great. My friend was seriously urged by Vocke of the German Delegation to come to Berlin to talk along such taunting lines with Hitler, in the hope that he might be influenced toward a policy of conservatism.

A manifestation of confidence in the promises given by Hitler to Chamberlain was recommended by some of my friends, in the thought that if an opposite policy is followed the danger of war will only be continued. Still others felt that their Italian colleagues should use their influence with Mussolini toward restraining Hitler from wrong moves. It is the opinion of most of my friends that

Hitler

- 4 -

Hitler has in his hands the immediate future of Europe, and that the rest of us might as well recognize this fact.

During my talk with Schacht he recalled to me his many warnings of the past that Hitler was not affected by democratic attacks except to be embittered by them, and more determined to carry through his program, and that a return to a balance of power in arms was the best way to guarantee peace in Europe.

The problem of Germany financing her undertakings was not minimized by any one. All were cognizant of the fact that by acquiring the Sudeten area the country had gained metallurgical, toy and pottery industries which will compete with already existing German industries of the same kind. In addition, the iron ore and many other raw materials for these industries will have to be provided by Germany; furthermore, there will be a reduction in American and other favorable outlets for the former Czech wares.

It is apparently Germany's intention to take over the assets of the Sudeten region without assuring liabilities - as for example, a share of the internal and external debts of the Czechs, redeeming bank notes which are circulating in the region, and so on - and this policy received considerable criticism. Doubt was expressed by Governor Rooth of the Swedish Central Bank that the

United

- 5 -

United States would take any part in granting or guaranteeing an international loan to Czechoslovakia. He said that in this regard he would veto any Swedish participation. The general assumption was that Czechoslovakia would be a vassal state of Germany, in view of the fact that Benes is no longer in office and Chavolsky has been named as Minister for Foreign Affairs.

The feelings of the German colleagues were not spared by my friends in referring to the lack of popular support for war in Germany - which was evidenced by the cold silence that greeted the Pomeranian troops which paraded through the city of Berlin at the height of the crisis, the eagerness with which the German people grasped such foreign radio news as could be obtained with regard to the real situation in Europe, their surprise when they learned how nearly Hitler had gotten them into a war, and their relief when assured that they would have peace. The argument put forth by Schacht in talking with me was that people were willing to make endless sacrifices for the head of a state when they saw him accomplish such feats as Hitler had achieved. However, according to all appearances, increasingly heavy demands are being made by the Government at present. As an example, German communes cannot keep and use for local public works, and so on, the taxes which they

- 8 -

they collect. On the contrary, they are obliged to invest them in the Reich loan which is now being issued to consolidate the new type of Treasury bill issued since April of this year. The success of this loan is even now not yet assured, despite communes, savings banks and insurance companies being called upon to take important portions. My friends realize that Schacht's ability to exert restraining influence on Hitler is very limited; they understand that Schacht has not had a talk with Hitler since in May, and February 4 was the date of the last Cabinet meeting.

I had a talk with the Governor of the Netherlande Bank, Trip. He reiterated his growing conviction that monetary inflation is coming for the world. Trip told me that Colijn, because of the international crisis, was not able to hold out as stubbornly as he should have done to restrict <sup>the</sup> 1939 budget on expenditure allotments. The deficit for the 1939 budget appears as only 61,000,000 florins, but Trip insists that actually the deficit is between 150,000,000 and 200,000,000 due for the most part to the Government failing to pay into pension funds certain required amounts. For the present this irregularity is covered up, but it is Trip's belief that unless Colijn fights on this issue and perhaps realigns his Cabinet, he will fall. In Netherlands, Trip said, the main worry

was

- 7 -

was the budget; there is still a great deal of unemployment,  
but the budget constitutes the only immediate danger.

END SECTIONS ONE TO NINE, INCLUSIVE.

WILSON.

RECEIVED  
MAY 12 1958  
GENERAL INVESTIGATION  
DIVISION  
U. S. DEPARTMENT OF JUSTICE

EA:LWW

PARAPHRASE OF SECTIONS TEN AND ELEVEN, TELEGRAM NO. 1730  
of October 11, 1938, from Paris.

During my talk with Trip he said that in the recent crisis he had, despite stiff opposition, convinced his Government that monetary as well as political independence should be maintained. Therefore during the decline of sterling, he had quit pegging the florin to that currency. In his view a very important problem is presented in the dollar-sterling relationship. Trip expressed the hope that the United States will keep a stable currency, and will use its influence toward the same end with Great Britain.

Trip told me that he did not at any time expect that the western powers would go to war; the decision of his country to mobilize, he said, was mainly because the Belgians were worried lest the French would use Luxemburg to attack Germany. I have been informed, incidentally, that during the crisis six army divisions were mobilized by Belgium on her French frontier, and on her German border Belgium had only two divisions.

I had a talk with Governor Janssen of the Belgian National Bank. He said that lately he had been quite happy that the belga was attached to gold, although in the past he had sometimes wished it were tied to sterling. Gold had been gained by his Bank and the belga had been firm. The

Swiss

- 2 -

Swiss and Dutch on the other hand had had to cut losses from sterling, and their currencies were weakened thereby. In Janssen's view, the primary requisite of a currency to which others may be tied is that there should be no question as to its stability. His country was most benefited by recent experiences through the clear demonstration that the belga is not tied to the French franc and that any change in the latter will not immediately affect the belga. Unless a general wave of devaluation should set in involving the dollar, he does not expect to devalue the belga. The Belgian ordinary budget for the year 1939, comprising around 11 billion Belgian francs, has been balanced through a very well planned increasing of taxation.

END SECTIONS TEN AND ELEVEN.

WILSON.

EA:LWW

PARAPHRASE, SECTIONS TWELVE AND THIRTEEN, TELEGRAM NO. 1730  
of October 11, 1938, from Paris

For the 1939 budget the figure has been reduced to 1.8 billion Belgian francs, the extraordinary figure for 1938 having been 2.5 billion. For the 1938 budget there still remains a deficit of approximately one-half billion francs. The economic situation in Belgium, in Janesen's view, is at least as good as in France and in the United States. He does not look for an early change in the Government or the Government's policies.

I had a talk with Bachmann, President of the Swiss National Bank. He made reference to his letter of September 18 to me (reference: my telegram of September 19, No. 1504) and said that subsequently sterling had weakened so much that he was forced to stop pegging against it or the Swiss franc would have been depreciated more than 30 percent below the level fixed on the third of June, 1931. A committee of the Swiss Federal Council had been called for consultation, and it was decided that the Swiss National Bank should have the freedom of 1 1/2 percent on either side of 30 percent for the range of franc depreciation. Thus the gold buying and selling prices set forth in the Swiss declaration made to us on the twenty-eighth of October, 1936, are widened correspondingly. During the crisis there was some increase in the Bank of Switzerland's note circulation, but circulation is returning to normal already.

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already. At present the chief worry of Bachmann is the sterling weakness. He would in particular like to know whether the United States will exercise its right to devalue the dollar further in the event there is increased weakness and a significant decline in sterling.

END SECTIONS TWELVE AND THIRTEEN.

WILSON.

EA:LWW

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PARAPHRASE OF SECTIONS FOURTEEN TO TWENTY-TWO, INCLUSIVE  
of telegram No. 1730 of October 11, 1938, from Paris

I have been told that The Governor of the Bank of Italy, Azzolini, has purchased two British flags to hang out from the Bank when Chamberlain comes to Rome to sign the final Anglo-Italian agreement. I was assured by Azzolini that a most cordial welcome would be given Chamberlain by Italians of all classes, because they were all so grateful to him for having avoided a war. The tourist trade in Italy this past season has been disappointing, he said, due partly to competition from the French with a depreciated franc, and partly to some foreign uneasiness over the international political affairs. The trade deficit of Italy for the first eight months of 1938, on the other hand, is much lower than for the same period in 1937.

Observers who have felt that the conflict in Spain was a serious danger to Europe's peace are happy to see that now the prospects are good for an early withdrawal of Italian troops from Spain. Such a move will facilitate improvement in relations between Italy and Great Britain, and perhaps the relations between Italy and France will also show improvement. Hope was expressed by those who thought France had not been wise last spring in not trying to approach the Italians at the same time advances were made by the British, that the present good opportunity will not be missed by France. At Basel there was one rumor that in return for such

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an agreement Italy will demand Tunisia, but this rumor is denied by my Italian friends. Furthermore, they insisted that their country will not try to hold any land in Spain or in the Balearic Islands. The entire Italian air and sea forces and all the Alpine troops, my friends admitted, had during the crisis been quite ready.

I was told by Yanagita of the Bank of Japan that he thought the Munich settlement and an adjustment of the Spanish affair would have a lot to do in discouraging the Japanese military element, and leading to a conclusion of the Chinese conflict. According to Kano of the Yokohama Specie Bank, an end of the war would even be welcomed by the Japanese Military Party, and ~~that it would~~ within one month and even before the fall of Hankow, some proposition may be made to the Chinese. Every month for the past twelve months he has been anticipating such a step.

The Bank of England Governor, Norman, was not yet able to make the trip to Basel. Cobbold, his alternate, was there; he is anxious to see the Germans given a chance to carry out their promises to Chamberlain without too many doubts about their intention being suggested beforehand. Cobbold is mildly optimistic that some capital may move back from New York into sterling, especially in view of the approaching election period in the United States, and the increase in labor quarrels.

When

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When Niemeyer gets back to London he is to consult with Pospisil and other members of the Czechoslovak delegation with regard to financial aid. He said that he does not know whether the ten million pounds announced so far is a bona fide loan or more of a gift. It would seem that the Bank of England is sorry now that time was not taken at Munich to make more definite arrangements as to financial questions pertinent to the change in Czechoslovak territory.

I spoke with the Bank of France Governor, Fournier, who said that the note circulation of the Bank of France has been reduced in recent days by 7 billion francs from over 124. Since the end of September the Treasury, he said, had taken in over 3 billion francs through bills and short term loans. During the month of October there are no important maturities, therefore he does not expect the Treasury to have any trouble getting through the month satisfactorily, but it may have to draw on the Bank of France against its remaining 1 1/2 billion franc credit. The Governor told me that he was urging the Government to limit the number of its special financial and economic decrees, to perhaps fifteen, and that they should be got out as quickly as they could. For the present he does not think Bank of France gold stocks will be revalued; certainly such action will not be taken as an isolated measure. Further devaluation is definitely opposed by Fournier.

Pessimism

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Pessimism about the French financial and monetary outlook was expressed by most of my friends. Both the franc and the Bank of France has been left weaker each time by successive crises. The Treasury has now had added to its burdens heavier military expenditures; therefore it is likely that even if the Treasury gets through October satisfactorily, the maturities of November will give trouble. The speech which was made by Hitler at Saarbrucken became known in Basel on Monday, and the impression was not favorable so far as the peaceful intentions of Hitler are concerned. But my best balanced friends believed that the speech was mainly for domestic consumption, and there should not be too much unhappiness over it. A further break in the franc as well as the pound resulted therefrom, nevertheless. Until some formula is discovered to make the rich pay more and the poor work more, there is little hope for sound French finance and a firm franc. The French outlook is so discouraging in Trip's opinion that unless some marked improvement is shown soon he is going to request that Mendelssohn not renew the banking credit of around 150,000,000 florins to the French which reaches maturity in November. In Niemeyer's view the French will not be aided by further devaluation of the franc; however, he does not think that such devaluation should be too strenuously opposed by Great Britain. For many months Pennacis of the  
Bank

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Bank of Italy has felt that unless the wealthy people of France bring their capital back into the country and put it to work, there will be a serious Socialist conflict in France.

International political factors are responsible for part of the present weakness of sterling, but most observers are convinced that a number of adverse elements in the situation in Great Britain will not permit the pound to come back to 4.86, and that it may be pushed considerably below 4.80. In the unsettled circumstances of the present - and some fear these are likely to be prolonged - they see no reason why flight capital from Europe should move out of the dollar into sterling.

For the present, almost every one expects that the dollar will remain strong. The view was expressed by Jacobsson that within the next six months currency inflation is bound to come in the United States, with resultant weakening of the dollar vis-a-vis sterling, in view of our inflexible wage scale being so far out of line with prices, and with a continuing Treasury deficit inevitable for some time unless the United States is willing to increase the number of unemployed in the country.

I was told again by some of the central bankers who have gold dealings with our country or are aware of something like the volume of the British operations with us (sic.)

that

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that they still think the 1/4 percent American handling charge is excessive, and that international cooperation toward steadiness of currencies is not aided thereby.

It is believed by some observers that there is now under way a liquidation of political unrealities in Europe. They would like to see the way clear for Chamberlain to carry his Birmingham businessman peace plan for Europe as far as he can. They think that the greatest contribution the United States could make would be to achieve our own domestic recovery on a firm basis, and all nations would eventually benefit thereby. The dollar stability is appreciated by these observers, but they feel that if we took early steps to abolish such policies as that involved in our silver purchases, we would inspire more confidence in the monetary leadership which is now enjoyed by the United States. These observers are genuinely anxious to see the United States successful in attaining a sound and lasting recovery, in working out a redistribution of gold, and in advancing freedom of trade. They expressed the view that steps in this direction are not being taken when we subsidize wheat and barter ~~for~~ cotton for silver.

November 14 has been set as the date of the next meeting of the BIS.

END MESSAGE.

WILSON.

EA:LWW

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE October 11, 1938.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHL. W. KnokeBANK OF ENGLAND.

I called Mr. Bolton at 11:10 a.m. I referred to his cable in which he spoke of strong speculative and far eastern demand for dollars and asked what that was. Bolton replied that a fair demand for dollars had come from Shanghai. Today he had sold \$5,000,000 to the Banque de L'Indo Chine, \$2,000,000 to Dreyfuss and \$2,000,000 to Lazard. Commercial demand for dollars in Paris as well as in London had been insignificant; as regards the Paris market he had closely checked into it with Carigual. He was now of the strong opinion that there was under way a speculative effort to bring sterling down. The rate had opened today at 4.75 1/2 and in less than five minutes he had sold about \$6,000,000. In addition he had put £750,000 gold into the market at a price to enable its being shipped to New York and thus furnishing more dollars. The market had absorbed between \$12,000,000 and \$13,000,000 by mid-day. They had bided their time until the Paris Bourse opened and then he had pushed the sterling rate up a little but he wouldn't make any attempt to force it up any higher. His total sales so far had been \$11,000,000. How long this present movement against sterling would last he didn't know but it very obviously had its origin in the bitter disappointment over Hitler's speech which seemed to put an end to the so-called peace that they believed they had secured at Munich.

I referred to reports in our newspapers to the effect that

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Governor Norman proposed making a trip to this country. Was there any truth in that? Bolton replied that he had heard nothing at all but that he would make some inquiries. Governor Norman had been away from the bank since the beginning of September, partly on a holiday and partly in order to recover from his recent illness, and was not expected back in the bank until November.

I asked Bolton what his latest figures were on foreign gold hoarded in London; he thought they were "something under £200,000,000." He hadn't seen an accurate figure for the last week or two but as far as he knew there had been a reduction during that period of about £80,000,000.

I spoke of the three recent special shipments (Nashville, Honolulu and Somers) and mentioned that the first shipment had safely been delivered into the Assay Office here without causing any comment anywhere and that the second was being taken off this afternoon. We had made and would make no custom house entries so that no manifests would be available to the public. The custom house would simply be instructed by the Treasury Department, of which it is a part, in its records to take note of these shipments. The problem which was now facing us was that the Department of Commerce published once a week detailed figures of imports and exports of gold according to countries. These figures are published Wednesdays and Thursdays. They would show a jump of \$22,000,000 (the first shipment) in the

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DATE October 11, 1938.

CONFIDENTIAL FILES

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BANK OF ENGLAND.

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near future and two further jumps of \$25,000,000 each thereafter. No details as to shipper and consignee would, of course, be given. Considering the way gold was now pouring in here such \$25,000,000 increases would probably cause no comment here. Nevertheless, I wanted to ask him whether they would be embarrassed in case something should leak out. Bolton repeated what Hawker had told me in the past, namely, that the British customs had not been advised of these shipments but added that an unexpected leak here "can't embarrass us." They had been extremely lucky in avoiding the attention of the press; "I think it is just as well to keep the matter quiet now."

Bolton advised that he was shipping £5,000,000 gold to us on the Queen Mary from Paris. I asked whether that nearly cleaned up their earmarkings in France but Bolton replied that they still had a fair amount there. However, they had to move quite carefully because such shipments caused a good deal of disturbance in France where the position continued to be very difficult. Politically there was a possibility of the Socialist party breaking up. If that happened it would give the Radical Socialists their own majority in the Chamber, all of which might be for the good, but that was only a rumor. Meanwhile Daladier had decided against the further devaluation and also against exchange control. The stabilization fund, however,

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could not be in a very happy frame of mind and it was reasonable to assume that it did not have sufficient gold or exchange to meet a big drain now. "There is going to be a disaster over there one of these days."

LWK:KW