

DIARY

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GROUP MEETING

November 1, 1938.
9:30 A. M.

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

Gaston: There's a reporter in here. (Laughter)

Upham: It's too bad, having the three of us together here.

H.M.Jr: Three?

Klotz: Tories.

McReynolds: Did you see that Tory story in the papers yesterday?

Taylor: A wonderful story. It's rec- - rec- - recommended for you (H.M.Jr.) too.

H.M.Jr: This thing, Dan - I'm glad you're here this morning - publication of Public Works funds brings up a point which I brought to Mr. Haas' attention a number of times. Haas, years ago - eight or ten years ago he had an idea he was going to get a Treasury Statistical Bulletin once in a while, and then about every six months he brings it around and I say, "Fine; let's put out a Treasury Statistical Bulletin," and another six months passes and nothing happens, and Haas comes around again and, "Let's get out another Statistical Bulletin." That has been going on eight or ten years.

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Now here is a fine job. Now why shouldn't that be released? This is the first time - this is a complete break-down, by states, and everything where P. W. A. funds are borne, by states, by agencies, everything else, right up to date.

- McReynolds: You did the same thing with W. P. A. too.
- Bell: W. P. A. has given out - that is old, but I think it should be given out, with permission of Ickes.
- H.M.Jr: Why not get these things together - this idea that Haas is crowding on me once in a while, and do this once a month, and get this thing all together and get it out. We are not having a lot of releases, but once a month get all this stuff together and get it out as a Treasury Statistical Bulletin.
- Bell: It would be quite a bulletin, combining
- Oliphant: They have those law enforcement statistics, you see, which are very interesting.
- H.M.Jr: I mean everything we do, get it out once a month. It's all there. I tell you what you do, George; today's the first, and the day after election you come back here with a list of stuff, will you?
- Haas: O. K.
- H.M.Jr: Everything that we get out - and make up a dummy for me, will you? And so that we - once a month we'll get it out. The time to do it, I think - you get out at the middle of the month your special sheet, don't you?
- Bell: The Classified Statement of Daily Receipts and Expenditures comes out as of the fifteenth - it comes out about the seventeenth, as of the fifteenth.
- Gaston: Yes. I think it may take a fairly good sized printing appropriation. We haven't now the money to do it, as a printing job.
- H.M.Jr: A thousand copies?
- Gaston: It's the composition that's the big job; it isn't the printing itself.

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H.M.Jr: What is this great big duplicating outfit we have over at Procurement.

Bell: That is a duplicating job. It is not a printing job.

H.M.Jr: Let's think how we can do it rather than how not to do it.

Gaston: Yes, we can make an estimate on it.

H.M.Jr: Because here it is; it wouldn't all have to be done. Here this could be done and we'd get a standardized size.

McReynolds: That's the same form the W. P. A. has.

Bell: Same form, yes.

H.M.Jr: I'd like very much to do it, George, even if you start - begin, and then you can add to it.

Haas: That is right. It meets - there is a demand for charts around; we've got to - it might be supplemented in there too.

Oliphant: Did you see that material on law enforcement I sent to you last night?

H.M.Jr: It's gone. It's over at the White House.

Oliphant: Did you read it? It isn't - it's a sort of an eye-opener, on how interesting these figures are.

H.M.Jr: As I say, George has had this idea; now let's go to town on it.

Oliphant: Irey was very much surprised on what we've done on it. It's almost five hundred convictions on Treasury cases alone.

Bell: You know, there is a great deal of fiscal statistics that are now published in various documents around town. The Federal Reserve Board puts out an elaborate report, and so does Commerce.

H.M.Jr: I am not surprised, because we are so - what shall I say - negligent about it?

Oliphant: Modest.

Klotz: Thanks.

H.M.Jr: Anyway, will you cooperate with Haas.....

Bell: Yes sir.

H.M.Jr: +... and Gaston on this thing?

Bell: I will.

H.M.Jr: Now, I don't know how many people Sandy Klein called up last night to find out about this cooperative U. P. story. Just as a matter of curiosity, how many people did he call up.

(Mr. Lochhead, Mr. White, Mr. Haas raise hands.)

H.M.Jr: Who was the official spokesman last night?

Gaston: I don't know. He called me up - Stewart called me up, and Gregory, of the Herald-Tribune; a man from the Journal of Commerce, and a man from the A. P.

H.M.Jr: May I suggest that this particular story on the French Cabinet, that nobody help out anybody. And that you don't know anything, and nobody knows anything.

Gaston: Yes, I didn't know anything last night.

H.M.Jr: And you still don't know anything.

Gaston: And I still don't know anything.

H.M.Jr: And will you stay that way.

Gaston: Yes, indeed.

H.M.Jr: And nobody is able to help them out. If everybody will just try not to be helpful at this stage, see, it will be helpful to me.

Gaston: Yes, I thought that.

H.M.Jr: What?

Gaston: Yes, I thought that last night - yes.

White: I told him to call up Gaston. He said he called up Gaston and Gaston didn't know anything about it, and I told him to call up Archie.

Lochhead: So you're the one that did it.

H.M.Jr: What a pal. (Laughter)

Lochhead: ... give them a full story.

H.M.Jr: What I want to talk to you (Mr. Duffield) about is your assignments, see? What I want you to do is to be brought up to date, and that is why I saw you - on the whole question of Bank of America, and Trans-America. Now Mrs. Klotz will make available to you all my personal notes, going back to this year on the Bank of America, and Trans-America. You can take them in your room; don't leave them there, but put them back in my safe, and I want Cy to tell you everything that he knows, and how about ...

Oliphant: Ed.

H.M.Jr: Ed Foley, so if you would just go to school on Trans-America and Bank of America. See?

Duffield: Yes.

H.M.Jr: And when you have learned your lesson come and see me, and we'll talk about it. I want you to go to school on that one thing. Then, after election, I am asking you to go to the Coast - West Coast.

Now, on that, I got an idea while shaving this morning, which may not be - that is, in view of the position Federal Reserve is taking on Section Thirty, I'd like you to explore the state laws in which Giannini operates, and see the possibilities - "All right, if the Fed doesn't do it, we'll try him in the state courts." Will you explore that? It may be a good idea.

Oliphant: Yes, indeed; and in the meantime we are not going to give you

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H.M.Jr: Oh no, just as an ace in the hole, let's explore the laws of California, Oregon, and Washington.

Oliphant: And I was thinking, while shaving this morning.....

H.M.Jr: Did you shave too?

Oliphant: Yes. a good idea of referring that letter to the Comptroller and let the answer go from the Comptroller is better than writing it yourself.

H.M.Jr: You don't like that flip answer of Upham's?

Oliphant: What was his?

H.M.Jr: Well, that

Upham: What did he say? (Laughter)

H.M.Hr: Well, then, we'll write a letter.

Oliphant: I'll redraft it - both letters - with that in mind, and will be ready to look at it today.

H.M.Jr: Well, my thought is, Cy, I am just going to write, "My dear Marriner: Thanks for your letter, and I have referred it to the Comptroller of the Currency." That was my thought last night.

Upham: Then I can write my flip letter?

H.M.Jr: Then you fellows can do what you want, but in thinking it over, why should I get into correspondence with Marriner Eccles about the carrying out of a Section which is - I mean any more than, well - well, here is a good example: the Chairman of the Board of Tax Appeals starts to write to me about something Helvering wants to present to him. Would I get into correspondence with him?

Oliphant: No, Krouse (phonetic) understands the statute; the Comptroller makes a presentation of the certificate.

H.M.Jr: And under the statute, Helvering makes it.

Upham: I think he regards his letter to you as a personal letter.

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H.M.Jr: You can't be personal in a thing like this.

Oliphant: And I doubt if the Board will sustain it.

H.M.Jr: That was my point. I want Upham to just soak this stuff up on this particular thing. You take in the beginning, and just all I've got - and if anybody's got anything that will help him (Mr. Duffield) I'd appreciate it if you will give it to him.

Mac?

McReynolds: Nothing.

H.M.Jr: Dan?

Bell: Nothing.

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

Lochhead: Owing to the holiday today, it's pretty quiet abroad.

H.M.Jr: How have you been - your pal, Judge Lauer?

Gibbons: They brought about six hundred dollars worth of dresses in that one trunk; this fellow's got a lot of other trunks, but they can't determine his status, whether he's an alien or born in this country, or not, and there is some difference in the rate of the duty if he's an alien. As far as they know now, what he brought in for Mrs. Lauer, the foreign market value is about six hundred dollars, and would be worth about twice that in this country.

H.M.Jr: Do you think the Judge knew about it?

Gibbons: I don't think so.

H.M.Jr: Huh?

Gibbons: No. This fellow has been quite a man abroad, at Cannes, and those places, this summer; he's quite a skier, and associated with a lot of Americans that go over there, and he's brought in - Tom Gorman told me yesterday that they found, in a memorandum, that he had brought in a diamond wrist watch for Gracie Allen, this comedienne.

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He's brought in a lot of stuff for different people. Whether they thought he was paying the duty and they were paying him, we haven't been able to determine that. He's done quite a business, apparently. Of course, he's got this Government official - what is it, Nicaragua, there in New York; he apparently just sold him a bill of goods coming over on the ship, and got him to give him a letter.

H.M.Jr: I'm very curious whether the Judge himself knew about it.

Gibbons: I might say that Joe Keenan called me yesterday and said Armon Levy, a judge, called him and said what a good fellow the Judge is, and I said, "Well, I understood that, but I didn't know anything about it." I didn't have it before me and I let it go at that.

H.M.Jr: Harry?

White: You want to wait until you hear from somebody else with respect to that exchange of strategic war materials? We have been through it.

H.M.Jr: Wallace is coming in at ten thirty; you are to be here at ten thirty.

White: Do you want to know a little about it ahead of time?

H.M.Jr: If I can; if I am all right. Wallace is sending a fellow to London, and he always waits - he's sailing tomorrow, and the thing has to be settled, and now Wallace has to see me. Come in at - let's say ten twenty-five.

White: Just a few minutes to tell you about it.

H.M.Jr: Are you interested in this?

Oliphant: Yes, I am.

H.M.Jr: Who else? Oliphant

Bell: I am.

H.M.Jr: Supposing you fellows come in at ten twenty-five. It's been up before the Budget, and the President's turned it down once.

Bell: We have cleared this.

H.M.Jr: That's what I want. Keeping up with the Jones' is my job; it pays - keeping up with the Roosevelts. All right. O. K.

White: Have you seen

H.M.Jr: Ten twenty-five for my own gang.

White: Have you seen what the - the brief papers that were prepared in time for that chap you met Saturday - the statements; I don't know whether you had seen them or whether he just told you about them.

H.M.Jr: He told me about them.

White: All right. When they crop up again you probably will want to see that he

H.M.Jr: I think so. Cy?

Upham: I have nothing, thanks.

H.M.Jr: I think you are putting on weight, Cy, since you left the Treasury.

Upham: That's the worst thing you could say to me.

H.M.Jr: John?

Hanes: I have nothing this morning, Mr. Secretary.

H.M.Jr: Now, John, I feel good this morning; when I picked up my New York Times - I never had any doubts, but - but now you have joined the anti-Krock Club, why I welcome you to my group.

Hanes: Has he jumped on me this morning?

H.M.Jr: I didn't have any doubts, but now that you - well, I don't know how to express it, but those whom Krock is against--what would that be - not the "Knock Club" but the "Krock Club."

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Oliphant: "The Krock Knock Club."

Bell: Anti-Krock.

H.M.Jr: I welcome you. I put you in now on account of the election. A big Wall Street man comes to the Treasury, but after election, look out.

Hanes: He's going to throw me out right after election.

H.M.Jr: Oh, you have just had the wool pulled over your eyes. The Wall Street lamb has been sheared.

You have anything?

Duffield: (Nods "No.")

H.M.Jr: Wayne?

Taylor: This is a letter that I think - I suggest of sending to the Cuban Ambassador. This is one he wrote me, and this is one I'd like to send to him.

H.M.Jr: (Reads outgoing letter. Nods "Yes.") How is Mr. Van Zeeland?

Taylor: He seemed to be fine.

H.M.Jr: What's he peddling?

Taylor: He's on an election tour, and he is - I get - the impression I got is that he was just talking about international situations, monetary probabilities, and so on. But I didn't get anything more definite than that out of him.

Upham: He's on the Town Hall program here.

H.M.Jr: Is he?

Taylor: He's coming back here in December sometime, I think.

H.M.Jr: My Intelligence Service has informed me what he is really over here for is to raise money for Belgian armaments. That is his mission.

Bell: Apparently (Several talking at once.)

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Taylor: Maybe; I didn't hear that mentioned, but I wasn't in on all of it.

H.M.Jr: Well, I went to considerable length to find out what he was doing, and that is what I am told. I think we can all kind of watch.

George?

Haas: I have nothing this morning.

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

Gaston: Mr. Raymond Leslie Buell, of the Foreign Policy Association, would like you to write a letter of felicitation for the occasion of their Twentieth Anniversary.

H.M.Jr: Good - done - sold. Would you write a letter, if it hasn't been done, to this architect's wife, and I guess, include Mrs. Morgenthau in that. What's his - Krider - Klauder? The fellow

McReynolds: I know who it is; I don't remember the name.

Gaston: Klauder.

This (letter) might interest you. It calls attention to the small denomination bonds. It's an opportunity for investment in order to increase direct purchases.

H.M.Jr: Do I have any money?

Gaston: I think Mr. Broughton probably has some money.

H.M.Jr: Well, I'll look at it anyway.

Gaston: Yes.

H.M.Jr: What else?

Gaston: There is a letter here from Mrs. Roosevelt about a man who is in distress, a newspaperman, and I have taken the trouble to look up quite a bit about him, but I don't think there is any place - anything we can do for him in the Treasury.

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Klotz: Didn't we tell her that?

Gaston: No.

Klotz: Is this another one?

McReynolds: (Talking low.)

Klotz: Oh, it's the same thing.

H.M.Jr: What was the one across - what is that ...?

McReynolds: M - u - s - t. And I tried to make out there was an "n't" after it.

Klotz: Some newspaper man.

Gaston: This is really a pathetic case; the man was unjustly dismissed.

H.M.Jr: And we said "No," and when Mr. Roosevelt, and Mrs. Roosevelt both got after me, I just couldn't take it.

Gaston: That is not this one.

McReynolds: This was a chemist - very good qualifications.

H.M.Jr: All right. Will you be here at ten twenty-five?

Gaston: Yes.

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

Oliphant: Nothing.

H.M.Jr: I'd like to see you and Mac a minute.

Duffield: Is it all right if I go to White House press conferences? I mean, when I'm free. I've always enjoyed them. I'll go along with you (Mr. Gaston) if I can.

Gaston: It's all right with me. I don't think Steve Early will raise any objection.

H.M.Jr: Better ask him.

Gaston: I think you'd better ask him.

November 1, 1938

My dear Missy:

Inclosed herewith find material
which the President may want to use in
his broadcast. I would appreciate
your seeing that he gets this.

Sincerely yours,

Miss Marguerite Le Hand,
The White House.

Original law enforcement is no longer merely a local problem. Kidnappers and racketeers are not confined by State lines in these days of the through-highway and the fast motor car. Of necessity, the body of Federal crimes has so expanded that it covers practically the whole field from the illegal sale of narcotics to the extortions of the gangster. For every Capone and Karpis that has been sought and convicted by the Federal Government in recent years, there have been thousands of less well-known criminals similarly convicted.

The Federal Government has spent millions for original investigation and enforcement in recent years. The capable and trained personnel of the Federal Government has detected and convicted over 200,000 criminals since March 1933. By active cooperation with the States and localities, they have also quietly and effectively assisted them in apprehending and convicting thousands of other fugitives.

That the Federal Government has been doing in New York since 1933 is one illustration of what I mean. Since March 1933 more than eleven thousand persons have been convicted of Federal crimes in New York State as a result of Treasury Department investigations. During the same time, the Federal Government has pushed its drive against racketeering on a broad front in New York City. Two hundred and fifteen different defendants—among them such well-known racketeers as "Goetz" Lanza and "Quinn" Sharpley—have been convicted as a result of Federal investigation and prosecution, and one hundred and thirty-six others are awaiting trial.

But that is not all. The Federal Bureau of Investigation, the Secret Service and the Intelligence Unit of the Treasury have trained many of the police of our large cities. The fingerprints, the crime reports of the FBI and the evidence obtained by Federal investigation agencies has been of material assistance in many cases prosecuted by State and county law officers. So nation-wide

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has the problem of crime become that, without such assistance and direct prosecution by the Federal Government, local officials would be all but helpless in dealing with that problem.

RE PROPOSED TRADE ARRANGEMENTS INVOLVING
SUBSIDIZED WHEAT & STRATEGIC WAR MATERIALS November 1, 1938.
10:30 a.m.

Present: Mr. Hanes
Mr. Taylor
Mr. Oliphant
Mr. Gaston
Mr. Bell
Mr. Haas
Mr. White
Mr. Peoples
Mr. Wallace
Mr. Tapp
Mr. Wilcox

Wallace: I brought along Mr. Wilcox.

H.M.Jr: Fine. At your service.

Wallace: Yes, sir. Well, I think I know very little more about this than you do, but Mr. Tapp and Mr. Wilcox have been working with Admiral Peoples here, and I'm accepting their judgment that in their talks with Admiral Peoples they've got far enough along so it's worthwhile for us to hear what the plan may be, that is, what they think is worthwhile. And they haven't talked to me about it, and I thought it might be a good thing if we could both listen to what they worked out.

H.M.Jr: Be glad to go to school on this. I mean I - I haven't - I'm not prepared, I mean, so

Wallace: Yes; well, likewise.

H.M.Jr: Who's going to do it, Wilcox or Tapp?

Wallace: I rather suspect Admiral Peoples is the best schoolteacher in the group.

H.M.Jr: All right.

Peoples: Well, Mr. Secretary, several recent discussions have been had with Mr. Wilcox and Mr. Tapp's organization. Nothing definite has been agreed to by anybody except just details. Our problem has been a matter of policy involved, because the original idea was a sort of a barter or exchange proposition. And very recently the

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Surplus Commodities Corporation have suggested for reasons of their own that it be on a sort of a - sell wheat to the contractor, see, and then turn around and buy the manganese from him. Then, the methods of selecting the contractor are not very agreeable by any criterion; I want to see competition in this thing somewhere or other. But that part of it is all up - really all up in the air, just under tentative consideration. Very simple. What we want to know, of course, is, shall we go ahead in principle?

H.M.Jr: Well, can somebody again state what the objective is?

Wallace: Why, this is - the origin of it is this, very briefly, that is. I mentioned it to the President at Hyde Park in early September or late August. Talking about the wheat problem, he urged that we consider barter and mentioned a lot of specific deals from his experience in the Navy during the War, and he thought we ought to be able in some way to trade wheat for various materials of use to the Army and Navy and of use to industry, which - specifically, by way of example, this new corporation. He suggested that he had thrown this idea out many times and nobody had done anything about it. And at a subsequent meeting I asked him how it could be done.

"Well," he said, "get in touch with Admiral Peoples."

So I got in touch with Admiral Peoples, and here we are.

Tapp: I might say, Mr. Secretary, that we contemplated a similar program to the one we have on our wheat at the present time, whereby we would borrow the money from the R.F.C. for the purchase of these raw materials. And our reason for suggesting that it be - two reasons for suggesting it be a simultaneous purchase and sale rather than a straight barter one, is to get around the objections of the State Department, which have some validity, against an out-and-out barter deal on the part of the United States Government, due to the fact that we have no

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exchange problem, and so on. The other and more important reason from our standpoint is in order to avoid upsetting the wheat export markets. In other words, if we can arrange specific simultaneous purchase and sale transactions involving particular countries, then we know where that wheat is going; whereas, if we sold the wheat to the Steel Corporation under sort of a contract that they were going to buy manganese for use and put it in store in the Navy reserve, they might sell that wheat most any place; it wouldn't necessarily go to the place where the manganese came from. And if we could make a specific simultaneous purchase and sale, we would accomplish the object of the barter transaction without actually engaging in a straight barter proposition.

H.M.Jr: Well, give me - give me any country, any commodity - give me an example, Tapp, will you?

Tapp: Well, take the Netherlands, for example, on tin.

H.M.Jr: Give me an example.

Tapp: Take tin. A great portion of our tin comes from the Netherlands colonies. Now, if we could get the Netherlands Government to take our wheat or flour, or both, in specific quantities at the same time that we would agree to purchase tin from the Netherlands colonies, I think that's perhaps as good an illustration as I could give right off.

White: That would be a good one. Brazil and manganese would probably be a better one.

H.M.Jr: What would that be?

White: Brazil could probably produce additional amounts of manganese in two years sufficient to satisfy the war requirements for a surplus stock. They now import wheat almost entirely from their neighbor Argentina, and that wheat they could buy from the United States and deliver the manganese over a period of one to two years. It would be an excellent thing for them from an exchange point of view. They're badly in need of foreign exchange, and they have an unfavorable balance

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with Argentine; so they might be able to split part of their wheat purchases and satisfy partially Argentine.

H.M.Jr: Well, what was - I mean what's the driving force behind this? What are you trying to accomplish?

Tapp: There are two ideas. One is to export wheat, and the other to accumulate certain of these reserve supplies and materials that Army and Navy and I believe even State Department feel should be accumulated. It's a dual objective.

White: There are - about 15 million dollars worth, approximately, of manganese is wanted. And about 50 million dollars worth of tin and three or four million dollars worth of tungsten and about the same amount of chromite.

H.M.Jr: Who's stopping you from going ahead, Tapp?

Tapp: Well, we were waiting on some general clearance, I believe. Admiral Peoples, at our last discussion you indicated that you wanted to discuss the matter with the Secretary before it went ahead.

Peoples: Yes. Yes.

Tapp: We have the loan arranged and we discussed the matter with Director Bell, and he discussed it with the President, and it was my understanding that it was O.K. from your standpoint.

Bell: From the standpoint of the President it is all right to go ahead, proceed, if everybody is satisfied as to the legality of the arrangement.

H.M.Jr: On the other hand, Dan, I'm correct, am I not, that the President turned down a straight appropriation for the War Department to buy these supplies.

Bell: He turned down legislation which would contemplate that, yes - proposed legislation, just two days before. In the past there have been several bills introduced in Congress that authorized the purchase over a period of two or three years of about a hundred million dollars of strategic war materials. And on October 12 - I might say, we had begun to get

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reports from Army and Navy on legislation which they were going to propose in the next Congress; so on October 12 I put the matter up to the President, revealing the history of the bills that had been introduced, and asked him what his policy was going to be in the next Congress in this respect; advised him that he had held all the other proposals in conflict with his program. He comes back on the next day and says it's still in conflict.

Well, when this barter transaction came along, I took it up with him on October 18, and he said that we had to do something with this and he wanted the people interested to go ahead and try to work out a program, if it were legal.

H.M.Jr: Isn't it important in this thing, Dan - let's say that they borrow the money and they accumulate ten million dollars of manganese and tin. Then you've got to get an appropriation from the War Department to reimburse them.

Bell: That's right.

White: In the meantime the Army is supposed to pay the carrying costs out of the appropriation.

Bell: No, I don't understand it that way.

H.M.Jr: Get this. On the one hand, the President within the last two weeks has told you he's opposed to having an appropriation go through in the budget for the Army to buy these supplies; but if this thing is done this way they've got to get an appropriation.

Bell: Eventually, yes, sir.

H.M.Jr: Well, this next Congress.

Bell: No, as I understand the proposition, the Export-Import Bank will hold the bag until such time as the War Department and the Navy want these materials. They will at that time get an appropriation and pay not only the cost of acquisition, but the carrying charges, in addition, over whatever period is necessary.

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Wilcox: That's right.

H.M.Jr: Let me just ask Herman Oliphant a question. Herman, let's just use Brazil as an example. Let's say that this method would become public property, the way it should - I mean anything we're a party to, and this kind of thing; and then, in view of what the Germans have been doing, in this memorandum that you've written on their method, does this weaken or strengthen the case that you're trying to make on the barter arrangements they make, if we in turn go ahead and do this thing with Brazil? And the Germans are having their troubles just now. See what I mean?

Oliphant: Yes. That's pretty

Peoples: I could say, Mr. Secretary,

H.M.Jr: Just a minute. Do you mind, please - because we've just confidentially sent a memorandum to the State Department on the method and technique which Germans are using now to do business with us. We have - we're asking Mr. Hull's advice, because we find that about two-thirds of their business is following a certain technique.

Oliphant: Well, it is distinguished from that type of barter involved in the German trade, but I think it does have some pretty broad implications. It's moving in the direction of state trade and all that sort of thing.

Peoples: Our position, Mr. Secretary, has been opposed rather to dealing with a foreign country in this deal all the way through; that it's much better to confine the negotiations to our own American firms regularly engaged in the import of manganese regardless of whatever country it may come from. And as I understand, too, in regard to this question of wheat, there's to be no restriction as to which country it should go to. In other words, it's better to avoid any reference to a foreign government whatever, confine the thing to among our own American dealers.

H.M.Jr: Yes, but this is establishing an entirely separate thing from trade treaties and the most-favored-nation

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clause and everything else. It brings up an entirely new technique of doing business.

Wallace: How does it violate the most-favored-nation clause?

H.M.Jr: Well, that's what I don't know.

Wallace: I doubt if it does.

White: It doesn't do that, but it does introduce the subsidy aspect of the wheat, and irrespective of whether you deal directly with an American corporation or not, it is inevitable that there will be involved negotiations between that agent and the foreign government.

Peoples: Or some foreign firm; that's perfectly true.

Wallace: I think it is inevitable.

Peoples: We don't care where the ore comes from, just so long as that ore conforms to certain specifications.

Wallace: I think that also it is inevitable that when you engage in transactions of this sort probably you'd be selling the wheat a little more cheaply than in other transactions.

H.M.Jr: Well, aren't you giving that nation that you're dealing with a special treatment?

Wallace: But it's not - it wouldn't be violating the most-favored-nation clause.

White: No, Mr. Secretary, I don't think they are getting special treatment, because it's available to any nation who has the manganese and is willing to take the wheat.

H.M.Jr: If that's so, that's one less hurdle.

But if you're doing this thing, isn't this depreciating our currency further in the sense that we're using depreciated wheat instead of depreciated money?

White: Well, it's a subsidized wheat price, but of course we have already embarked on that program.

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- Oliphant: Subsidized wheat price by way of barter.
- White: Might be so construed.
- H.M.Jr: Well, that's the thing - I just went through this thing yesterday in connection with...
- Describe, Herman - I'd like Secretary Wallace to know - describe the present technique. It's very important, because cotton is involved, to him. Two-thirds of the present business is being conducted on - I'd like
- Oliphant: I think the best way to describe it is to take a concrete transaction.
- H.M.Jr: Will you please?
- Oliphant: A jeweler on 42d Street wants to buy \$10,000 worth of binoculars from Germany, and he's made up his mind how many dollars he wants to pay for them. He calls up a cotton merchant downtown in Wall Street and says he has this amount to remit to Germany. The cotton merchant cables to Germany and gets him a put - p-u-t - on the amount of cotton, gets an offer on the amount of cotton involved. When he gets that price by cable, he calls the jeweler back and says, "You want so many dozen bales of cotton" plus the fraction, whatever is involved, and the jeweler says, "I'll take it." In the meantime, the cotton is already en route or it may be in Hamburg. And on that basis he becomes - the jeweler becomes the technical owner of the cotton, and when it is sold in Germany it is sold at a higher price if the proceeds are used to pay for those commodities whose export is being subsidized.
- H.M.Jr: And at present two-thirds of the business is being done in that way. We only found that out Saturday.
- Tapp: That seems to me, Mr. Secretary, a pretty good argument for this program.
- Wallace: It doesn't prove anything.

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- H.M.Jr: Not this particular technique. This is something new.
- Bell: They've been doing it with other countries.
- White: It's slowly developed.
- Tapp: There's so much of that sort of thing going on in the world right now with reference to trade. That's one reason we aren't selling any wheat.
- H.M.Jr: Exactly, and what you people are talking about, if my brain gets this thing, is: does the President of the United States want to say, "All right, we're beginning to edge over into that method of doing business," or "Do we want to continue to do business the way we are?" That's a terrifically important decision.
- Wallace: He's talked it with me for months, off and on for several months, and I think perhaps we better go to him and find out whether he wants it or doesn't want it.
- H.M.Jr: Well, I've heard him say it, but I don't think - I may be wrong - that he's gotten the significance of it, that once we go into this thing, that we're going to begin to do business the way Germany, Italy, and Japan are doing.
- Wallace: I don't think we'll be doing business that way.
- H.M.Jr: Yes, this is the first step. Now, if he wants to take it, that's his business, and we don't come in it other than to make sure that any law of the Treasury is lived up to; that's the only place. Because this is something that certainly he and Cordell ought to see just what they want to do. Now, do we want to start doing business the same way these other nations are doing it?
- Now we've got under the Treasury law, and under our responsibility as policemen - we've been making a study of what Japan has been doing. I mean - I don't mean along the lines of Hull's note, but with our trade. And I think it's terrifically important and I think the President ought to realize that when he crosses this step, why, that's just the beginning of:

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are we going to take the direction of Germany, Japan, and Italy? Now, if we are, I think he ought to do it with his eyes wide open and Mr. Hull's eyes wide open, and yours.

But it's his decision. I wouldn't get in on it. I'm just a policeman. All I do is carry out the law.

Peoples: You're exactly right, Mr. Secretary.

H.M.Jr: What?

Peoples: You're exactly right on the State Department part.

H.M.Jr: If we want to do business this way, and the President, Mr. Hull and Mr. Wallace want to do business in that way, that direction - all my responsibility as Secretary is to see that the Treasury Customs law

Wallace: I don't know to what extent the President has envisaged it as broad policy. I know he's thought about it a great deal as method.

H.M.Jr: I think he's thinking in terms of the World War, things he did when he was Assistant Secretary of the Navy.

Peoples: Oh yes, we had to do that.

Tapp: I do think, Mr. Secretary, that you ought to keep in mind this fundamental fact: that France comes along and sells so many millions of bushels of wheat to England; Rumania comes along and sells so many millions of bushels of wheat to England; the considerations are not price, not particularly the quality of the wheat, but other considerations, either barter considerations or paying off debts, various and sundry considerations, which effectively close us out of the transaction even on a subsidy basis.

Oliphant: Are those transactions between nations as such, governments as such?

Tapp: Several of them are, yes.

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H.M.Jr: Jesse, wheat's only one thing, a part of this whole picture. If you could get any other exporter, I'm sure he could tell you the whole story. And this is just one and all I want to do is to just bring this up.

Tapp: Well, my only point was

H.M.Jr: Any other exporter is in exactly the same position. Your responsibility is wheat; you're worried about selling wheat, and that's bobbing up again. Now, how we going to move, what direction we going to move in, against this competition? But I think the thing should be decided as a big broad Administration policy.

And you (Wallace) know the discussion we had the other day at Cabinet. Now, how we going to move?

Tapp: My only point was

Wallace: Want to bring it up this afternoon?

H.M.Jr: I'd be more than willing, but don't you think yourself it's too big for us to settle it? I feel that way.

Wallace: Well, I'd assumed that the President had already settled it in his own mind. Just going on that assumption.

H.M.Jr: I don't think he has.

Wallace: Don't think he really has; I doubt it.

H.M.Jr: I don't think he's thought of its significance. I think he's thinking in terms of the World War, the things that he had to do in order to get material, build guns for the Navy, so forth and so on. And the picture is quite different.

Oliphant: He hasn't thought of it as state trade on a subsidized barter basis.

H.M.Jr: I'm sure he hasn't, because he's talked to me about this - what he calls his three-cornered trade, for

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a number of times, and I wouldn't be so conscious of it if I just hadn't sent this memorandum over to Mr. Hull yesterday, which - of course, it's very secret, but I've asked his advice on it, bringing him up to date as to the most recent method Germany is using to do business with us.

Wallace: Matter of very great significance to Secretary Hull all right.

H. M. Jr: As I say, before I did anything, I've asked Mr. Hull to advise me on it.

White: Mr. Secretary, there are certain points we might mention here in your considerations which may constitute a sufficient difference, if you wish to move ahead in this kind of arrangement. There are no blocked balances, no depreciated currencies. The two characteristics which it does have in common - subsidization of wheat, which has already been embarked upon as a policy, and arrangements between countries that "We'll buy that if you buy this." It has that in common, but it lacks the other two. So if one were seeking for a basis for procedure, you might go on the basis of the fact that it is different in these two important aspects: that it lacks blocked balances

H. M. Jr: But it's the first step, Harry.

White: quite so.

Oliphant: Would you agree, Harry, that this would be a correct description of it: proposed to proceed on the basis of state trading on a subsidized barter basis?

White: It certainly has the aspects of that. Can't be denied it's the first step.

Wallace: It doesn't necessarily mean sweeping all the way. Just have a problem with regard to a particular commodity. Of course, there is the question whether or not it would spread.

White: It has the additional factor that what you're wanting is additional stocks; you're not using the usual

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current consumption, but this is some storage goods that you're piling up. So it differs somewhat in that respect, though not a great deal, from what generally has been done.

Taylor: This

H.M.Jr: The other thing - may I just say one thing - can you hold your thought a minute - which I want to bring to the President's attention: he has told me, he has told Bell, that he will not favor the appropriation of any money to the War Department to store these so-called strategic war materials. And he's told you (Bell) that, he told me that. I'm in favor of that, I want you to understand. I'm in favor - I think the War Department should have a supply of tin, manganese, whatever they want. I'm strongly in favor of that. I'd gladly recommend an appropriation of 25 million dollars. I mean on that end, I'm for that.

Wallace: Well, apparently he'd like to do it this route and not the other route.

H.M.Jr: But when he gets through the Army's got to pay for this thing. He says he won't do that. He's against - what he says he's against, and you (Bell) tell me if I'm right - he's against the Army getting any money to store strategic war materials.

Bell: He was against this legislation authorizing that, yes.

H.M.Jr: Which I think is less important than the other thing.

Bell: Some of these materials would be sold commercially in time of war. Might not necessarily be sold through the War Department.

Wallace: Well, I guess there's nothing further to

H.M.Jr: Would you bring it up?

Wallace: All right. I suspect it's of enough general interest to bring it up in full Cabinet meeting. Or should we have a special meeting?

H.M.Jr: I think bring it up in Cabinet. Won't get a chance otherwise.

November 1, 1938.
10:33 a.m.

HMJr: Hello.

Operator: Mr. Macdonald.

HMJr: O.K.

O: Go ahead.

Stewart
Macdonald: Good morning, Mr. Secretary.

HMJr: Hello Stewart.

M: Say, I just received notice that I'm expected to be at the White House at 11:45 with Mr. Lambert and **Dager**.

HMJr: Yes.

M: Apparently on this same thing.

HMJr: Well, I just got the notice.

M: Did you - oh you know all about it then?

HMJr: No, I don't know a damned thing about it.

M: Well, I didn't want to go unless I checked with you.

HMJr: Yes.

M: Because I wanted you to know that - what was being done here and this meeting was called without my request.

HMJr: Well it's called without my request, I don't know a thing about it.

M: Well then I expect we'd just better go then.

HMJr: Yes, but I just felt I was being kind of high pressured.

M: Hmm. Well I did too, so there you are. I just wanted you to know that I had nothing to do with it.

HMJr: Well, I'm very glad you called me and - you and me both.

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M: Yes. Well - I understand this is a double postponement for a meeting that was - took place at Hyde Park some time ago.

HMJr: Well, I'm - I thought - well I'm glad you called me.

M: As a matter of fact it's damned inconvenient for me because I - it upsets my entire applecart as I was supposed to leave here at eleven o'clock this morning.

HMJr: All right, old man.

M: But I'll have to go just the same.

HMJr: Right.

M:

Dear Henry,

I do not know when anything has disturbed me as much as your phone call yesterday. Of course I phoned my office in Washington immediately & confirmed the fact that when we called your office on Saturday to ask to see the letter, Mr. Foley said you were out of town & we could not see the letter until you returned on Monday. That was when I wrote a letter to the President, embodying what I would have asked you to put in your letter, had I seen it. I sent you a copy, so that you would know my whole story.

What disturbs me is not that I think I have done anything wrong, but that you think so. For you have been the best friend any man could have since I have been in Washington. I have not forgotten it. I will never forget it.

However acts speak louder than words. Is it

QUARRY LAKE

VALHALLA - NEW YORK

not rather clear evidence of my feelings that I have presented the financing plan to you? You have twice stated that the matter is one over which the Treasury has no jurisdiction. Of course that is true. The plan is only that which is specifically authorized by the Act. Moreover I have discussed it ^{with the President} in some detail, at Hyde Park, and he has given it his approval. But I did not want to proceed with a large matter of public financing without giving the fullest information to you & the Treasury. When you indicated that your only misgivings were that it might conflict with the President's views, as publicly expressed, on the subject of tax-exemption & you wanted to remind him of that — even in that I acquiesced I do not see what I could do more.

I am trying to act as I believe you would act if our positions were reversed. I do not know any higher standard of conduct.

As ever, Arthur Hans

Nov. 1, 1938



Hon. Henry Morgenthau Jr.
The Treasury
Washington, D. C.

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Personal.

Please deliver unopened.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 1, 1938

TO Secretary Morgenthau
FROM Mr. Taylor

Colonel Fuchs, the Peruvian delegate, called today to explain that he had reported in great detail the conversation which he had had with Mr. Lockhead and me to his President, and that in spite of the fact that he felt he had been quite explicit, that the President had asked him to return to Lima for the purpose of discussing the situation in greater detail before proceeding further with any conversations. Colonel Fuchs explained that he had left an extended memorandum on the whole question of silver, the possible attitude of his Government, etcetera, with the Peruvian Ambassador here in Washington so that the Peruvian Ambassador would be in a position to continue conversations if the President so desired.

I got the strong impression that Colonel Fuchs was enthusiastic about the possibility of monetary cooperation and the utilization of silver in the Peruvian credit and monetary structure. He left me a copy of an article on silver which he had written in October, 1932. He again repeated the remark which he made earlier, to the effect that he was in fact a bi-metalist. I explained to him that our own Government program and the type of cooperation which we had discussed did not actually qualify as pure bi-metalism, but did envisage the use of silver for currency backing.

I think it is likely that we will hear more from the Peruvian Government after Colonel Fuchs has returned and gone over the possibilities with his Government. He indicated that immediate steps might not be forthcoming, but that if the general structure were clarified, it would be possible to build gradually to accomplish the desired end.

W.S.

FIFTY-FIVE WALL STREET
NEW YORK

November 1, 1938.

Dear Henry:

Here is the final draft of my speech for to-night. As you will see, I have changed it quite materially.

I greatly appreciated both your frankness and your suggestions.

Sincerely yours,

Randolph
Hoopes

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

WRB.H

Hope this will prove helpful in the general public discussion. At any rate it's what I believe.

and White
and return to my office.

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Address by W. Randolph Burgess, Vice Chairman of The National City Bank, at the World Trade Dinner of the National Foreign Trade Council, November 1, 1938.

TRADE CHANGES AND MONETARY POLICY

On this twenty-fifth anniversary of the National Foreign Trade Council it seems appropriate to look back briefly over the record of the past twenty-five years in World Trade. The best measure of what has happened is probably to be found in several studies by the League of Nations and others showing the changes in trade, not in dollars or sterling or francs, but in volume, as if measured in bushels and pounds. These studies agree in showing that with the outbreak of the World War in 1914 the volume of goods moving between countries fell off rapidly despite war activities. After the war and depression of 1921, there was a vigorous recovery, so that by 1929 trade had risen to a volume between 20 and 30 per cent higher than in 1913. Then the depression of the early '30s checked the rise and carried the volume slightly below 1913. Recovery began in 1932 but the 1938 figures are still far short of 1929. In fact to-day the net result of the past quarter century is a trade increase of about 10 per cent, only a fraction of the increase in the previous quarter century.

How has the United States fared in this period? In 1913 our trade was about 10 per cent of the world total; by 1929 our proportion had risen to about 14 per cent. The succeeding depression has been more severe in this country than elsewhere, and has lasted longer, so that our proportion of trade has shrunk again to about 11 per cent. Thus, for the whole period from 1913 our trade has increased a little more than for the world as a whole. The countries which have lost most relatively are the five countries most intimately involved in the World War, England, France, Germany, Italy and Russia.

The first conclusion which these figures suggest is clearly, "don't have wars." From whatever point of view one studies this period of history it fairly screams that lesson. So far, unhappily, we have not been able to do much about it.

A second lesson from the period will perhaps be more obvious from data for prices at which trade has been carried on. This has, of course, been a period of extraordinary price disturbances, and the currencies of many countries have been depreciated 40 to 50 per cent or more. But in spite of all these disturbances, and in spite of the presumed inflationary effects of depreciation of currencies, prices in dollars or pounds of the principal commodities moving in world trade show as many decreases as increases from twenty-five years ago. For example, wheat sold for 86 cents in 1913, and ⁶⁵~~86~~ cents to-day, cotton was 14 cents, and now is ⁹~~22 1/4~~ cents, wool was 23 1/2 cents, and now is 26 1/2 cents, copper was 17 cents, and now is 11 1/4 cents, rubber was 73 cents, and now is 17 cents, sugar was 3 1/2 cents, and now is 3 cents, coffee was 10 3/4 cents, and now is 5 3/4 cents.

A price average for those commodities which dominate world trade is now at about the same level as in 1913, measured either in dollars or in pounds sterling. Even since the second series of devaluations beginning in 1931, when the forces of recovery have been added to monetary forces, the price rise in commodities of world trade has been surprisingly small.

These facts suggest the reflection that currency depreciation has not yet resulted in the increases in prices nor trade advantages which many expected. Since the doctrine of price inflation and trade adjustment through currency depreciation was so

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ardently taught and widely accepted, it is perhaps worth examining the mechanism a moment to see why it did not perform as advertised. It was supposed to operate in two ways. First, through the relationships between the devaluing country and other countries. When a currency depreciates prices of exports and imports tend to rise, measured in that currency. To the extent that prices of exports are kept down the country gains a competitive advantage in world markets. But here is the rub - that more than one country can play at this game, indeed are forced to play since depreciation of any principal currency places enormous pressure, both economic and psychological, on other currencies. If several important countries have all depreciated by an equivalent amount, these influences on prices and trade cancel or more than cancel each other. This is exactly what happened in recent years, and in addition the whole process accentuated the atmosphere of uncertainty and fear which other political and economic events have generated. In this atmosphere the "hot money" of the world has flowed from market to market like a loose cannon on the deck of a boat. Only the speculator benefits. The sorts of trade competition created by currency depreciation, plus the erratic movements of capital, have been a principal cause of the erection of trade barriers, or barter arrangements, of quotas, prohibitive tariffs and exchange controls.

When some of my economist friends discuss intriguing plans for flexible currencies as mechanisms for international adjustments, I think of Gelett Burgess's little verse which accompanied his perspective drawing of a cart with elliptical wheels.

"Remarkable truly is art!
See - elliptical wheels on a cart!
It looks very fair
In the picture up there,
But imagine the ride when you start!

We have all been taken on just such a ride.

Aside from the relationships between countries, the other way in which a currency depreciation might be expected to raise prices and stimulate trade is through an increase in the money value of gold reserves which may bring about easy money and credit expansion. The depreciations of recent years have certainly increased gold reserves; the world monetary gold stock has been quadrupled, that of the United States increased over six times ^{since 1913}. We have had easy money and credit expansion. But something has been lacking. The credit has not been put to active use. The increase in production and trade has been disappointing.

Here then ^{in brief} is the picture of the quarter century, a war shocked period, a disappointing growth in trade, currency depreciation apparently acting more as depressant than as stimulant, only a partial recovery. What's to be done about it?

The general answer is that a revival of enterprise is necessary. If we may rely upon past experience the huge gold reserves of this and other countries are a vast reservoir of unused power. Huge bank deposits which the millions of depositors prefer to leave relatively idle, represent potential expansion of business and prices. In the power of this money a giant lies asleep. He can only be aroused and put to work by enterprise, by the willingness of bank depositors to use their deposits to build buildings, to manufacture goods, to take risks, and by the willingness of enterprisers to borrow. When this happens we shall have full recovery. When that time comes the power now lying idle is so vast that it may be hard to control. But in the meantime our problem here and everywhere is to put men and money to work.

The list of barriers to enterprise, national and inter-

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national, political and economic, is a long one, but in the specific field of foreign trade, there are at least two obvious handicaps to enterprise which are impressed upon anyone who has contacts in the field. One of these is the instability of currencies. Visitor after visitor ~~comes in and~~ asks the question, "What about the dollar, will it be devalued further?" "What about sterling and the franc?" Cables come from the Far East, from South America, from Europe asking the same question. In this atmosphere of uncertainty, enterprise cannot go forward freely. An exchange risk added to other risks discourages undertakings, prevents planning by business, holds back trade, keeps money idle.

Without raising the question whether currency depreciation by the United States was necessary, I think we would all agree that two important steps toward the solution of the problem of unstable currencies have been taken by this country under the leadership of our Secretary of the Treasury. The first is the steadfast adherence to a fixed gold value for the dollar for now nearly five years. The maintenance of this single stable value has unquestionably lessened the confusion and disorder among currencies and facilitated trade. It has also enhanced the prestige of the dollar in the money markets of the world.

The second step has been the negotiation and continuance of the Tripartite Agreement which has placed a check upon competitive devaluations, aided in the avoidance of arbitrary and erratic exchange movements, and above all, promoted a fuller mutual understanding between the participants.

Looking ahead it seems clear that a further revival of enterprise, and a further expansion of world trade, will be greatly aided when fears about the future value of the dollar can be

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definitely set at rest, and when other major currencies can be stabilized in a suitable relation to the dollar. The main problem, remembering the breakdown of the first post-war stabilization, is to be sure that the principal currencies are stabilized in a relationship which under the impact of many economic forces may have the best possible prospect of permanence. Unhappily, we do not know and cannot compute with any certainty what that relationship should be. We do know, however, that the position of the United States ever since the war has been very strong; that the balance of payments has tended to be heavily in our favor.

Discussions of this subject are confused by the use of words. We use the term "favorable balance of trade," to mean an excess of exports. But under present circumstances the most favorable development for the United States would be one in which, with an expanding total trade, our imports of foreign goods would gain relative to our exports.

That would place many foreign countries which owe us money in a position to service their debts. It would help to open up again the extension of credits in less fully developed countries. It would facilitate the development of trade relations with South America. The farmer in particular will benefit from such a program, for larger imports at reasonable prices improve his standard of life as well as widen the market for his exports. Paradoxical as it may seem the best way to increase our exports is by increasing our imports. Certainly a situation in which we continue to draw funds so heavily from all over the world is not a healthy one either for us or for others. The application to monetary policy is, of course, that we should think of the problem of stabilization not as a competitive struggle with other countries for markets, but as an effort to find a position

- 7 -

livable for all, under which total trade may be largely increased.

The next step towards this objective is far from clear and I have no formula to offer. Consideration should be given, however, to the possibility that at the appropriate time a solution might be reached most promptly by our stabilizing definitely, as the country in the strongest position, and letting other countries adjust to us. Such an action might exert the strongest possible ^{influence} ~~pressure~~ for stabilization by others, for I suspect the peoples of many countries are getting a little fed up with unstable money.

It is worth remembering that in the experience of this country rapid recovery in business followed immediately the resumption of specie payment in 1879, and the defeat at the polls of the Bryan "funny money" plan in 1896. More broadly, the record is clear that the era of the most rapid growth in production and trade, and in the standard of living the world has ever seen was the century from the Napoleonic Wars to the World War, a century of currency stability. Principal nations were forced at times to suspend specie payments, but ^{over the period} the gold value of their currencies was maintained. In the reestablishment of such a mechanism for trade this country has a great responsibility and a great opportunity of which it has already shown its awareness.

Besides currency instability a second major obstacle to the expansion of world trade is trade barriers. Currency devaluation is a wholesale erection of trade barriers. Import and export duties, quotas, and barter arrangements are kindred weapons of a retail sort. World trade is now divided between those countries that trade with some measure of freedom and those in which trade is in the slavery of barter. Trade cannot prosper half slave and half free. In this

confusion one reasonable and persuasive voice has been heard; the voice of our Secretary of State. Patiently and persistently he has pled for a reduction of trade barriers and he has implemented his pleas with the practical mechanism of the trade agreement. That sacred fetish, the tariff, has been taken out of the realm of log rolling and the control of selfish pressure groups into a clearer atmosphere, and progress is being made not in spectacular ways but following biblical injunction, "precept upon precept, line upon line, here a little and there a little."

In these two ways, in a movement toward monetary stability and in a gradual lowering of other barriers to trade, we have been making progress toward a freer world trade in which enterprise may find ways to exchange between countries a larger volume of goods for the satisfaction of the desires of the people. But the goal is not yet achieved, and the responsibility for action rests not on governments alone, for they can move only with the support of their people. At that point arises the opportunity for this and like organizations to inform the people and to press for those distant objectives which are in the general public interest.

November 1, 1938

To: The Secretary
From: Miss Lonigan *EL*

Attached is a memorandum on
"Distribution of Surplus Commodities
to One-Third of a Nation", following
my memorandum of October 29, on a
possible Urban Security Administration.

PERMANENT PROGRAM
FOR
DISTRIBUTION OF SURPLUS COMMODITIES
TO
ONE THIRD OF A NATION

The newly suggested program of the Department of Agriculture proposes wider distribution of agricultural commodities to the lower third of the nation, who now do not have a share in the abundance that can be produced in the United States.

The objective is so very desirable that it is important to examine carefully the best means to attain that end.

The proposal of the Department of Agriculture is especially hopeful in that it offers the beginning of a program for distribution of wealth in commodities, instead of money wealth, and is in that sense on a very sound basis.

The Department has suggested two means for distribution of agricultural surpluses, wider distribution through relief channels, and use of a two-price system to give lower prices to those in need.

ENCOURAGEMENT OF DEPENDENCY

The first method proposed, that of distribution through relief channels, has two weaknesses. Not all of the needy have access to any relief or WPA aid.

To distribute surplus commodities through relief and WPA channels would, therefore, have the effect of giving a second benefit, commodities, to those already in receipt of cash benefits, and to deny the second benefit to those who are unemployed but not on relief, and to workers who are struggling precariously to support themselves and their families in low-paid work.

EXCLUSION OF THE SELF-SUPPORTING

The "lowest third" of the population is made up of many needy groups not in receipt of Federal or local aid. It includes the unemployed not on relief or WPA, the irregularly employed, those employed at very low wages in both urban and rural areas, the sick, and the half-sick who usually fall between relief and WPA. It is very important to make clear the large numbers of the "lowest third" who are untouched by any existing welfare machinery. To deny commodities to all those other groups is to put a premium on dependency, to draw more and more families onto dependence on government, and often (as in New York City) to make of dependent families privileged classes, with a status far above those workers who are trying to support themselves and their families. The most extreme example of this is the statement of the civil service worker in one of the Government departments who was making out forms for distribution of butter to relief families and who said, "I can't afford butter for my kids".

Any application of a "two-price system" would not only have all the economic disadvantages of any two-price system, but it would also have the social disadvantages of giving the benefit of this privilege to a few, before the social machinery for selecting the recipients of such benefits has been adequately developed.

MULTIPLE OUTLETS FOR COMMODITIES

There is, however, a third possibility, that of opening up new and varied channels of distribution into the "lowest third", without giving any monopoly to those now on relief.

The need is to open up all channels, not only relief, which will permit distribution of surplus commodities to the entire lower third of the population regardless of whether they are entirely supported by Government funds or unemployed, or merely living in an area that has no relief machinery. Not one, but many, and varied, intake pipes should be opened up, giving access to the whole of the lower third, without making relief attractive, without penalizing the lower self-supporting groups, and without interfering with normal mechanisms of trade, employment or consumption.

The two most obvious channels through which to distribute commodities fairly would be to the sick and to the unemployed not on relief. That means new social programs for aid to the sick poor, not on a relief basis,

- 4 -

and for self-help or other works programs. This work, if it is to preserve the worker's sense of responsibility, must be paid in a share in his own production, rather than in Government money payments.

URBAN SECURITY ADMINISTRATION

To develop these various outlets it is desirable to have an independent agency, which would be charged with the responsibility of opening up all possible channels by which more commodities could reach the poorer people of the United States, in ways that strengthen rather than weaken the total economic system. The work of this agency should involve consumer economics, urban economics, and full knowledge of marketing and relief machinery. The Department of Agriculture has done splendid work in both urban and consumer economics but there is no reason why the Department should undertake the full responsibility for an adequate consumption program, and fill the gaps in our present procedures. This is primarily an urban, not an agricultural program, although it should not be limited to urban consumption alone.

The work of this agency would be similar in many ways to the objectives of the Farm Security Administration. Its name might be the Urban Security Administration. It should function in cities, towns and villages as the Farm Security Administration functions in the open country. It should have power to make studies, and reports, to make loans and grants, and to operate its own programs.

FUNCTIONS OF THE USA

The Federal Surplus Commodities Corporation at present turns commodities over to state or city relief agencies in each locality. Under the proposed plan FSCC would turn commodities over to the new agency which would designate the Federal, state and local agencies in the field of relief, welfare, public works, public health and self-help, which would distribute the commodities to its membership. The main work of the agency would be development of new outlets.

The functions of this agency would in time include the following:

1. Strengthening of present outlets for giving of commodities to relief groups.
2. Development of new outlets for giving of commodities to sick.
3. Development of new outlets for giving commodities to consumer processing groups who would distribute them only in exchange for work performed. (Self-Help Exchanges)
4. Equalization of distribution of commodities as between different regions to prevent privilege.
5. Increase of employment in distributive industries.

The social and economic results of such a program would mean permanent raising of the lower third of the population, outside the farm areas, by giving them access to commodities instead of money, and making independence, not dependency, a condition of their getting benefits.

Commodity distribution on a non-relief basis, together with housing, would put a solid foundation under the underprivileged groups of this country. At the same time it would not increase dependency, disturb our money system, or encourage formation of vested interests in Government payments.

APPENDIX

HEALTH OUTLETS

Extension of social machinery for giving commodities to families with certain illnesses, especially tuberculosis, who are not otherwise in need of relief.

Use of commodities for school lunches and in other ways to improve health (without relief tests), also for pre-natal clinics, day nurseries, baby health stations and summer playgrounds.

Public health authorities want more food for families whose illness is caused by or prolonged by inadequate food. They do not want the responsibility for deciding on social policies in connection with who is in need, or whether relief techniques are constructive or demoralizing.

WORK OUTLETS

Development of local self-help exchanges where workers could bake bread, prepare lunches, make mattresses, women's and children's clothes, overalls.

This might take two forms. Immediate permission might be given self-help exchanges to process commodities, for payment in commodities on a toll basis. Later under a more comprehensive plan commodities would be given to exchanges as a form of Federal contribution, to be given to their workers only in exchange for work performed.

Development of larger production units, on a technical basis, for small manufacturing and more elaborate processing, could also come later. This applies to production where the output is sufficient for more than local markets.

These programs would benefit the unemployed not on WPA, the irregularly employed, and those employed but earning very low wages, whether in industry or agriculture. These programs would be equally good for crowded urban areas or villages in Texas or Alabama.

November 1, 1938

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE November 2, 1938.

TO Secretary Morgenthau

FROM

Mr. Hagg

Attached is a memorandum prepared by Miss Lonigan.



DEPARTMENT OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS ONLY TO:
COMMISSIONER OF INTERNAL REVENUE,
AND COPIES TO:

54
TREASURY DEPARTMENT
WASHINGTON

November 1, 1938

AT:ES:EEK

Memorandum for Mr. McReynolds,
Administrative Assistant to the Secretary:

The data contained in this memorandum is being submitted at the Secretary's request, and relates to the magnitude of violations of the liquor laws in the Southern States, as compared with other sections of the country.

By reason of the similarity in character of illicit distilling operations, the Unit has for some time grouped the fourteen southern states in making comparisons with other sections of the country. Illicit distilling has flourished in this area, first, by reason of the large percentage of low income population (negroes, share croppers and mill workers); and, second, because of the extensive "dry" areas in these states. The states that will hereafter be referred to in this memorandum as the Southern States include Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Oklahoma, Tennessee, Texas, Virginia, and West Virginia. They comprise 29.3% of the land area of the entire country, and include 29.6% of the population. The percentage of population living in territory where sales of spirituous liquors are prohibited range from 8 to 72% of the population in these states. Therefore, considering the various factors such as population, average individual income, and local liquor legislation, the incentive for illicit liquor production in these Southern States has been found to be much higher than is generally true in the country as a whole.

Bearing in mind that less than 30% of the population and land area is located in these fourteen Southern States, the following figures showing seizures and arrests during the fiscal year ended June 30, 1938, indicate the extent of illicit liquor operations in the region.

During the fiscal year ended June 30, 1938, in the fourteen Southern States named, out of a total of 11,407 illicit distilleries seized, 8,930 of them were seized in the Southern States. Throughout the entire country during this same year 7,563,848 gallons of mash were seized, of which 4,822,258 gallons were seized in the Southern

States. In other words, the investigative personnel assigned to the fourteen Southern States named seized 78.3% of the total number of stills seized during the fiscal year 1938, and 63.8% of the total mash seized during the past fiscal year. The records of the Unit indicate that these seizures were effected with approximately one-third of the enforcement personnel. A chart marked Exhibit No. 1 showing similar comparisons for the past four fiscal years is attached to this memorandum.

It is considered that mash seizure is the best gauge of the fraud on the revenue, and it is highly significant that more than four times as much mash is seized per thousand population in the fourteen Southern States than is seized elsewhere in the United States. Furthermore, the proportionately large number of vehicles seized in these Southern States indicates that the production of illicit spirits in the south is not purely a matter for home consumption, since the spirits are evidently intended for transport to cities both within and beyond the confines of the fourteen Southern States. Attention is called to the fact that out of a total of 4,225 automobiles and trucks seized throughout the country during the past fiscal year, 2,903 of such vehicles were seized in the Southern States mentioned.

In order that conditions in the Southern States may be more closely analyzed, a further comparison has been made of six of the Southern States with nineteen other states representative of conditions throughout other parts of the country. The six Southern States mentioned are Alabama, Georgia, Kentucky, Mississippi, Texas, and Virginia, and the nineteen states throughout other sections of the country used in this comparison are Arizona, California, Colorado, Connecticut, Illinois, Iowa, Massachusetts, Minnesota, Missouri, Nebraska, New Jersey, New York, New Mexico, North Dakota, Ohio, Pennsylvania, South Dakota, Utah, and Wyoming. Seizures during the past fiscal year in these states are as follows:

	Six Southern States	19 States not included in the 14 So. States
No. of complete distilleries seized	1,670	686
Size of fermenters (gallons)	1,808,000	1,894,000

Considering the number of investigators assigned to the six Southern States as compared with these other nineteen states, the

fraud on the revenue per investigator assigned was more than twice as large in the six states as in the other nineteen states, during a six months period.

The record relating to prosecution of these cases is similar to that presented in the foregoing data concerning seizures. The following tabulations summarize the importance of the enforcement work in the fourteen states as it relates to prosecutions:

	U. S. Total	Total in 14 Southern States	All other States	14 Southern States as a percent of the U. S. total
Persons arrested	26,867	17,100	8,767	66.1%
Prosecutions recommended (defendants)	27,982	18,472	9,510	67.0
Indictments (defendants)	21,612	15,279	6,333	70.0
Defendants convicted	17,907	12,841	5,066	71.7

A further analysis of the type of cases made in these Southern States shows that during the past fiscal year the syndicated or conspiracy type prosecutions recommended in these fourteen southern states constituted 37% of the United States total. The convictions in conspiracy cases obtained in these cases represented over 42% of the United States total.

Extensive investigations are conducted by specially trained investigators of these numerous seizures, for the purpose of securing evidence incriminating those financially responsible for such illegal operations. Many of these syndicates are headed by notorious violators who employ or finance numerous distillery operators who, in turn, take the entire output for distribution to the cities and towns throughout the south.

Illustrative of the magnitude of the operations carried on by some of the syndicates who have been under investigation during the past two years, is a case investigated in Cooke County, Tennessee, involving a syndicate composed of one Walter Shultz, owner of a country store, and twenty-two associates. Evidence was disclosed in this case indicating that from July, 1935, to January, 1937, sixteen illicit distilleries were operated within a radius of 1-1/2 miles of Shultz' store, the stills being from 200 to 300-gallon capacity, each. These still operators obtained supplies from, or were financed by, the storekeeper. Evidence showed that the owner of this store supplied these operators with over 1,000,000 lbs. of sugar, 5,800 lbs. of yeast, and 143,000 jars. The jars were used as con-

tainers for distribution to the illegal trade. These operators were all indicted and convicted.

Another typical case investigated by the Unit resulted in the indictment of forty members of a syndicated operation who manufactured and distributed liquor from Hopewell, Virginia, to Richmond, Petersburg, Norfolk, and adjoining territory. Nine large illicit distilleries were operated by this syndicate before their apprehension and indictment on June 6, 1938.

On October 15, 1938, reports were submitted to the United States Attorneys in the Middle and Western Judicial districts of North Carolina in three cases involving approximately 100 defendants. These reports set out evidence showing the criminal activities of a vast moonshine whiskey organization headed by Daniel Mathis and others, of Wilkes County, North Carolina, and vicinity. Wilkes County is notorious for illicit liquor violations, and the principal defendants in this case and associated cases are of families who have, for several generations derived their livelihood from what is termed "blockading", or running whiskey. Mathis owns several hundred acres of land and is worth approximately \$25,000.

A co-defendant named Flowe in this case, in a period of three months, the evidence discloses, purchased 7,920 gallons of whiskey from the above organization, while another co-conspirator named Williams purchased and distributed over 3000 gallons of moonshine whiskey. The evidence shows that these two wholesalers purchased from the Mathis organization in one year's time at least 44,000 gallons of illicit whiskey, which represents a fraud on the revenue of approximately \$90,000 per year. In the locale of these Wilkes County cases, the evidence discloses that 179 illicit distilleries were seized from January, 1936, to September, 1938. Thirty-five of the co-conspirators were arrested at one time, while delivering wholesale quantities of liquor to Government officers working in an undercover capacity.

Another conspiracy case was investigated in the western part of Virginia in an extremely mountainous section only a few miles south of Roanoke, where one would assume that only minor violations of the liquor laws might occur, and the evidence disclosed indicated that in November, 1937, Jim Martin, an old and persistent violator, and James C. Trail, another notorious character, formed a partnership whereby they would set up and operate a large number of distilleries in Franklin County, Virginia. These men contacted the operator of a small country store for materials with which to construct their illicit plants. Not having sufficient funds with which to finance operations of the magnitude planned, they contacted one Russell Canady, of the firm of Canady & Sims, who have long been notorious for financing distillery operations and furnishing raw materials therefor.

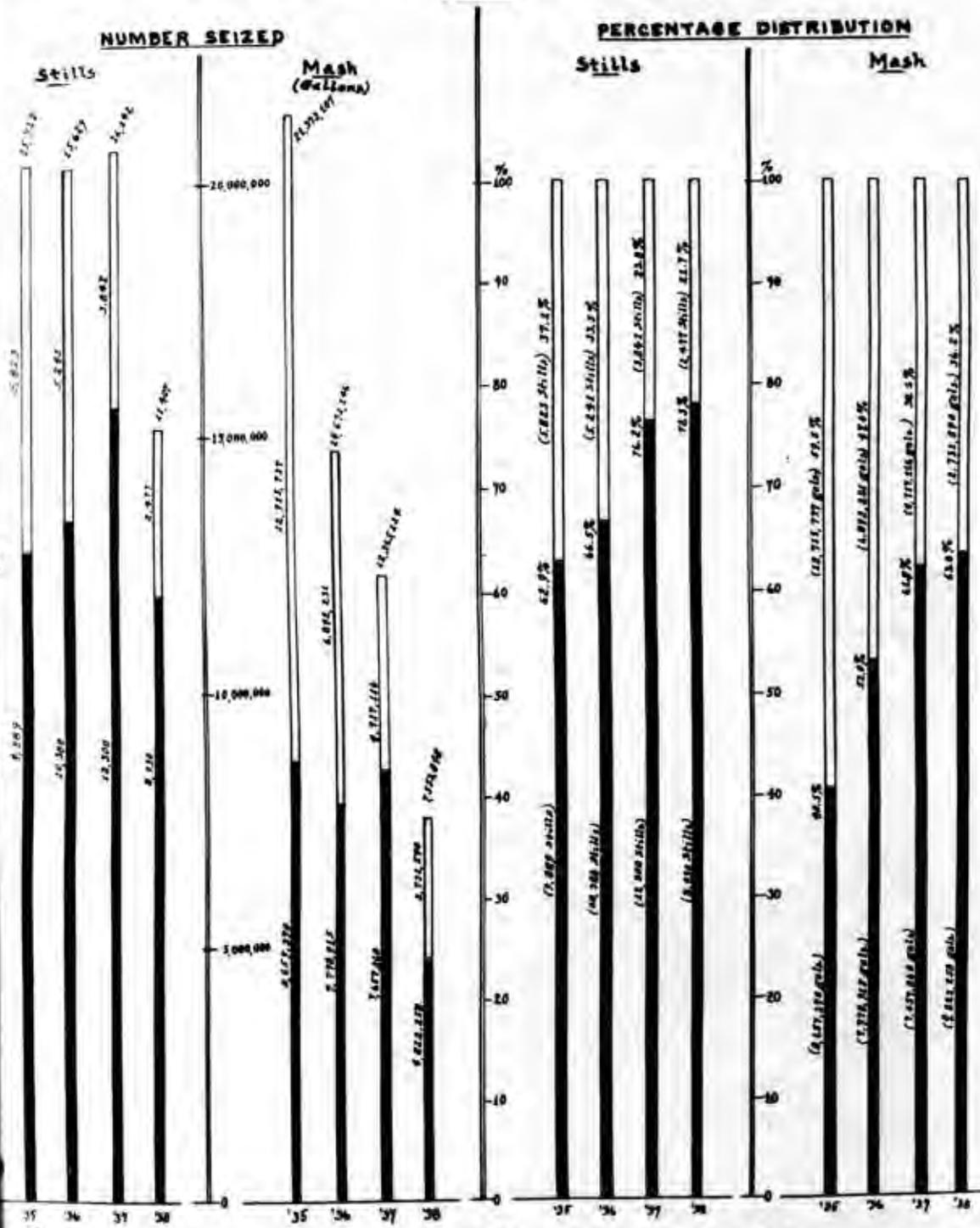
Through this contact arrangements were made for the necessary raw materials and five-gallon cans for these large scale operations. During an eight month period Canady & Sims supplied this organization with over 3,000,000 lbs. of sugar and meal and other raw materials used in the manufacture of whiskey, and 289,000 five-gallon cans were purchased through this firm and shipped from Wheeling, West Virginia, for use in the distribution of the illicit product. During the investigation of this case it was determined that the illicit distilleries were operated under a very close protective system, in that all of the people in that locality aided in warning the operators of the presence of Federal officers. To illustrate the enormous fraud on the revenue by this syndicate, it will be seen that considering that these five-gallon cans were only filled once with illicit liquor, there would be involved a total of 1,195,000 gallons of nontaxpaid spirits, or a fraud of \$2,390,000, at the Federal tax rate prevailing at that time.

Further illustrations of some of the larger operations which have been under investigation in the fourteen Southern States during the past two years are shown in the attached memoranda.

It is obvious, from the above facts, that while there are numerous small distillery operators in the mountainous sections throughout the Southern States, a large number of these operators are hired or financed by groups of notorious violators who furnish the supplies, automobiles and materials, and that the total fraud on the revenue in the Southern States listed can best be reduced by a steady, consistent, efficient enforcement program.


Stewart Berkshire,
Deputy Commissioner.

STILL AND MASH SEIZURES, AND PERCENTAGE DISTRIBUTION OF SEIZURES IN FOURTEEN SOUTHERN STATES COMPARED WITH ALL OTHER STATES, FISCAL YEARS 1935, 1936, 1937, & 1938.



■ 14 Southern States (Ala., Ark., Fla., Ga., Ky., La., Miss., N. C., Okla., S. C., Tenn., Tex., Va., and W. Va.)
 □ All Other States.



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

October 29, 1938.

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO:

AT:EK:HL

Case No. 5438-M

William H. Mills and four members of his family were financially responsible for the erection and operation of a number of steam-boiler moonshine distilleries in Beaufort and Durham Counties, North Carolina, from January, 1934, until May, 1938. The moonshine whiskey manufactured by this group was transported from the distilleries by trucks and automobiles to Durham, where it was retailed to bootleg customers of the ring. Approximately 7,500 glass jugs, 40,000 pounds of sugar, barley malt, and rye, and several hundred tons of coke were purchased by Mills under fictitious names.

Twelve codefendants in this case were tried and convicted in Federal court, Middle District of North Carolina, on charges of conspiracy to defraud the United States of revenue on distilled spirits. After a five-day court room battle they decided to enter pleas of guilty and were sentenced on September 30, 1938, to a total of 12 years, 3 months, 2 days imprisonment, and fined \$10,000. Judge Johnson Hayes in passing sentence said, "The evidence disclosed from the witness stand in this case would justify me in incarcerating you for the rest of your natural lives."

exp

PWA



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
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AND REFER TO

October 29, 1938.

AT:EX:HL

Case No. 5598-M

Nine codefendants were convicted at Atlanta, Georgia, October 18, 1938, on charges of conspiracy to defraud the United States of revenue on distilled spirits by the operation of illicit distilleries in Cherokee and Bartow Counties, Georgia, from July, 1936, to May, 1938, and were sentenced to a total of six years, ten months, four days imprisonment, and four years probation.

This case concerns the activities of a well-organized group headed by John Henry Hardin, owner of extensive tracts of land in Cherokee and Bartow Counties, Georgia, and who financed and directed the operations of numerous illicit moonshine stills in the Northern District of Georgia.

The evidence discloses that this organization operated eleven illicit stills with maximum capacity of 300 gallons, and during the life of the conspiracy there was seized up to 6,000 gallons of mash at each of these stills, together with large quantities of moonshine whiskey; total mash seizures amounted to 32,500 gallons. The evidence further discloses that one of the transporters alone handled 9,000 gallons of nontax-paid whiskey within a few months. Several vehicles were seized in this operation.

erp



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
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October 29, 1938.

ADDRESS REPLY TO
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AND REFER TO

AT:EX:HL

Case No. 5570-M

This case relates to the criminal activities of an illicit whiskey distributing ring headed by Frank Brock who operated a number of illicit distilleries in Camden and Glynn Counties, Georgia. This organization sold on an average of 500 gallons of moonshine whiskey weekly and had approximately 57 customers. Several of its vehicles transporting the illicit product and a number of distilleries were seized during the life of the conspiracy, 1935-38.

Six codefendants, including the principal, were convicted October 11, 1938, in Federal court at Brunswick, Southern District of Georgia, on the charge of conspiracy to defraud the United States of revenue on distilled spirits and were sentenced to serve a total of 10 $\frac{1}{2}$ years imprisonment. Brock, the principal, was sentenced to four years.

erp



TREASURY DEPARTMENT
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OFFICE OF
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October 29, 1938.

ADDRESS REPLY TO
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AND REFER TO

AT:EX:HL

Case 5341-M

This case concerns an Atlanta major moonshine whiskey manufacturing and distributing ring directed by Byron Shaw, Georgia lottery king, who obtained his output from a number of distilleries seized in the Middle and Northern Judicial Districts of Georgia in 1937. He built up a large distributing organization and with a fleet of 21 vehicles transported many thousands of gallons of nontax-paid whiskey. During the perfection of the case a number of vehicles and considerable quantities of moonshine whiskey were seized.

The evidence disclosed that the whiskey business of Shaw and his associates grew so rapidly that they were soon selling approximately 1,000 gallons of nontax-paid distilled spirits per day, so that it became necessary for them to seek additional sources of supply. The evidence further disclosed that one of the distilleries operated by McCullough, a coconspirator, produced about 300 gallons of whiskey per day, which was purchased by Shaw for distribution to the illicit trade. Six codefendants in this case were convicted on March 1, 1938, the principal, Shaw, was sentenced to five years imprisonment.

ery



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TREASURY DEPARTMENT
WASHINGTON

October 29, 1938.

AT:EX:HL

Case No. 5437-M

This case concerns the criminal operations of a well-entrenched moonshine whiskey manufacturing syndicate headed by the Poole brothers, merchants, of Rougemont, North Carolina, who were financially responsible for the erection and operation of approximately 21 steam-operated illicit distilleries in Durham, Granville, and Orange Counties, North Carolina. Poole's General Store in Durham County, North Carolina, was used as headquarters for the combine and through which huge quantities of raw materials used in the manufacture of illicit whiskey were purchased.

Sixteen codefendants were convicted at Durham, N.C., on September 29, 1938, on charges of conspiracy to defraud the Government of taxes on distilled spirits during 1933-38. Sentences of imprisonment aggregating 16 years, 9 months, 8 days, and 4 years probated sentences were imposed, together with fines in the sum of \$1500.

erp



TREASURY DEPARTMENT
WASHINGTON

OFFICE OF
COMMISSIONER OF INTERNAL REVENUE

ADDRESS REPLY TO
COMMISSIONER OF INTERNAL REVENUE
AND REFER TO

October 29, 1938.

AT:EX:EL

Case No. 5222-M

On September 28, 1937, twenty-nine persons were indicted at Shelby, Western Judicial District of North Carolina, on the charge of conspiracy to defraud the Government of taxes on distilled spirits. This illicit whiskey distributing combination operated in Mecklenburg and Burke Counties, North Carolina, from March, 1936-37. The moonshine liquor was transported to Charlotte and vicinity for delivery to retail customers of the ring. The combine was headed by Norkett and Davis who set out to build a large wholesale trade in the illicit liquor business.

The evidence discloses that from January, 1937, to May, 1937, a period of five months alone, this group handled approximately 10,000 gallons of nontax-paid whiskey.

erp

November 1, 1938.
11:35 a.m.

HMJr: Hello.

Operator: Mr. White.
Harry D.
White: Yes.

HMJr: Harry?

W: Yes.

HMJr: On this work that I'm doing, on this so-called fiscal committee.

W: Yes.

HMJr: I want to assign you to work on the question of policy, as separate from statistics, see?

W: General policy?

HMJr: Yes. And anything that Mr. Rummell wants, why you can help him, will you?

W: All right.

HMJr: That's a general policy about ownership, see?

W: All right, sir. He's here in my office now, Rummell. May I just say a word before you shut down, about another matter?

HMJr: Yes.

W: Some more figures have come in on the trade with Germany.

HMJr: Yes.

W: And it's possible that it may be closer to sixty per cent than two-thirds, so if you mention it to the President -

HMJr: I'll say over half.

W: Over half. Between half and two-thirds.

HMJr: O.K.

W: All right.

HMJr: All right.

Tuesday
November 1, 1938
3:54 p.m.

HMJr: Hello.

Operator: Mr. Cochran.

HMJr: All right.

O: Go ahead.

H. Merle
Cochran: Hello.

HMJr: Yes.

C: Mr. Secretary.

HMJr: I was just putting a call in for you.

C: Is that so?

HMJr: Yes.

C: I want to let you know that Marchandean is out -
that Minister of Finance.

HMJr: That was on the Ticker here.

C: I didn't know whether it'd gotten across on the
Ticker or not.

HMJr: Yes.

C: And you have it that Paul Reynaud is taking his
place?

HMJr: That's right.

C: And Marchandean goes in as Minister of Justice.

HMJr: Yes. We have that.

C: Yes.

HMJr: On the Ticker.

C: I didn't know whether it had gotten across or not -
it took a little while to get the call through.

HMJr: Well, I'm glad you called me.

C: Yes.

HMJr: Now, ah - what do you know?

C: Well, the - the reason he's out is because he put up a proposition for exchange control.

HMJr: Who did?

C: Marchandean.

HMJr: Oh. And that's why he's out?

C: That's my understanding.

HMJr: I see.

C: And I - I got this pretty straight - that they had a long meeting Saturday afternoon and then another Monday after - ah - Monday forenoon which lasted until 3 o'clock yesterday.

HMJr: Yes.

C: Then they adjourned just before the Cabinet meeting which took place at five, you see.

HMJr: Yes.

C: And he put up his proposition which involved exchange control.

HMJr: Who did?

C: And that's not in the press yet - it's not on the Ticker, but there was some gossip that that was the -

HMJr: Wait a minute. Who put up - who put up the proposition?

C: Marchandean.

HMJr: Well, does Marchandean want exchange control?

C: - wanted exchange control.

HMJr: What's that?

C: Yes, sir.

HMJr: Oh, he did want it?

- 3 -

C: Yes.

HMJr: And he's out because - he wanted it?

C: Because the top man would not accept it.

HMJr: I see.

C: Now that - that's the story I have early this week but I don't think there can be any question about it

HMJr: Uh huh.

C: And when the -

HMJr: Now, wait a minute. Wait a minute. I can't hear you.

C: - (fades out)

HMJr: Wait a minute.

Operator: Operator.

HMJr: I can't hear him - I can't hear.

O: All right. I'll get you a better connection.
(Short pause)

HMJr: Hello.

Outside
Operator: Hello, Secretary Morgenthau?

HMJr: Yes.

O.O.: Ah - Mr. Cochran again. Go ahead, please.

HMJr: Hello. Hello.

O.O.: Just -

HMJr: Hello.

O.O.: Just a second.

HMJr: Is this going through Paris or through London?

- 4 -

(Short pause)

HMJr: Hello.

O.O.: I'm sorry. Just a moment.

HMJr: Listen, is this - is this the French phone or is it coming through London?

O.O.: It's coming from the French.

HMJr: Well, I - at the beginning I heard it perfectly.

O.O.: Yes. Well, just a moment. He was coming over all right. - I was getting him all right.

HMJr: Well then he suddenly faded out.

O.O.: Well it must have faded from your end. Just a moment, sir.

(Long pause)

O.O.: Yes, I think you're all right. We'll try him again.

Cochran: Fine.

HMJr: Hello.

C: Hello, Mr. Secretary.

HMJr: Yes.

C: Ah - you understood what I said, that it is my confidential information that he has proposed exchange control.

HMJr: Yes.

C: That it has been opposed by technicians from the pick of France, and so on. And that the president of the cabinet himself had objected to it.

HMJr: Who had objected?

C: Yes.

HMJr: Who objected?

- 5 -

C: Ah - Daladier.

HMJr: Oh. I see.

C: That he did not approve it.

HMJr: I see.

C: And so this man is resigning and Reynaud going in.

HMJr: Yes. Well now, what I don't understand - ah - the United Press last night, oh at 5:51 carried a story that the French were asking our permission to put on exchange control. See?

C: Last night? - Yes.

HMJr: At 5:51 Washington time.

C: Is that so?

HMJr: Yes. And then this afternoon the United Press again carries the story - it says that ah - that the ah - that they've consulted with us and the indications are that Washington's reply has been received.

C: Really?

HMJr: What?

C: Is that so?

HMJr: But the story last night and the story in all of this morning's papers was that the French were consulting us to get our approval of exchange control.

C: I - I've been home all day - I haven't been in touch with anything yet.

HMJr: Well, there's nothing here either - we haven't received anything - the State Department has had no cables.

C: No. No.

HMJr: And the French Embassy has had nothing.

- 6 -

C: I see.

HMJr: So ah - but the United Press has just been plugging this thing along all the time -

C: I see.

HMJr: - that ah - that we're being consulted about everything.

C: I see.

HMJr: And I just thought I'd tell that to you.

C: Yes. Absolutely. No, I haven't seen a press man - I've been here at the house. Rist was here from Stockholm to see me -

HMJr: Uh huh.

C: And stayed all day with us - he and his wife. They had lunch with us and visited all afternoon.

HMJr: But the information that you have is that Marchandeanu wanted exchange control?

C: That's right. Yes.

HMJr: And couldn't get it? Hello.

C: Hello.

HMJr: That Marchandeanu wanted exchange control and could not get it?

C: Yes, that - that's my understanding.

HMJr: I see. Well, I tell you what we'll do - I'll have a cable made up of what the United Press has been carrying here and shoot it over to you.

C: I'm sorry - that does not come through.

HMJr: What?

C: I didn't get that.

HMJr: I will have a cable made up of what the United Press has been carrying.

- 7 -

C: Good.

HMJr: And send it to you.

C: All right.

HMJr: See?

C: Yes.

HMJr: So that you have it.

C: Yes. Do you want me to cable this tonight - what I'm telling you?

HMJr: What's that?

C: Do you want a cable from me tonight?

HMJr: I don't hear you.

C: I say do you want me to cable you what I've said tonight?

HMJr: No.

C: No?

HMJr: Ah - oh the morning is time enough.

C: Oh. I - I'll see what I can get in the morning too.

HMJr: But I'll have a cable made up of what the United Press has been carrying.

C: All right.

HMJr: So that you can have that.

C: All right.

HMJr: Well, thank you.

C: All right. I've heard from the Ministry of Finance that Reynaud has not been in touch with you.

HMJr: All right.

- 8 -

C:

HMJr:

O. K.

C:

All right, sir.

HMJr:

Goodnight.

C:

Goodnight.

Tuesday
November 1, 1938
4:12 p.m.

HMJr: Hello.
Henry Wallace: Hello, Henry.
HMJr: Yes.
W: Can you talk for a minute or two?
HMJr: Why not?
W: Fine. This matter which I mentioned briefly on balance payments - I think we ought to look into carefully some time; I don't/when is the best time to do it.
HMJr: Yes.
W: Ah - because - ah - I'm fearful if that thing continues it's going to put such a pressure on the currencies - the foreign currencies - the value of the pound and so on in terms of dollars that sooner or later they're going to break pretty wide open and it's going to have rather serious repercussions on farm product prices and other export prices for that matter.
HMJr: Well, supposing right after election we take it up.
W: Yes, I think it would be best to wait until after election. And if you're interested at that time why we'd - I thought we might get some of our -
HMJr: Sure. I'm very much interested.
W: - one of our folks to talk with - well, with White about it or somebody like that.
HMJr: I'm very much interested. We'll have the first meeting and we'll start them off.
W: That'll be grand. All right. When you - when you feel the time is right why let me know and I'll run around.
HMJr: Thank you, Henry.
W: All right, sir.
HMJr: Goodbye.

Following

76

11/14/38

File

NOV 22 1938

C

Followup
Monday
Nov 14

3 Rank checks

0 ————— 78

Call Walker
after election

10 - 1 - 1

11 - 6 - 1

18 - 10

Call Burgess

10 - 1 - 1
10 - 1 - 1

PARIS.--PAUL MARCHANDEAU, FINANCE MINISTER, RESIGNED FROM THAT
POST TONIGHT.

PAUL REYNAUD, MINISTER OF JUSTICE, TAKES OVER THE FINANCE MINISTRY
AND MARCHANDEAU BECOMES MINISTER OF JUSTICE.

11/1--R302P

FEDERAL RESERVE BANK
OF NEW YORK

10 2(e)

OFFICE CORRESPONDENCE

DATE November 1, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

Bolton called at 10:50 a.m. He had been away for a week on vacation and thus neglected, he said, to keep us posted on his dollar position which was very nearly \$100,000,000 short for forward delivery due to swap operations (buying spot and selling forward dollars) which he had had to put through in order to get spot dollars in support of the sterling currency. These forward contracts were beginning to mature in about two weeks; he would let me know whether they decided to extend this forward position or cover it by means of gold sales.

The dollar market had been quiet of late but on balance he had continued to sell (\$3,000,000 today). There was an undertone of weakness in sterling still due probably to the general desire to get out of Europe. There was no feeling of settlement in London at all; however, things were beginning to take a little clearer shape now. The British Government was determined to seek some sort of an agreement with Germany and on the outcome of these efforts the future would depend to a very large extent. Meanwhile the issue was clouded. At the same time that the British Government was trying to come to terms with Hitler, the British public was clamoring for a policy of arming to the teeth. This situation necessarily placed the British Government in a forced position. There might be some change of opinion when they had thrashed out the various present disagreements. In about ten days time there might be a statement of

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 1, 1928.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knobe

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Government policy which may cause some such change. Meanwhile the best one could hope for was for the dollar to remain steady at about the present level.

He continued to feel that the most difficult position was in France. Daladier's decrees would probably be issued on Friday or Saturday of this week and according to all rumors they promised to be pretty fundamental. There seemed to be a complete split in the French Cabinet: Marchandcau, Reynaud, Partenote and Mandell were anxious to retain the liberal position of the Radical party. They would further devalue the franc and write up the gold of the Bank of France, increase taxation to bridge the gap and hope for better things. Daladier and his other advisers, on the other hand, were in favor of exchange control and of a capital levy but would avoid further depreciation. If exchange control was decided upon the question of the tripartite understanding would come right to the forefront. On the whole the political situation in France was crumbling. There were rumors to the effect that Blum was going to retire. If he did, the Socialist party would split in two. There was no doubt that French opinion was definitely Republican and to the left. However, it lacked decisive leadership and had been lead astray by talk of higher pay and shorter hours. Personally he was not inclined to look on Daladier as really a strong man but rather

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 1, 1933.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

5

as one who would probably come forward with a compromise and might ultimately be thrown out. The situation in France was causing an undercurrent of weakness in the whole of Europe. The strategic position of England was a bad one because she appeared to be isolated. The Government's inclination to make up with Germany might tend to cause a breach between England and France. "Putting it all together it looks as though there is very little hope of any strengthening of sterling."

I asked about the issue of Woolworth, Ltd. shares for which the lists were closed this morning one minute after opening. As regards the control over foreign borrowing in English markets, they were in a state of interregnum in that all embargoes which had existed had been raised. Under the circumstances it wouldn't have been quite fair for the Foreign Transactions Advisory Committee to have recommended an embargo in this particular case. As far as the conversion ^{into dollars} of the subscribed sterling amount was concerned, he understood from the committee that this had already been taken care of.

I made reference to the Argentine loan originally planned for last June which according to latest reports was again under negotiation and to the information obtained by us in June to the effect that very nearly 4/5 of the dollar proceeds would be converted into sterling and asked Bolton whether a similar conversion into

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 1, 1938.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.L. W. Knobe

4

sterling was still under consideration. He had heard nothing at all, Bolton replied, but would, of course, be more than glad to take these dollars over.

I referred to the article in the London Statist of October 22 which suggested that some of the recent gold shipments from London to New York must have been made by naval vessels and asked whether the British customs figures had now been published. Bolton didn't think so but rather felt that the whole article was a guess.

LWK:KW

REB

PLAIN

London

Dated November 1, 1938

Rec'd 4:42 p. m.

Secretary of State,
Washington.

1272, November 1, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Asked in the House of Commons this afternoon for an assurance that the long term monetary policy outlined in the Ottawa monetary report of 1932 would not be altered without exhaustive inquiry the Chancellor of the Exchequer replied: "No alteration such as is suggested in the question is contemplated; the question therefore does not arise".

The Prime Minister announced that a "comprehensive statement" on "defense" will not be made until early in the new session of Parliament which begins November 8. He did indicate in the course of a general speech that the total cost of rearmament would be "greater than we contemplated".

The volume of trading in the foreign exchange market continues small and in fact activity throughout the city remains at a low level. The dollar opened bid at 4.75 1/2 and

REB

2-#1272, From London, Nov. 1, 6p.m.

and moved gradually to 4.75 at which point the British authorities made a determined and successful stand. Since then the rate has fluctuated around 4.75 1/4. The British fund supplied most of the 369 bars at gold fixing at 148s 3 1/2d. The franc has been steady and relatively idle and the forward rates really represent nominal quotations. But there has been an increase of rumors regarding devaluation so much so that this afternoon Holland became a strong seller of gold coin on the assumption that sales by French holders would depress the price after any such devaluation.

From several sources I hear that the British tax authorities are becoming more active presumably to ensure both promptness of payment and the maximum return from existing taxation. Since the majority of the income tax payments fall due in the last quarter of the fiscal year ending March 31 the British Treasury can increase payments considerably by prodding taxpayers so that payment is made in the fiscal year.

KENNEDY

CSB

November 1, 1938.

Dear Cochran:

Would you please send me by mail a timetable of what happened, beginning with the receipt of my cable to you of October 29th.

With kindest regards.

Sincerely,

Mr. H. Merle Cochran,
American Embassy,
Paris, France.

REB

87

TELEGRAM SENT

PLAIN

November 1, 1938.

6 p. m.

AMEMBASSY

PARIS (FRANCE)

825

FOR COCHRAN FROM THE SECRETARY OF THE TREASURY.

Following dispatches appeared here on United Press News Service:

QUOTE October 31, 5:26 p. m. Paris -- The Government decided tonight to ask Washington's advice and approval of the monetary aspects of its recovery program before its final adoption.

An authoritative source said the Cabinet decided to hold up further discussions until 5 p. m., tomorrow, pending Washington's reply.

One group of Cabinet ministers who consider the monetary question the crux of the recovery program, proposed to decrease regulations similar to the prohibition by the United States in 1933 of private gold holdings, regulating foreign exchange transactions, credit transfers and currency exports abroad.

This

REB

2-#825, To Paris, Nov. 1, 6p.m.

This group contended that such regulations will not contravene the tripartite monetary agreement among France, Britain and the United States, inasmuch as it was employed by the United States and is not intended to control exchanges but to prevent further capital flights and force hoarders to disgorge their gold. UNQUOTE

- -

QUOTE October 31, 5:51 p. m. Paris -- The Government decided to ask Washington whether the United States would consider such regulations on France's part as incompatible with the tripartite agreement.

If such measures are held by Washington to be incompatible with the three-power accord, the United States was asked to consider modification of the agreement to permit the regulations.

The Government was understood to have decided to make clear, in its communication to Washington, that France has no intention of imposing foreign exchange control but urgently requires some means to force hoarders to surrender about 20,000,000,000 or 30,000,000,000 francs in gold, prevent further exports of capital and gain firm control of the franc's parity. UNQUOTE

- -

QUOTE November

REB

3-#825, To Paris, Nov. 1, 6p.m.

QUOTE November 1, 2:27 p. m. Paris -- The Cabinet held an important meeting tonight to consider stern economic and financial measures which it plans for recovery. Washington/^{was} consulted on how the measures would fit in with the Paris-London-Washington monetary equalization agreement. Before the Cabinet met, Premier Edouard Daladier conferred at length with Paul Marchandeau, Finance Minister, and Georges Bonnet, Foreign Minister, indicating that Washington's reply probably had been received.

The meeting was considered so important that Bonnet left his sick bed to attend it. UNQUOTE

--

QUOTE November 1, 3:36 p. m. Paris -- After the Cabinet meeting, Reynaud announced: SUBQUOTE I am assuming direction of the finance ministry. I will proceed to study the situation. All the projects which are ready must thus be reviewed.

SUBQUOTE I expect to be ready in about five days, and therefore early next week a new Cabinet meeting will discuss my projects. END SUBQUOTE END QUOTE

--

QUOTE

REB

4-#825, To Paris, Nov. 1, 6 p. m.

QUOTE November 1, 4:26 p. m. Paris -- Reynaud said that he would not resort to devaluation of the franc. He said he hoped to have his financial proposals ready for a Cabinet meeting next Monday.

SUBQUOTE The confidence of the Premier brought me to the finance ministry END SUBQUOTE, he said. SUBQUOTE I accepted in the spirit of all Frenchmen of today -- everyone must serve. My first task will be to establish a balance sheet of the economic and financial situation.

SUBQUOTE There was a time when the question of devaluation was posed because our prices were too high in relation to foreign prices. Today I say that time no longer exists.

SUBQUOTE The recovery problem is not monetary but economic and financial. END SUBQUOTE END QUOTE.

HULL
(HF)

EA:HF:EB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 2, 1938, 9 a.m.

NO.: 1846

FROM COCHRAN.

I have to report, in confirmation of my conversation by telephone with the Secretary of the Treasury, that after the meeting of the Cabinet yesterday Marchandeu resigned and was given the position of Minister of Justice. Paul Reynaud became Minister of Finance; he had formerly been Minister of Justice. The Secretary of the Treasury's telegram to me of November 1 (Department's 825) gives the pertinent parts of Reynaud's statement to the Paris press, which was principally to the effect that he does not think it necessary to devalue the franc any further. He asked for five days in which to prepare his program, and stated that the problem/^{of recovery} is an economic and financial problem rather than a monetary one. In this morning's newspapers it is indicated that the Finance Minister's part of the reconstruction plan of Daladier is considered the keystone, and that before final decisions can be taken in the economic field and others, Reynaud's proposals must be awaited.

END SECTION ONE.

WILSON.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris
DATE: November 2, 9 a.m., 1938
NO.: 1846

SECTION TWO - STRICTLY CONFIDENTIAL

Important meetings were held at the Ministry of Finance of French financial experts on Saturday and on Monday. These experts were definitely given Marchandean's opinion that some form of exchange control was necessary. They drafted on a measure envisaging exchange control and the experts adjourned only shortly before Marchandean presented his plan on Monday afternoon to the Cabinet meeting. As he has consistently done heretofore, the Governor of the Bank of France let Daladier know that he opposed exchange control. There was postponement of the decision on the monetary and financial program until the Cabinet meeting of Tuesday evening. There was objection to Marchandean's plan at Tuesday's meeting and it was not accepted by Daladier. The resignation of Marchandean followed.

WILSON

EA:DJW

Section Three of Telegram No. 1846, November 2, 9 a.m.,
1938 from American Embassy, Paris.

I understand that Marchandean also had in mind a scheme for what would amount to a practically forced conversion of rentes owned by the Government. When Daladier received full powers, it will be recalled that he stated he would not use such powers for forced changes or for exchange control. Rather than contravene Daladier's pledge not to issue decrees under his full powers which would impose exchange control, I believe it was Marchandean's plan to have the exchange control provisions written into a bill which would be considered by Parliament upon its reconvening. Some surprise is indicated by the first papers which I have read this morning that Marchandean should have suggested monetary or financial measures tending toward those of a totalitarian state. It is suspected that Marchandean, who was originally a Socialist before he moved north to Rheims, hopes to return as Finance Minister in some future Cabinet of Socialist trend ^{when} ~~which~~ he could actually impose the measures he is advocating now.

END OF MESSAGE.

WILSON

EA:DJW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris
DATE: November 2, 10 a.m., 1938
NO.: 1848
FROM COCHRAN

I entertained Governor Rooth of the Swedish Central Bank and his wife at lunch yesterday at my home.

Governor Rooth said that since the Wednesday of the Czech-German crisis, his bank had bought no dollars. He told me that some Swedish banks had dealt in dollars since then but made a vigorous denial of the London press story that they had speculated therein. He showed no pessimism over the long term outlook for sterling. According to the Governor, both Bank of England and private London bankers with whom he had spoken are opposed to any new credit or loan to France as they felt that French recovery must come from France's own efforts. Governor Rooth knew nothing as to the basis for the press story from Amsterdam that France is negotiating for a 30,000,000 pound loan to be placed in the Netherlands and in Great Britain.

I reported in my telegram No. 1730 (October 11, 9 a.m.) that unless some marked improvement is shown in France, President Trip of the Netherland Bank does not favor further Dutch banking credits to that country. I reported too his unhappiness over the budgetary position of the Dutch,

and

-2-

and I am certain that his action as reported by the press of signing a protest, with eight other prominent Dutch financiers, to the Government against its budgetary policy was inspired by his own belief in honest finances and a desire to help his friend Premier Colijn straighten out the matter and impose a policy of a more conservative nature.

WILSON

EA:DJW

TELEGRAM SENT

JR

GRAY

November 2, 1938

11 a.m.

AMEMBASSY

LONDON (ENGLAND)

370.

FOR BUTTERWORTH FROM THE SECRETARY OF THE TREASURY.

Understand reference was made last night to President Roosevelt and Secretary Morgenthau in broadcast transmitted by a British official radio 9 p.m. our time. Please endeavor obtain transcript and cable text of portion referred to.

HULL
(HF)

EA:HF:LJW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 2, 1938, noon

NO.: 1849

RUSH

FROM COCHRAN.

At a quarter of twelve I visited at the Bank of France; the Governor said that since Reynaud was chosen Finance Minister he had not seen him. Reynaud's only instruction had been that the French stabilization fund was not to permit more than a few centimes improvement in the franc today. The control had already gained one million five hundred thousand pounds at the time I called, at a rate of about 178.70, and about two and a half million dollars had also been gained.

Francs are very scarce on the Paris market, and for the end of the month settlement certain sales of foreign exchange are necessary. While I was at the Bank the offering of foreign exchange to the control was quieting slightly. As yet there is not time enough to anticipate how the market will be affected by Reynaud's being made Minister of Finance. His appointment has in general pleased the French press, which expects him to follow orthodox monetary policies. In some quarters it is anticipated that it will be necessary to seek extension of the November 15 time limit for special decrees, and that Parliament will grant this request.

EA:LWW

WILSON.

Regraded Unclassified

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 2, 1938, 2 p.m.

NO.: 1850

CONFIDENTIAL.

I refer to telegram No. 1847 of November 2, 10 a.m., from the Embassy.

I do not think there is any question about Reynaud's being better equipped to handle the Finance Ministry than was his predecessor. When it comes to the technical aspects of financial and economic questions, he is probably the ablest man in French public life. Reynaud has also maintained close touch with other countries in these particular fields.

Because of his past advocacy of a Government of National Union including the extreme Left parties, he has forfeited to some extent the confidence of conservative classes here it is true; a contributing factor is the belief that he, together with Mandel, was at the head of the small "war party" in the Cabinet during the recent crisis in international affairs. I should think, however, that on balance his appointment to the Ministry of Finance strengthens the Government slightly, as well as any chance that may still remain for France to work out of her financial difficulties without getting away from orthodox methods. Far-reaching modifications of the régime were

inevitably

- 2 -

embodied in such measures as Marchandean is reported to have advocated. The question for decision in this regard was about the same as arose when Blum presented his financial plan to the Senate last April.

In April when the Daladier government was first formed, Reynaud was offered the post of Minister of Finance. He declined because he felt that the parliamentary basis of the government was too narrow to enable him to carry through the economic and financial program which was necessary. Since that time the majority supporting the Daladier Government has shifted; but it is still uncertain as to what future parliamentary support will be. I have heard reports that Reynaud accepted the post of Finance Minister with but little enthusiasm, and this is understandable in view of the foregoing, together with the magnitude of the problems confronting him.

An interesting point is that Daladier, who some time ago let it be known that he was working hard behind closed doors on his own financial and economic plan, apparently did not produce much of anything. Marchandean's was the plan which was found to be unacceptable, and now it is up to Reynaud to do something about the problem. It will be impossible for him to present his plan and have it

adopted

- 3 -

adopted before the early part of next week, which would be only one week before the full powers expire. Daladier just one month ago asked Parliament for these full powers on the score that in order to improve the economic and financial situation, urgent action was required.

END MESSAGE.

WILSON.

EA:LWW

JR

GRAY

London

Dated November 2, 1938

Rec'd 2:30 p.m.

Secretary of State,
Washington.

RUSH.

1274, November 2, 6 p.m.

FOR THE SECRETARY OF THE TREASURY FROM BUTTERWORTH.

The British broadcasting Corporation have reviewed their programs from midnight to 5 a.m., London time (7 p.m., to midnight Washington time) and state that no broadcast containing any reference to the President or to you was made by them during that period. They suggest that the references in question may have been contained in a continental news bulletin, three or four of which are broadcast nightly in English. Both Germany and Italy are on the air at 9 p.m., Washington time and in fact Rome had scheduled a news bulletin in English then.

The British Broadcasting Corporation agreed to attempt to trace the broadcast if more precise information regarding wave length, et cetera, can be supplied.

VWC:HPD

KENNEDY

MG

GRAY

London

Dated November 2, 1938.

Rec'd 3:30 p.m.

Secretary of State,
Washington.

1275, November 2, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

The dollar opened offered at $4.75\frac{1}{2}$ and rapidly went to $4.75\frac{3}{8}$ when the movement was checked by reason of buying of dollars against francs. Later with the turn in the franc the dollar moved back to $4.75\frac{3}{4}$. The volume of trading was larger today although gold fixing was much smaller, 98 bars being dealt in at 146 shillings 1 penny. The news of Reynaud's appointment as Minister of Finance had an initial bullish effect on the franc and the French fund acquired about pounds two million of sterling. The forward rates also moved in. But when the Bourse reopened in the afternoon the trend was reversed but on balance the French fund acquired a substantial amount of pounds.

KENNEDY

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: November 2, 1938, 6 p.m.

NO.: 1853

FROM COCHRAN.

According to exchange traders, the franc moved from 178.70 to .78 on official bourse trading and after noon the stabilization fund did not appear to gain much foreign exchange. There was also a turn in the forward franc, which became more offered; today there was improvement in rentes and French shares. On the market there was gossip that there are such great differences of opinion within the Cabinet as to what should be done that within the next few days the Government may collapse. Therefore it appears that the rest of this week will be a period of waiting for Reynaud's studies to be completed, and for the consequent Government decisions. The press does not expect Reynaud to move in the direction of exchange control since Marchandean left office because such a plan was refused by the Government.

This evening at 5:45 I had a talk with the Bank of France. In late trading the French stabilization fund had to yield 200,000 pounds in order to hold the rate at 178.79; this indicates that since noon there was a reversal in the market.

This afternoon I was visited by the Bank of Italy representative, who in his own country had had much to do

with

- 2 -

with the actual imposition of exchange control. This representative reminded me that in Italy it had been their experience that gentle or half way measures of exchange control or supervision were not effective, but that actually more foreign exchange was lost. It is his opinion that in France they would have a similar if not worse experience, since so much fluid capital is already outside of France. He does not believe, on the other hand, that France without a very strong Government ~~and~~ with some assurance of permanency could ever impose efficiently the full measures of exchange control and managed economy which would be the inevitable result of first measures.

END MESSAGE.

WILSON.

EA:LWW

CABLE

From: Bankers Trust Co. of N. Y.
London Office

Date: November 2, 1938

ON GOOD RECEPTION CHAMBERLAIN'S SPEECH AND APPOINTMENT PAUL REYNAUD AS FRENCH FINANCE MINISTER DOLLARS OFFERED. MOVEMENT, HOWEVER, STOPPED WHEN BANQUE DE FRANCE ENTERED MARKET AS BUYERS OF DOLLARS AGAINST FRANCS. FORWARDS OFFERED. SPOT FORWARD FRANCS WANTED.

DeCASTELLANE REPORTS APPOINTMENT REYNAUD VERY WELL RECEIVED BOTH BY PRESS AND BUSINESS CIRCLES. CONTROL RECEIVED THIS MORNING BEFORE NOON @ 1,500,000. BOURSE STRONG AND ACTIVE BOTH BONDS AND STOCKS. MARCHANDEAU FOUND HIMSELF ISOLATED WITHIN CABINET BEING IN FAVOR EXCHANGE CONTROL AND GENERALLY SPEAKING BLUM'S FINANCIAL PROGRAM. GOVERNMENT EXPECTED REQUEST EXTENSION SPECIAL POWERS PERHAPS SIX MONTHS POSSIBLY TWELVE. GENERALLY FELT GOVERNMENT WILL OBTAIN MAJORITY DUE TO PERSONAL POPULARITY DALADIER THOUGH SIZE MAJORITY STILL UNKNOWN. IF GOVERNMENT SUCCESSFUL DEFINITE POSSIBILITY LOWER BANK RATE NEAR FUTURE. AS REYNAUD ASKS FIVE DAYS PREPARE PROGRAM NO ANNOUNCEMENTS EXPECTED BY DALADIER BEFORE BEGINNING NEXT WEEK.

REB

GRAY

London

Dated November 3, 1938

Rec'd 3:52 p. m.

Secretary of State,

Washington.

1281, November 3, '6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Most foreign exchange dealers expected that the announcement of the coming into force shortly of the Anglo-Italian agreement would have a strengthening effect on sterling but the market reaction has been one of inactivity. The volume of trading in dollars has been very small and the range between 4.75 5/8-4.76. The majority of the 180 bars at gold fixing were supplied by the British fund at 146 shillings 1 1/2 pence. There has been little or no business in the franc exchange. Gold coins, however, have continued to come on offer and the sovereign has fallen to 34 shillings 10 pence and the eagle to 7 shillings 2 pence.

KENNEDY

KLP-PEG

November 2, 1938.
9:22 a.m.

WMJr: Hello.

Operator: Mr. Lambert.

WMJr: Hello. Hello.
Hello, Henry.

WMJr: Good morning.

Lambert: Good morning, Mr. Secretary.

WMJr: Mr. Lambert, I wonder if this would be possible.
I'm going up on the train to the President, at
one o'clock, to Hyde Park.

L: Yes, sir.

WMJr: And I wondered if you could, in a very simple way,
put down the A B C's of what would be necessary
in case he or anyone else wanted to organize a
local authority to duplicate what you've done at
Princeton.

L: Yes, sir. You mean, in case - in the case of a
state law, having the law that we spoke of, how
do you go about getting it organized?

WMJr: Let's say this was in New York state.

L: Yes.

WMJr: Supposing the President wanted to do one, you see?

L: Yes, sir.

WMJr: Now how would he go about it?

L: I see, and you're going up at one o'clock?

WMJr: Yes.

L: And you want something over in your office by that
time.

WMJr: I'd like it over here by noon.

L: Yes, sir. I'll do that. I'll get it over.

- 2 -

HMJr: See what I mean?

L: Yes, indeed. I understand perfectly.

HMJr: So that he could turn this over to his lawyer, up there, and say, "Well now, this is the way to go about it".

L: Yes, sir. I'll have to do it in - in a layman's way because I - I'm personally not a lawyer.

HMJr: No, but you could show it to one.

L: Yes. Yes. Oh, yes indeed.

HMJr: And then attach to it, whatever the authority is, the references, the legal -

L: Yes, sir.

HMJr: the law under which you operate at a time -

L: What time will you be leaving the office?

HMJr: About twelve.

L: About twelve. I'll have something over there.

HMJr: Thank you.

L: Thank you.

GROUP MEETING

November 2, 1938.
9:30 A. M.

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

H.M.Jr: I compliment the Treasury on what the New York Tribune said about us yesterday, Herbert.

Gaston: Yes; it was all right.

H.M.Jr: I think it's as good as getting the Grand Cross. It said we were "tight-lipped." It's all right.

Gaston: Nick Gregory threatened me that he was going to say we were tight-lipped; I said, "It's too bad, but we'll have to take it."

H.M.Jr: I suggest that we continue along the same lines. So we know what it's all about. It's interesting, this story which United Press ran, which Sandy Klein worried, was a little bit too exclusive, was not in anyway in any French papers, so I took it off the ticker and sent it to Cochran in Paris, but no French paper carried the story in which they said they sent us all that stuff.

Gaston: It was a note to the United States, and it wouldn't be proper to give it to the French papers.

H.M.Jr: It would or would not?

Gaston: It would not be proper to give it to the French papers.

H.M.Jr: I wish you'd look up some - I read Arthur Krock today and he refers to some article in the Times, as of today, that has to do with the so-called "Munich Timetable."

Gaston: Uh huh.

H.M.Jr: And I can't find what he refers to in today's Times.

Gaston: Uh huh. I'll look it up.

H.M.Jr: What he does in this story in which he said Mussolini never telephoned Hitler, and Krock comes back and said Mussolini did call Hitler and refers to the story covering it, and I couldn't find the story.

Oliphant: I couldn't either.

H.M.Jr: I wanted to get the dispatch to which he refers to, and I couldn't find it.

Gaston: No team work.

H.M.Jr: If you people are interested in the gossip of the place the President got the story from that Mussolini did not call Hitler, ^{it} was from Bill Bullitt. That's his authority.

Mac?

McReynolds: Ah ...

Klotz: Cigarette.

H.M.Jr: All quiet?

McReynolds: All quiet.

H.M.Jr: Steve?

Gibbons: Judge Lauer claims he met this man coming over on ship, having lunch, sitting at the dining table on shipboard. Mrs. Lauer, he said, bought these clothes and never had time to pick them up; this fellow said he'd pick them up on a subsequent trip. The Judge is still awaiting the bill on them from him covering the cost and the duty.

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But Pick, Customs Agent Pick, is working on something that he thinks that the Judge did have guilty knowledge of the whole thing; that it was framed on the other side, before they left. And they are looking up Mrs. Lauer; she was apparently born in this country, married, and after her first husband died, lived in France until the Judge met her. He met her over there. We are having her record looked up in Paris.

H.M.Jr: Is that fair?

Gibbons: Fair or not, it's being done.

H.M.Jr: Honestly? These Treasury people! All right.

Lochhead: I mentioned the franc

H.M.Jr: The Ritz bar, maybe he met her at.

Gibbons: This other fellow, this criminal, was quite a fellow.

H.M.Jr: (Speaks low to Mrs. Klotz.) Yeah.

Lochhead: I mention here the French franc is steady; apparently beginning on balance this morning. There's no activity in New York; all following the London-Paris rates.

White: There is a cable here - June first - that has quite a description of Reynaud, and his beliefs.

H.M.Jr: I met Reynaud; I know about him. He and Patenotre are just like this (indicating with fingers).

White: He gives his views of what the exchange ought to be. Herbert Gaston has called my attention to this publication by the Economists National Committee on the appraisal of monetary policies of our Federal Government. It is very highly critical - adversely critical; weak in some spots. If the question arises you might want an answer prepared, but it's a big job.

H.M.Jr: Who publishes it?

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White: The Economists National Committee - Economists -
in New York.

H.M.Jr: What do you suggest?

White: Well, I think it ought to be answered, but I
don't think it ought to be answered by the Admin-
istration. Get somebody outside. It's suscept-
ible to being answered very effectively, but it
will be quite a job.

H.M.Jr: Well, make a recommendation to me.

White: I'll think over somebody who might be able.

H.M.Jr: All right.

For you people who sat in with me on Wallace, I
brought this thing up at Cabinet yesterday.
Wallace introduced it by saying he had a couple
small matters to talk about, and then drew the
President's attention that this was state trading
on a subsidized barter basis, and the President
didn't like that; he said it wasn't subsidized if
we get the same discount on the tin that we gave
on the wheat, so I said, "Well, what makes you
think that we can get a discount on the tin?" I
said, "We've had no offers." Wallace spoke up
and said that the tin cartel was the strongest in
the world, and the President sort of stuck to the
thing; he's had this idea for a long time, so
what he calls a "three-cornered business," and I
said, "Well, let's forget the subsidized; you want
to start on state trading on a bilateral basis."

Well, the upshot of it was, he appointed a Com-
mittee, with Mr. Hull as Chairman, and after the
meeting Welles took me aside and said, "Thank
heavens Mr. Hull wasn't here; if he'd heard this,
he'd had heart failure or apoplexy, one or the
other."

McReynolds: Hull's Chairman of the Committee?

H.M.Jr: Huh? Hull's Chairman of the Committee. The
President made Hull Chairman. So that's where
it is.

Oliphant: You on it?

H.M.Jr: Oh yes, sure. So we'll see what happens, but as I told them, if this is what you're going to do, all right, but the sooner we know, the better; let's do it right out in the open. If it's an Administration policy let's find out where we're going. And Wallace had some figures on balance attainment, and said, I don't suppose I was interested in it, and I said, "Of course, I'm interested in it," and the President said to get together about it. I'm to call Wallace after he comes back, after election.

White: Who is ours, United States?

H.M.Jr: Yeah. What? Anything else, Harry?

White: No.

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

Duffield: I've got this memo on Trans-America's voting permit.

H.M.Jr: Well, now, we have a meeting on banking at ten fifteen; does Upham know about that?

Klotz: Yes.

H.M.Jr: Would you bring it up at that time?

Duffield: Yeah.

H.M.Jr: Will you be here and bring it up at that time?

Duffield: Yes.

H.M.Jr: At ten fifteen. (Nods to Mr. Hanes.)

Hanes: Nothing this morning.

H.M.Jr: How's "Papa" Young?

Hanes: He's very nice; he's sorry he didn't come over yesterday; sorry not to see you; sent his regards. Nothing.

H.M.Jr: You be here at ten fifteen, Taylor - anything? You be here?

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Taylor: I've got the Red Cross Endowment Fund meeting in my office at ten.

H.M.Jr: Read this thing now, in case I want Taylor to take it up with the Fed. You want to read that?

Duffield: Maybe this is old stuff to some of you, but

H.M.Jr: It's new to me, anyhow.

Duffield: "On the twenty-ninth of November, 1933, the Trans-America applied for a permit from the Board of Governors of the Federal Reserve System allowing it to vote the stock which it holds in banks under its control. The law in this instance defines "control" to mean ownership of fifty per cent or more of the outstanding stock."

And that makes it apply in Trans-America case, to the Oregon and Nevada banks only, and not to the California bank. Now, where the situation was in 1933, the section of the Act which requires the permit also requires that "the holding companies 'within five years after the filing' of their application for a permit to divest themselves of any interest in any securities company. Applied to Trans-America, this requirement means that it must either (1) cease to be a bank holding company by distributing its stock in the Oregon and Nevada banks or (2) divest itself of its interest in its securities companies, Bankamerica Blair Corporation and Bankamerica Company."

Trans-America owns nineteen per cent of the stock in the Bankamerica Blair, and, I believe, still owns a hundred per cent of stock in Bankamerica Company.

"If any bank holding company does not comply with these requirements, the Board of Governors 'may, in its discretion' revoke the voting permit of the company.

"Reports from the West Coast are that Trans-America is seeking to divest itself of the securities companies because the number of shares of stock it holds in the Oregon and Nevada banks is too small to permit easy distribution of these stocks to the Trans-America stockholders -- as was done with a part of the Bank of America stocks."

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Also, I understand that they don't want to appear, and lose even their hold on the Oregon and Nevada banks.

That is just about the situation. Upham knows about it.

- H.M.Jr: Well, the point that I thought, Wayne, if you would do for me, is to take this up with Eccles.
- Taylor: Find out what the picture is today, because they may have done various things here, with the deadline getting near.
- H.M.Jr: What they have done and what they propose to do, because what ~~they are~~ doing is important for me to know. He can give you that memo.
- Taylor: All right.
- Duffield: All right.
- H.M.Jr: See? Will you do that, and find out what the situation is, and if, while I am away, get what I call my bank group together, plus Delano, and Upham, and tell them about it.
- Taylor: When are you leaving?
- H.M.Jr: One o'clock, with the President. I'll be back Wednesday morning.
- Taylor: There is
- H.M.Jr: But you find out what that is, will you - but this is important.
- Taylor: Yes.
- H.M.Jr: I wouldn't write anything, but
- Taylor: I'll get ahold of them and find out what the situation is.
- H.M.Jr: This is Duffield's first dividend - his credit dividend.
- Taylor: (Misunderstood.) (Laughter.)

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- Taylor: The reason I asked particularly on the other one - when you were leaving, is because there is a report of this American Republics Committee which outlines the action that could be taken, and so on, by various Departments and Government agencies. Included in that is a recommendation on the part of the Export-Import Bank. My impression is that the second half of their report, which has to do with possible cooperation with Central banks and so on, should be deleted.
- H.M., Jr: I see.
- Taylor: It may be that you will use the Export-Import Bank for some of these things, but it should not be in the published report.
- H.M., Jr: Wayne, the easiest way to do it, with me - myself - McReynolds will send up an envelope to me every night. I can read it, and when I get on the phone every morning I can discuss it with you. I am not in very good shape today, but if you have anything like that
- Taylor: I think the main thing is to put in this plug, because we are going to have to act on the report on Friday.
- H.M., Jr: The President told me he didn't want any with Central banks. Treasuries, yes; Central banks, no. That follows that.
- Taylor: That is part of that, and the other one which you have mentioned - the other one, Feis called up and wanted to know if we had answered that question.
- H.M., Jr: I did, yesterday.
- Taylor: Fine.
- H.M., Jr: Yesterday.
- Taylor: My impression was that the letter had been signed but I wasn't sure.
- H.M., Jr: If, when I get back, you will call up Mrs. Klotz in the evening and ask what my appointments are for the next morning, and whether you are expected, it wouldn't be a conflict, like this morning, see,

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because what I'll do is, I'll make these meetings in the morning; I won't make any in the afternoon, like this bank one, and you can adjust yourself. See? If you will call her up in the evening, around four o'clock, she'll know if I have anything - if you are expected.

Taylor: I can work it pretty easy, and do these outside things, which are a great many, in the afternoon.

H.M.Jr: That is right. I am not going to make any of you people - I told John yesterday I'll make these meetings in the morning; I won't make any in the evenings. There won't be any afternoon meetings, unless it's an emergency. I'll try to run it from ten thirty to twelve.

Did I skip you, John? White's going to talk to you about a matter that I talked to him about this morning. He will need your help. It's a delicate matter.

George?

Haas: I have nothing. Here is - you may have seen this already; it's a figure that just came in.

H.M.Jr: No, I hadn't. Haas says, "On the above basis the combined index for the week ending October 29, would be up 1.1 from the previous week." So for the Times, that will be up over a point.

That's fine. That's fine. Yes, that's fine.

Haas: That is all.

H.M.Jr: (Looks at Mr. Gaston.)

Gaston: There is an institution known as the American Council Institute of Pacific Relations. They appear to be doing a job somewhat like the Foreign Council, but specializing on the Far Eastern situation. They recently sent you a report which is a digest of a number of conferences, holding over the last year. It explores pretty well every angle of the Far Eastern situation, and various guesses as to the future. I thought perhaps you might be interested in reading it.

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- H.M.Jr: Oh, I don't think so.
- Gaston: If not I'll send it to Harry.
- H.M.Jr: Harry loves to read things that are going to happen in the future. I mean, I am not - I am - I know I am tired, and I'm outside of the stuff I've got to handle. I am not - I'll take a couple of detective books up with me, and a treatise on raspberries.
- Gaston: Shall I get expert advice on detective stories - several at one time.
- H.M.Jr: I don't know why they are here - I mean, I like these; that's all right. (H.M.Jr's. pens.)
- Klotz: They want to change those that you have, is the idea; you've got to change all or - the pens need changing.
- H.M.Jr: I am satisfied with what I've got.
(Speaks aside to Mrs. Klotz.)
(Nods to Mr. Oliphant.)
- Oliphant: I have two pages I'd like for you to take with you.
- H.M.Jr: What?
- Oliphant: I have two important pages I'd like to have you take with you.
- H.M.Jr: Detective stories? Give them to Mrs. Klotz.
Yesterday while we were just waiting to see the President, Grosspeck came out, and I said to him, "I understand that these power lines are going to connect up one city after the other; after one city is bombed the lines are all broken. Why don't you put the cables underground. There's nothing easier to follow than a power line with an airplane." And he said, "It's really surprising how somebody from the outside can come along, who knows nothing, and make a really good suggestion." Well, that's not quite the way he put it, but

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- Hanes: He didn't say you knew nothing.
- H.M.Jr: Anyway, it's all right.
- Hanes: He said it was a fine suggestion and he'd get his technical staff to work on it.
- Gibbons: It would be interesting to take the upkeep for these power lines - I'll bet if you took it over a period of twenty years it would pay to put it underground.
- Lochhead: They have a plow now that lays the lines underground, for the high tension wires.
- Gaston: They could do it on the telephone lines. They have been working for several years on that question of insulation of high tension wires underground. They have done a lot of it.
- H.M.Jr: They have done a lot of it? It's perfectly stupid, if you are going to spend a couple hundred million to connect up several cities Grosspeck said if an airplane will take a wire and just trail it along, and drop a bomb over the city, and the wires are grounded, the short circuit would just cut these wires right off.
- Gaston: They've got some factors in there favor, because you can put more metal underground.
- H.M.Jr: I was kind of tickled because the country boy had an idea.
- Taylor: There is a swell W. P. A. program, too.
- H.M.Jr: That's right; they could dig the ditches. You want to tell that to Grosspeck, Wayne? Taylor said they could dig the tunnels. That could - Wayne has a swell idea. They could do it - all the labor could be done in the W. P. A.
- Taylor: It's the kind of stuff they are trying to find for them to do.
- Oliphant: It is in the industrial centers, where the unemployment is.

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McReynolds: (Talking low to Mr. Gibbons.)

Gibbons: Mac says they wouldn't like the hard work.

(Laughter)

H.M.Jr: The President of the United States told this story at Cabinet. The W. P. A. at Boston was all out of shovels and they wired here for more - "Send us fifty shovels at once by express;" and Hopkins telegraphed back, "Sorry, no shovels available; tell the men to lean against each other."

(Hearty laughter)

Gibbons: That sounds like Harry's sarcasm.

H.M.Jr: I think it's very refreshing. So if the President can do it, so can Mac.

All right, Mac, bring in your bootleggers, and I'll see the banking group at ten fifteen.

Oh, by the way, who's going - I know that Hanes is going to be in New York Monday on the Tax Coordination, but is anybody going to be away Saturday, or Monday?

Gibbons: I am going to be here. I lost my vote.

Taylor: I'll be away Saturday.

Gibbons: I couldn't get down to Newark in the fog.

Taylor: I plan to be away Saturday.

H.M.Jr: Down to your Virginia place?

Taylor: Yes.

H.M.Jr: You're going to be in Virginia. Well, you've got a phone down there?

Taylor: Yeah.

H.M.Jr: But no others?

Gibbons: I'll be here right along.

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- H.M.Jr: I was just thinking of the international situation. You will be here, and you'll be available, in case of an emergency.
- Taylor: Oh no, I'm going -- I'm easy to get, and I can get - for instance, I can go over to Langley Field, which is very near there, and if I have to get back in a hell of a hurry
- H.M.Jr: You mean in an airplane? I just wanted to know where everybody was.
- Oliphant: I'll be within fifty minutes of the office.

November 2, 1938.
11:32 a.m.

WHR: Hello.

Operator: Dr. Burgess. Go ahead.

WHR: Hello.

WHR: Randolph Burgess: Hello.

WHR: Hello, Randolph?

B: Hello, Henry.

WHR: I haven't had time to read the copy of your speech, but I did read the New York Tribune.

B: Well, they gave - they - they put it right on the front page -

WHR: It looked good.

B: - what I said about you, didn't they?

WHR: Yes, but - fine. It looked fine.

B: Well, that's good.

WHR: They seemed to pick it up anyway, and I gathered you made - must have made considerable - well you just gave it the twist I would have liked to have seen it give - not about -

B: Yes, I think so, and that's what I had intended to do at first, but my wording was unfortunate.

WHR: But - I - I thought you gave it - well just the twist that I wanted -

B: Yes.

WHR: And you still raised the question that you had in mind.

B: Yes. Yes.

WHR: What?

B: Well then we're both happy, aren't we?

- 2 -

HMJr: I think so. Well, I haven't read what you said - the Tribune's account was certainly - it was - it was -

B: Well, I think you'll like it. There'll be some things that you wouldn't agree with a hundred per cent, of course.

HMJr: I hope so.

B: But that's - that's - a little difference of opinion is the life of trade.

HMJr: Well, it's just - what I was afraid of was that - well, I told you, and you fixed it up so -

B: Well that's just the reason I wanted to send it to you, and I appreciate it very much getting your frank comment.

HMJr: And you're satisfied.

B: A great deal.

HMJr: You're satisfied.

B: Absolutely, yes. Yes.

HMJr: All right.

B: Very fine. Thank you for calling, Henry.

HMJr: Goodbye.

B: Goodbye.

CABLEGRAM

USS TULSA, Nov. 2, 1938.

To Nicholson from T V Soong for presentation to Secretary Quote Following for your confidential information Stop When exchange value dollar broke sharply during May and early part June this year owing to drastic reduction of exchange allotment by Ministry Finance and fall Haichow Bank of China believing that at eight pence dollar was undervalued and if temporary shocks caused by war operations and speculative transactions were absorbed rate could hold started on June 14 to maintain market with assistance and Shanghai, cooperation of Hongkong Shanghai Banking Corpn. Stop Market immediately steadied and by Sept. 2 net sales were pounds sterling one million eighty five thousand for Bank of China and Hongkong and Shanghai Banking Corpn. reported sales of similar amount Stop Czechoslovakian crisis then developed which firmed up Shanghai market and whole over-sold amount was bought back Stop When Japs attacked South China there was another raid and between Oct. 12 and 22 Bank of China sold pound sterling one million five hundred three thousand old Hongkong and Shanghai Banking Corpn. reported sales on their own account for an additional pound sterling five hundred thousand Stop Since latter date shock occasioned by loss of Canton and Hankow was over and Shanghai market showed definite signs of tightness according to our estimate total circulation of notes in Shanghai is around Chinese dollars two hundred fifty million, so Bank of China was enabled to acquire back pound sterling seven hundred sixty-five thousand at slightly higher rate Stop Japs however have not given up hopes of introducing their new currency thus permanently consolidating their strangle hold on economic life of the country and may shortly desire to force matters particularly in North China Unquote

0311336

CAMPBELL

CC Lochhead
Nicholson

SECRET

SECRET

SECRET

325

FEDERAL HOUSING ADMINISTRATION
WASHINGTON, D. C.

November 2, 1938

My dear Mr. Secretary:

Replying to your telephone conversation of this morning, I am giving you herewith the steps which I took in Princeton to bring about the housing project there.

Under the "Housing Authority Law" of the State of New Jersey any municipality may organize a local housing authority by an ordinance passed by the governing body of a municipality. In the case of Princeton, New Jersey, the Princeton Council, at my request, called a special meeting and unanimously passed an ordinance creating the Housing Authority of the Borough of Princeton. Immediately following this action the Council appointed five resident citizens who had no connection with governmental bodies to be the Housing Authority. Under this law they were ready to function immediately after appointment.

The New Jersey law gives very broad powers to such local housing authorities. They are authorized to build, sell, lease, and operate housing projects. In this instance I started work on the Princeton project the day after the appointment of the Authority, and they have signed an agreement to take over the buildings when completed. The project, which will have cost exactly \$30,000 including land, will be turned over to the Authority in exchange for \$30,000 of Housing Authority bonds. These bonds pay a level payment of \$60 per \$1,000 bond each year, and this amount will repay the invested capital and return 4 per cent interest on the amount outstanding in any one year.

At my request the Housing Authority will make an agreement with the Borough of Princeton to turn over the buildings at the end of 28 years to the Borough without debt. The agreement also states that the Borough has the privilege at any time after 15 years of acquiring the project by payment of the outstanding amortization.

Inasmuch as the property will be owned by the Housing Authority under the "Housing Authority Law" they will pay no local taxes, but on account of the provision mentioned above, the acquisition of the land and buildings by the Borough will compensate the Borough for the loss of these taxes.

Each unit having cost \$3,000 and comprising 4 rooms and a bath will rent for approximately \$25 per unit per month, or \$6.25 per room per month. This charge is made up of \$15 per unit per month for service of the bonds and an arbitrary charge of \$10 per unit per month for maintenance, fire insurance, collection of rents, etc. The figure of \$15 per unit per month is obtained by using a level annual payment of \$6 per \$100 on the cost of a unit, namely, \$3,000. That is, \$180 a year, or \$15 per month.

Under the New York State "Municipal Housing Authorities Law" the procedure in any given community would be exactly the same. The local governing body would pass an ordinance creating a housing authority. This housing authority would issue bonds to an investor, such bonds being as above described. With the proceeds of these bonds they would erect buildings and would voluntarily agree to turn the buildings over to the local taxing unit after the amortization of the bonds. This procedure would limit the financial charges of the operation to a level payment of \$6 per \$100 each year for the period of amortization. To this figure would be added an amount sufficient for repairs, maintenance, collection of rent, etc.

I am taking the liberty of enclosing the rough draft of a booklet which I have in mind for distribution to the tenants in Princeton. It is written in lay language which they would understand. The object of this booklet is to point out that cooperation on the part of the tenant may result in lowering rents. I am also enclosing a mimeographed copy of the New York State "Municipal Housing Authorities Law", with marks at the passages to which you may wish to refer.

Sincerely yours,


Gerard B. Lambert

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

Enclosures

AN EXPLANATION FOR THE TENANTS OF THE FRANKLIN AVENUE

PROJECT OF THE HOUSING AUTHORITY OF THE BOROUGH OF PRINCETON

The project consists of ten dwelling units which, with land, cost \$30,000, or \$3,000 per family unit. It was built as a demonstration that private capital may wisely invest to create new dwellings to be occupied at once by families whose income requires them to pay less than \$10 per room per month.

The units, each with four rooms and bath, will average in rent about \$25 per month, or \$6.25 per room per month. This is considering them as separate houses, where the tenant usually provides heat. If compared to apartments, when heat is supplied, the comparison would be about \$28 per month, or \$7 per room per month. The tenant's fuel is estimated to cost \$3 per unit per month. Actually they are not like apartments, for each family has its own entrance and enjoys the common landscaping and adequate sunlight and air.

Individual hot water boilers and heating plants have been installed to enable the tenant to control expenses. A central plant supplying all houses would require a fixed amount in the rents, and would prevent the opportunity of exercising economies which come from individual control of these expenses.

These low rentals have been achieved by eliminating some of the factors which lead to higher rents. The obstacles which had to be removed were as follows:

1. Higher rents often come from the speculative desire to get as much as possible from the ownership of the property.

This desire is entirely legitimate, as we must have the profit motive, but for the purpose of solving the problem of low cost housing the possibility of any speculative profit was eliminated.

This elimination was accomplished by having the investor agree to limit his return on the investment to the receipt from the rents of the same amount each month for 28 years, and no more. That is to say, \$15 per unit per month for 28 years will gradually pay back the \$3,000 that it cost to build a unit, and four per cent interest on the amount still invested in any one year. In other words, the financial charges are limited to \$15 per month per unit, and at the end of 28 years the money will be paid back with interest of 4 per cent at all times. With the invested money repaid, the investor has no further interest in the property and he has arranged to have it pass, without debt, to the Borough of Princeton.

To this \$15 per month is added \$10 per month for maintenance, collection of rents, repairs, fire insurance, etc. However, no matter what amount is required for maintenance, etc., the investor can never receive more than the sum of \$15 per family unit per month.

- 3 -

2. Local taxes go into rents.

As the investor agrees to give the buildings and land to the Borough at the end of 28 years, the Borough will receive a property higher in value than the amount of the local taxes during that period. Therefore, although the Borough receives no taxes, yet it can lose nothing, because it gets the land and buildings in exchange for taxes.

3. An inducement must be offered to the investor to persuade him to invest at 4 per cent with no chance of speculative profit.

This inducement is created by having the Housing Authority of the Borough of Princeton acquire and operate the property. The Housing Authority has agreed to give bonds of the value of \$30,000 to the investor in exchange for the property. As the finished property actually cost \$30,000, there is no profit in the transaction. These bonds bear interest at 4 per cent for 28 years on the amount of the investment outstanding each year, and also yield an amount which will repay the original investment from year to year for 28 years. As the bonds are an instrumentality of the State of New Jersey, and for a public purpose, they are free from all State and Federal income taxes. An income of 4 per cent free from income taxes is attractive to the investor. (Incidentally, as the money invested in this property was lying idle in the bank the Federal Government was receiving no income upon it. Millions of such funds are lying

idle, and they could be employed in this way to stimulate industrial activity, with the resulting increase in taxes to the Federal Government.)

The net result of the plan, therefore, is that the Borough of Princeton pays out nothing and contracts no debt, the Federal Government pays out nothing and contracts no debt, and the investor is getting a good investment.

Maintenance and Cooperation

An interesting feature of the plan is that, as the tenants determine to a large extent the amount required for maintenance and collection of rents, they may bring about lower rents by cooperation with the management of the property. That is to say, as the amount required from rents to pay bond interest and retirement of capital is a maximum of \$15 per family unit per month, and as no profit beyond that figure can go to the investor, a reduction in maintenance, etc., can result only in a reduction of rent. It is, of course, necessary to maintain a reasonable reserve above \$15 per month for contingencies and for fire insurance.

In general, however, prompt payments of rents, thoughtful care of the property, and possibly contribution of labor for gardening and minor repairs, will render the need of this maintenance charge largely unnecessary. On the other hand, excessive abuse of the property, slow rent payment, and a lack of cooperation can only be met by increasing rents.

- 5 -

The significant element of the plan is that, whichever of these two extremes exists, the amount of money coming to the investor remains the same--namely \$15 per family unit per month.

Section 63 of Chapter 218 of the session laws of New York for 1938 provides that a municipal housing authority may be established by a city upon -

(1) The passage of a resolution by a local legislative body authorizing the establishment of a local housing authority and directing the mayor to file a certificate therefor;

(2) The filing by the mayor in the office of the state housing board, and a duplicate in the office of the Secretary of the State, of a certificate signed by him setting forth the name of the authority; the names of the members and their terms, specifying which member is chairman; and a copy of the resolution.

This, apparently, is all that is necessary to create the authority, which shall consist of five members appointed by the mayor, and he shall designate one of them as chairman. They shall be appointed for terms of various lengths in order that their terms may not all expire at the same time.

Section 66 of the Act provides that the authority shall be a body corporate and shall have very broad powers, covering substantially all phases of the housing field, including the authority to borrow money upon their bonds, notes, debentures, or other evidences of debt, and to secure them by mortgages upon property held, or to be held, by them, or by a pledge of their revenues, or in any other manner.

Section 70 bestows on these corporations the powers of eminent domain.

Section 72 deals with bonds of the authorities; one of the provisions of which is that such bonds to be eligible for savings banks and other such investments shall be secured by a first mortgage lien not exceeding

66-2/3% of the value of the property covered thereby.

Section 74 contains the tax exemption provisions. An authority is exempt from the payment of any taxes or fees to the State or a subdivision thereof; the bonds are exempt from tax; and the authorities' property is exempt from tax with a provision that a municipality may fix the amount which the authority shall pay annually in lieu of taxes.

3rd year 28776

2nd year 29,176
Refugee Exp. 624

1st year 30,000
5th year 12000
Refugee Exp. 600

Refugee Exp. 13,200

16800

In 25 years 16,800

180 Investment 600

(Rm 15 for all) Int-Ann 1800
4 1/2 Int. 1200
15 - Exp. 30,000

NEW YORKMunicipal Housing Authorities Law

Chapter 4, Laws of 1934, amending Chapter 823, Laws of 1926; amended by Chapter 310, Laws of 1935; further amended by Chapter 218, Laws of 1938; further amended by Chapter 395, Laws of 1938; and further amended by Chapter 461, Laws of 1938. See also McKinney's Consolidated Laws of New York, Annotated, Volume 65, Sections 2310 to 2328, inclusive.

¹ AN ACT to amend the state housing law, in relation to providing for the establishment, organization, operation and dissolution of municipal housing authorities.

Became a law January 31, 1934, with the approval of the Governor.

Passed, on message of necessity, three fifths being present.

The People of the State of New York, represented in Senate and Assembly, do enact as follows:

¹ Section 1, Chapter 4, Laws of New York, 1934, reads as follows:
"Section 1. Article five and sections sixty, sixty-one, sixty-two and sixty-three of chapter eight hundred and twenty-three of the laws of nineteen hundred twenty-six, entitled 'An act to promote the public health and safety by providing for the elimination of unsanitary and dangerous housing conditions to relieve congested areas, and the construction and supervision of dwellings and for the letting of apartments at reasonable rentals; repealing article two-a of the public buildings law relating to the bureau of housing and regional planning, and making an appropriation to carry out the provisions of this act,' such chapter having been last re-enacted and amended by chapter thirty-five, of the laws of nineteen hundred twenty-seven, are hereby renumbered article six and sections ninety, ninety-one, ninety-two and ninety-three, respectively, and such chapter is hereby amended by inserting therein a new article, to be article five, to read as follows:

ARTICLE 5

Municipal Housing Authorities

- "Section 60. Short title.
61. Finding.
62. Definitions.
63. Establishment and organization of authorities.
64. Officers and employees.
65. Advances by city.

Sec. 60. Short title. This article shall be known and may be cited and referred to as the "municipal housing authorities law."

²Sec. 61. Finding. It is hereby declared that in certain areas of counties, cities and first class villages of the State there exist unsanitary or substandard housing conditions owing to overcrowding and concentration of population, improper planning, excessive land coverage, lack of proper light, air and space, unsanitary design and arrangement, or lack of proper sanitary facilities; that there is not an adequate

1 Continued

66. Powers of authority.
67. Powers and duties of board.
68. Projects.
69. Acquisition of property.
70. Eminent domain.
71. Sale or lease of projects to limited dividend corporations.
72. Bonds.
73. Nonliability of State or city.
74. Tax exemptions.
75. Foreclosure.
76. Dissolution.
77. Miscellaneous.
78. Effect of partial invalidity."

³This section was amended by Section 1 of Chapter 218, Laws of 1938, effective March 29, 1938. Prior to this amendment, this section read as follows: "Section 61. Finding. It is hereby declared that in certain areas of cities of the State there exist unsanitary or substandard housing conditions owing to overcrowding and concentration of population, improper planning, excessive land coverage, lack of proper light, air and space, unsanitary design and arrangement, or lack of proper sanitary facilities; that there is not an adequate supply of decent, safe, and sanitary dwelling accommodations for persons of low income; that these conditions cause an increase and spread of disease and crime and constitute a menace to the health, safety, morals, welfare, and comfort of the citizens of the State, and impair economic values; that these conditions cannot be remedied by the ordinary operation of private enterprise; that the clearance, replanning, and reconstruction of the areas in which unsanitary or substandard housing conditions exist and the providing of decent, safe, and sanitary dwelling accommodations in said areas and elsewhere for persons of low income are public uses and purposes for which public money may be spent and private property acquired; and the necessity in the public interest for the provisions hereinafter enacted is hereby declared as a matter of legislative determination."

supply of decent, safe, and sanitary dwelling accommodations for persons of low income; that these conditions cause an increase and spread of disease and crime and constitute a menace to the health, safety, morals, welfare, and comfort of the citizens of the State, and impair economic values; that these conditions cannot be remedied by the ordinary operation of private enterprise; that the clearance, replanning, and reconstruction of the areas in which unsanitary or substandard housing conditions exist and the providing of decent, safe, and sanitary dwelling accommodations in said areas and elsewhere for persons of low income are public uses and purposes for which public money may be spent and private property acquired; and the necessity in the public interest for the provisions hereinafter enacted is hereby declared as a matter of legislative determination.

³Sec. 62. Definitions. The following terms, wherever used or referred to in this article, shall have the following meaning, unless a different meaning clearly appears from the context:

³This section as contained in Chapter 4, Laws of New York, 1934, effective January 31, 1934, reads as follows: "Sec. 62. Definitions. The following terms, wherever used or referred to in this article, shall have the following meaning, unless a different meaning clearly appears from the context:

- "1. The term 'authority' shall mean a municipal housing authority established pursuant to this article by any city of the State.
- "2. The term 'board' shall mean the State board of housing.
- "3. The term 'city' shall mean the city establishing the authority.
- "4. The term 'comptroller' shall mean the comptroller in cities having a comptroller. In cities having no comptroller it shall mean the chief financial officer of the city.
- "5. The term 'State' shall mean New York State.

3 Continued

- "6. The term 'government' shall include the State and the Federal Government and any subdivision, agency or instrumentality, corporate or otherwise, of either of them.
- "7. The term 'area' shall mean a section of the city wherein the authority finds that unsanitary or substandard housing conditions exist. An area may include land whether improved or unimproved, and buildings or improvements not in themselves unsanitary or substandard, the inclusion of which is deemed necessary by the authority for the effective clearance, replanning or reconstruction of the section or any part thereof.
- "8. The term 'project' shall mean a plan or undertaking (a) for the clearance, replanning, or reconstruction of an area or areas, or part or parts thereof; and as a part of the plan for the clearance, replanning, or reconstruction of such areas (b) for the providing for persons of low income, of housing accommodations either in said areas or elsewhere in any section of the city, whether or not such section has unsanitary or substandard housing conditions. The term shall include the lands, buildings and improvements acquired, owned, constructed, managed or operated hereunder, to provide dwelling accommodations for persons of low income, and such stores, offices and other commercial or nonhousing facilities as well as social, recreational or communal facilities, as may be deemed by the authority to be incidental or appurtenant to such plan or undertaking.
- "The term 'Federal project' shall mean a project aided or financed in whole or in part, by the Federal Government, where such Government reserves the right to approve or supervise the construction or operation of the project.
- "The term 'non-Federal project' shall mean a project other than a Federal project.
- "9. The term 'bonds' shall include notes, debentures or other written evidences of indebtedness.
- "10. The term 'mortgage' shall include deeds of trust, building and loan contracts or other instruments creating a lien.
- "11. The term 'real property' shall include lands, lands under water, structures, and any and all easements, franchises and incorporeal hereditaments and every estate and right therein, legal and equitable, including terms for years and liens by way of judgment, mortgage or otherwise."

Section 62, as contained above in the body of this Act, was amended by Section 2 of Chapter 218, Laws of 1938.

1. The term "authority" shall mean a municipal housing authority established pursuant to this article by any county, city or first class village of the State.

2. The term "board" shall mean the State board of housing.

3. The term "municipality" shall mean the county, city or first class village establishing the authority.

3-a. The term "county" means a county not wholly included within a city.

3-b. The term "mayor" also includes the mayor of a first class village establishing the authority.

3-c. The term "village" means a village of the first class as defined in the village law.

3-d. The term "local legislative body" (a) in a city, means the local legislative board or body of such city as defined in the city home rule law; (b) in a county, means the board of supervisors or other legislative governing board or body of such county, and (c) in a village, means the board of trustees of the village.

3-e. The term "county executive" means the chairman of the board of supervisors or other administrative head of the county.

4. The term "comptroller" shall mean the comptroller in cities having a comptroller. In cities, counties and villages having no comptroller it shall mean the chief financial officer of such municipality.

5. The term "State" shall mean New York State.

6. The term "Government" shall include the State and the Federal Government and any subdivision, agency or instrumentality, corporate or otherwise, of either of them.

7. The term "area" shall mean a section of the municipality wherein the authority finds that unsanitary or substandard housing conditions exist. An area may include land whether improved or unimproved, and buildings or improvements not in themselves unsanitary or substandard, the inclusion of which is deemed necessary by the authority for the effective clearance, replanning or reconstruction of the section or any part thereof.

⁴8. The term "project" shall mean a plan or undertaking (a) for the clearance, replanning, or reconstruction of an area or areas, or part or parts thereof and/or (b) for the providing for persons of low income, of housing accommodations in any section of the municipality, whether or not such section has unsanitary or substandard housing conditions. The term shall include the lands, buildings and improvements acquired, owned, constructed, managed or operated hereunder, to provide

⁴Subsection 8 of Section 62 was amended by Section 2 of Chapter 310, Laws of New York, 1935, effective April 5, 1935. This section, as then amended, read as follows: "The term 'project' shall mean a plan or undertaking (a) for the clearance, replanning, or reconstruction of an area or areas, or part or parts thereof and/or (b) for the providing for persons of low income, of housing accommodations in any section of the city, whether or not such section has unsanitary or substandard housing conditions. The term shall include the lands, buildings and improvements acquired, owned, constructed, managed or operated hereunder, to provide dwelling accommodations for persons of low income, and such stores, offices and other commercial or nonhousing facilities as well as social, recreational or communal facilities, as may be deemed by the authority to be incidental or appurtenant to such plan or undertaking.

"The term 'Federal project' shall mean a project aided or financed in whole or in part, by the Federal Government, where such Government reserves the right to approve or supervise the construction or operation of the project.

"The term 'non-Federal project' shall mean a project other than a Federal project."

Subsection 8 of Section 62, as contained above in the body of this Act, was amended by Section 2 of Chapter 218, Laws of 1938.

dwelling accommodations for persons of low income, and such stores, offices and other commercial or nonhousing facilities as well as social, recreational or communal facilities, as may be deemed by the authority to be incidental or appurtenant to such plan or undertaking.

The term "Federal project" shall mean a project aided or financed in whole or in part, by the Federal Government, where such Government reserves the right to approve or supervise the construction or operation of the project.

The term "non-Federal project" shall mean a project other than a Federal project.

9. The term "bonds" shall include notes, debentures or other written evidences of indebtedness.

10. The term "mortgage" shall include deeds of trust, building and loan contracts or other instruments creating a lien.

11. The term "real property" shall include lands, lands under water, structures, and any and all easements, franchises and incorporeal hereditaments and every estate and right therein, legal and equitable, including terms for years and liens by way of judgment, mortgage or otherwise.

⁵12. "Obligee" shall include any bondholder, trustee, or trustees for any bondholders, any lessor demising property to an authority used in connection with a project or any assignee or assignees of such lessor's interest, and the Federal Government, when it is a party to any contract with the authority.

⁵ Subsection 12 was not contained in Chapter 4, Laws of New York, 1934. It was added by Section 1, Chapter 310, Laws of New York, 1935.

⁵Sec. 63. Establishment and organization of authorities. 1. An authority may be established by a county, city or first class village upon (i) the passage of a resolution by the local legislative body

⁵Prior to being amended by Section 3 of Chapter 218, Laws of 1938, this section read as follows: "Sec. 63. Establishment and organization of authorities. 1. An authority may be established by a city upon (i) the passage of a resolution by the local legislative body as defined in the city home rule law, authorizing the establishment of a housing authority and directing the mayor to file a certificate therefor; (ii) the filing by the mayor in the office of the board, and a duplicate in the office of the Secretary of State, of a certificate signed by him and setting forth (a) the name of the authority; (b) the names of the members and their terms, specifying which member is chairman; and (c) a copy of the aforesaid resolution.

"2. An authority shall consist of five members appointed by the mayor and he shall designate the first chairman. Not more than one of the members may be a city official. In the event that a city official shall be appointed as a member of an authority, acceptance or retention of such appointment shall not be deemed a forfeiture of his office, or incompatible therewith or affect his tenure or compensation in any way. The term of office of a member of an authority who is a city official shall not be affected or curtailed by the expiration of the term of his city office.

"3. The members who are first appointed shall be designated by the mayor to serve for terms of one, two, three, four and five years, respectively, from the date of their appointment. Thereafter, the term of office shall be five years. A member shall hold office until his successor has been appointed and has qualified. Vacancies other than by reason of expiration of terms shall be filled for the unexpired term. Three members shall constitute a quorum. The mayor shall file with the board a certificate of the appointment or reappointment of any member. A member shall receive no compensation for his services but he shall be entitled to the necessary expenses, including travelling expenses, incurred in the discharge of his duties. An authority may delegate to one or more of its agents or employees such powers or duties as it may deem proper.

"4. The mayor may remove a member of the authority for inefficiency, neglect of duty, or misconduct in office, but only after the member shall have been given a copy of the charges against him and an opportunity to be heard in person or by counsel in his own defense. In the event of removal, the mayor shall file in the office of the board a record of the proceedings together with a copy of the charges made against the member and his findings thereon. Pending the determination of charges against a member, the mayor may suspend him from office.

"5. An authority shall file with the board and with the city a copy of any bylaws, rules and regulations and amendments thereto adopted by it from time to time."

authorizing the establishment of a housing authority and directing the mayor of the city or village, and in the case of counties, directing the county executive to file a certificate therefor; (ii) the filing by the mayor or county executive in the office of the board, and a duplicate in the office of the Secretary of State, of a certificate signed by him and setting forth (a) the name of the authority; (b) the names of the members and their terms, specifying which member is chairman; and (c) a copy of the aforesaid resolution.

2. An authority shall consist of five members appointed by the mayor or county executive, as the case may be, and he shall designate the first chairman. Not more than one of the members may be an official of the municipality. In the event that an official of the municipality shall be appointed as a member of the authority, acceptance or retention of such appointment shall not be deemed a forfeiture of his office, or incompatible therewith or affect his tenure or compensation in any way. The term of office of a member of an authority who is an official of the municipality shall not be affected or curtailed by the expiration of the term of his office.

3. The members who are first appointed shall be designated to serve for terms of one, two, three, four and five years, respectively, from the date of their appointment. Thereafter, the term of office shall be five years. A member shall hold office until his successor

has been appointed and has qualified. Vacancies other than by reason of expiration of terms shall be filled for the unexpired term. Three members shall constitute a quorum. The mayor or county executive shall file with the board a certificate of the appointment or the reappointment of any member. A member shall receive no compensation for his services but he shall be entitled to the necessary expenses, including traveling expenses, incurred in the discharge of his duties. An authority may delegate to one or more of its agents or employees such powers or duties as it may deem proper.

4. The mayor, and in the case of counties, the county executive may remove a member of the authority for inefficiency, neglect of duty, or misconduct in office, but only after the member shall have been given a copy of the charges against him and an opportunity to be heard in person or by counsel in his own defense. In the event of removal, the mayor or county executive shall file in the office of the board a record of the proceedings together with a copy of the charges made against the member and his findings thereon. Pending the determination of charges against a member, the mayor, and in the case of counties, the county executive may suspend him from office.

5. An authority shall file with the board and with the municipality a copy of any bylaws, rules and regulations and amendments thereto adopted by it from time to time.

6. The territorial jurisdiction of an authority established by a county shall include all such county, except that such territorial jurisdiction shall not include any territory that lies within the boundaries of any city or first-class village, whether such city or village has or has not established an authority, unless the local legislative body of such city or first-class village shall by proper resolution consent to the inclusion of the city or first-class village within the territorial jurisdiction of such county authority.

7
 Sec. 64. Officers and employees. 1. When the office of the first chairman of the authority becomes vacant, the authority shall select a chairman from among its members. An authority shall select from

7
 Prior to being amended by Section 3, Chapter 218, Laws of 1938, this section read as follows: "Sec. 64. Officers and employees. 1. When the office of the first chairman of the authority becomes vacant, the authority shall select a chairman from among its members. An authority shall select from among its members a vice-chairman, and it may employ a secretary, who shall be executive director, technical experts and such other officers, agents and employees, permanent and temporary, as it may require, and shall determine their qualifications, duties and compensation. An authority may call upon the corporation counsel or chief law officer of the city for such legal services as it may require and it shall reimburse the city for the cost of such services, or it may employ its own counsel and legal staff. The secretary, and any counsel and assistant attorneys employed by an authority, shall be in the exempt class of the civil service.

"2. No member or employee of an authority shall acquire any interest, direct or indirect, in a project or in any property then or thereafter included or planned to be included in a project, nor retain any interest, direct or indirect, in any property acquired subsequently to his appointment or employment which is later included or to his knowledge planned to be included in a project, nor shall he have any interest, direct or indirect, in any contract or proposed contract for materials or services to be furnished or used in connection with any project. If any member or employee of any authority owns or controls an interest, direct or indirect, in any property included in any project, which was acquired prior to his appointment or employment, he shall disclose such interest and the date of acquisition thereof in writing to the authority and such disclosure shall be entered upon the minutes of the authority."

among its members a vice-chairman, and it may employ a secretary, who shall be executive director, technical experts and such other officers, agents and employees, permanent and temporary, as it may require, and shall determine their qualifications, duties and compensation. An authority may call upon the corporation counsel or chief law officer of the municipality for such legal services as it may require and it shall reimburse the municipality for the cost of such services, or it may employ its own counsel and legal staff. The secretary, and any counsel and assistant attorneys employed by an authority, shall be in the exempt class of the civil service.

2. No member or employee of an authority shall acquire any interest, direct or indirect, in a project or in any property then or thereafter included or planned to be included in a project, nor retain any interest, direct or indirect, in any property acquired subsequently to his appointment or employment which is later included or to his knowledge planned to be included in a project, nor shall he have any interest, direct or indirect, in any contract or proposed contract for materials or services to be furnished or used in connection with any project. If any member or employee of any authority owns or controls an interest, direct or indirect, in any property included in any project, which was acquired prior to his appointment or employment, he shall disclose such interest and the date of acquisition thereof in writing to the authority and such disclosure shall be entered upon the minutes of the authority.

⁸ ¹⁰⁰ Sec. 65. Loans and payments by municipality. 1. A municipality may advance, lend or agree to lend to an authority, or it may pay or agree with an authority or government to pay to an authority, without reimbursement by or liability of the authority or government therefor, such sums as the authority may require for its administrative expenses

⁸ This section as contained in Chapter 4, Laws of 1934, reads as follows: "Sec. 65. Advances by city. 1. A city may advance to an authority such sums as may be necessary for the payment of its expenses and the acquisition of options upon real property. Such advances shall be reimbursed by the authority to the city as funds of the authority are available. The amount of advances outstanding at any one time shall not exceed five hundred thousand dollars by a city of more than a million inhabitants, or two hundred thousand dollars by any other city.

"2. A city may make such advances out of any funds available for that purpose or it may direct the comptroller to issue and sell special revenue bonds or other similar obligations of the city and out of the proceeds thereof to make such advances. The amount necessary to pay the principal and interest of such bonds or other obligations shall be included in the estimates of monies necessary to be raised by taxation to carry on the business of the city, and shall be made a part of the tax levy for the year next following the year in which such advances are made."

⁹ This section was subsequently amended by Section 3 of Chapter 310, Laws of 1935, and read as follows: "Sec. 65. Loans and payments by city. 1. A city may advance, lend or agree to lend to an authority, or it may pay or agree with an authority or government to pay to an authority, without reimbursement by or liability of the authority or government therefor, such sums as the authority may require for its administrative expenses not exceeding one million dollars for a city of more than a million inhabitants, or two hundred thousand dollars for any other city.

"2. A city may make such loans or payments out of any funds available for that purpose or it may direct the comptroller to issue and sell special revenue bonds or other similar obligations of the city and out of the proceeds thereof to make such loans or payments. The amount necessary to pay the principal and interest of such bonds or other obligations shall be included in the estimates of monies necessary to be raised by taxation to carry on the business of the city, and shall be made a part of the tax levy for the year next following the year in which such loans or payments are made."

Section 65, as contained above in the body of this Act, was amended by Section 4 of Chapter 218, Laws of 1938.

not exceeding one million dollars for a city of more than a million inhabitants, two hundred thousand dollars for any other city, fifty thousand dollars for any county, or ten thousand dollars for any village.

2. A municipality may make such loans or payments out of any funds available for that purpose or it may direct the comptroller to issue and sell special revenue bonds or other similar obligations of the municipality and out of the proceeds thereof to make such loans or payments. The amount necessary to pay the principal and interest of such bonds or other obligations shall be included in the estimates of monies necessary to be raised by taxation to carry on the business of the municipality and shall be made a part of the tax levy for the year next following the year in which such loans or payments are made.

¹⁰Sec. 66. Powers of authority. An authority shall constitute a body both corporate and politic. It shall have the following powers in addition to others herein granted:

¹⁰Prior to being amended by Section 5 of Chapter 218, Laws of 1938, this section read as follows: "Sec. 66. Powers of authority. An authority shall constitute a body both corporate and politic. It shall have the following powers in addition to others herein granted:

"To investigate into living and housing conditions in the city and into the means and methods of improving such conditions; to determine where unsanitary or substandard housing conditions exist; to study and make recommendations concerning the city plan in relation to the problems of clearing, replanning and reconstruction of areas and the providing of housing accommodations for persons of low income, and to co-operate with any city or regional planning agency; to prepare, carry out and operate projects; to construct, reconstruct, improve, alter or repair or to provide for the construction, reconstruction, improvement, alteration or repair of any project or any part thereof; to take over any project undertaken by any government; to act as agent for the Federal Government in connection with a project; to arrange with the city or with a

10 Continued

Government for the furnishing, planning, replanning, opening, grading or closing of streets, roads, roadways, alleys or other places or facilities or for the acquisition by the city or by a government of property, options or property rights or for the furnishing of property or services in connection with a project; to lease or rent any of the housing or other accommodations or any of the lands, buildings, structures or facilities embraced in any project and to establish and revise the rents or charges therefor; to enter upon any building or property in order to conduct investigations or to make surveys or soundings necessary to carry out the purposes of the authority; to purchase, lease, obtain options upon, acquire by eminent domain or otherwise, sell, exchange, transfer, assign or mortgage any property, real or personal, or any interest therein; to acquire any property, real or personal, or any interest therein from any person, firm, corporation or government by gift, grant, bequest or devise; to own, hold, clear and improve property; to insure or provide for the insurance of the property or operations of the authority against such risks as the authority may deem advisable; to borrow money upon its bonds, notes, debentures or other evidences of indebtedness and to secure the same by mortgages upon property held or to be held by it or by pledge of its revenues, or in any other manner; to limit by contract, the exercise of any powers of the authority granted in this article; to invest any funds held in reserves or sinking funds, or any funds not required for immediate disbursement in property or securities in which savings banks may legally invest funds subject to their control; to sue and be sued; to have a seal and to alter the same at pleasure; to have perpetual succession; to make and execute contracts and other instruments necessary or convenient to the exercise of the powers of the authority; to make and from time to time amend and repeal bylaws, rules and regulations not inconsistent with this article to carry into effect the powers and purposes of the authority; to conduct examinations and investigations and to hear testimony and take proof under oath at public or private hearings on any matter material for its information; to issue subpoenas requiring the attendance of witnesses or the production of books and papers and to issue commissions for the examination of witnesses who are out of the State or unable to attend before the authority, or excused from attendance; and to do all things necessary or convenient to carry out the powers given in this article. Any of the investigations or examinations provided for in this article may be conducted by the authority or by a committee appointed by it, consisting of one or more members thereof, or by counsel, or by an officer or employee specially authorized by the authority to conduct it. Any member of the authority, its counsel, or any person designated by it to conduct an investigation or examination shall have power to administer oaths, take affidavits and issue subpoenas or commissions."

To investigate into living and housing conditions in the county, city or village and into the means and methods of improving such conditions; to determine where unsanitary or substandard housing conditions exist; to study and make recommendations concerning the municipal plan in relation to the problems of clearing, replanning and reconstruction of areas and the providing of housing accommodations for persons of low income, and to co-operate with any municipal or regional planning agency; to prepare, carry out and operate projects; to construct, reconstruct, improve, alter or repair or to provide for the construction, reconstruction, improvement, alteration or repair of any project or any part thereof; to take over any project undertaken by any government; to act as agent for the Federal Government in connection with a project; to arrange with the county, city or village or with a government for the furnishing, planning, replanning, opening, grading or closing of streets, roads, roadways, alleys or other places or facilities or for the acquisition by the municipality or by a government of property, options or property rights or for the furnishing of property or services in connection with a project; to lease or rent any of the housing or other accommodations or any of the lands, buildings, structures ^{or} ~~of~~ facilities embraced in any project and to establish and revise the rents or charges therefor; to enter upon any building or property in order to conduct investigations or to make surveys or soundings necessary to carry out the purposes of the authority; to purchase, lease, obtain options upon, acquire by eminent domain or otherwise, sell, exchange, transfer, assign or mortgage any property, real or personal, or any

interest therein; to acquire any property, real or personal, or any interest therein from any person, firm, corporation or government by gift, grant, bequest or devise; to own, hold, clear and improve property; to insure or provide for the insurance of the property or operations of the authority against such risks as the authority may deem advisable; to borrow money upon its bonds, notes, debentures or other evidences of indebtedness and to secure the same by mortgages upon property held or to be held by it or by pledge of its revenues, or in any other manner; to limit by contract, the exercise of any powers of the authority granted in this article; to invest any funds held in reserves or sinking funds, or any funds not required for immediate disbursement in property or securities in which savings banks may legally invest funds subject to their control; to sue and be sued; to have a seal and to alter the same at pleasure; to have perpetual succession; to make and execute contracts and other instruments necessary or convenient to the exercise of the powers of the authority; to make and from time to time amend and repeal bylaws, rules and regulations not inconsistent with this article to carry into effect the powers and purposes of the authority; to conduct examinations and investigations and to hear testimony and take proof under oath at public or private hearings on any matter material for its information; to issue subpoenas requiring the attendance of witnesses or the production of books and papers and to issue commissions for the examination of witnesses who are out of the State or unable to attend before the authority, or excused from attendance; and to do all things necessary or convenient to carry out the powers given in this article. Any of the investigations or examinations provided for in

this article may be conducted by the authority or by a committee appointed by it, consisting of one or more members thereof, or by counsel, or by an officer or employee specially authorized by the authority to conduct it. Any member of the authority, its counsel, or any person designated by it to conduct an investigation or examination shall have power to administer oaths, take affidavits and issue subpoenas or commissions.

Sec. 67. Powers and duties of board. The board shall collect and distribute information relating to the administration of housing authorities and to the construction, maintenance and operation of projects. The board shall suggest and assist in the preparation of legislation relating to housing authorities and their functions. The board may, in its discretion, prescribe methods and forms for keeping accounts, records and books to be used by an authority. The board may require an authority to file periodical reports not oftener than quarterly covering its operations and activities in a form prescribed by the board and may, from time to time, require specific answers to questions upon which the board may desire information. For the purpose of gathering information to enable the formulation of suggestions for legislation, the board may require an authority to submit additional information relating to the condition and affairs of an authority, its dealings, transactions or relationships.

Sec. 68. Projects. An authority shall file with the board a copy of each proposed project embodying the plans, layout, estimated costs and proposed method of financing. The board shall with reasonable promptness transmit to the authority its criticisms and suggestions.

Any change made in the project shall be filed with the board by the authority. At any time, upon request of the authority, the board shall submit to the authority its criticisms and suggestions with reference to any change in the project.

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Sec. 69. Acquisition of property. 1. When an authority has determined that unsanitary or substandard housing conditions exist in a section or sections of the municipality, it may secure options on real

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This section as contained in Chapter 4, Laws of 1934, reads as follows: "Sec. 69. Acquisition of property. 1. When an authority has determined that unsanitary or substandard housing conditions exist in a section or sections of the city, it may secure options on real property in such areas or elsewhere. No authority may purchase or condemn or obligate itself to purchase or condemn real property except in connection with a project approved, if a Federal project, by the Federal Government, or if a non-Federal project, by the mayor and by the comptroller of the city. But an authority may purchase or obligate itself to purchase specific real property for proposed projects prior to such approval if such purchase is consented to in writing by the Federal Government in the case of a proposed Federal project, or by the mayor and the comptroller in the case of a proposed non-Federal project.

"2. A city or government may, upon such terms as it may deem advisable, grant, sell, convey or lease any of its property to an authority, or render services or provide and maintain parks or other facilities adjacent to or in connection with a project. A city may enter into an agreement with an authority to open, close or change the grade of streets, roads, roadways, alleys or other places, to change the city map, to plan, replan, zone or rezone any section of the city. Any statute, charter, local law or ordinance to the contrary notwithstanding, any grant, sale, conveyance or lease may be made by a city or government to an authority without appraisal, public notice, advertisement or public bidding, for such price and in the case of a lease for such rental or term as may be deemed advisable."

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This section was subsequently amended by Section 4 of Chapter 310, Laws of 1935, which reads as follows: "Sec. 69. Acquisition of property. 1. When an authority has determined that unsanitary or substandard housing conditions exist in a section or sections of the city, it may secure options on real property in such areas or elsewhere. No authority may purchase or condemn or obligate itself to purchase or condemn real property except in connection with a project approved, if a Federal

property in such areas or elsewhere. No authority may purchase or condemn or obligate itself to purchase or condemn real property, except in connection with a project approved, if a Federal project, by the Federal Government, or if a non-Federal project, by the mayor, and in case of counties, by the county executive, and by the comptroller of the municipality. But an authority may purchase or obligate itself to purchase specific real property for proposed projects prior to such approval if

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project, by the Federal Government, or if a non-Federal project, by the mayor and by the comptroller of the city. But an authority may purchase or obligate itself to purchase specific real property for proposed projects prior to such approval if such purchase is consented to in writing by the Federal Government in the case of a proposed Federal project, or by the mayor and the comptroller in the case of a proposed non-Federal project. An authority may, with the approval of the Federal Government, lease or acquire by purchase, eminent domain or otherwise, any property, real or personal, which it may deem necessary for any project or housing plan or undertaking of the Federal Government, and may, upon such terms and conditions as it may deem advisable, with or without consideration, lease, transfer, assign, convey, or deliver such property or possession thereof to such government.

"3. In connection with projects located within their respective territorial boundaries, a city or government may, upon such terms, with or without consideration, as it may deem advisable, grant, sell, convey or lease any of its property to an authority or to a government, or render services or provide and maintain parks, sewage, or other facilities adjacent to or in connection with a project. A city may enter into an agreement with an authority or a government, upon such terms as it shall determine, with or without compensation to open, pave, install, close or change the grade of streets, roads, roadways, alleys, sidewalks, or other places, to change the city map, to plan, replan, zone or rezone any section of the city. In connection with the exercise of this power a city may, if it deems advisable, incur the entire expense of any such public improvements located within its territorial boundaries without assessment against abutting property owners. Any statute, charter, local law or ordinance to the contrary notwithstanding, any grant, sale, conveyance or lease may be made by a city or government to an authority or government, in connection with a project, without appraisal, public notice, advertisement or public bidding."

Section 69, as contained above in the body of this Act, was amended by Section 6 of Chapter 218, Laws of 1938.

such purchase is consented to in writing by the Federal Government in the case of a proposed Federal project, or by the mayor or county executive and the comptroller in the case of a proposed non-Federal project. An authority may, with the approval of the Federal Government, lease or acquire by purchase, eminent domain or otherwise, any property, real or personal, which it may deem necessary for any project or housing plan or undertaking of the Federal Government, and may, upon such terms and conditions as it may deem advisable, with or without consideration, lease, transfer, assign, convey, or deliver such property or possession thereof to such government.

2. In connection with projects located within their respective territorial boundaries, a municipality or government may, upon such terms, with or without consideration, as it may deem advisable, grant, sell, convey or lease any of its property to an authority or to a government, or render services or provide and maintain parks, sewage, or other facilities adjacent to or in connection with a project. A municipality may enter into an agreement with an authority or a government, upon such terms as it shall determine, with or without compensation, to open, pave, install, close or change the grade of streets, roads, roadways, alleys, sidewalks, or other places, to change the municipal map, to plan, replan, zone or rezone any section of the municipality. In connection with the exercise of this power a municipality may, if it deems advisable, incur the entire expense of any such public improvements located within its territorial boundaries without assessment against abutting property owners. Any statute, charter, local law or

ordinance to the contrary notwithstanding, any grant, sale, conveyance or lease may be made by a municipality or government to an authority or government, in connection with a project, without appraisal, public notice, advertisement or public bidding.

¹³Sec. 70. Eminent domain. 1. The power of eminent domain may be exercised by or for an authority after the adoption by it of a resolution declaring that the acquisition of the property described therein is in the public interest and necessary for the public use and that such property is included in an approved project.

¹³Prior to being amended by Section 7 of Chapter 218, Laws of 1938, this section read as follows: "Sec. 70. Eminent domain. 1. The power of eminent domain may be exercised by or for an authority after the adoption by it of a resolution declaring that the acquisition of the property described therein is in the public interest and necessary for the public use and that such property is included in an approved project.

"2. The authority may exercise the power of eminent domain pursuant to the provisions of the condemnation law with such modifications as are in this subdivision two provided. A certified copy of the authority's resolution shall be conclusive evidence as to the matters contained therein in any proceeding under the condemnation law to acquire the property or any part thereof described in such resolution. The proceeding shall be instituted by the presentation of a petition by the authority to the supreme court pursuant to section four of the condemnation law. The petition shall, in lieu of the statements required by subdivision one of section four of said law, set forth the name of the authority and the time and place of the filing of its certificate, and shall in addition to the matters required by said section four, state the amount or valuation at which each parcel of the real property to be acquired has been assessed for purposes of taxation on the city tax rolls for each of the three years preceding the date of the petition, which assessed valuation in case only part of an entire plot in a single ownership is to be acquired shall be prorated according to the area of the part so to be acquired.

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"Where it appears to the satisfaction of the court, at any stage of the proceedings, upon the petition of the authority, that the public interest will be prejudiced by delay, the court may after such notice to the parties in interest as it may prescribe, which notice, however, shall not be less than eight days and may be by posting upon the property or by publication in such paper or papers at such times as the court may require, order that the authority be permitted to enter immediately upon the real property described in the petition, or any part thereof, and to demolish any structures located thereon, and to proceed with the construction of the project thereon, upon depositing with the court a sum of money or in lieu thereof, bonds or obligations of the State or the United States of equivalent or greater value, not less than the last assessed valuation of the property, which the court shall find to be sufficient for the protection of the persons who may be entitled to the award. Such deposit or the proceeds thereof shall be applied, so far as it may be necessary for that purpose, to the payment of any award that may be made, with interest thereon, costs and expenses, and the residue, if any, shall be returned to the authority.

"3. An authority may petition the city to institute proceedings under its charter, to acquire property described in the petition which the authority has certified to be necessary for a project. The resolution granting the petition shall set forth the amount to be paid by the authority to the city for such property or in lieu thereof that the authority shall pay to the city all sums expended or required to be expended by the city in the acquisition thereof, and the time of payment and manner of securing payment thereof, and may require that the city shall receive, before proceeding with the acquisition of such property, such assurances as to payment or reimbursement by the authority or otherwise as the city may deem advisable. Upon passage of a resolution by the city granting the petition, the authority shall cause two surveys or maps of the property described in the petition to be made, one of which shall be filed in the office of the authority and the other in the office in which instruments affecting real property in the county are recorded. The filing of such surveys or maps shall be conclusive evidence of the acceptance by the authority of the terms and conditions of such resolution. The city may proceed under any provision of its charter applicable to the condemnation of real property for public improvements. When title to the property shall have vested in the city, it shall convey the same to the authority upon payment by the authority of the sums and the giving of the security required by the resolution granting the petition. As soon as title shall have vested in the city, the authority may, upon the authorization of the mayor, enter upon the property taken and carry out the terms of the project with respect thereto. Whenever in connection with eminent domain proceedings, requirement is made in any city charter for the performance of an act by a department or officer of the city, it shall be regarded for the purposes of this section as compliance therewith if with the approval of the mayor such act is performed by the authority or by persons specially designated by it.

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"4. In the case of a Federal project, the authority may, with the approval of the mayor, request the Federal Government to acquire by eminent domain property which the authority has certified to be necessary for the project.

"5. In any proceedings for the assessment of compensation and damages for property taken or to be taken by eminent domain by or for an authority, the following provisions shall be applicable:

"(a) Evidence of the price and other terms upon any sale or the rent reserved and other terms upon any lease or tenancy relating to any of the property taken or to be taken or to any similar property in the vicinity when the sale or leasing occurred or the tenancy existed within a reasonable time of the trial shall be admissible on direct examination. At any stage of the proceeding, the court or tribunal may require such prior notice to be given of an intention to introduce evidence as to the sale, leasing or tenancy of property other than the property directly involved in the proceeding and of particulars relating thereto as it may deem necessary to prevent surprise.

"(b) The deposition of any person, whether or not a party, may be taken pursuant to article twenty-nine of the civil practice act, the rules of civil practice and the provisions of this section. Such deposition may be taken upon any question or issue in the proceeding, including the facts as to any sale, lease or tenancy admissible in evidence pursuant to this subdivision five. The deposition may be taken at the instance of the authority or of any owner or at the direction of the court, at any time during the pendency of the action or proceeding. At least five days' notice, or if service is through the mails, at least eight days' notice, shall be given of the taking of the testimony, if on the part of an owner, to the authority and to all other owners who have appeared in the proceeding; if by the authority, to all owners who have appeared in the proceeding.

"(c) At any time during the pendency of such action or proceeding, an authority or an owner may apply to the court for an order directing an owner or the authority, as the case may be, to show cause why further proceedings should not be expedited, and the court may upon such application make an order requiring that the hearings proceed and that any other steps be taken with all possible expedition.

"(d) For the purposes of this article, the award of compensation shall not be increased by reason of any increase in the value of the property caused by the clearance, reconstruction or proposed clearance or reconstruction under this article of the property or of the area in which the property is situated. No allowance shall be made for improvements begun on property after notice to the owner of such property of the institution of the proceeding to condemn such property."

2. The authority may exercise the power of eminent domain pursuant to the provisions of the condemnation law with such modifications as are in this subdivision two provided. A certified copy of the authority's resolution shall be conclusive evidence as to the matters contained therein in any proceeding under the condemnation law to acquire the property or any part thereof described in such resolution. The proceeding shall be instituted by the presentation of a petition by the authority to the supreme court pursuant to section four of the condemnation law. The petition shall, in lieu of the statements required by subdivision one of section four of said law, set forth the name of the authority and the time and place of the filing of its certificate, and shall in addition to the matters required by said section four, state the amount or valuation at which each parcel of the real property to be acquired has been assessed for purposes of taxation on the tax rolls of the municipality for each of the three years preceding the date of the petition, which assessed valuation in case only part of an entire plot in a single ownership is to be acquired shall be prorated according to the area of the part so to be acquired.

Where it appears to the satisfaction of the court, at any stage of the proceedings, upon the petition of the authority, that the public interest will be prejudiced by delay, the court may after such notice to the parties in interest as it may prescribe, which notice, however, shall not be less than eight days and may be by posting upon the property or by publication in such paper or papers at such times as the court may require,

order that the authority be permitted to enter immediately upon the real property described in the petition, or any part thereof, and to demolish any structures located thereon, and to proceed with the construction of the project thereon, upon depositing with the court a sum of money or in lieu thereof, bonds or obligations of the State or the United States of equivalent or greater value, not less than the last assessed valuation of the property, which the court shall find to be sufficient for the protection of the persons who may be entitled to the award. Such deposit or the proceeds thereof shall be applied, so far as it may be necessary for that purpose, to the payment of any award that may be made, with interest thereon, costs and expenses, and the residue, if any, shall be returned to the authority.

An authority may petition the municipality to institute proceedings under its charter or other law, to acquire property described in the petition which the authority has certified to be necessary for a project. The resolution granting the petition shall set forth the amount to be paid by the authority to the municipality for such property or in lieu thereof that the authority shall pay to the municipality all sums expended or required to be expended by the municipality in the acquisition thereof, and the time of payment and manner of securing payment thereof, and may require that the municipality shall receive, before proceeding with the acquisition of such property, such assurances as to payment or reimbursement by the authority or otherwise as the municipality may deem advisable. Upon the passage of a resolution by the municipality granting the petition,

the authority shall cause two surveys or maps of the property described in the petition to be made, one of which shall be filed in the office of the authority and the other in the office in which instruments affecting real property in the county are recorded. The filing of such surveys or maps shall be conclusive evidence of the acceptance by the authority of terms and conditions of such resolution. The municipality may proceed under any provision of its charter or other law applicable to the condemnation of real property for public improvements. When title to the property shall have vested in the municipality, it shall convey the same to the authority upon payment by the authority of the sums and the giving of the security required by the resolution granting the petition. As soon as title shall have vested in the municipality, the authority may, upon the authorization of the mayor or county executive, as the case may be, enter upon the property taken and carry out the terms of the project with respect thereto. Whenever in connection with eminent domain proceedings, requirement is made in any city charter or other law for the performance of an act by a department or officer of the municipality, it shall be regarded for the purposes of this section as compliance therewith if with the approval of the mayor or county executive such act is performed by the authority or by persons specially designated by it.

4. In the case of a Federal project, the authority may, with the approval of the mayor or county executive, as the case may be, request the Federal Government to acquire by eminent domain property which the authority has certified to be necessary for the project.

5. In any proceedings for the assessment of compensation and damages for property taken or to be taken by eminent domain by or for an authority, the following provisions shall be applicable:

(a) Evidence of the price and other terms upon any sale or the rent reserved and other terms upon any lease or tenancy relating to any of the property taken or to be taken or to any similar property in the vicinity when the sale or leasing occurred or the tenancy existed within a reasonable time of the trial shall be admissible on direct examination. At any stage of the proceeding, the court or tribunal may require such prior notice to be given of an intention to introduce evidence as to the sale, leasing or tenancy of property other than the property directly involved in the proceeding and of particulars relating thereto as it may deem necessary to prevent surprise.

(b) The deposition of any person, whether or not a party, may be taken pursuant to article twenty-nine of the civil practice act, the rules of civil practice and the provisions of this section. Such deposition may be taken upon any question or issue in the proceeding, including the facts as to any sale, lease or tenancy admissible in evidence pursuant to this subdivision five. The deposition may be taken at the instance of the authority or of any owner or at the direction of the court, at any time during the pendency of the action or proceeding. At least five days' notice, or if service is through the mails, at least eight days' notice, shall be given of the taking of the testimony, if on the part of an owner, to the authority and to all other owners who have appeared in the proceeding; if by the authority, to all owners who have appeared in the proceeding.

(c) Any time during the pendency of such action or proceeding, an authority or an owner may apply to the court for an order directing an owner or the authority, as the case may be, to show cause why further proceedings should not be expedited, and the court may upon such application make an order requiring that the hearings proceed and that any other steps be taken with all possible expedition.

(d) For the purposes of this article, the award of compensation shall not be increased by reason of any increase in the value of the property caused by the clearance, reconstruction or proposed clearance or reconstruction under this article of the property or of the area in which the property is situated. No allowance shall be made for improvements begun on property after notice to the owner of such property of the institution of the proceedings to condemn such property.

¹⁴(e) Evidence shall be admissible bearing upon the insanitary, unsafe or substandard condition of the premises, or the illegal use thereof, or the enhancement of rentals resulting from such illegal use, and such evidence may be considered in fixing the compensation to be paid, notwithstanding that no steps to remedy or abate such conditions have been taken

¹⁴Subsection (e) of Section 70 was previously amended by Section 5 of Chapter 310, Laws of 1935, which reads as follows: "(e) Evidence shall be admissible bearing upon the insanitary, unsafe or substandard condition of the premises, or the illegal use thereof, or the enhancement of rentals resulting from such illegal use, and such evidence may be considered in fixing the compensation to be paid, notwithstanding that no steps to remedy or abate such conditions have been taken by the department or officers having jurisdiction. If a violation order is on file against the premises in any such department, it shall constitute prima facie evidence of the existence of the condition specified in such order."

Subsection (e) of Section 70, as contained above in the body of this Act, was amended by Section 7 of Chapter 218, Laws of 1938.

by the department or officers having jurisdiction. If a violation order is on file against the premises in any such department, it shall constitute prima facie evidence of the existence of the condition specified in such order.

(f) If any of the property included within the project is devoted to a public use, it may nevertheless be acquired provided that no property belonging to the municipality or to any government may be acquired without its consent, and no property belonging to a public utility corporation may be acquired without the approval of the commission or other officer or tribunal having regulatory power over such corporation.

(g) The term "owner," as used in this section, shall include a person having an estate, interest or easement in the property to be acquired or a lien, charge or encumbrance thereon.

¹⁵Sec. 71. Sale or lease of projects to limited dividend corporations.

1. A public limited dividend corporation may lease or purchase a project or a part thereof from an authority. The lease or sale shall be upon such terms, including limitation of rentals, regulation of occupancy, recapture

¹⁵prior to being amended by Section 8 of Chapter 218, Laws of 1938, this section read as follows: "Sec. 71. Sale or lease of projects to limited dividend corporations. 1. A public limited dividend corporation may lease or purchase a project or a part thereof from an authority. The lease or sale shall be upon such terms including limitation of rentals, regulation of occupancy, recapture by the authority or by the city as may be agreed upon between the corporation and the authority and approved by the board. A city, subject to the right of any government or the authority shall have the right of recapture of any property sold or leased by an authority to a public limited dividend corporation in the manner and upon the terms set forth in subdivision seven of section twenty-two of this act, but without limitation as to the time of exercise thereof.

by the authority or by the municipality, as may be agreed upon between the corporation and the authority and approved by the board. A municipality, subject to the right of any government or the authority shall have the right of recapture of any property sold or leased by an authority to a public limited dividend corporation in the manner and upon the terms set forth in subdivision seven of section twenty-two of this act, but without limitation as to the time of exercise thereof.

2. Any provisions in this act to the contrary notwithstanding, the certificate of incorporation of a public limited dividend corporation may, with the approval of the board, empower the corporation to purchase or lease property from an authority and operate it subject to the supervision of the board and shall provide that any surplus or excess of the par value of the stock, together with cumulative dividends at the rate of six per centum per annum, shall upon dissolution revert to the authority. The

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"2. Any provisions in this act to the contrary notwithstanding, the certificate of incorporation of a public limited dividend corporation may, with the approval of the board, empower the corporation to purchase or lease property from an authority and operate it subject to the supervision of the board and shall provide that any surplus or excess of the par value of the stock, together with cumulative dividends at the rate of six per centum per annum, shall upon dissolution revert to the authority. The capital structure of a corporation formed to purchase or lease such property shall be entirely in the discretion of the board except that the number of shares of stock of such corporation shall not be less than ten. The restrictions contained in this act as to the type of project, and the amounts to be represented by mortgages, mortgage bonds, income debentures or stock, shall be inapplicable to a corporation formed to purchase or lease property from an authority.

"3. The authority shall have the power to appoint a director to represent it on the board of directors of such corporation and to remove the director appointed by it at any time with or without cause, and upon the death, resignation or removal of such director to appoint a successor."

capital structure of a corporation formed to purchase or lease such property shall be entirely in the discretion of the board except that the number of shares of stock of such corporation shall not be less than ten. The restrictions contained in this act as to the type of project, and the amounts to be represented by mortgage, mortgage bonds, income debentures or stock, shall be inapplicable to a corporation formed to purchase or lease property from an authority.

3. The authority shall have the power to appoint a director to represent it on the board of directors of such corporation and to remove the director appointed by it at any time with or without cause, and upon the death, resignation or removal of such director to appoint a successor.

¹⁶Sec. 72. Bonds and security therefor. 1. An authority ^{17, 18} may from time to time issue bonds in such amounts and upon such terms as it may deem advisable to carry out the provisions of this article. Bonds of an authority shall be authorized by its resolution and may be issued singly or in one or more series, and shall bear such date or

¹⁶ Prior to being amended by Section 9 of Chapter 218, Laws of 1938, this section as contained in Chapter 4, Laws of 1934, read as follows: "Sec. 72. Bonds. 1. An authority may from time to time issue bonds in such amounts and upon such terms as it may deem advisable to carry out the provisions of this article. The authority must obtain the approval as to the amount and terms of such bonds, of the board of estimate and apportionment in cities where such body exists, and in other cities, of the local legislative body thereof as defined in the city home rule law, except that such approval shall not be required for bonds issued in connection with a Federal project. The bonds may be sold by the authority at public or private sale at such price or prices as the authority may determine.

"2. Bonds may be issued for any purposes of the authority including the payment or reimbursement to the city for property, services or facilities furnished by it pursuant to agreement with the authority.

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"3. The authority shall have power out of any funds available therefor to purchase any bonds issued by it at a price not more than the principal amount thereof and the accrued interest. All bonds so purchased shall be cancelled. This paragraph shall not apply to the redemption of bonds.

"4. No personal liability or accountability shall attach to any member of the authority or any city official or to any person executing said bonds by reason of the execution or issuance thereof.

"5. The bonds of an authority are securities in which the city or State may invest. Such bonds, when they are secured by a first mortgage lien not exceeding sixty-six and two thirds per centum of the value of the property covered thereby, are hereby declared to be securities in which all public officers and bodies of the State, municipalities, municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, all executors, administrators, guardians, trustees, and all other fiduciaries in the State may legally invest funds within their control."

17

The section heading and Subsection 1 of Section 72, Chapter 4, Laws of 1934, were first amended by Section 6 of Chapter 310, Laws of 1935. Such amended section reads as follows: "Sec. 72. Bonds and security therefor. 1. An authority may from time to time issue bonds in such amounts and upon such terms as it may deem advisable to carry out the provisions of this article. Bonds of an authority shall be authorized by its resolution and may be issued singly or in one or more series, and shall bear such date or dates, mature at such time or times, bear interest at such rate or rates, not exceeding six per centum per annum, be in such denomination or denominations, interchangeable or otherwise, be in such form, either coupon or registered, carry such registration privileges, be executed in such manner, with or without authentication, be payable in such medium of payment, at such place or places, and be subject to such terms of redemption, with or without premium, as such resolution may provide. The authority must obtain the approval as to the amount and terms of such bonds, of the board of estimate and apportionment in cities where such body exists, and in other cities, of the local legislative body thereof as defined in the city home rule law, except that such approval shall not be required for bonds issued in connection with a Federal project. The bonds may be sold by the authority at public or private sale at such price or prices as the authority may determine.

"The authority may issue its interim certificates, or other temporary obligations, to the purchaser of bonds pending the authorization, preparation, execution or delivery of definitive bonds. Such interim certificates, or other temporary obligations, shall be in such form, contain such terms, conditions and provisions, bear such date or dates, and evidence such agreements relating to their discharge or payment or the delivery of definitive bonds as the authority may by resolution determine.

17 Continued

"In case any of the members or officers of the authority whose signatures appear on any bonds or coupons shall cease to be such members or officers before the delivery of such bonds, such signatures shall, nevertheless, be valid and sufficient for all purposes, the same as if they had remained in office until such delivery.

"Any provisions of any law to the contrary notwithstanding, any bonds, interim certificates, or other obligations issued pursuant to this act shall be fully negotiable unless such bonds, interim certificates or other obligations expressly provide otherwise."

18

Subsection 1 of Section 72 was amended by Section 9 of Chapter 218, Laws of 1938, which reads as follows: "Sec. 72. Bonds and security therefor. 1. An authority may from time to time issue bonds in such amounts and upon such terms as it may deem advisable to carry out the provisions of this article. Bonds of an authority shall be authorized by its resolution and may be issued singly or in one or more series, and shall bear such date or dates, mature at such time or times, bear interest at such rate or rates, not exceeding six per centum per annum, be in such denomination or denominations, interchangeable or otherwise, be in such form, either coupon or registered, carry such registration privileges, be executed in such manner, with or without authentication, be payable in such medium of payment, at such place or places, and be subject to such terms of redemption, with or without premium, as such resolution may provide. The authority must obtain the approval as to the amount and terms of such bonds, of the board of estimate in cities where such body exists, and in other cities, and municipalities of the local legislative body thereof, except that such approval shall not be required for bonds issued in connection with a Federal project. The bonds may be sold by the authority at public or private sale at such price or prices as the authority may determine.

"The authority may issue its interim certificates, or other temporary obligations, to the purchaser of bonds pending the authorization, preparation, execution or delivery of definitive bonds. Such interim certificates, or other temporary obligations, shall be in such form, contain such terms, conditions and provisions, bear such date or dates, and evidence such agreements relating to their discharge or payment or the delivery of definitive bonds as the authority may by resolution determine.

"In case any of the members or officers of the authority whose signatures appear on any bonds or coupons shall cease to be such members or officers before the delivery of such bonds, such signatures shall, nevertheless, be valid and sufficient for all purposes, the same as if they had remained in office until such delivery.

"Any provisions of any law to the contrary notwithstanding, any bonds, interim certificates, or other obligations issued pursuant to this act shall be fully negotiable unless such bonds, interim certificates or other obligations expressly provide otherwise."

As contained above in the body of this Act, this subsection was again amended by Section 1 of Chapter 395, Laws of 1938, which became effective April 4, 1938.

dates, mature at such time or times, bear interest at such rate or rates, not exceeding six per centum per annum, be in such denomination or denominations, interchangeable or otherwise, be in such form, either coupon or registered, carry such registration privileges, be executed in such manner, with or without authentication, be payable in such medium of payment, at such place or places, and be subject to such terms of redemption, with or without premium, as such resolution may provide. The authority must obtain the approval as to the amount and terms of such bonds, of the board of estimate and apportionment in cities where such body exists, and in other cities, of the local legislative body thereof as defined in the city home rule law, except that such approval shall not be required for bonds issued in connection with a Federal project. Bonds issued for a non-Federal project in a city of more than one million inhabitants may include terms providing that the amount necessary to pay the interest thereon until maturity shall be paid to the authority by such city without reimbursement or liability of the authority to such city therefor. For the purpose of meeting such payments to the authority any such city shall be empowered to enact local laws imposing and collecting an occupation tax in addition to any and all other taxes which such city has the power to impose. Such tax shall be imposed upon any individual, copartnership or corporation occupying premises in any such city as an owner, tenant or concessionaire for any gainful purpose. Such tax shall be in an amount of not less than one dollar nor more than six dollars per year for each separate premises so occupied, the rate of tax to depend upon the size

of such premises or upon such other reasonable standard as may be fixed in such local law. Revenues resulting from the imposition of taxes authorized by this act shall be paid into the treasury of any such city and shall not be credited or deposited in the general fund of any such city, but shall be deposited in a separate bank account or accounts and shall be available and used solely and exclusively for the purposes aforesaid. In no event and under no circumstances shall the payment of interest on such bonds by such city be deemed to modify in any way the provisions of section seventy-three of this act. The bonds for a Federal project or non-Federal project may be sold by the authority at public or private sale at such price or prices as the authority may determine.

The authority may issue its interim certificates, or other temporary obligations, to the purchaser of bonds pending the authorization, preparation, execution or delivery of definitive bonds. Such interim certificates, or other temporary obligations, shall be in such form, contain such terms, conditions and provisions, bear such date or dates, and evidence such agreements relating to their discharge or payment or the delivery of definitive bonds as the authority may by resolution determine.

In case any of the members or officers of the authority whose signatures appear on any bonds or coupons shall cease to be such members or officers before the delivery of such bonds, such signatures, shall, nevertheless, be valid and sufficient for all purposes, the same as if they had remained in office until such delivery.

Any provisions of any law to the contrary notwithstanding, any bonds, interim certificates, or other obligations issued pursuant to this act shall be fully negotiable unless such bonds, interim certificates or other obligations expressly provide otherwise.

2. Bonds may be issued for any purposes of the authority, including the payment or reimbursement to the municipality for property, services or facilities furnished by it pursuant to agreement with the authority.

3. The authority shall have power out of any funds available therefor to purchase any bonds issued by it at a price not more than the principle amount thereof and the accrued interest. All bonds so purchased shall be cancelled. This paragraph shall not apply to the redemption of bonds.

4. No personal liability or accountability shall attach to any member of the authority or any official of the municipality or to any person executing said bonds by reason of the execution or issuance thereof.

¹⁹5. The bonds of an authority are securities in which the city or State may invest. Such bonds, when they are (1) secured by a first

¹⁹This subsection was amended by Section 9 of Chapter 218, Laws of 1938, and reads as follows: "5. The bonds of an authority are securities in which the municipality or State may invest. Such bonds, when they are secured by a first mortgage lien not exceeding sixty-six and two thirds per centum of the value of the property covered thereby, are declared to be securities in which all public officers and bodies of the State, municipalities, municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loans associations, all executors, administrators, guardians, trustees, and all other fiduciaries in the State may legally invest funds within their control."

As contained above in the body of this Act, Subsection 5 of Section 72 was amended by Chapter 461, Laws of 1938.

mortgage lien not exceeding sixty-six and two thirds per centum of the value of the property covered thereby, or (2) issued in connection with a project aided or financed in whole or in part by the Federal Government pursuant to the provisions of an act of the Congress providing for capital grants for low cost housing, or for the making of loans and for the payment of annual contributions for such purpose under a contract guaranteeing the payment of such annual contributions by the Federal Government to the authority for a fixed period of years, are hereby declared to be securities in which all public officers and bodies of the State, municipalities, municipal subdivisions, all insurance companies and associations, all savings banks and savings institutions, including savings and loan associations, all executors, administrators, guardians, trustees, and all other fiduciaries in the State may legally invest funds within their control.

206. In connection with the issuance of bonds or the incurring of any obligation under a lease, and to secure the payment of such bonds or obligations, an authority in addition to its other powers may: (a) Pledge all or any part of its rents, fees, or revenues to which its right then exists or may thereafter come into existence.

(b) Mortgage all or any part of its property, real or personal, then owned or thereafter acquired.

(c) Covenant against mortgaging all or any part of its property, real or personal, then owned or thereafter acquired, or against permitting or suffering any lien thereon.

²⁰This Subsection was not contained in Chapter 4, Laws of 1934. It was added by Section 7 of Chapter 310, Laws of 1935, and amended by Section 9 of Chapter 218, Laws of 1938.

(d) Covenant with respect to limitations on its right to sell, lease, or otherwise dispose of any project or any part thereof.

(e) Covenant against pledging all or any part of its rents, fees and revenues, to which its right then exists or may thereafter come into existence, or against permitting or suffering any lien thereon.

(f) Covenant as to the bonds to be issued and as to the issuance of such bonds in escrow or otherwise, and as to the use and disposition of the proceeds thereof.

(g) Covenant as to what other, or additional debts may be incurred by it.

(h) Provide for the replacement of lost, destroyed or mutilated bonds.

(i) Covenant that the authority warrants the title to the premises.

(j) Covenant as to the rents and fees to be charged, the amount to be raised each year or other period of time by rents, fees, and other revenues, and as to the use and disposition to be made thereof.

(k) Covenant as to the use of any or all of its property, real or personal.

(l) Create or authorize the creation of special funds segregating (a) the proceeds of any loans or grants; (b) all of the rents, fees and revenues of any project or projects; (c) any monies held for the payment of the costs of operation and maintenance of projects, or as a reserve for the meeting of contingencies in the operation and maintenance thereof; (d) any monies held for the payment of the principal and interest on

its bonds or the sums due under its leases and/or as a reserve for such payments; and (e) any monies held for any other reserves or contingencies; and covenant as to the use and disposal of the monies held in such funds.

(m) Redeem the bonds, and covenant for their redemption, and provide the terms and conditions thereof.

(n) Covenant against extending the time for the payment of its bonds or interest thereon.

(o) Prescribe the procedure, if any, by which the terms of any contract with bond holders may be amended or abrogated, the amount of bonds the holders of which must consent thereto, and the manner in which such consent may be given.

(p) Covenant as to the maintenance of its property, the replacement thereof, the insurance to be carried thereon, and the use and disposition of insurance moneys.

(q) Vest in an obligee, in the event of a default by an authority, the right to cure any such default and to advance any monies necessary for such purpose, and covenant that the monies so advanced be an additional obligation of such authority with such interest, security and priority as may be provided in any trust indenture, mortgage, lease or contract.

(r) Covenant and prescribe as to the events of default and terms and conditions upon which any or all of its bonds shall become or may be declared due before maturity, and as to the terms and conditions upon which such declaration and its consequences may be waived.

(s) Covenant as to the rights, liabilities, powers and duties arising upon the breach by it of any covenant, condition, or obligation.

(t) Covenant to surrender possession of a project or projects or parts thereof upon the happening of an event of default; and vest in an obligee the right, upon such default, without judicial proceedings to take possession and use, operate, manage and control such projects or any part thereof, and to collect and receive rents, fees and revenues arising therefrom in the same manner as such authority itself might do, and to dispose of the monies collected in accordance with the agreement of such obligee with the authority.

(u) Vest in a trustee or trustees the right to enforce any covenant to secure, or pay the bonds, or otherwise relating to such bonds; provide for the powers and duties of such trustee or trustees, limit the liabilities thereof, and provide the terms and conditions upon which the trustee or trustees, or the holders of bonds, or any proportion of them, may enforce any such covenant.

(v) Vest in a government or in a trustee the right, upon any happening of an event of default, to foreclose the mortgage securing any bonds held by such government, through judicial proceedings or through the exercise of a power of sale without judicial proceedings.

(w) Vest in a trustee or trustees or in other obligees the right, upon the happening of an event of default, to foreclose any mortgage through judicial proceedings.

(x) Vest in an obligee, including a government, the right to foreclose any such mortgage as to all or such part or parts of the property covered thereby as such obligee shall elect; the institution, prosecution and conclusion of any such foreclosure proceedings or the sale of any such parts of the mortgaged property shall not affect in any manner or to any extent the lien of the mortgage on the parts of the mortgaged property not included in such proceedings or not sold as aforesaid.

(y) Make covenants other than, and in addition to, the covenants herein expressly authorized, of like or different character; and execute all instruments necessary or convenient in the exercise of the powers herein granted, or in the performance of its covenants or duties, which may contain such covenants and provisions, in addition to those above specified, as the government or any purchaser of the bonds of an authority may require.

(z) Make such covenants and do any and all such acts and things as may be necessary or convenient or desirable in order to secure its bonds, or in the absolute discretion of an authority tend to make the bonds more marketable; notwithstanding that such covenants, acts or things may not be enumerated herein.

207. In addition to powers conferred upon an authority by other provisions of this act, an authority is empowered to borrow money or accept grants from the Federal Government for or in aid of any project, to take over any land acquired by the Federal Government or any housing plan of the Federal Government, to take over, manage or lease any housing undertaking of the Federal Government, and to these ends, to enter into

such contracts, mortgages, trust indentures, leases or other agreements as the Federal Government may require, including agreements that the Federal Government shall have the right to supervise and approve the construction, maintenance and operation of any project. It is the purpose and intent of this subdivision to authorize an authority to do any and all things necessary or desirable to secure the financial aid and co-operation of the Federal Government in the undertaking, construction, maintenance, lease, operation or assistance of any project by the authority, or in connection with any housing plan or undertaking of the Federal Government.

²¹Sec. 73. Nonliability of State or municipality. The bonds or other obligations of an authority shall not be a debt of the State or the municipality and neither the State nor the municipality shall be liable thereon nor shall an authority have power in any way to pledge the credit of the State or the municipality, nor shall the transfer from the authority to the municipality or the vesting in the municipality of property theretofore belonging to an authority impose upon the municipality any obligation except such as it may expressly assume.

²¹

Prior to being amended by Section 10 of Chapter 218, Laws of 1938, this section read as follows: "Sec. 73. Nonliability of State or city. The bonds or other obligations of an authority shall not be a debt of the State or the city and neither the State nor the city shall be liable thereon nor shall an authority have power in any way to pledge the credit of the State or the city, nor shall the transfer from the authority to the city or the vesting in the city of property theretofore belonging to an authority impose upon the city any obligation except such as it may expressly assume."

²²Sec. 74. Tax exemptions. 1. An authority shall be exempt from the payment of any taxes or fees to the State or any subdivision thereof or to any officer or employee of the State or subdivision thereof.

2. Bonds and mortgages of an authority are declared to be issued for a public purpose and to be public instrumentalities, and together with interest thereon, shall be exempt from tax.

²³3. The property of an authority shall be exempt from all local and municipal taxes. A municipality may (a) fix a sum which shall be paid to it annually by the authority in respect of each project; or (b) agree that the authority shall not pay or be liable to pay any sum

²²Prior to being amended by Section 11 of Chapter 218, Laws of 1938, Subsections 1 and 2 of Section 74 read as follows: "Sec. 74. Tax exemptions. 1. An authority shall be exempt from the payment of any taxes or fees to the State or any subdivision thereof or to any officer or employee of the State or subdivision thereof.

"2. Bonds and mortgages of an authority are declared to be issued for a public purpose and to be public instrumentalities, and together with interest thereon, shall be exempt from tax."

²³As contained in Chapter 4, Laws of 1934, Subsection 3 reads as follows: "3. The property of an authority shall be exempt from all local and municipal taxes. An authority shall pay to the city a sum fixed annually by the city. Such sum shall not exceed in any year the sum last levied as an annual tax upon the property of the authority prior to the time of its acquisition by the authority."

Subsection 3 of Section 74 was subsequently amended by Section 8 of Chapter 310, Laws of 1935, which reads as follows: "3. The property of an authority shall be exempt from all local and municipal taxes. A city may (a) fix a sum which shall be paid to it annually by the authority in respect of each project; or (b) agree that the authority shall not pay or be liable to pay any sum whatsoever in respect of a project or projects for any year or years; or (c) agree with an authority or government upon the sum to be paid by the authority for any year or years in respect of a project or projects, or accept or agree to accept a fixed sum or other consideration in lieu of such payment; provided, however, that the sum fixed, or agreed to be paid by the authority, for any year shall in no case exceed the sum last levied as an annual tax upon the property included in such project prior to the time of its acquisition by the authority."

Subsection 3 of Section 74, as contained above in the body of this Act, was amended by Section 11 of Chapter 218, Laws of 1938.

whatsoever in respect of a project or projects for any year or years; or (c) agree with an authority or government upon the sum to be paid by the authority for any year or years in respect of a project or projects, or accept or agree to accept a fixed sum or other consideration in lieu of such payment; provided, however, that the sum fixed, or agreed to be paid by the authority, for any year shall in no case exceed the sum last levied as an annual tax upon the property included in such project prior to the time of its acquisition by the authority.

Sec. 75. Foreclosure and other remedies. 1. In an ²⁴, ²⁵ action to

²⁴As contained in Chapter 4, Laws of 1934, Section 75 reads as follows: "Sec. 75. Foreclosure. In an action to foreclose a mortgage on real property of an authority, the authority and the city, in addition to all other necessary parties, shall be made parties defendant and shall take such steps in said action as may be necessary to protect the public interest therein and no costs shall be awarded against them. Wherever under the instrument creating a lien a notice of default in writing is required to be served upon an authority before the institution of foreclosure proceedings, a copy of such notice shall be served upon the city before the institution of such proceedings. Foreclosure shall not be decreed unless the court to which application is made shall be satisfied that the interests of the bondholders cannot be adequately secured or safeguarded except by the sale of the property. In any foreclosure sale the decree may in the discretion of the court provide that the property shall be sold free of all restrictions imposed by this act. At such a sale the city may purchase the property affected at a price not exceeding the amount due to the plaintiff at the time of such sale together with the costs and expenses of the sale."

²⁵Subsection 1 of Section 75 prior to being amended by Section 12 of Chapter 318, Laws of 1938, as contained in the body of the above Act, was amended by Section 9 of Chapter 310, Laws of 1935, and reads as follows: "Sec. 75. Foreclosure and other remedies. 1. In an action to foreclose a mortgage on real property of an authority, the authority and the city, in addition to all other necessary parties, shall be made parties defendant and shall take such steps in said action as may be necessary to protect the public interest therein and no costs shall be awarded against them. Wherever under the instrument creating a lien a notice of default in writing is required to be served upon an authority before the institution of foreclosure proceedings, a copy of such notice shall be served upon the city before the institution of such proceedings. At such a sale of the property of the authority pursuant to foreclosure or other proceedings, the city may purchase the property affected."

foreclose a mortgage on real property of an authority, the authority and the municipality, in addition to all other necessary parties, shall be made parties defendant and shall take such steps in said action as may be necessary to protect the public interest therein and no costs shall be awarded against them. Wherever under the instrument creating a lien a notice of default in writing is required to be served upon an authority before the institution of foreclosure proceedings, a copy of such notice shall be served upon the municipality before the institution of such proceedings. At such a sale of the property of the authority pursuant to foreclosure or other proceedings, the municipality may purchase the property affected.

2. In addition to any other rights and remedies, but subject to such limitations as may be made by contract, any lessor or mortgagee, or any trustee designated in the bonds of an authority or under a mortgage or indenture executed by an authority as security for its bonds may: (a) by mandamus or other suit, action or proceedings at law or in equity compel the authority to perform each and every term, provision and covenant contained in any agreement of the authority with such trustee, mortgagee or lessor and require the performance of any or all such covenants and agreements of the authority and of the duties imposed upon the authority by this article;

(b) by action or suit in equity, enjoin any acts or things which may be unlawful or in violation of the rights of such trustee, mortgagee or lessor;

(c) by suit, action or proceedings in any court of competent jurisdiction compel possession of any project or any part thereof to be surrendered to such trustee, mortgagee or lessor having the right to such possession under any agreement with the authority;

(d) by suit, action or proceedings in any court of competent jurisdiction obtain the appointment of a receiver of any project of the authority or any part thereof and of the rents and profits therefrom. If such receiver be appointed, he may enter and take possession of such project or any part or parts thereof and operate and maintain same, and collect and receive all fees, rents, revenues, or other charges thereafter arising therefrom in the same manner as the authority itself might do, and shall keep such monies in a separate account or accounts and apply the same in accordance with the obligations of the authority as the court shall direct;

(e) by action or suit in equity require an authority to account as if it were the trustee of an express trust.

Sec. 76. Dissolution. An authority or the city may apply to the supreme court in any county in which the city or any part thereof is located, for an order dissolving the authority. The court thereupon shall hold a hearing in open court after such notice of hearing as the court may require. Upon a showing to the satisfaction of the court that provision has been made for the payment or satisfaction of all of the outstanding obligations of the authority and for the necessary expenses for the liquidation thereof, the court may order that the authority be dissolved. Upon such dissolution the property of the authority shall be and become the property of the city.

Sec. 77. Miscellaneous. 1. For the purposes of the application of the lien law and of the general corporation law an authority shall be deemed to be a municipal corporation. The term "public improvement" used in the lien law shall be deemed to include an improvement upon real property belonging to an authority; the secretary of the authority shall, for the purposes of the lien law, be deemed to be the financial officer of the authority and the head of the department or bureau having charge of the construction of an improvement.

2. All projects of an authority shall be subject to the planning, zoning, sanitary and building laws, ordinances and regulations applicable to the locality in which the project is situated.

3. In order to protect funds deposited by an authority, all banks, bankers, trust companies or other persons carrying on a banking business, organized under the laws of the State, are authorized to give to the authority an undertaking with such sureties as shall be approved by the authority, faithfully to keep and pay over upon the order of the authority any such deposits and agreed interest thereon, or in lieu of the said sureties, to deposit with the authority as collateral such securities and in such amounts as may be agreed upon with the authority pursuant to a collateral deposit agreement in form and terms satisfactory to the authority. The collateral to be deposited shall consist of securities in which savings banks may legally invest funds within their control.

4. This article is to be construed liberally to secure the beneficial interests and purposes thereof.

Sec. 78. Effect of partial invalidity. If any provision of this article or the application thereof to any person or circumstances is held invalid, the validity of the remainder of this article and of the application of such provision to other persons and circumstances shall not be affected thereby.

Subject: Amortization Schedule of a \$30,000 Loan (Level Annual Payment of 6%--Interest Rate on Balance Due of 4%)

<u>End of Year</u>	<u>Total Payment</u>	<u>Payment to Interest 4%</u>	<u>Payment to Principal</u>	<u>Balance Due</u>
0				\$30,000.00
1	\$1,800.00	\$1,200.00	\$600.00	29,400.00
2	1,800.00	1,176.00	624.00	28,776.00
3	1,800.00	1,151.00	649.00	28,127.00
4	1,800.00	1,125.08	674.92	27,452.08
5	1,800.00	1,098.08	701.92	26,750.16
6	1,800.00	1,070.01	729.99	26,020.17
7	1,800.00	1,040.81	759.19	25,260.98
8	1,800.00	1,010.44	789.56	24,471.42
9	1,800.00	978.86	821.14	23,650.28
10	1,800.00	946.01	853.99	22,796.29
11	1,800.00	911.85	888.15	21,908.14
12	1,800.00	876.33	923.67	20,984.47
13	1,800.00	839.38	960.62	20,023.85
14	1,800.00	800.95	999.05	19,024.80
15	1,800.00	760.99	1,039.01	17,985.79
16	1,800.00	719.43	1,080.57	16,905.22
17	1,800.00	676.21	1,123.79	15,781.43
18	1,800.00	631.26	1,168.74	14,612.69
19	1,800.00	584.51	1,215.49	13,397.20
20	1,800.00	535.89	1,264.11	12,133.09
21	1,800.00	485.32	1,314.68	10,818.41
22	1,800.00	432.74	1,367.26	9,451.15
23	1,800.00	378.05	1,421.95	8,029.20
24	1,800.00	321.17	1,478.83	6,550.37
25	1,800.00	262.01	1,537.99	5,012.38
26	1,800.00	200.50	1,599.50	3,412.88
27	1,800.00	136.52	1,663.48	1,749.40
28	1,819.38	69.98	1,749.40	--

Division of Economics and Statistics
November 3, 1938

11-2-38

Senator Walsh called me on the telephone Tuesday, November 2nd, stating that he had taken the matter of Mr. John H. Eagan of the Boston Internal Revenue Office up with Mr. Roswell Magill.

He was anxious to have Mr. Eagan promoted to the position of Head of the new technical staff of the Decentralization Unit in Boston. I told Senator Walsh that I was not familiar with the matter but would investigate immediately and call him back the next day.

Mr. Harold Graves brought me Mr. Eagan's record, together with correspondence from Senator Walsh to Mr. Graves, referred by Mr. Graves to Mr. Magill, and answered by Mr. Magill on August 17, 1938. After conferring with Mr. Graves, I called the Senator on the telephone and reported to him as follows:

1. Mr. Eagan had done a very creditable job in the Boston office, having been promoted consistently ever since he joined the service, now receiving a salary of \$4,600 for the year. Mr. Eagan's record is a good one, but in the opinion of the Commissioner was not qualified for the technical position in the Boston office.
2. That we were sending to each of these decentralization offices our own technical men from the Department, who have been well trained in this highly specialized work.
3. We have adopted a policy of never sending to any locality, men who had formerly resided in that locality, for obvious reasons.
4. That the office personnel for the Boston office had already been selected by the Commissioner and the men have been told to be prepared to report at the Boston office not later than February 1, 1939.

Senator Walsh was well satisfied with my answer and stated definitely over the telephone that inasmuch as this job was not being given to anyone else in the Boston office in preference to Mr. Eagan that he was entirely satisfied.

- 2 -

Senator Walsh further complimented the Secretary on the adoption of the policy of not sending men to perform the immediate duty of making tax settlements in these decentralization offices to men formerly residing in that locality.

J.W.H.

Footnote: Copy of this memorandum to be filed with correspondence brought up by Mr. Graves.

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HMJr.

Here is the history of
the "cut-back" in brief.

Upm

- (1) The Emergency Banking Act of 1933 gave national banks the privilege of issuing preferred stock.
- (2) The same Act empowered the Secretary of the Treasury to request the RFC to purchase preferred stock in banks.
- (3) In November, 1933, the Attorney General rendered an opinion to the Secretary of the Treasury to the effect that national banks might sell preferred stock at a premium, to be redeemed at the price at which actually sold, the premium to be applied to the elimination of losses in order to place the banks on a sound basis. The Comptroller of the Currency, however, refused to permit national banks to do so.
- (4) In case of voluntary liquidation, conservatorship, or receivership, the holders of preferred stock could collect only par value plus accumulated dividends, but no premiums. Because of this, prior to the Banking Act of 1935, the RFC did not purchase any preferred stock at a premium.
- (5) Section 345 of the Banking Act of 1935 allowed owners of preferred stock to receive, in event of liquidation, the purchase price, plus accumulated dividends. Since that time, the RFC has purchased preferred stock at a premium.

(6) The Comptroller of the Currency strongly opposed the enactment of this provision because

- (a) The statement of the bank's condition would not show the contingent liability for the premium and this would tend to deceive the investing public,
- (b) It would tend to impede the return of the market for common stocks in banks, and
- (c) The only advantage would accrue to the RFC, which would not have to show any loss on preferred stock so long as its par value was sound.

(7) In the face of the enactment by Congress over these objections, it was difficult for the Comptroller to refuse to give consent in meritorious cases to the sale by a national bank of preferred stock at a premium.

(8) The first case presented to the Comptroller involved a bank on the verge of insolvency. In addition to selling new preferred stock at a premium, old preferred stock held both by the RFC and locally had its par value (but not its retirable value) reduced. That bank is doing well and will probably in time retire all its preferred stock at premium values.

- (9) In reports which banks are required to publish, the retirable value of preferred stock is shown.
- (10) The provisions with respect to preferred stock are set forth in the articles of association by the vote of shareholders.
- (11) The Banking Act of 1935 provided that provisions with respect to preferred stock be shown on the stock certificate.
- (12) Selling preferred stock at a premium does make possible the cleaning up and rehabilitation of banks.

Lipson

Yunnanfu, Yunnan,

November 2nd, 1938.

The Honorable

Secretary Henry Morgenthau, Jr.,

Department of Treasury,

Washington, D.C.

Dear Mr. Secretary,

I enclose notes typed from reports just received from

Dr. Buck.

Respectfully,

Enid Saunders

Enid Saunders
Secretary to Dr. Buck

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October 15th, 1938

To Secretary Morgenthau
From J. Lossing Buck

INTERVIEW WITH DR. J. B. GRANT
REPRESENTATIVE OF THE ROCKEFELLER FOUNDATION IN CHINA

Dr. Grant, who has made a hurried trip overland to Chungking from Hong Kong, states: "I am favorably impressed with the way the Chinese are carrying on in spite of tremendous handicaps. Chinese leaders, most of whom have lost their homes and possessions, are actively engaged in various pursuits, among which are civic and administrative improvements, none of which any other country would undertake during a period of war."

This statement from Dr. Grant is significant in that for about the first year of the war he, and his former superior, Mr. Gunn, were taking a pessimistic view of the Chinese side.

Dr. Grant, who has recently returned from Japan, states that the war is unpopular in Japan, and that no scientific instruments can be purchased because the raw materials are needed for war purposes.

October 16th, 1938

To Secretary Morgenthau

From J. Lossing Buck

POSSIBILITY OF CHINA BECOMING COMMUNISTIC

My language teacher, Mr. Lung, states: "Through some official connections I have, I now feel convinced there is no danger of China ever becoming communistic. Formerly I was in the dark about this question. Although newspapers may seem on the surface to indicate a trend toward Communism, it is only on the surface and does not represent the real situation. A distinction must also be made between fairly close relation with Russia as a country, and the adoption of their political system. The latter will never happen. One evidence of this is the rapid development of the Kuomin Party Youth Movement, which is designed particularly to offset the trend of the youth to the Chinese Communist fold. The Generalissimo also has his soldiers in and near the Chinese Red areas as a precaution."

To Secretary Morgenthau
From J. Lossing Buck

AGRICULTURAL DEVELOPMENT

October 15th, 1938

The Agricultural Credit Bureau has 15 million Yuan invested in projects in the different provinces back of the front lines. The main attention has been given to irrigation projects, and second in importance are the cooperative banks, sixty in all, and small granaries.

October 22nd, 1938

The last meeting of the Agricultural Production Commission, held for the purpose of formulating an agricultural extension program, closed today. I attended all the meetings, and found a concensus of opinion among the group as to the urgent need of developing an extension program similar to the county agent system in the United States. Broad policies were outlined, and the execution of the system awaits Dr. Kung's approval and his appropriation of funds.

October 17th, 1938

To Secretary Morgenthau

From J. Lossing Buck

CHUNGKING

A tremendous amount of building is taking place in Chungking. Government organizations are well established in their new quarters, and one gains the impression of a great deal of activity, not unlike former days in Nanking, and with about the same government personnel.

To Secretary Morgenthau
From J. Lossing Buck

SITUATION IN JAPAN - AUGUST, 1938

Dr. M. S. Bates, Professor of History and Political Science in the University of Nanking, who remained in Nanking during and after its occupation by the Japanese, has made periodical visits to Japan during the last two years, for the purpose of bringing about a better understanding by the Japanese of the Chinese situation. Attached are Dr. Bates' observations during his trip to Japan this past August. It is remarkable that he could make this trip after having been in Nanking during its occupation. He is now back in Nanking again.