

DIARY

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OFFICE CORRESPONDENCE

January 28, 1939.

CONFIDENTIAL FILES

TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

L. W. Knoks

I called Mr. Bolton at 10 o'clock this morning. I referred to the circular drawn up by the London Foreign Exchange Committee to guide the London exchange market in its dealings and requested that he let me have a couple of copies. This Bolton promised, adding that the circular had been prepared by the Foreign Exchange Committee entirely without definite instructions from the bank or from the Treasury. The Committee had simply been handed a copy of the Treasury's letter to the bank and requested that they do what they could to prevent speculation against sterling without interfering with normal market intercourse. The Committee had arrived at its own rules although he, Bolton, had taken some small part in it privately, but from the market's viewpoint the circular was the Committee's own ruling and it was realized that it had no legal authority and no jurisdiction at all.

I inquired whether they had any further news on what had happened and was going on in Germany. It was extremely difficult to know details, Bolton replied, particularly now that all their avenues of information had been closed up. In addition to Schacht, Dreyse and Hulse, Blessing seemed to be out also. There was no doubt that Schacht's visit to London and Norman's return visit to Berlin had precipitated the issue. A very definite feeling prevailed that the Extremists now had complete control in Germany and that the financial and economic situation within the country was one which might drive the German authorities to take some desperate step. In Amsterdam particularly the feeling was

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE January 23, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH  
BANK OF ENGLAND.

FROM: L. W. Knoke

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extremely bad and it required only some small incident to send the Dutch probably into a panic. A certain amount of money was leaving Amsterdam now and underneath there seemed to be some idea that the Dutch were the first on Hitler's list to be rubbed out in 1939. The suggestion had been made that Germany might withdraw from the B.I.S. Apart from the possibility of some desperate movement on the part of the Germans, it was probably correct to argue that from a long term point of view the German menace was beginning to decline. Meanwhile they were trying in London to hold the dollar at 4.67 9/16. Their dollar losses were at the rate of about \$1,000,000 an hour (so far \$10,000,000 today). I suggested that this was inevitable and the volume, under the circumstances, did not seem to me so overwhelming. Bolton replied that they were quite satisfied.

LWK:KW

STRICTLY CONFIDENTIAL

HA

3

PARTIAL PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Berlin, Germany (part air)

DATE: January 23, 1939, 3 p.m. Rec'd January 24.

NO.: 61

CONFIDENTIAL.

One. We have the statement from a source close to Goering that Schacht's dismissal occurred because the latter felt unable to carry out certain directives which had been given to him by the Chancellor; that his departure had nothing to do with the discussions concerning Jewish immigration which he was carrying on with Rublee and which would be continued with Wohltat of the Economics Ministry at the point where they were left off.

In spite of such assurances it is difficult to believe that the dropping of Schacht at the very moment when his preliminary conversations with Rublee were about to be completed did not have something to do with the temerity of a non-party man - for in spite of his party membership the core of the party has never regarded him as a real National Socialist - in injecting himself into a fundamental party issue was not one element in his dismissal.

I cite the following circumstances as seeming to be significant -

At the beginning of the conversations at Berlin, Schacht enjoined Rublee not to discuss the problem with representatives of other Government departments. Although

Goering

Goering states he was kept fully informed of the talks, Schacht did not consult with representatives of the Ministry of Economics, nor with the Police and the Foreign Office. It was not until just before his last talk with Rublee on the nineteenth of January that he did so. After that he "sketched" certain details of the proposal for emigration of Jewish people.

Schacht was obviously distressed at the time he had his last talk with Rublee. One thing that is certain is that Himmler's police made a secret report to Hitler about Schacht, saying that during his negotiations he had been disloyal to the interests of the National Socialists, and it seems certain that Schacht knew about this report.

Two. The core of the National Socialist Party was antagonistic toward Schacht because of his characteristic frankness not to say indiscretion and criticism of certain policies, although he enjoyed the Chancellor's consideration. I may add that the party enmity to Schacht is held also as far as all conservative Government economists and financiers are concerned, they being obstructionists to swift realization of aims of the National Socialist Party. It is asserted that if they had proper party faith and philosophy, they could easily overcome the obstacles which they invent. I may also add that Goering has something

thing of this belief too. The distinction is that certain radical leaders would have the "conservative" economists and experts displaced, while Goering himself depends upon them but insists that these conservatives must find a way to overcome the obstacles and objections to the plans he wants to carry out.

Three. Schacht in his discussions with Rublee was carrying out Goering's plans but it is unknown whether Goering tried or was able to save Schacht. Certainly one of the results of Schacht's departure is an extension of Goering's power over the banking and credit system since Funk, the new head of the Reichsbank, may be regarded as Goering's man although he has some party standing of his own.

Four. In view of the foregoing it seems that party enmity, jealousy, and perhaps division may have also played their part in the dismissal. The statement, however, that Schacht's inability or refusal to carry out certain directives of the Chancellor should be accepted as at least a main cause of the dismissal. Schacht's fundamental position has been that "investment must match saving" and that Government borrowing should not exceed capital creation. The financial embarrassment of the Government which is so widely rumored at present may have made it necessary to resort again to secret bill financing or

devices of similar effect which Schacht announced he had eliminated in 1938.

What the directives of Hitler were we do not know exactly. However, I give below a story told me by a German banker - which I repeat with complete reserve as to its authenticity. This story may be indicative of the kind of instruction which Schacht was given. It is said that Hitler himself is interesting himself personally in the Third Reich's financial and credit difficulties, and it was his own idea to have a Government obligation that could not be rediscounted at the Reichsbank or collected until a considerable time after it was issued and that the obligation had to mature before interest was paid on it. Then when it had matured an obligation of say 80 marks could be rediscounted or collected at something like 100 marks.

Whether inflation is likely to occur as a result of the party Government taking over the Reichsbank can only be discussed when more information is available regarding the reasons for Schacht's dismissal and the future financial plans of the Government.

Five. Unquestionably Schacht's departure does, however, increase the dangers of inflation and economic dislocation. With his going the last important bulwark of

financial

financial "conservatism" in the Third Reich has disappeared. The Finance Ministry and Economics Ministry are indeed staffed by "sound" officials notably Brinkman the administrative head of the latter Ministry and who as the new Vice President of the Reichsbank will presumably be the active head of that institution. However, these officials have neither the prestige nor position successfully to withstand any determined pressure from the party.

One time Schacht said that with the Fuehrer he could rule Germany economically, but that he could do nothing without him, meaning that the economic structure of the Reich could be kept sound as long as he retained his position and contact with the Fuehrer. Schacht feared that there would be economic disorganization and deterioration if he did not have that position and relationship.

It is requested that the foregoing be repeated and charged to the Treasury.

GILBERT.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 23, 1939, 5 p.m.

NO.: 132

FROM COCHRAN.

At noon today I visited the Bank of France. As a result of last week's sterling acquisitions, the gold holdings of the French fund have passed 14 billion francs. This morning no exchange transactions were carried out by French control. Sterling is again causing concern for my friends; they feel that the British control should have taken a stiffer attitude last week and should have held the pound firm at any cost, after it acquired its new gold stock. They lost 30 or 40 million dollars, as it was, in addition to the sterling which was yielded to France, and still gave a weak impression.

At the Bank of France my friends believe that Schacht's removal from the Reichsbank affected sterling more than it did the French franc, because, first, London and the City particularly had supported Schacht for years while no position had ever been taken by France; second, the British have much larger standstill and other investments frozen in Germany, mostly from a few City banks, whereas France's main German investments are in Dawes and Young bonds which are widely distributed among French holders.

END SECTION ONE.

WILSON.

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PARAPHRASE, SECTION TWO, TELEGRAM NO. 132 OF JANUARY 23,  
1939, FROM PARIS

The French market today is nevertheless quite sensitive to the Schacht affair, and feels that the prospect for financial and other adventures is increased by the removal of more of his associates from the Reichsbank. French investors are hesitant to take the new 4 percent external bonds because of this. Today there is a press story from Amsterdam that an important part of the tranche taken for their market had to be held by the Dutch bankers.

The Schacht affair furthermore added on to the nervousness over the Spanish and Italian situations has brought about an increased sale of securities of the French Government. The Bank of France this morning alone bought 56,000,000 francs of these securities in order to try to steady them. This brings the total open market account to more than two billion. The Bank of France does not mind taking a fair amount of these securities, especially the two-year bonds, because the Bank's earnings, which have fallen off since the discount rate reduction, are helped thereby. It is the belief of my friends that the Government was unwise in letting rentes rise so spectacularly, because even if international conditions had not developed so unfavorably as they have, there would have been a bad technical reaction.

Some resident officials of the BIS, I understand,

are

- 2 -

are concerned lest the Reichsbank change may possibly hurt important BIS investments in Germany, with consequent repercussions on the BIS.

Today a weak Bourse is reported by market trader, who says the general situation and particularly Schacht's removal, have caused big drops in shares and French rentes. Today the Guaranty had an order to sell 2,000,000 florins for official French account, but only 1,000,000 could be disposed of.

END OF MESSAGE.

WILSON.

EA:LWW

REB

GRAY

London

Dated January 23, 1939

Rec'd 5:05 p. m.

Secretary of State,  
Washington.

89, January 23, 5 p. m.

FOR TREASURY.

One. Comment in the financial press on Schacht's departure from the Reichsbank besides reflecting the natural anxiety regarding the two questions which affect the city directly, namely the future of standstill agreements and the outlook for payments on the Young and Dawes loans, indicates that the city had some insight into the position which has been developing in Germany leading up to the announcement of Friday and the weekend. It is pointed out that Hitler was confronted with the alternatives (A) a discontinuance in the rate of increase in armament and building activity; (B) increased taxation; (C) a combination of (A) and (B); (D) inflation or (E) further regimentation of production and consumption. That Schacht stood out for the alternatives (A), (B) or (C) and thus brought about his dismissal is generally assumed. With regard to the future the comments may be illustrated

by

REB

2-#89, From London, Jan.23,5p.m.

by the following:

(1) From an editorial in the FINANCIAL NEWS "presumably Dr. Schacht's dismissal will be followed by a series of radical economic and financial measures. The sanctity of private property and the capitalist character of the German economic system will probably be further attacked by means of new confiscatory measures" and

(2) From a FINANCIAL TIMES editorial "Dr. Funk has been instructed to maintain stability of prices and the value of the mark. That this can be done consistently with opening up the capital market to private enterprise and thereby further stimulating inflation is highly problematical. Should Dr. Funk fail or even look like failing in this endeavor the Nazis are certain to grasp more desperately at exports through an intensification of their present trade drive."

Thomas Ballogh who wrote the very competent article on the national economy of Germany published in the September issue of the Economy Journal expresses privately the following views on the German situation:

The extreme danger of panic in Germany which would result from indications of inflation such as rising prices

are

REB

3-#89, From London, Jan. 23, 5p.m.

are so obvious that one can but expect that inflation will be avoided at all costs. On this no doubt Hitler and Schacht were agreed and the difference of opinion must have arisen as to the method of avoiding inflation in the face of the increased expenditure of the German Government and the virtual saturation point of production reached (which was taken into account by the British Treasury the views of which were summarized in my No. 81 of January 20, 8 p. m.). Schacht's resignation indicates that increased taxation was not accepted as a means of using the market mechanism to hold down consumption and the methods which can but be expected are further confiscation, a further push into Socialism by the virtual taking over of more industries together with the extension of rationing the chief incidence of the latter falling on the capitalist. In short the changes in personnel at the Reichsbank point definitely to the revolutionary character of the developments to be expected in the German economy and no doubt also to a further export trade drive which will tend more and more to resemble the Russian system of trading. He also expects an early default on both standstill and long-term debts.

The

REB

4-#89, From London, Jan.23,5p.m.

The feature of the foreign exchange market today was the slump in the block mark which fell from 122 to around 132 to the pound.

The dollar which opened at 4.67 was pushed up by fairly heavy dealings on the part of the British fund to 67-9/16 after which the rate went to 11/16 without further support and later the British fund bought dollars but on balance on the day lost a fair amount. Gold fixed at 148 shillings 8-1/2 pence giving a 1 pence premium. Of the 130 bars sold 26 were supplied by the British fund. Most of the gold was taken for arbitrage. There was little gold dealing after the fixing. The franc remained fairly steady opening slightly under 177 and closing around 177.10 with the Bank of France operating only to a very small extent.

JOHNSON

NPL

EMB

January 23, 1939. 15  
11:29 a.m.

HMJr: Hello.

Operator: Mr. Jones.

HMJr: Hello.

O: Go ahead.

HMJr: Hello, Jesse?

Jesse  
Jones: Yeah.

HMJr: Henry talking.

J: Yeah.

HMJr: Jesse, I have with me here Mr. Frank Knell, President  
of the New York Cotton Exchange, --

J: Yeah.

HMJr: And he was under the misapprehension because I happened  
to own the stock in Commodity Credit that I ran it, see?

J: Yeah.

HMJr: Now, he's -- here and wants to talk about their problems  
and I'd like very much -- I told him that you shared the  
responsibility with Agriculture and I'm sure you would  
be glad to see him.

J: I'll be glad to see him.

HMJr: Could you give him an appointment?

J: Ah -- when would he like to come? Now?

HMJr: Now would be fine.

J: Is he there?

HMJr: He's right sitting across the desk.

J: All right. Tell him to come right over.

HMJr: Frank Knell.

J: I'll be glad to see him.

HMJr: K-N-E-L-L.

J: I'll be glad to see him, Henry.

HLMJr: And then if you think he ought to see Wallace , will you pass him on?

J: I'll do that too.

HLMJr: But I think that he'll get more out of you.

J: I'll be very glad to see him, and then I'll let you know.

HLMJr: Thank you very much.

J: Good bye.

January 23, 1939. 17  
12:10 p.m.

HMJr: Hello.

Operator: Captain Collins. Go ahead.

HMJr: Hello.

Captain  
Collins: Yes, sir.

HMJr: Collins, I just talked to the Secretary of War, and he said it's all right to let Assistant Secretary Johnson know.

C: Yes, sir.

HMJr: But I think it's quite right that if you -- about to sign -- if the French are about to sign with Martin, to let them know. Well, haven't they -- haven't they detailed an army officer to you?

C: Yes, sir. There's a man, but we haven't -- we haven't had any meeting, you see, in which he would be interested at all. There's been no open meeting as far as we are concerned. There have been negotiations only between the French and the manufacturer.

HMJr: But you'll just let the Assistant Secretary of War's office know in advance of signing, is that it?

C: Yes, sir. That's what I thought I should do.

HMJr: Well, I think it's good.

C: Yes, sir.

HMJr: Then they'll have no complaints.

C: That's right, sir.

HMJr: All right, carry on.

C: Thank you very much, sir.

HMJr: All right.

January 23, 1939.  
12:12 p.m.

Operator: Go ahead.

HMJr: Hello.

Allan  
Sproul: Hello, Mr. Secretary.

HMJr: How are you?

S: Fine. I'm sorry I was upstairs at this banker's meeting when you called. I got out as soon as I could.

HMJr: Don't associate too much with the bankers.

S: Oh, that's a bad business. (Laughter)

HMJr: Yeah. Sproul, this thing -- this U.S. housing hundred-million dollar loan, what coupon rate do you think we ought to put on it?

S: Well, we've had a session here on it Friday and another one this morning.

HMJr: Yeah.

S: And our best judgment is that a one and a half coupon would be the best.

HMJr: One and a half?

S: We think it would go at one and three-eighths with that size issue and fully guaranteed without question.

HMJr: Would you call me back at sharp three-twenty?

S: Yeah.

HMJr: Will you call me --

S: Yeah.

HMJr: At sharp three-twenty, and we'll make up our minds?

S: All right.

HMJr: It -- I think with the market the way it is, it looks like one and a half.

S: Well that's the way it looks to me, that we want a little factor of safety there, and that would give it to us. We could shave it to one and three-eighths, but I'd rather do one and a half.

HMJr: Well, will you call me back at sharp three-twenty?  
S: I'll do that.  
HMJr: Thank you.  
S: All right.  
HMJr: Hello?  
S: Yeah.  
HMJr: The legal stuff and everything else is all right, isn't it?  
S: Yes, that seems to be all O.K.  
HMJr: Will you check it?  
S: Yeah.  
HMJr: Check it with the circulars and everything?  
S: Yeah.  
HMJr: Please.  
S: All right.  
HMJr: Thank you.

January 23, 1939.  
2:51 p.m.

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HMJr: General Counsel?

Roswell  
Magill:

Yeah.

HMJr: And he gave me some. Have you got a pencil?

M: Yes, sir.

HMJr: He suggested Dean Arant.

M: Arant.

HMJr: Yeah, of Ohio.

M: Yeah.

HMJr: Do you know of him?

M: Yes.

HMJr: He suggested Dean Rutledge of Iowa Law School.

M: Yeah.

HMJr: And then I think he said Dean Costigan of Colorado.

M: No, well, I'll look that up. I don't know him.

HMJr: Well, he said he's Senator Costigan's brother, and he's -- he thinks he's a Dean there.

M: Yeah, he -- I don't think he -- well, I'll look it up.

HMJr: Well, those three. He said he was thinking -- had thought of Rutledge, for the Supreme Court.

M: Well, let me see, I'm just looking up -- I don't -- I don't see Costigan in our -- in our book here. He must be -- he must be somebody else. He must be out in practice, or teaching in a night school, or something. Well, let's see -- Rutledge, yes Rutledge is Dean of the Law School at Iowa. Ah -- he's a man of about my age.

HMJr: Yes.

M: He's born 1894, and he's taught around in various places. He's been Dean out at Iowa since 1935, and he seems to have taught a little bit of everything, and is now teaching corporation law and administrative law.

HMJr: That's all right. Hello?

M: I don't know -- I don't know Rutledge at all. I know Arant fairly well.

HMJr: Yeah.

M: I can tell you about him. Do you want to hear about him?

HMJr: Yeah.

M: Arant, I'm just looking him up in the book, was born in 1887 --

HMJr: Yes.

M: And his law school education is at Yale.

HMJr: Yes.

M: Now, he's been Dean of various law schools. He was the -- but he's been at Ohio State since 1928. In other words, he's been there over ten years.

HMJr: Yeah.

M: Arant is a -- is a fellow who has always taken a comparatively prominent part in -- in the Bar Association work and in the Law School Association. I would suspect that he is a good deal more an administrator, and that kind of a fellow than he is a good lawyer.

HMJr: Um-hm.

M: But, of course, since he has been in teaching all this time he must be a reasonably good lawyer. He evidently practiced for four or five years before he got into teaching.

HMJr: Well, the point is, nobody knows the work down here more intimately than you do.

M: Yeah.

HMJr: And could you discreetly make a few inquiries?

M: I certainly could. There's another man that you might have on your mind that I thought of after I wrote you.

HMJr: Yeah.

M: And -- and that is Nollenberg, who is now the Librarian of Yale University.

HMJr: Well, do you suppose he'd take it?

M: I doubt if he would. He was very much interested in it. The reason I mention 'm is he was very much interested in coming down in some capacity before he agreed to go to Yale.

HMJr: Oh, I didn't know that.

M: Now, of course, he has just gone up to Yale. He's only been up there a few months, and he might not want to ask them for leave to go, and it might be difficult for him if you -- Charlie Clark leaving, and Thurman Arnold, and -- and Douglas, and so on.

HMJr: Do you know him at all well?

M: Nollenberg?

HMJr: Yeah.

M: I know Nollenberg very well.

HMJr: Do you know him well enough to call him up and sound him out?

M: Sure.

HMJr: Will you do that?

M: Glad to.

HMJr: What?

M: Yes, I'll be glad to.

HMJr: Suppose you call him up for me and ask him.

M: I'd be very glad to. Would you like to see him?

HMJr: Oh, if he's at all interested, yes.

M: Yeah.

HMJr: I'd like to see him enormously, because he's been mentioned by a number of people.

M: Well, he would be a -- he would be a first-rate man.

HMJr: I hear -- from all account I'd be crazy to get him.

M: Yeah, he'd be a first-rate man.

HMJr: Supposing you call him up for me. Can you do that?

M: I'd be very happy to. I'll call him this afternoon.

HMJr: And then, if he turns you down flat you might ask him about Arant and -- and Rutledge.

M: Well, now, what do you -- what do you want to know about them particularly? They're -- I wonder what kind of reports, their legal ability or their administrative capacity?

HMJr: Everything.

M: Everything?

HMJr: Well, just as though you were -- you know what I need.

M: Yeah. Well, I will -- I'll tell you what I'll do. I'll go into it and find out about it and I'll -- what I'll do is give you the kind of information I'd want myself if I had to make the appointment.

HMJr: Yeah, but in the meantime you will do also something about Mollenberg.

M: I'll call him up.

HMJr: That's swell.

M: Now, how about Magruder?

HMJr: Magruder?

M: Hello?

HMJr: What about Magruder?

M: I say how about him? Is he out of the question?

HMJr: I don't know who he is.

M: Well, I wrote you about him, you know.

HMJr: Oh, he was -- he's here in Washington, isn't he?

M: Yeah. He's over there with Andrews in that Wages and Hours business.

HMJr: Well, it just didn't sound so good. I don't know why.

M: He's -- Magruder would be a very useful man. I don't know, maybe some of these other people are better, but I would -- I -- I think Magruder would be a very good man.

HMJr: Well, we can think about it.

M: What's that?

HMJr: I can think about it.

M: Yeah, I would.

HMJr: But nobody around town has mentioned him.

M: They haven't, eh?

HMJr: No.

M: Well, they may not have thought about him.

HMJr: Well, that's most likely the answer.

M: Well --

HMJr: You don't mind my asking you these things?

M: Not at all, Henry. I'm -- I'm very -- very happy to do anything I can.

HMJr: Well, it will be very helpful.

M: I'll be down there on Thursday.

HMJr: Good.

M: I'm coming down Thursday of this week on another matter.

HMJr: Well, why don't you --

M: How are you fixed in the afternoon?

HMJr: Well, why don't you come early enough to have lunch with me?

M: Well, I'd be very happy to. I'd be very glad to.

HMJr: Thursday -- that's the twenty-sixth?

M: That's the -- that's right.

HMJr: Well, you'll have lunch with me.

M: I'd be delighted.

HMJr: O.K.

M: I'll see you there at one.

HMJr: Righto, but --

M: You -- I expect you want me to get in touch with you before then about these things.

HMJr: Yes, call me up collect.

M: Yeah, all right. I'll do that.

HMJr: Thank you.

M: Thank you.

January 23, 1939.  
3:22 p.m.

26

HMJr: Hello.

Operator: I have the Postmaster General.

HMJr: Oh, that's all right.

O: Go ahead.

HMJr: Hello.

James  
Farley: Hello, Mr. Ickes.

HMJr: (Laughter) Mr. Ickes, eh?

F: How are you?

HMJr: I'm all right. Ickes and I have to be friendly these days.

F: Really?

HMJr: Sure, there are lots worse in Washington than he.

F: Very good. Time is -- time -- time does make changes, doesn't it, Henry.

HMJr: It doesn't with me or Ickes, I don't know which. Maybe it's his marriage.

F: O.K.

HMJr: Ah -- say, I noticed you're pretty friendly with him yourself.

F: Well, as a matter of fact, since I delivered that Patrick Henry two or three years ago he's been rather kind to me.

HMJr: He's been kind to me.

F: As a matter of fact, to be honest with him, I've -- I've gotten along pretty well with him, Henry, since I told him what I thought as to the manner in which he acted. Since that time on, frankly, I don't have very much to do with him or don't see him very frequently, but he tries to be helpful if I pass anything over there that needs attention, and he's -- he's all right.

HMJr: Jim, this is what I'm calling you about. We had a meeting on Saturday, Guy Helvering and I, with the President, see, and I thought you would like to know the results.

- 2 -

F: Yes.

HMJr: On Florida, he's going to leave it alone.

F: That's fine.

HMJr: See?

F: That's all right.

HMJr: I thought you would like to know that.

F: That's fine. I -- I have no interest except that I think it would be a mistake.

HMJr: Well, he's going to leave it alone. Then he came to this fellow, this French Canadian up in Massachusetts.

F: Yes.

HMJr: What's his name?

F: Gougan.

HMJr: Gougan?

F: Yeah.

HMJr: "Well", I said, "Mr. President, I can't take him. I can't take the fellow who two years running didn't pay an income tax." So he said, "All right." He said, "Have you got any objection of him getting a job somewhere else?" I said, "Not a bit." So he said, "How about U.S. Marshal?" I said, "It's all right with me." See?

F: Yes.

HMJr: But he told me to do it. Hell, I've got no way of doing it, see?

F: Told you to do what?

HMJr: See if we could get this fellow the job for U.S. Marshal up in Massachusetts.

F: Well, it's up to him to tell the Attorney General then.

HMJr: Well, he told me to do something about it.

F: Well, there's no reason why he should put that on your doorstep.

- HMJr: No. Well, now what I wanted to ask you was-- in the first place, is there a vacancy up there?
- F: No, there's a fellow in there who was very good in the pre-convention day. He's -- the funny thing about it, he's that President.
- HMJr: He's that what?
- F: The funny thing is he was -- he was very active in the pre-convention fight --
- HMJr: Yeah.
- F: And at the present time he's the Massachusetts Chairman, or at least the Boston Chairman of the President's Birthday Ball.
- HMJr: (Laughter) Oh, gosh, gosh.
- F: I mean, that's very funny, but that's the story.
- HMJr: Well, I think the simplest thing is to call up Frank Murphy and at least get that off my chest, and say the President said I should call him, and that's that.
- F: Yeah, I tell you. You do that, and tell Murphy if you want to that I'd be glad to talk with him about it and give him all the background.
- HMJr: All right.
- F: In other words, Henry, let me put it to you very frankly.
- HMJr: That's what I want.
- F: Under no circumstances will you appoint Gougan, is that it?
- HMJr: Under no circumstances.
- F: I'm not asking you to. I'm merely asking a question.
- HMJr: You asked me a question and I'm answering -- giving you a direct answer.
- F: Under no circumstances will you appoint him?
- HMJr: No.
- F: I see.
- HMJr: I can't, Jim.

F: Well, I'm not -- I'm not going to argue with you about it. I understand your position. I understand it thoroughly. I was just trying to get your real, honest --

HMJr: You wanted -- you wanted to know how tough I was going to be about it?

F: Yeah, I wanted to -- I wanted to know if you had just closed the door, that's all.

HMJr: Well, I closed the door when I was over there with the President. The President said, "All right".

F: Well, just between you and me and the lamppost --

HMJr: Yeah?

F: See?

HMJr: Yeah.

F: Gray -- I'm going down on the Congressional. Gray telephoned me and indicated that Mac had talked with him, and said all that was necessary was for me to say a word and it would be all fixed. I think this is all very funny.

HMJr: Who told you this?

F: Gray told me that Mac said so.

HMJr: Gray? Oh, your secretary.

F: Yeah. You forget it. You forget that till I find out more about it from Gray, see?

HMJr: Well, was this before Saturday?

F: This morning.

HMJr: It was all right for this?

F: Well -- no it wasn't all right. All that was necessary for me to get -- take it up with you.

HMJr: Yeah.

F: (Laughter) I think it is very funny myself.

HMJr: Well, you know me after how many years?

F: Yeah, I know. But, I know -- it's very funny. However,

you forget that part of it, Henry. Don't you bother checking on it. You just forget that entirely.

HMJr: Well, all I'm going to do is I'm going to call up Frank Murphy, tell him the facts, and then it's on his dooretep and then I'm going to forget about it.

F: Yeah. Except that if you don't mind, suggest to him -- suggest to Murphy --

HMJr: When he talks to --

F: When he talks to you, because I have all the background on it, and I can tell him, see?

HMJr: That's why I'm calling.

F: I have no objection, frankly, if they wanted to succeed Murphy, but they shouldn't do it the day after, while the fellow is working on a Birthday Ball. (Laughter) What are you going to do, let the present -- present fellow remain in there?

HMJr: No -- no, we are open to suggestions.

F: You are open to suggestions if they give you a right fellow.

HMJr: That's right.

F: O.K.

HMJr: I -- I never have a candidate.

F: O.K. That's fair enough.

HMJr: Is that fair enough?

F: That's fair enough. You're all right on that.

HMJr: Hell, out of five hundred thousand French Canadians there must be one who has paid his tax.

F: Well, there's no argument with me on that.

HMJr: All right.

F: Of course, I told you it was the custom in Massachusetts to pass it up for a year. The family custom up there.

HMJr: All right.

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F: See you later. Well, thanks, Henry.

HMJr: Good bye.

F: Good bye.

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January 23, 1939.  
3:28 p.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Right.

O: Go ahead.

Allan  
Sproul: Hello.

HMJr: Hello.

Hello, Mr. Secretary.

HMJr: Well, what happened to the Government Bond market today?

S: Well, it -- as you know, was quite weak this morning, but caught itself along about the middle of the day and is a little above the lowest today now. The market says they are concerned about developments in the European situation, and also that the market was a little topy. It had a -- quite a rise anyway.

HMJr: Well -- well, what do you recommend we should price it?

S: On this new issue?

HMJr: Yeah.

S: Well, we've had a chance to sound out the market now since your announcement this morning, and the market thinks that one and a quarter would sell it. My recommendation -- our recommendation, however, would be to give yourself a little factor of safety, to make it one and three-eighths.

HMJr: Oh. The market says one and a quarter?

S: The market says one and a -- most of the market says one and a quarter would do it. Some say they'd vote for one and three-eighths.

HMJr: ~~What~~ one and three-eighths you'd feel comfortable?

S: One and three-eighths -- with one and three-eighths, we would feel comfortable.

HMJr: You -- you'll underwrite it?

S: Yeah. I'd underwrite it at -- almost at one and an eighth as far as just selling out one hundred million

- 2 -

is concerned, if there wasn't something else in the picture than that.

HMJr: What else is there?

S: Well, I mean the -- keeping it -- the whole Government Security market in some sort of proper relationship, one issue with the other.

HMJr: Are you going to buy some of these for your portfolio?

S: Well, I wouldn't mind. I think we'll get -- we'll replace those bills this week, and next probably.

HMJr: Well, I haven't had a chance to ask my crowd. Let me ask these sharks around here. Just wait a minute, will you?

S: Yeah.

HMJr: And we'll settle it right now.

S: Yeah.

(Pause)

HMJr: Ah -- did anybody of the dealers talk above one and three-eighths?

S: No, they all said that one and one half would be a gift, too much.

HMJr: Well. -- Well, then they could be one and three-eighths. Just a second.

(Pause)  
Just hold the wire, please.

S: Yeah.

(Pause)

HMJr: Hello.

S: Hello.

HMJr: What is the street -- how does the street account for the big break in the market today?

S: Well, they say that there wasn't a great deal doing, but that there was some selling based on the fact that there has been quite a rise and some people wanted to take a little profit and the fact that they don't like the way the European situation is going.

HMJr: At one and three-eighths -- how many thirty-seconds are there in a margin, a comfortable margin?

S: Well, there's -- we think a safe margin there of three-quarters of a point.

HMJr: Three-quarters?

S: Yeah. And it might be a point to a point and a third after a little while.

HMJr: I think that's enough.

S: I do too.

HMJr: I think that's enough.

S: The market is really pretty anxious for issues of this character, I think, and I think that's enough to give them on it.

HMJr: Well, after it came out and they knew what it was, any criticisms of any kind?

S: No, I haven't heard any criticisms of it.

HMJr: And, did they -- did they fairly hug me for it?

S: I think so. I think there is no question about that.

HMJr: It will all go in the banks, won't it?

S: Yeah.

HMJr: I say the banks -- it will be exclusively banks, won't it?

S: I think the banks will be the ones who will take it, yes.

HMJr: Well, I think it -- with that much margin, why, I think the worst that could happen would be it could go down to a hundred and a half.

S: I think that's enough margin to give them in the -- in their present state of mind about it.

HMJr: They say one and a half would be a gift?

S: Yeah.

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HMJr: I think it's too rich. O.K., we'll get her out one and three-eighths.

S: All right, I'll get a telegram on that later.

HMJr: Sure.

S: Thank you.

HMJr: Thank you very much. Good night.

January 23, 1939.  
4:34 p.m.

36

HMJr: Hello.

Operator: Dr. Magill. Go ahead.

HMJr: Hello.

Rooswell  
Magill:

Henry, I've managed to get some action on both of these things you spoke about.

HMJr: Good.

M: Ah -- I called up Nollenberg and talked to him a little, and he seemed to be very much interested in the possibility.

HMJr: Oh, really.

M: He said he didn't know at all whether he could get away or not and that the President of Yale, Mr. Seymore, is out of town just now and won't be back for a couple of days.

HMJr: Yes.

M: But he said he would like to talk to him about it.

HMJr: Fine.

M: And I said "Well, now, understand, you are not being offered the job. I just want to know -- I merely -- I would like to recommend you and so on, and I don't want to do it if you are completely unavailable."

HMJr: Yeah.

M: And he said he understood that. So I don't think I --

HMJr: Well, that's all right.

M: I obligated you at all. He -- he thought it -- he thought it was not very likely that he could work it out, but of course it may be. Now, as to the other men you named, I -- I think it's fairly likely that Costigan is dead.

HMJr: Yeah.

M: There was a brother of Senator Costigan who was in law teaching and who was a fine man, but he died two or three years ago.

HMJr: I see.

- 2 -

- M: And I don't know anybody else. Now as to the other two, I'm very sure that the better of the two would be Arant.
- HMJr: I see.
- M: Arant, I think would be a good appointment.
- HMJr: Yeah.
- M: Arant -- he's a man -- I -- who has had a good deal of executive experience. I find from talking around among my colleagues here that he is well regarded as a lawyer. That is, he's got a good head on him, and I've -- I recall now that I've -- that he was anxious to get to be a Judge, I know, at one time -- a Federal Judge.
- HMJr: Yes.
- M: So, I know he wrote me about it. So I suspect he would be interested in -- in getting this job as kind of a stepping stone to higher things. But at any rate he comes well recommended. He's -- he has been Dean of a couple of law schools in the West -- in Kansas and Ohio State -- and everyone that I've -- that I know of thinks well of his ability as a lawyer.
- HMJr: Good.
- M: They say he is a good level-headed fellow.
- HMJr: Fine.
- M: They say that he would not be likely to have as many original ideas as Herman, but then you're not going to find many who would have.
- HMJr: No.
- M: And I think he'd be a good solid man and probably wouldn't get you into trouble.
- HMJr: Good. Which would you prefer, between Nollenberg and Arant?
- M: Well I think I would prefer Nollenberg. Nollenberg is -- is a -- is a cleverer man, I would say.
- HMJr: Right.
- M: Nollenberg is a very able lawyer.
- HMJr: Fine.

H: And he, of course, has had a lot of tax experience. He's extremely good in that field, and I would -- I would think he'd be first-rate.

HMJr: Fine.

H: Now, Rutledge, they say, is -- is n.g.

HMJr: Is what?

H: They -- Rutledge, I find, is not well thought of at all. He was the man from Iowa you spoke on.

HMJr: Yeah, that's right.

H: They say that he's quite fuzzy-minded.

HMJr: Well, we don't want him.

H: The -- the man I talked to said he was a fine fellow to go on a picnic with.

HMJr: I see.

H: And he was a very nice fellow, is agreeable, and all that, but he would almost certainly get lost in a job of the size of yours.

HMJr: I see. Well, I'm ever so much obliged.

H: You are very welcome. Now, I said to Nollenberg that I didn't know what was eventuating, but I suppose that as long as his President is away he'd have to wait to talk to him. He couldn't very well write him, and so you wouldn't hear from him for two or three days.

HMJr: That's all right.

H: But he will give me a ring.

HMJr: Fine. Well, now, I -- don't you want to make it a little bit more positive than that?

H: Ah -- well, just -- I didn't know how far I could go.

HMJr: Well, I think you can go pretty far.

H: Yeah. Well, all right, I'll do that --

HMJr: I mean, I'd like to go far enough, and why not tell him the facts -- that I called you up, and if he's at all interested after he's seen the President, his President, I'd like him to come down and see me and talk it over.

Q: Well, I'll be very glad to tell him that.

HEJr: I -- I think --

Q: I -- I didn't want to -- I didn't want to stick my neck out on it.

HEJr: No, no. You -- you can say that you talked to me and I -- what I've heard about him, I'm keenly interested, and as soon as he has talked to President Seymore, would he come down and see me.

Q: All right.

HEJr: See?

Q: He -- ah -- what he actually -- what he said to me was that he really liked his work there at Yale very much, and he would -- that if -- as I gathered, if -- his first reaction was that if he could go back to Yale after having served with you, why he would like to serve with you.

HEJr: Yeah, what he ought to get is a two-years' leave of absence.

Q: That's what he would like to do. Now, he said he didn't know, since he had come so soon, whether Seymore would be willing to do that or not.

HEJr: Well, I wish you would tell him that I'm keenly interested in having him.

Q: Yeah. Well, I'll -- I'll -- if you think it's worth doing, I'll call him back again right now.

HEJr: Yes, I wish you would.

Q: And tell him that I've talked to you further about it, and you are very much interested, and after he talks to the President you would like to talk to him yourself.

HEJr: I'd like to have him come down just as soon as he could.

Q: Yes.

HEJr: And have him -- if he would -- the minute he is ready, will he send me a telegram.

Q: All right, I'll do -- I'll tell him to do that.

HEJr: But I'm keenly interested.

Q: Yeah. All right. How are you feeling, Henry?

HMJr: I feel pretty well.

M: Well, don't break your neck.

HMJr: I won't.

M: They --

HMJr: I won't.

M: I -- I -- I'm sorry to have this thing interrupt your vacation, and I hope that you're not just working yourself out.

HMJr: Well, pretty tough, but I'm all right.

M: Well, the best to you.

HMJr: Good night.

M: Good bye.

January 23, 1939.  
4:34 p.m.

HMJr: Hello.

Operator: The Attorney General has gone for the day.

HMJr: All right. What about the others?

O: I'm trying to get Dr. Magill.

HMJr: Leave word I called <sup>for</sup> the Attorney General.

O: I will.

HMJr: Ask him to call me tomorrow.

O: All right.

January 23, 1939.  
4:40 p.m.

HMJr: Hello.

Operator: Frank Walker.

HMJr: Hello.

Frank  
Walker: Hello.

HMJr: Hello, Frank.

W: Hello, Henry.

HMJr: I sat around here all day waiting for you and waiting  
for you, and no Frank Walker.

W: When?

HMJr: The day you were in town.

W: Well, I'm -- I tell you I got tied up with the boss  
and he gave me something that I couldn't --

HMJr: I know, I was just kidding.

W: Get away till I --

HMJr: I know. I was just kidding you.

W: You know when he throws something at you, it does you --

HMJr: I know. As a matter of fact I was talking to him on  
the phone, and I heard him say, "Tell -- tell them to  
bring Frank Walker in."

W: Yeah. Henry.

HMJr: Yeah.

W: You are familiar with that Archives job I'm doing for  
him --

HMJr: The Roosevelt Depository.

W: Yeah -- Roosevelt Library.

HMJr: Right.

W: Now, what about John Hanes. They tell me he's very

- 2 -

well-to-do. I'm getting some underwriters. It would be all right to ask him, wouldn't it?

HMJr: Sure.

W: Huh?

HMJr: Sure.

W: Would he be receptive?

HMJr: He might.

W: I didn't want to call him until talking with you first.

HMJr: I appreciate it. That's all right.

W: Ah -- I talked with your Dad this morning, and then I wanted to have a talk with you.

HMJr: Well, I appreciate the courtesy.

W: The first chance I get.

HMJr: Well --

W: Henry.

HMJr: Yeah?

W: On that assistant you were talking about. Have you still got that in mind?

HMJr: Yes, I have.

W: Say I've got a fellow, if you could get him, who is a top-notch.

HMJr: Yeah.

W: He was a Republican, but he's been Roosevelt, largely, I think, on account of -- I've been closely associated with him and I've -- at first he was -- he wasn't so strong, he thought we were off on the wrong trail, but he's become since thirty-three as strong a Roosevelt man as we can get.

HMJr: Grand.

W: He's in the first mortgage business in Chicago --

HMJr: Yeah.

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W: He was in the discount business before that. He is a graduate of the University of Notre Dame, and the University of Harvard.

HMJr: Yeah.

W: And a very high-type fellow.

HMJr: Yeah. What's -- what's his name?

W: Kanaley. K-A-N-A-L-E-Y.

HMJr: K-A-N-

W: A-L-E-Y.

HMJr: Kanaley.

W: Yeah, John B.

HMJr: John B.

W: I don't know that he would be interested at all.

HMJr: What's his line now?

W: He's in the first mortgage business in Chicago.

HMJr: I see.

W: He's quite a well-to-do fellow, but he's not immensely wealthy, but he rates -- he rates very well with -- I think he'd rate very well with anybody in Chicago and Illinois.

HMJr: Do you want to sort of sound him out?

W: Sound him?

HMJr: Do you want to sort of sound him out?

W: Yes, it would be one of those things I'd -- if you would want me to I'd sound him out and then --

HMJr: Good.

W: Make it very general, don't you think?

HMJr: That's the idea. Don't commit anybody and then if he was interested, maybe you could bring him down the next time you came down.

W: Yes, I could do something of that kind I guess. Well, I'd make it very casual, you see?

HMJr: Yeah. But --

W: Since you are going to have a talk with him then anyway --

HMJr: K-A-N-A-L-Y-.

W: L-E-Y.

HMJr: L-E-Y. K-A-N-

W: He is a very thorough fellow and, in my opinion, has a fine mind, and I'd sell him a hundred percent so far as loyalty or trustworthiness is concerned.

HMJr: Well, if you would call him up and give him a sort of a general talk and sound him out, I'd appreciate it enormously.

W: Yes, I'll do that, and then -- you're not in any hurry about it anyway, were you?

HMJr: Well, I'm -- I mean, I'm looking awfully hard for somebody. I haven't got anybody now in mind, so --

W: Then, say in about a week or ten days from now?

HMJr: I'd rather if you could do it quicker than that, Frank.

W: Maybe I could do that. Well, I'll let you know, Henry.

HMJr: Yes, if you could do it quicker than that, I'd appreciate it.

W: Your Dad was here when I called you today.

HMJr: Fine. I'm sorry.

W: He went back to -- went home to lunch.

HMJr: O.K.

W: All right, Henry.

HMJr: So long.

W: So long.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 23, 1939

TO Mr. Lochhead

FROM W. H. Hadley

Market Estimates onNational Housing Financing

A 1-1/2% 5-year note is recommended for this offering. Because of the scarcity value of this \$100 million issue, it appears as though a 1-3/8% 5-year note would give a premium of about 1 point and would give a satisfactory margin of safety under present market conditions. Although a 1-1/2% issue would be rather rich and would give a possible premium of 1-1/2 points, the assurance that the issue would sell above par under lower markets is more valuable than an immediate saving in coupon rate.

<u>Coupon Rate</u>	<u>Yield Basis</u>	<u>Probable Premium</u>	<u>Remarks on Yield Basis</u>
1-3/8 %	1.18	31/32nds	Scarcity value
	1.20	27/32nds	
	1.25	19/32nds	Maximum
1-1/2 %	1.18	1 pt. 17/32nds	Scarcity value
	1.20	1 pt. 14/32nds	
	1.25	1 pt. 7/32nds	Maximum

THE WHITE HOUSE  
WASHINGTON

January 21, 1969

MEMORANDUM FOR SECRETARY OF STATE

Will you take this up with  
the President while you are with  
him.

*W. H. M.*

W. H. M.  
Secretary of State

Enclosure



THE  
*Carlton*  
 WASHINGTON, D. C.

25<sup>th</sup> January 1957.<sup>9</sup>

Dear Mr. Secretary -

I am enclosing herewith  
 copy of a cable just received from  
 Laurent about the Indo-Chinese  
 Transit -

I am at your disposal  
 any time to discuss it.

Yours most sincerely,

Walter Halliday

I am sending a copy of this cable to Mr. Lockhead.

## COPY OF INCOMING CABLEGRAM

50

*From* Laurent, Haino*No.* CDE

January 21, 1959.

Merchandise waiting Haiphong Indochina 50,000 tons STOP Warehouse  
 disposable closed area 15,000 square meter opened area unlimited STOP  
 transport **PRIMO** By railroad Yunnan 10,000 tons per month

**SECUNDO** By road Nanning Tchuncking by loaded motor  
 trucks if authorized unlimited

STOP Cable as soon as possible date of arrival and total shipment STOP  
 Indispensable approach French Government in view of suppressing present  
 administrative difficulties and limiting prohibition war materials to arms  
 ammunition explosives only STOP Presently factory equipment is considered  
 prohibited.

Laurent.

## GROUP MEETING

January 23, 1939.  
9:30 A. M.

Present: Gaston  
Mr. Haas  
Mr. Hanes  
Mr. Duffield  
Mr. Gibbons  
Mr. Foley  
Mr. White  
Mr. Lochhead  
Mr. Bell  
Mr. McReynolds  
Miss Chauncey

H.M.Jr: Steve now volunteers to be here all Saturdays from now until the first of January.

Gibbons: I'll be here from now until the first of July.

H.M.Jr: Steve, I had Lieutenant McKay over here to give me a report on why Coast Guard didn't get to the rescue of that English flying boat, and the preliminary report is not at all satisfactory.

Gibbons: Which boat?

H.M.Jr: The English flying boat. And I am telling Waesche to be here at nine o'clock tomorrow morning. It's not at all satisfactory. Waesche is to be here. There is a delay of an hour and a half.

Gibbons: Can't blame it on the Navy any longer.

H.M.Jr: It hurts our position, and everything else, and I am in no position to go and say to the President, "Give me fifteen more flying boats; look how smart we are." They actually, completely, went around that section, but due to an hour and a half delay in getting off - if they had been earlier they ought to have been there at five o'clock; there is no reasoning I can understand why Coast Guard shouldn't have been there by five.

Gaston: It was just sheer luck that tanker found them - just luck.

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H.M.Jr: But Coast Guard has to do some explaining to me. He sent Chalker and some other people up last night.

Gibbons: Yeah.

H.M.Jr: Mac, what's new?

McReynolds: I had .....

Gibbons: I've got something that Mac is familiar with - an appointment of Guy Helvering's is coming over here to see you today, and he hasn't been investigated. I initialed it, and when Frank Rose told me he hadn't been investigated, I scratched it out.

H.M.Jr: Ask Guy.

McReynolds: Yeah. I told Frank when he brought me this Saturday morning, as far as I was concerned, unless it cleared from you.....

Gibbons: If I may interrupt, there is another fellow named Schwartz, under Wagner.... Has Mac talked to you about him?

H.M.Jr: No, but Senator Wagner hasn't; I haven't got any yet, so I am going to stall a little.

Gibbons: He sent me a wire down to Florida.

H.M.Jr: We don't know what the banking bill looks like yet. This is too good a job to give up easily.

McReynolds: There is no hurry about the appointment.

H.M.Jr: No, no. We want to take a look at the banking bill. I told him, after all, if Marriner Eccles gave Wagner a dinner, this ought to be worth at least a couple dinners. We've got to be practical around - all this altruism. I tried to get Mr. Eccles Saturday to tell him personally you were going to sell a hundred million dollars of U. S. Housing bonds and three hundred million of B. F. C. Does he know it?

Haas: Goldenweiser knows it; I told him after I went out of the meeting that day.

H.M.Jr: And you told him to tell Eccles?

Haas: Yes sir.

H.M.Jr: When are you coming in to talk rates with me?

Bell: I'll come in any time you say.

H.M.Jr: I'd like to do it at eleven thirty.

Bell: I have an appointment at eleven, but I think I'll be through.

H.M.Jr: Eleven thirty.

Bell: You want to finish at that time or you want to wait until the market closes?

H.M.Jr: Yes, I think so. You want to sit in on it, Johnny? Eleven thirty.

Hanes: Yes.

Bell: I thought you might want to take a look at the cash income and outgo.

H.M.Jr: Let your men do some refiguring, will you? Have your fellows figured this thing?

Haas: Yes.

H.M.Jr: Supposing you come in at eleven thirty.

Haas: Uh huh.

H.M.Jr: That will be just on U. S. Housing; we'll settle that.

What's this?

Bell: That is the actual cash outgo for the six months' period ended December 31, to take the place of the bubble chart.

H.M.Jr: I see.

Bell: We changed it from receipts and expenditures to cash income and cash outgo, and at the bottom we will put "Excess cash outgo, payable from proceeds of sale of Government securities and guaranteed

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obligations, or deposits by Governmental organizations," and I see that statement eliminates the debt receipts, both guaranteed and .....

H.M.Jr: Let me see if I get the cash income. Two billion nine hundred twenty-seven million receipts from .....

Bell: Those are budgetary receipts.

H.M.Jr: Unemployment, budgetary. Total, three billion five. And cash outgo, national defense, Social Security, interest payments of public debt, Public works, Agricultural aid, Works Progress - four billion one hundred thirty million.

Bell: And budgetary cash outgo.

H.M.Jr: Trust funds, and so forth, four eighty-six; total, four, six sixteen. Excess of cash output. That's a new word.

Bell: Yes. You see, we are trying to distinguish here between budgetary terms.

H.M.Jr: One billion one hundred twenty-three million dollars.

Bell: That is the net contribution.

Duffield: No, let's don't call it that.

White: No, no, no, definitely not. It's cash outgo, but not contribution.

Bell: We are going to make it up historically. We haven't got it for this bulletin.

H.M.Jr: Now, you are satisfied?

Duffield: You've got it under the over-all.

H.M.Jr: You are satisfied?

Bell: If that is what you want; I don't know whether - I don't know what it is going to lead to. That is what I am afraid of.

H.M.Jr: It's going to lead to a lot of questions.

Bell: And - that's right.

H.M.Jr: And that's what we want. Anybody object?

Haas: I'd like to see how it compares with the other figures. Pretty close, isn't it?

Bell: It's very close.

White: It's very good, as a first step.

Bell: Later on we'll pick this statement and run it back. We've got some other figures in there.

White: You can tell from the questions you get.

H.M.Jr: This is the thing. "Bulletin of the Treasury Department.

Analysis of Receipts and Disbursements  
 Composition of the Public Debt  
 Capital Movements and Monetary Data  
 Other Treasury Statistics

Introduction

"This Bulletin contains statistics of United States Government transactions and other information gathered by the Treasury Department which have either not been available for distribution hitherto or have not been issued in compiled form.

"It is the intention to compile a similar record monthly and to incorporate in it information additional to that which is included in this issue.

"Only a limited number of copies are being prepared and distribution for the present in the main, will be limited to periodical publications desiring to make use of the material and to public officers. Other requests may be filled only to the extent of the limited supply.

"The purpose of the compilation is to extend knowledge of the public finances, monetary developments and activities of the Treasury Department by making information available in a more compact and usable form to students of finance and government."

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Students?

Gaston: Yes.

H.M.Jr: Haven't ....

White: It means more than students.

Gaston: Students of finance - those who are studying finance in government.

H.M.Jr: "The material herein contained supplements or recapitulates data contained in the Daily Treasury Statement and other publications of the Treasury Department.

"I shall be glad to receive and to give careful consideration to suggestions for improving the Bulletin so as to make it serve its purpose more adequately."

Very good.

White: I'd suggest the smallest possible number in the first issue.

H.M.Jr: Limit it to a thousand.

White: That is much too much, I figure. In the first issue you'll be surprised at the kind of mistakes, criticisms, and what not.

H.M.Jr: One mistake goes to the United Press.....

Gaston: If it goes to A. P. and U. P., it might as well go to a million.

H.M.Jr: I think that is all right for a start.

Bell: We have about three thousand names on the mailing list for the Daily Treasury statement. Now, if this Bulletin is going to be substituted for a lot of the information on the Daily, I think those people will want it.

Gaston: Later on.

H.M.Jr: You know, Mr. Gaston, you've got the contract to go up and see the Committee on Publications - Senate and House.

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Gaston: I was hoping to do that today or tomorrow.

H.M.Jr: All right.

Dan?

Bell: That's all I have.

Duffield: I just want to report that while we were considering whether we would give the stockholders the list of the - holders of S. E. C. - the copies of that list, included in the income tax file, evidently went over in the ordinary course of business. It went over for instruction and not for their use. There is no use our worrying about it, whether it's gone or not. I found it was up there on Saturday.

H.M.Jr: I'd like to know who sent it and whether the - when it was sent, whether the inventory of material went along, and the date it went.

Duffield: You see, they have been making income tax material available to the S. E. C.

H.M.Jr: I say, what I want to know is who sent it; there must have been a letter - "We are enclosing here with....." such and such and such. I'd like to know over whose signature it went. Here we all sit around and discuss this thing. I say we take it up to Monday, and certainly we have all spent a lot of time trying to keep this thing legal. Will you look into it? McReynolds can help you. He's the most boastful cuss you ever saw; all he did was walk up and down the corridors Saturday morning, boasting. He wouldn't attend to business; just - just buttonholed any man he saw and told him the news.

McReynolds: I wasn't supposed to attend to business. The Boss told me I shouldn't be here.

H.M.Jr: Disrupting my section. I thought it was a political meeting going on in the corridor of the Treasury.

Duffield: That is all.

- Foley: I have a memorandum here on the commemorative coin statute for St. Augustine. The Mayor is coming in this afternoon at three o'clock.
- H.M.Jr: Use your judgment. Don't bother me. I mean, try to keep Pepper happy, because he's going to get the works. So if we can give him a couple of commemorative coins for St. Augustine, I should worry.
- Foley: Tell him we'll support the bill?
- H.M.Jr: If it's the way I had it outlined from the group.
- Foley: The coins would be issued at only one mint, under only one year date, would be delivered only in lots of not less than twenty-five thousand pieces and would be issued for only five years. The manner of disposal would be subject to the approval of the Secretary of the Treasury. The design would be determined by a public competition run by the Treasury at no expense to the Government. The Commission's profit would be limited to two dollars a coin. The profits could be used, subject to your check, only for restoration of the old City of St. Augustine. The restoration plans would be subject to approval by the City, the Institute and the Secretary of the Interior.
- H.A.Jr: (Nods "Yes.")
- Foley: Now, the Secretary of the Interior hasn't designated it as a historic site. It's been recommended by the Monument Committee, but it hasn't actually been certified by the Secretary as a historic site yet.
- H.M.Jr: Well, it has to be. Subject to that ....
- Foley: We'd be in favor of the bill.
- H.A.Jr: If the Secretary of the Interior will designate this as a national monument, and we have control of the sale and control of the price that we sell them, the way we sell stamps, you see, I think it's all right.
- Bell: You sell coins for a premium?
- H.M.Jr: Sure. We can do it as well as some - as some - ah - coin collector.

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- Bell: Association.
- Gaston: They usually job them off, those associations, to a coin merchant and he makes a lot of money out of it.
- H.M.Jr: That is the whole trouble. Dan, you wouldn't have recognized me. I am doing this in lieu of the fact that Pepper doesn't touch any Treasury official in Florida. I got that - we've got a start on it. The Collector is O. K. He isn't touched; the Collector of Internal Revenue isn't going to be touched. We have crossed that bridge and I think we are going to keep the whole thing intact. In exchange for that one commemorative coin? Sure.
- What, Johnny?
- Hanes: I think it's a good trade.
- Gibbons: He made a statement down there, that he'd gotten the President to go along with him for a new city hall in Miami.
- H.M.Jr: Listen, we had this all out, he and I did, on Saturday. This fellow is not going to be touched.
- Gibbons: The Collector of Internal Revenue?
- H.M.Jr: I don't think the Collector has got any Treasury official.
- Gibbons: Two very outstanding Treasury officials; he wants to change them. They are capable as can be as Collectors.
- He's just a nut.
- H.M.Jr: Who, (name not understood)?
- Gibbons: No, the Senator; he wants to be a Vice Presidential candidate in 1940.
- Gaston: That is a nice building down there - the one in St. Augustine with your name on it.
- H.M.Jr: (Nods to Mr. Lochhead.)

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Lockhead: Last week Bewley mentioned he wanted to see you - wanted to see you last week - wanted Mr. Kieley to arrange an appointment.

H.M.Jr: Keep it.

Gibbons: I've got nothing more. Glad you met Allie Angle; he's a pretty good citizen. This fellow is trying to throw him out.

White: If you're going to see Bewley, you will remember the notes in one of the Butterworth comments - if you asked him for figures in there about recent gold losses, he probably would be receptive.

H.M.Jr: You'd better remind me again.

White: There is an outflow of cash of a hundred thirty seven million. There are several memoranda here.

H.M.Jr: Better hold on to them.

White: There is a correction and some additions to that road report; if you are doing anything with it I'd like to make the changes before you do it.

H.M.Jr: Keep after me.

White: Now that Mac's here, maybe the decision on Young - the salary of that man to go to Paraguay --or do you want to postpone that?

H.M.Jr: Take it up with Mac.

White: Several silver resolutions are coming up. About the Senate hearing, you know the date yet?

H.M.Jr: No, but you and your men on the Hill keep watching all silver bills and you let your men on the Hill find out what's happened to the President's letter in connection with the Stabilization Fund and devaluation of the dollar.

Incidentally, the Tribune endorsed it this morning, and the Times endorsed half of it. The Tribune said, "O. K." Let's push that, will you, through your men on the Hill; and you've got to be ready to have a silver forum.

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White: We are having one. You are not interested in a summary of the various silver bills?

H.M.Jr: No.

White: That is all.

Bell: (Inaudible)....., including the devaluation; it's a good weapon to have in your hands.

H.M.Jr: You ought to clip those things. The Tribune endorsed it; the Times went for Stabilization but not devaluation.

Gaston: I'll get them; yes.

Foley: We ought to get up a statement for you.

H.M.Jr: On what.

Foley: The continuation of those powers. You may be called upon.

H.M.Jr: Yes, but I do that informally; I don't know, I don't think I need any. I either know it or I ought to quit. I mean, that is .....

Bell: Send it as an executive section ....

H.M.Jr: I don't want them to take any notes, so I just talk ad lib. Harry sits there, and Archie, with perspiration running down their foreheads, not knowing what I am going to say next.

Lochhead: I don't sit there; Harry does.

Gaston: So you are in a cold sweat, huh?

White: There is a memo here .....

H.M.Jr: Have you read my testimony before the .....

White: No, I am waiting for it, with considerable curiosity.

Haas: I did.

H.M.Jr: Did you read it?

Haas: It was very good.

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H.M.Jr: Did you make any corrections? Let Harry read it.

Gaston: The only thing I was worried about was unemployment, but I see that was off the record.

White: There is a report, made by the Monetary and Fiscal Committee, requested with respect to the survey of possibilities of securing figures of state and local Government; they made a rather lengthy report as the resting.....

H.M.Jr: Resting?

White: Yes. There is another report that that Committee was requested to prepare, with respect to business prospects for 1940 and '39.

H.M.Jr: You keep pushing the thing at me, and I'll take them as fast as I can assimilate them. I'm just coming up for air from Social Security. You people push it.

White: I'd like to see you a few minutes today.

H.M.Jr: (To Miss Chauncey): Will you see he sees me.

Chauncey: Yes sir.

H.M.Jr: You just keep pushing me, and pray.

White: I do that too, when I can.

Haas: (Hands H.M.Jr. black book.)

H.M.Jr: Now where - we'll clean up on that report on Social Security.

Haas: On the report?

H.M.Jr: Just on states. You are going - it's up to you to get that stuff out now.

Haas: Yes. The three people are now working on it.

H.M.Jr: Yes, but I am holding you responsible. You know, we ought to get somebody in on the states' finance.

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Haas: Yes, that is right.

H.M.Jr: We had an awfully good meeting, from my standpoint, and in writing the thing up they are going to send a review of it to these economists who were here and I think when you get that written up you ought to give Mr. Hanes a copy, and I think what we ought to do, as soon as that is written up, I am going to ask Mr. Altmeyer to come over and have a session. You've got to push me on it while there is a great division of opinion. Everybody knows that as a plan, Social Security knows what it is; and then we should either insist that they publish, the first time we've got tables, what this thing costs. We use what they call a C-14, which is their main -- they keep changing it. Now we've got a table that will show, leaving the tax as it is and taking up the one and a half per cent, the different things -- what this thing would cost, because it is a most amazing thing, and the one thing everybody agreed on is that the Treasury should insist that Social Security publish these figures, and if they don't, we should. You see? And also, we found that when they say the plan costs - the plans cost forty million dollars, we are taking their figures, and we have never checked them.

Incidentally, Blough is very good; he held up his own. But I think it is most important that we get publicity on this thing, and that is the one thing I've got; at least, I understand what it is all about.

Now, what we did, Johnny, I kept them away from saying, "Is this a good plan, spending so much money on dependent plans?" We said, "What does it mean to the Treasury?" We kept it on that basis. We finally got figures. It's been like pulling eye teeth to get any figures.

And Hansen, for instance, is way off on one end. He said we never had tables like this, and he is for not increasing the taxes; he thinks it is most important that whatever is done is immediate, in publicity, because we found, at least I did, Social Security studied the President's report very carefully. It's amazing when you see those tables. Maybe you know; it is all new to me.

- Hanes: I am familiar with it, but I haven't seen any figures without a lot of guess work.
- H.M.Jr: This table, you'll either tax - it is one and one half, and you see what it costs; you leave it at one and a half, and you see what it costs. They've got the thing right down so even I can understand it. The whole meeting was good, but they left me to go and talk about this question of taking inventory of the states' wealth, and that is what I want more of.
- Haas: We met about an hour after that meeting.
- H.M.Jr: Beginning to say the State of Mississippi is entitled to so much extra, and all Federal money would be distributed on that formula, and I don't know where it is going to end.
- Well, George, please crowd those boys for that report and get it out. Get it to these five economists, and anybody else who wants it.
- Bell: I'd like to have it; I didn't get to attend that meeting.
- H.M.Jr: At least, after we get the figures out the public will know what it means. It is the most fantastic.... Dan, here were are, talking about hundreds of millions, and they are talking about increasing the so-called plan, a C-14, of about a hundred thirty billion dollars.
- Bell: I understand there would be about four and a half billion dollars a year going out of the Treasury.
- Gaston: They are adding to the old plan, of costing a billion a year for the next four years.
- H.M.Jr: All that's been kept down; I am not going to be kept in the position of our arguing how much money for a dependent child. I am not going to sit here and let the people of the United States know, "Well, if you do this, this is what it is going to cost." They all agreed on that, Johnny; there was no dissent that the thing must be gotten out.
- Haas: Mr. Secretary, you intend to pay these people's

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expenses and give them - pay them for coming down on a consulting basis? Nobody said anything to them.

H.M.Jr: Yes. Clear that with McReynolds, will you. I had White call some of them up. What we offered them, if he wanted to come down, was his railroad, twenty-five dollars a day, and five dollars subsistence. All you need is their bill.

John?

Hanes: Nothing this morning.

H.M.Jr: Herbert?

Gaston: I haven't anything more.

H.M.Jr: Have you got anything for me?

Chauncey: I have Dr. Parran's material, and I also have that Paraguay thing from the State Department.

H.M.Jr: Give that to Harry. Harry, here is something on Paraguay.

RE SEYMOUR WEISS TAX CASE

January 23, 1939.  
10:30 a.m.

Present: Mr. Hanes  
Mr. McReynolds  
Mr. Foley  
Mr. Gaston  
Mr. Helvering  
Mr. Irey  
Mr. Wenchel

H.M.Jr: Gentlemen, the reason I asked you to come was that Mr. Hanes and I want to ask you each your advice on this so-called Seymour Weiss case, and the way I'd like your advice is this: while we know who it is, I'd like to consider it as though it was Mr. X - in other words, a Treasury case - and consider it solely on its merits as a case, and not that it had any historic associations.

Gaston: Very good.

H.M.Jr: Is that a good word?

Gaston: Very good.

H.M.Jr: That is rather nice, isn't it?

Irey: Called it atmosphere at the time.

H.M.Jr: Historic associations.

Now Mac, who - I'd like - I think in fairness to the people, who would be at the bottom of this ladder, so I won't be asking his advice and then he'd have to give it after his superior talked. Who's at the bottom of the ladder? I mean where does this thing start from when we get a recommendation?

Wenchel: Through me.

Foley: Through Phil. He knows most about it.

H.M.Jr: Through you?

Foley: Yes, sir.

H.M.Jr: All right. Now I understand from Mr. Hanes we have an offer.

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- Wendel: Offer for full tax penalty and interest. It's not a firm offer; they've been sort of fishing around to see whether it would be accepted. Tax penalty and interest provided nothing is stated in the settlement of the case about the fraud.
- McR: Doesn't include any fraud penalty.
- Wendel: It includes the full fraud penalty.
- H.W.Jr: It does include the fraud penalty, but they went to work it in some other way so it doesn't show fraud penalty.
- Wendel: So the word "fraud" isn't used. I discussed it with the Commissioner and he said that he thought he would go along with me in making the recommendation if we got such an offer. Then I took up the matter with Mr. Foley and he transmitted it to Mr. Hanes.
- Now, if we accept that, that will not be establishing a precedent - we've done it before - we'll get more out of it than if we went in and tried the case and won it one hundred percent; because as it is now, we'll get the interest on the fraud, but if we tried it we would only get the interest on the tax up to the date of the ...
- H.W.Jr: How much difference is that in money?
- Wendel: Well, in money probably a thousand dollars. It doesn't amount to very much. As a matter of fact, as the Commissioner said, this is a relatively small case anyhow; it only involves about \$40,000 for Weiss and about \$10,000, I should say, for the wife, because the wife doesn't cover the same periods.
- Foley: Well, Phil, if this was an X individual, not Seymour Weiss, would this case be here before the Secretary?
- Wendel: I wouldn't even bother the Commissioner about it.
- Foley: You'd go ahead and take a settlement of that kind.
- Wendel: That's right.
- Foley: Without clearing it over here.

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Wenchel: That's right. Now, in a case known as the Louisiana Corrugated Culvert Company - was settled February 1936, grew out of this same type of cases, but was not intimately tied up with the Huey Long thing - was settled by the filing of a stipulation that "there is a deficiency in Federal income tax due from this petitioner for the fiscal year ended November 30, 1931, in the amount of \$5,600." "The Board may enter an order accordingly."

Now, you'll notice, there was a case where fraud was involved, yet it was not written in the stipulation. The taxpayer and his attorney know of this case and called my attention to it, and wanted to know why he couldn't settle it on the same basis.

H. S. Jr: They do know about it?

Wenchel: Yes, sir.

Foley: The criminal proceeding is out of the way.

Wenchel: He was tried three years ago and acquitted.

Irey: He was never tried. It was brought to trial and dismissed.

Wenchel: I'm wrong about that. The Shushman case was tried; he was acquitted. Then they dismissed all the rest of them, including the Weiss case.

Now, ordinarily - no, not ordinarily, but if we were going to file a stipulation involving fraud, we would file it this way:

"It is hereby mutually stipulated and agreed that the deficiencies for the respective years involved in the above case, together with penalties, are as follows, and that the Board may enter an order accordingly."

Then list the years and then the deficiency in one column, penalty in another, and then the total amount in the other.

If we file it the way the Corrugated case was filed, we would file it this way:

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"It is mutually stipulated and agreed that the total deficiency in the above case is \$38,746.10, and the Board may enter an order accordingly."

Now, you see, no word on the fraud appears there, and the only way the fraud appears in the alternative is by reason of the listing of the word "penalty."

Now, I may say this, Mr. Secretary, that the taxpayer and his attorney would understand that when we agreed to do this, that we have no control over the Board, and the Board may, notwithstanding the stipulation we file, issue an order this way.

Foley: But they usually follow the ....

Genchel: They usually follow what we - our form of stipulation. Also, if this form is used, leaving out the word "penalty" - never used the word "fraud" anyhow - anyone who was interested enough would go to the 90-day letter of the Commissioner, follow through all the pleadings, and would find that the full amount of the settlement reflects the fraud penalty.

Ireg: That's a public record.

Genchel: That's a public record.

H.W.Jr: So there is nothing being hidden.

Foley: Excused.

Genchel: Nothing being hidden, no, sir. Do you - would you like to see the two forms?

H.W.Jr: No, no. Now let me ask you this. Suppose you go to trial. How do you feel about the chances of winning, of collecting?

Genchel: If we went to trial, it's a lawsuit, of course, and it depends on whether the member would believe our witnesses or their witnesses. Their witnesses are people of higher character than ours.

H.W.Jr: Higher?

Genchel: Higher character. Two of our witnesses are moral perverts.

Belvering: That's correct.

Wenchel: We've got Irving Moss, and of course he's in bad shape financially. They've got the better of the witnesses.

H.W.Jr: Is the original Moss who's in the insurance - is he alive?

Irey: Yes; he's the man who said he's being persecuted by Seymour Weiss because of the attitude of the Government toward Seymour Weiss.

H.W.Jr: I thought both - one of these men had died.

Irey: Both of the Moss's are living - Irving and Mike. Mike is a pervert, and Irving is a pretty high type of business man now.

Wenchel: That's right. And his brother threw him out.

H.W.Jr: Who died in this case?

Wenchel: That's O. K. Allen.

H.W.Jr: What did he have to do with this?

Wenchel: He had nothing to do with the Weiss case, except he was mixed up in the whole thing. We tried his case last year.

H.W.Jr: Well, to come back - I mean I'm asking you, on a percentage basis, on a percentage of a hundred, what would you think that our chances are of winning?

Wenchel: Oh, 50-50. It's one item, Mr. Secretary: commissions that were paid to Weiss in order that the Moss Insurance Company could do business, and it's just a question whether the member will believe that they were commissions or graft. It's a very simple issue.

H.W.Jr: Now, is there anything else you want to say?

Wenchel: No.

H.W.Jr: Now, have you made a recommendation?

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Wenchel: Yes, sir.

H.M.Jr: And what do you recommend?

Wenchel: I recommend that it be accepted, or that I be permitted to go to them and say we'll take it - that's the same thing as that it be accepted - if they make the offer. They haven't made a firm offer.

H.M.Jr: Oh, I didn't know that. I was under the impression that you had a firm offer.

Wenchel: No, sir, I refused to consider any firm offer until I found out the attitude of the Treasury. I didn't tell them that.

H.M.Jr: Well, do you want to find yourself in the position of offering to accept this and then have them turn you down?

Wenchel: Yes, sir.

H.M.Jr: You're willing to be in that position?

Wenchel: Yes, sir.

H.M.Jr: Do I make myself clear?

Helvering: You want to be in position ....

Hanes: If they make the offer you want to be in position to accept it.

Foley: That's what you want to say. You're not going to make the offer to them. You're going to be in the position that if they come to you and say, "Will you settle on this case?" - of being able to say, "Yes."

Wenchel: That's right.

H.M.Jr: That's what you want. I understood they had made you a firm offer.

Wenchel: No.

H.M.Jr: But you want to be in the position that, if they do make you a firm offer, you can take it.

Foley: They've sort of felt you out, and you think this is what they're going to do.

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- Wenchel: I think if I can sit down with them they'll make this offer, because they've referred to this Corrugated Culvert case.
- H.A.Jr: I see. And that would be the only purpose for referring to it.
- Wenchel: That plus the fact they've asked that the whole tax be computed on the basis of a net worth, so that the word "commission" wouldn't appear; that and other things lead me to believe .....
- H.A.Jr: Now where - I don't know anything about Mrs. Weiss - was her case in this?
- Wenchel: Mrs. Weiss will only be for the years '33 and '34, because the community property law didn't go into effect until then. And then, she doesn't have any fraud penalty anyhow attached to hers. And her tax would be about - oh, about \$1400, that's all.
- Irey: They offered to pay that in this informal offer.
- Wenchel: That's right.
- H.A.Jr: Well now, before we leave Mr. Wenchel, does anybody in the room want to ask Mr. Wenchel any questions, before we go to the next person?
- Hanes: I'd like to ask - I understand you say, Phil, that these cases were all tried, or one case was tried, and no fraud was found?
- Wenchel: In the criminal case?
- Hanes: Yes.
- Wenchel: That's right. They tried it and the jury failed to convict.
- Hanes: Did that include all this list of cases here, this - this Allen ...
- Irey: The Shushan case - that's the only one that was tried and acquitted.
- Hanes: Shushan was.

Wenchel: That's right.

Hanes: And this case is similar to the Shushan case.

Wenchel: That's right.

Hanes: And your feeling is that this case - if we tried this case, we would have about a 50-50 chance of winning it, so that ....

Wenchel: We can't try the criminal side.

Foley: This is - the criminal case was dismissed.

Wenchel: We can't try that again.

Helvering: We've just got a civil case for the tax and penalty.

Hanes: I see. That's all the questions I want to ask.

Helvering: Originally there was a great list of these cases. We tried a man by the name of Fisher and he was convicted and sent to the penitentiary. Then we tried a man - what was his name, Irey?

Irey: Shushan was ...

Helvering: No, there were two of them convicted originally.

Irey: No, there was just this fellow Fisher, Joe Fisher, and then the Shushan case came up.

Helvering: Well, there was sort of a gambler mixed up in this that we convicted.

Irey: I know what you mean, but he was not one of the Long crowd, not considered in this group of cases. Just one criminal conviction and one criminal acquittal.

Helvering: Then all the rest of the cases were nolle-prossed.

H.M.Jr: Now, who would come next? From Wenchel it flows to the ...

Foley: ... Commissioner.

H.M.Jr: To the Commissioner.

Delivering: Well, I've gone all over this case.

Wenchel: It wouldn't come to anyone now, see, because I'm trying the case, I'm the last word.

A.L.Jr: I know, but ...

Delivering: He's trying it.

A.L.Jr: But you're the last word after the other people in the room have given you a green light, which you haven't got.

Wenchel: That's right.

A.L.Jr: You haven't got that.

Wenchel: I thought you meant whether like a compromise ....

A.L.Jr: No, you haven't got the green light yet. Just wait a minute.

Gaston: I'd like to ask Mr. Wenchel what the usual custom is in filing these stipulations where there is a fraud penalty attached. Is it usual to state separately the tax deficiency and the fraud in the stipulation?

Wenchel: That's the usual way, yes, but there - as I say, there are precedents for the other.

Now, it's true that the other arises where there is a compromise and you don't have the full tax that has been asserted in the deficiency letter, and so it's hard to list it down as so much tax, so much penalty, so much interest. So instead of - in this case it's \$38,000 - if we were compromising this for \$30,000, then of course we would follow the procedure of not mentioning the word "penalty."

Gaston: Then this form of settlement in a case where there is no compromise, this form of stipulation that's proposed, is not unique but it's quite unusual.

Wenchel: That's right; that would be a way to describe it.

A.L.Jr: But let me understand - let me understand - if instead of paying the \$38,000 you could work them up to, say,

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paying thirty, then would you follow this plan?

Wenczel: Then we would follow the - yes, we'd follow the plan of not mentioning the penalty.

H.S.Jr: well, the unique part, if I'm correct, is that he's paying the full amount.

Wenczel: That's right.

H.S.Jr: I mean that's the unique part.

Wenczel: That's the unique part.

Gaston: But there are one or two precedents where that's been done before, and they've paid the full liability, not mentioning the penalty in the stipulation. There are cases of that kind?

Wenczel: I've been told there are cases, but I couldn't get them. They were looking for them both Friday and Saturday, both in my office and down in the Bureau.

Poley: How about this Corrugated case, Phil?

Wenczel: That was a case where they paid less than the amount found in the deficiency letter. That's the way they arise. But, as I say, the complete record is there.

H.S.Jr: Am I correct, for my own self, that you get a man - say he owes us \$50,000 and you finally work him up so he'll pay \$40,000, but he says, "I won't pay the \$40,000 unless you give me some inducements"; then the inducement you give him is that you don't mention the word "fraud." Is that what happens?

Wenczel: No.

H.S.Jr: Is that the way you do it?

Wenczel: That's the way we are doing it ...

H.S.Jr: No, but is that the way you do it ....

Wenczel: No, he doesn't ask that. We don't mention fraud because we can't list him down any more, once he's

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compromised; there's a list of years, and added up they make \$50,000. He says, "I'll pay forty." When he pays forty, he automatically pays .....

- Malay: Don't know how much tax and how much penalty.
- Henes: Technical difficulty of determining what's fraud and what's tax. You lump it all in one sum.
- H.A.Jr: Then the statement you made earlier, that there are other precedents for this, is not correct.
- Gaston: Well, they tell him there are, but you (Wenchel) haven't been able to run them down.
- Wenchel: We've been working on it in my office. But you see, Mr. Secretary, unless you went back and read every other case ....
- H.A.Jr: Are you convinced?
- Wenchel: I'm satisfied.
- H.A.Jr: You're sure now?
- Wenchel: Yes, sir.
- H.A.Jr: Who else wants to ask Mr. Wenchel something?
- Now Helvering, I'm asking you to advise me in this case. How do you feel that Mr. Wenchel should proceed?
- Helvering: Well, I think this settlement is better than you get by a trial. I don't think there is any question about that. Now, the fact that we don't stipulate our penalty - I think that to put it in the same class where we compromise and don't stipulate the penalty - the only difference in this case is that instead of paying less than the full amount of tax, he's paying the full amount of tax.
- H.A.Jr: I'm asking you to advise me. What do you advise?
- Helvering: I signed the recommendation that Mr. Wenchel brought down on it, advising you to accept it.
- H.A.Jr: And you feel that that's a hundred percent all right if this was Mr. X.

Halvering: Yes, I don't think there would be any question about it if there hadn't been any historical precedents, or whatever word you used a while ago, in this case.

H.M.Jr: Good. Now, how about you (Foley)?

Foley: well, in so far as the law and the ethics are concerned, I think that this action is entirely justified and proper. I think the only thing we have to consider is the public relations standpoint. I think we have to take into consideration whether or not, because of the public importance attached to these taxpayers, this method of procedure will be considered highly irregular and get the attention of the reporters.

Now on that I'm not the best judge; but from talking to Phil and from listening to the Commissioner as to other procedures and precedents in cases of this kind, my guess would be that there wasn't very much to worry about on that score. So I - I recommend that it be accepted.

H.M.Jr: Herbert?

Gaston: With this qualification. We make no commitment to conceal the facts. The record is available and will be made available in usual course over there in the Board of Tax appeals. A reporter can figure up for himself that the amount of the tax assessed for the different years doesn't come to that amount and the balance must be fraud penalty.

Ken: He can see the record.

Gaston: I'd agree, but only on that basis: that there actually be no effort to conceal the facts. But I'd be perfectly willing that we don't talk, but just say to the boys, "Go over and look at the records in the Board of Tax Appeals. They're there."

Foley: That, as I understand it, is implied. There will be no effort at concealment whatsoever.

Wenchel: No.

H.M.Jr: Oh, there mustn't be. There mustn't be any.

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Irey: There can't be. That record is a public record before the Board of Tax Appeals.

H.A.Jr: Is it a public record?

Irey: Yes, sir.

Belvering: The 90-day letter, Mr. Secretary, sets up - I don't know whether these figures are right - \$20,000 as a tax, \$12,000 penalty, so much interest. It has the interest, doesn't it, in the 90-day letter?

H.A.Jr: Is the 90-day letter a matter of public record?

Wenchel: Yes, sir, part of the case.

H.A.Jr: Where could I see it if I was a reporter?

Wenchel: Board of Tax Appeals.

Foley: Go to the Secretary's office, Board of Tax Appeals.

Wenchel: Clerk's office.

Foley: Clerk's office.

H.A.Jr: Let's say the - we go ahead, the taxpayer pays it, the thing goes to the Board of Tax Appeals. I take it when it does the 90-day letter is attached to the whole thing.

Wenchel: It is part of the file in the case.

H.A.Jr: And then the Board of Tax Appeals accepts the Treasury's recommendation. Well now, is the 90-day letter a part of the whole file?

Wenchel: Yes, sir.

H.A.Jr: Can any reporter see that?

Wenchel: Yes, sir.

H.A.Jr: What?

Wenchel: Yes, sir.

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- H.M.Jr: Is that the usual thing - if he wants to see it, it's there?
- Wenzel: Oh yes, they went down and pulled out the Mellon case and went all through it.
- H.M.Jr: You mean it's all there?
- Wenzel: It's in the jacket.
- H.M.Jr: What?
- Wenzel: It's in a jacket.
- H.M.Jr: And any reporter can see that the afternoon the case would be accepted.
- Wenzel: Yes, sir.
- H.M.Jr: Hum?
- Wenzel: Right.
- H.M.Jr: Any other document which would show how the full amount was arrived at, besides the 90-day letter?
- Wenzel: Well, the - yes, the Commissioner's answer - the Commissioner's answer to the appeal of the taxpayer. See, the 90-day letter is issued ....
- H.M.Jr: What does the Commissioner's letter say?
- Wenzel: Commissioner sets up the reasons for it and very definitely points out that a certain amount of this is due to fraud.
- Irey: Shows why there is fraud - very informative to newspaper men.
- H.M.Jr: And is that available also?
- Wenzel: Oh yes.
- H.M.Jr: Why does the taxpayer, if it's all there - I mean what's he getting?
- Helvering: Just getting his vanity satisfied that we're not going to say "fraud penalty."

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- McR: He hopes they won't look at it.
- Helvering: I tell you what he's figuring on, I think, Mr. Secretary - is that when the word goes out his case has been settled, that everybody will lose interest in it, then the thing will be dropped and nothing brought out again.
- H.M.Jr: But there are two pieces of paper which are part of the public record, where they can see how this thing is. One is a 90-day letter and the other is the Commissioner's answer to their appeal to the Board of Tax Appeals?
- Wenchel: That's right.
- H.M.Jr: Now, is there any other document?
- Helvering: No, that's the only official record. .
- Gaston: It's all right, as long as there is no commitment to conceal the facts.
- H.M.Jr: Well, there mustn't be any commitment.
- Helvering: Well, nobody is agreeing to that; at least, I'm not.
- Wenchel: No, I'm not putting that up.
- H.M.Jr: Well, supposing you give this much. This is as far as we'll go. Is that right, Guy? That we agree to this. We haven't agreed to it yet.
- Helvering: The only thing we're agreeing to, Mr. Secretary, is that when Mr. Wenchel, representing the Bureau of Internal Revenue, Treasury Department, files with the Board a stipulation it will say one lump sum of forty thousand - whatever the interest figures up - due from this taxpayer, instead of saying so much tax, so much penalty, and so much interest.
- Gaston: It has been determined that he owes this amount of money and ....
- Helvering: That's all.
- H.M.Jr: What do you think, Herbert?

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Gaston: I think it's all right.

H.M.Jr: You think it's all right. Elmer?

Irey: Yes, sir, I think it's all right. That's been the only concern I've had, as to whether the public might know in the proper course that fraud does exist, and when we find that the public can learn that through the newspapers, why, I think it's an entirely satisfactory settlement.

H.M.Jr: This won't have an unfavorable effect on the morale of your men?

Irey: Not at all.

H.M.Jr: You're sure of that?

Irey: Yes, Mr. Secretary.

Wenchel: I might say ....

H.M.Jr: Just a second - you're sure of that?

Irey: I'm sure of that.

H.M.Jr: I mean it won't have any unfavorable effect on their morale?

Irey: No, sir.

H.M.Jr: Just a minute. Do you want to say anything else?

Irey: No. That's the one thing I've been concerned about from the time we've been negotiating: whether we were in any way concealing the fraud. And I'm sure we're not. The newspapers will have available to them information indicating a fraud; there has no manipulation for the concealment of the fraud, and I think the settlement is ....

H.M.Jr: He puts it very well; there is no manipulation for the concealment of the fraud. What?

Irey: That's exactly what I have in mind.

Wenchel: Mr. Burford, who worked up these cases, has been

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sitting in with me in the conversations with the taxpayer, and he feels there's ....

H.H.Jr: Well, I take it you cleared with Burford.

Wey: Oh yes, he and I have been in daily consultation on it; we're agreed on it. Burford and the men working under Burford on the case are all in agreement on it.

H.H.Jr: Mac?

Mac: You're not giving anything away. You haven't anything left to try. If they'll come in with an offer to pay the full amount, it's totally unimportant to me whether they specify tax, penalty, interest, total, or whether they specify total, so long as it's the same amount and so long as the public record is available for anybody who wants to see it. I don't think it makes a particle of difference.

H.H.Jr: and you're satisfied?

Mac: I'm entirely satisfied.

H.H.Jr: All right. Now we're up to you (Hanes).

Hanes: Well, I recommend that we accept it, and I go back to Phil Wenchel's recommendation - just to read - : "There is no compromise in the Weiss case, since he pays the full deficiency stated in the 90-day letter of the Commissioner, including the fraud penalty, which sum is reflected in the proceedings. If, therefore, anyone were interested to find out whether Weiss had paid a fraud penalty, he could easily do so by reading the record." So it's clear to me that, from everything everyone has said, there is nothing hidden and this thing is entirely in the open, and I recommend the acceptance if they make the offer for a settlement on that basis.

H.H.Jr: Well, based on the conversation here this morning, I direct that Mr. Wenchel proceed along the lines and - but that - that's as far as he goes. See?

Wenchel: I understand.

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H.W.Jr: No further. I mean they can either take it or leave it.

Wendell: Right. Right.

H.W.Jr: Does everybody agree on that? I mean no more. We don't want - if they come back and say they want something else ....

McR: If they offer that, you've got nothing left to try. It would be ridiculous to go to trial merely because you want ...

H.W.Jr: Do you agree with that, Johnny: it's take it or leave it?

Hanes: Take it or leave it.

H.W.Jr: Nothing beyond that. That is, if we give an inch, they want an arm.

Wendell: They won't bother ....

Boley: You go to trial if he can't settle it on that basis.

H.W.Jr: Yes.

Now, with that through I'd like to say something which I've felt for a long time. I don't think - and I know Internal Revenue - at least, I don't think they do - I feel this way - that Internal Revenue should go to trial and try to prove fraud unless they're 90 percent sure that fraud has been committed, and I know it's the common practice to make out these 90-day letters and charge fraud, asking a thousand dollars in the hopes that they'd get fifty, and I don't like it. And I think Mr. Hanes is in complete agreement with me. Is that right?

Hanes: Absolutely.

H.W.Jr: Now, I think when we go out as the United States Treasury and charge a man with fraud, we ought to be a hundred percent sure that he's committed fraud, and we ought to be 75 percent sure that we can win the case. Do you (Hanes) O.K. that?

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- Manes: I do.
- H.S.Jr: And I'm perfectly willing to collect less money, but I think that the Bureau should be a hundred percent satisfied in its own mind that that man committed fraud. And this charging fraud in the 90-day letters because they hope to make a better settlement - I don't think it's right.
- Wepchel: Well, Mr. Secretary ....
- H.S.Jr: Yes.
- Wepchel: ... in this particular case ...
- H.S.Jr: No - now please don't mention this case. I'm talking - this has nothing to do with it. This is something - no, this has nothing to do with it.
- Wepchel: I thought what I said about the 50 percent chance ...
- H.S.Jr: No, this is something that's been on my chest for years. This case has nothing to do with it. This is a method of - an attitude of the Bureau of Internal Revenue toward the taxpayer. This case has nothing to do with it. I've been waiting for a good opportunity to unburden myself. And I don't think in the 90-day letter we should charge fraud unless you're a hundred percent sure that fraud has been committed and that you've got a 75 percent chance, because I don't know what the statistics are but I know that your record of winning - I think I'm right - where you charge fraud is not terribly good.
- Belvering: Well, let me say, Mr. Secretary, that when a recommendation for fraud is made, we have no alternative of fixing the amount of fraud; the statute fixes that absolutely.
- H.S.Jr: Recommendation by whom, Guy?
- Belvering: Hum?
- H.S.Jr: \* recommendation by whom?
- Belvering: Well, if Mr. Irey's unit recommends consideration of fraud, that's submitted to the General Counsel's

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office. Now, our record for 1937 shows that 202 - I think it is - cases were recommended for fraud; 124 of those weren't recommended for prosecution.

H. S. Jr: were?

Belvering: were not; 90-some of them were recommended for prosecution and we convicted 52 of them.

H. S. Jr: Well then, you convicted 52, or 25 percent of the cases.

Belvering: But, Mr. Secretary, 124 of those cases were never recommended for prosecution.

H. S. Jr: But somebody, you say, recommended 200 cases; some place somebody recommended 200 cases.

Belvering: For consideration as to whether fraud existed.

H. S. Jr: and out of that - well, who recommended the 200?

Belvering: Well, the agent and Mr. Trey's representative.

H. S. Jr: Well, if you don't mind - I think I'm expressing Hanes' feeling - I'm laying down a principle; I don't want to go into the machinery, but I'm laying down a principle, and that is that when the United States Treasury - the United States Government ought not to charge a citizen with fraud unless we're a hundred percent sure that he committed it. Now, I don't know where the damn thing starts, and I won't be here long enough to learn. You know I'm not interested in the detail, but as to a principle, and Mr. Hanes can talk for himself, and I feel this very keenly. I don't know whether you (Hanes) want to add something to that.

Hanes: I do want to add something to it. It's this: I think we ought to explore - get some facts and figures and data on the number of cases that have been brought up with a recommendation of fraud on them. And in that connection I've been thinking for a long time that it might be well for us to explore the advisability of moving people on from that fraud section that have been there ten or fifteen years, and let some new faces get in there; because I think a man there

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becomes just like a district attorney, who makes an awful poor judge - he's been prosecuting cases for so long, he just is a bad judge. And I think if we're not moving those people on - I think they ought to be rotated out of that division, so you don't get fellows who are chronic fraud fellows, that's all. I think it's a good administrative procedure to move them on.

Delivering: Well, we're making very forward steps in this decentralization on this very subject.

H. A. Jr: well, I wanted to get this off my chest. We've been talking about it - I got it off my chest; you know how I feel, and that's that.

Hanes: I'd like to get Guy - I'd like to have a talk with Guy and get some facts and figures on this thing and find out just how they've been proceeding and learn the whole machinery. Then we'll report back to you what we do.

Irey: I'd like to make one statement, if I may: that in all the fraud cases that have passed through my office, I haven't one time recommended fraud unless I believed fraud had been committed - not in one instance unless I honestly believed it.

Now, as to tax cases in the sense of fraud tax cases - we have only prosecution cases, which are a very small percentage of fraud cases.

Hanes: I think the Secretary and I are both referring to tax cases. Where there is a criminal case there, we have no desire to go into it - your criminal cases. We're talking about where the taxpayer - where you think there's a tax due and you just simply assess a fraud to aid and abet in the collection of the tax.

H. A. Jr: That's what I mean.

Hanes: That's what I object to. And that becomes blackmail.

Delivering: Very little of that is done.

Hanes: We get the other side of that. The taxpayers tell us all the time that this is going on.

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- H.W.Jr: On, Guy, I talked to somebody here six months, a year ago; they said in order to get the money they've got to put on the fraud. I don't know who - which one of the lawyers I was talking to.
- Wenchel: I didn't say that.
- H.W.Jr: "Why, sure, we charge them ten thousand, know damn well we'll only collect five."
- Wenchel: No, we turn them down, Mr. Secretary. We're turning another case against Weiss down - I turned down last week, remember?
- Irey: Yes, 1930 case.
- H.W.Jr: Well, O.K.?
- Hanes: Mr. Secretary, do you want to talk with Guy here for a minute about this memorandum that you asked for on the question of the exempt status of organizations? You sent me a memorandum asking that ....
- H.W.Jr: well, all I want to say is, I want to keep pushing that, I want to clean it up, and then I want to start over again each year. I want that thing checked once a year.
- Hanes: Well, I've got a January 16 memorandum here from Guy.
- H.W.Jr: I mean that's the point - I think if they've cleaned up the old one, they ought to start again, and these exempt organizations should be checked every year. Every year.
- Belvering: Have to go to Congress then.
- H.W.Jr: All right; it's all right.
- Hanes: Have to get another appropriation, Guy?
- H.W.Jr: I don't know whether you agree or not, but I'd like to see those things checked every year.
- Hanes: There's an awful lot of them - 29,000, I guess.

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- W. S. Jr: Well, there's an awful lot of exemptions, too. I mean I think when they make out their income tax, they don't make it out. It may be impossible; but maybe it ought to be done every two years. But at least think about it, will you? I don't see why it can't be done every year.
- Belvering: There's one thing I'd like to say, Mr. Secretary, to Mr. Hanes: when these gentlemen come over here talking about this, that and the other, that we might know - if it's sent over to us, we'd like to straighten it out with them before they get off on the wrong foot over here.
- W. S. Jr: Meaning what?
- Belvering: Well, rather than having a consultation about tax cases over here, I'd like to have them over there.
- W. S. Jr: Again meaning what?
- Gaston: I think Guy means there is always another side to the story.
- W. S. Jr: Well, you've got to be more specific. I don't know what you mean.
- Guy: He means when a taxpayer comes in and belly-aches to Johnny about unfair treatment, he'd like to have an opportunity to present the Bureau's side.
- Hanes: We always do. We never talk with the taxpayer without a man from your department over here. We ask Phil Wenchel to send the case right over here, and if the taxpayer wants to talk I don't think, for instance, we can be put in the position of saying, "If you think you've got a grievance, go down and settle it with the fellows you've got the grievance against." How are we going to know whether he's got a grievance if we don't listen? The Secretary has said time and time again that if any taxpayer feels he isn't getting a fair deal, "come and see me."
- W. S. Jr: That's right.
- Hanes: That's the spirit, it seems to me, we want to carry along. As long as a member of your staff is here

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pleading your side of the case - the Secretary doesn't hear, and neither do I, any taxpayer without at the same time hearing from your man.

So it's just a question - if you want to, I'd like to go over - I personally am trying to learn; I'd just as soon go over to Irey's office - I'd just as soon walk over there to the Internal Revenue Bureau and sit down; so when a fellow comes in here and tells me a story like he did on this Detroit case, by God, I think we ought to listen. I'll swear, where we did a fellow an injustice like that ....

Wenckel: McGregor.

Hanes: Yes. And I'd say another thing.

Helvering: I've never heard of the McGregor case.

Hanes: I believe if I hadn't seen that taxpayer, he'd still be a disgruntled taxpayer who we'd stolen \$300,000 from. That's my own frank opinion.

Wenckel: I agree with you.

Hanes: I think everybody agrees. Even the Department of Justice, which had the case - the fellow who was working on the case said, "Great God, Mr. Hanes, I hope we don't have to go to court with this one. I'm ashamed of the United States Government for this trick."

Wenckel: This was a forgotten man. The Treasury had changed the rule ...

Hanes: Not only that, but he asked for a conference down here and the Bureau of Internal Revenue paid no attention to his request, did they, Phil?

Wenckel: That's right.

Hanes: They sent the notice out to the field and they either tore it up or something.

H.M.Jr: Well, I think you did a swell job on that, but Mr. Helvering - why doesn't Helvering know about it?

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- Wenchel: Because it was in the Department of Justice, Mr. Secretary, and it had passed Mr. Helvering.
- H. J. Jr: Yes, but it was a question of this fellow down the line there ...
- Helvering: What I'm getting at - what John states, that the field division either tore it up or something - I'd like to know about that, so I could know who did that.
- Wenchel: It wasn't torn up, it was lost.
- H. J. Jr: Well, there is still - there is a missing link somewhere that the Commissioner of Internal Revenue - something sour if he doesn't know about it.
- Walt: He's got a right to know what happens in his shop.
- Woods: I thought Guy was fully apprised of this. We've been working on it for three months here. I would think that would pass right back from Phil to you.
- Helvering: If there is an agent up there that took this arbitrary attitude, I'd like to know who he is. Now, right this minute is the first time I ever heard about the McGregor case.
- Wenchel: Well, Phil, you should have brought it to the Commissioner's attention, because Mr. Oliphant and Mr. Wenchel and the Department of Justice - of course, it had all passed out of your hands. Where it was, really - Phil's not to blame for it, because it was over in Morris's department.
- Wenchel: It wasn't in our office; it was in the Department of Justice.
- Woods: But all the mistakes did occur back in your office. I think a red light - you (Helvering) should have been notified about that.
- H. J. Jr: Could we do this - possibly the two of you get together at the earliest time, so as you do these things for the office of the Secretary and if there's anything - that automatically the Commissioner would be advised of anything that has to do with Internal Revenue.

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Helvering: If I've got an agent out there that's just arbitrarily telling this fellow, "You've got to pay this or else," I want to know about it.

In this case Mr. Oliphant - just before Mr. Oliphant's death, he had written a memorandum which I assumed would come to you (Helvering) in due course of time, although it went through Phil Wenchel and I believe to the Department of Justice, did it not?

Well, up to the time Mr. Oliphant died he was working on a change - he and I together were working on a change of the regulations. And it so happened that this taxpayer went in and paid his tax, so the Commissioner's office lost it then, see; and then he sued in the District Court.

Hanes and Helvering can get together. I'm glad the discussion took place. But as to the principle, let me say again, the principle I laid down here when I first came here - Hanes is helping me carry it out - that any taxpayer who wants to talk in your office and see us, who has a complaint, can come in and see a representative of the office of the Secretary of the Treasury. Now, I'm not seeing them just now; Hanes is. If they're not satisfied with Hanes, they can come to see me. But I established - I said it publicly, I've said it in speeches - that any taxpayer who has a complaint - might be an employee of the Treasury that has a complaint - can always see either myself or the Undersecretary or one of the Assistant Secretaries. I laid that down, and I think it's a good principle. Now, in seeing these people, if we're convinced there's something wrong in your shop, it's up to us to let you know and give you a chance to answer before we come to a conclusion; that's all you want.

Helvering: That's all.

Hanes: That's fair, and I'm sure Hanes would be the first one to say so.

## CAPTION

It is mutually stipulated and agreed that the total deficiency in the above case is \$38,746.10 , and the Board may enter an order accordingly.

It is further stipulated and agreed that effective upon the entry of the Board's decision, petitioner waives the restrictions, if any, contained in the applicable internal revenue act or acts, on the assessment and collection of said deficiency, plus interest as provided by law.

## CAPTION

It is hereby mutually stipulated and agreed that the deficiencies for the respective years involved in the above case, together with penalties, are as follows, and that the Board may enter an order accordingly.

<u>Year</u>	<u>Deficiency</u>	<u>Penalty</u>	<u>Total</u>
1929	\$ 425.53	\$ 212.77	\$ 638.30
1930	2,273.86	1,136.93	3,410.79
1931	21,685.10	10,842.55	32,527.65
1932	870.24	435.12	1,305.36
1933	576.00	288.00	<u>864.00</u>
			\$ 38,746.10

It is further stipulated and agreed that effective upon the entry of the Board's decision, petitioner waives the restrictions, if any, contained in the applicable internal revenue act or acts, on the assessment and collection of said deficiency, plus interest as provided by law.

Louisiana Corrugated Culvert Co., Docket 81666, was settled on February 19, 1936, in New Orleans, La., by the filing of a stipulation that "there is a deficiency in Federal income tax due from this petitioner for the fiscal year ended November 30, 1931, in the amount of \$5,600.00." The Board may enter an order accordingly."

The amount covered the tax liability (after adjustment by allowance of certain deductible items involving accounting items, plus the 50% fraud penalty on the adjusted tax liability.

## U. S. HOUSING ISSUE

January 23, 1939.  
11:30 A.M.

Present: Mr. Hanes  
Mr. Bell  
Mr. Lochhead  
Mr. Hadley  
Mr. Haas  
Mr. Seltzer

Lochhead: I think there might be some slight difference of opinion as to just what the premium is going to be, but that's minor, in effect, in this particular item.

Haas: That looks like enough.

Lochhead: It's plenty rich, but you could make....

H. J.: (On phone) What's the fellow's name in the Federal I talk to? - And tell Mr. Hanes we've started.

Hadley: Since it's the first issue of this type, I would think it's better to have the added margin.

H. J.: What does an eighth amount to on a hundred million for five years? Figure it.

Hadley: You mean in cost?

H. J.: How much is an eighth? What's an eighth?

Seltzer: Four thirty-seconds.

H. J.: Figure it for five years.

Hadley: Hanes will be in in a moment, and Bell is on the way around.

Lochhead: For one year it would be \$125,000; five years it would be \$625,000.

H. J.: Are you sure it's 125 and not 12 $\frac{1}{2}$ ? Are you sure?

Hadley: It would be five-eighths for the five years. Be a difference in cost of \$625,000 for the five years.

Seltzer: \$625,000.

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- Legg: See, you'd be paying a million and a half interest at one and a half.
- H. Jr: but you think it needs that extra eighth?
- Legg: well, the market is at such peak value that it could very well slide down to where 1-3/8 would be below par, without serious reaction in the market. The market has climbed a point and a half to two points in the last month and a half.
- H. Jr: well, has this thing ....
- Legg: Yes, it has hit the Governments.
- Legg: and there's a feeling of uncertainty around - the fact that no one can put their finger on why this market has gone down.
- (Bell comes in)
- H. Jr: What is the deadline we have to make the price? When's the deadline, Den, that we've got to price this United States Housing?
- Bell: well, it ought to go out as early this afternoon as possible.
- H. Jr: Well, we better wait until after the market closes.
- Bell: That's the reason I asked you the question this morning.
- H. Jr: The stock market is off three points.
- Legg: Of course, a 1 1/2 coupon allows for quite a little weakness in the market.
- H. Jr: I'm trying to get Sproul on the wire.  
I think if you'd make it out for 1 1/2, and then let's wait until the market closes and take a look at it. What?
- Bell: All right.
- H. Jr: After all, a hundred million is a hundred million.

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- Bell: Of course, you figure - what do you figure it will sell for?
- Seltzer: Very juicy premium.
- H. J. Jr: If you fellows were in here - if you fellows came in here at 3:20, we could settle this. We'll get the market report.
- Seltzer: 3:20?
- H. J. Jr: Yes.
- Harley: One and three-eighths coupon would give anywhere from three-quarters to a point, on my estimates. A hundred million will have such a scarcity value; it will be a little bit lower in the calculations....
- H. J. Jr: What day is this offered, on Wednesday?
- Bell: Yes, the announcement will be Wednesday morning and it'll be dated February 1, which will be about a week from then.
- H. J. Jr: I think better take another look at it about 3:20. This fellow hasn't telephoned.
- I wonder what the hell's the matter with the stock market?
- Hess: Well, there's been some reaction expected in the market.
- Bell: Anything in the air, do you know?
- Lockwood: The rumor's out - or, the explanation for our market going down is because London went down before ours opened; and if you read the London account they say their market went down because our market went down Saturday.
- The Dutch guilder was very weak this morning - reviving rumors that trouble with Germany may come.
- Hess: Well, new orders are down and a lot of people - Times index is off nearly three points.

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(Hanes comes in)

- H.M.Jr: This is the situation, Johnny. This U. S. Housing - we're waiting to hear from Matteson - I mean Sproul. One and a half looks pretty sweet, but on the other hand - it's 100 million, U. S. Housing - on the other hand, the market was off two points Saturday, it's off three points now - the stock market - and we've had a terrific rise in the bond market. So if the bond market would get anything like this, we'd need that. And it's a new issue; we've never offered anything like this.
- Selzer: And the Fed has bought 50 million notes in the last two weeks; that's strengthening your whole note market.
- H.M.Jr: I told the boys I'd get Sproul on the wire, make a quick check at 3:20 - sharp 3:20 - and Bell could write this thing up for  $1\frac{1}{2}$  and we take a look at the market the way she closes tonight. Unless something out of the ordinary happens, we'll let it go. But we'll wait until we hear from Sproul. But that's all right?
- Selzer: It sounds O.K.
- H.M.Jr: Is that all right?
- Bell: One and a half seems awfully sweet.
- H.M.: Yes, but then you get down to  $1\frac{3}{8}$  and there's so many unknowns in the thing; that's the only reason ...
- H.M.Jr: At the present moment  $1\frac{3}{8}$  would be all right.
- H.M.Jr: Have the legal boys cleared this?
- Bell: Yes, and Keyserling and Maxey, of the Housing Authority, have initialled a circular with, of course, the rate blank. They understand that it will be around  $1\frac{1}{2}$ .
- H.M.Jr: But - I mean that's out?
- Bell: It's all set.

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H.A.Jr: I'll get Gaston to come in here. We ought to get something out tonight.

(On phone) Tell Herbert Gaston to come in.

There's been no leaks on this.

Bill: No.

H.A.Jr: That's too bad. Can't you arrange for a nice little leak?

Bill: Well, Herbert's the leaker.

H.A.Jr: We'll have a four o'clock. I don't think .... We'll get Gaston. If we can't get Allan Sproul, no use tying up everybody.

(Gaston comes in)

Herbert, this blankety-blank Treasury is such an oyster that there's been no leaks on U. S. Housing, and we're going to meet again at 3:20. You better get the facts and I think we'll have a little release at four o'clock for the boys.

Gaston: I thought you would tell them offhand you were going to get out - put out the formal statement tomorrow afternoon for Wednesday morning papers.

H.A.Jr: The Treasury was so close-mouthed; just as leave have a little leak on it.

Gaston: I was just talking to some of the boys. The only leak was apparently from there.

H.A.Jr: Well, we'll say something at four o'clock.

All right, Dan. I don't want to tie everybody up. If you fellows come back at sharp 3:20, and I'll check with ....

Bill: Why shouldn't that get out now and go on the ticker, and see if there is any reaction by 3:20.

H.A.Jr: What?

Bill: I mean say it's a ....

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H.A.Jr: A hundred million dollars?

Lochhead: In the meantime Government bonds are off another one to two thirty-seconds. No pressure, but they're selling - they're selling against the stock market.

H.A.Jr: A hundred million dollars, five-year notes - go into the market.

Bell: Oh, probably wouldn't have any effect, but you might get some little reaction to help you. Don't think it does any harm.

H.A.Jr: All right. Herbert, will you tell the boys it's going to be a hundred million dollar issue, February 1, five-year note.

Bell: Be announced Wednesday.

Gaston: Five-year note, interest not stated.

H.A.Jr: Will you tell them?

Gaston: Yes. We'll make a formal announcement Wednesday morning.

H.A.Jr: All right.

RE U. S. HOUSING ISSUE

January 23, 1939.  
3:28 p.m.

Present: Mr. Hanes  
Mr. Bell  
Mr. Lochhead  
Mr. Haas  
Mr. Seltzer  
Mr. Hadley

(Telephone conversation with Allan Sproul attached; discussions held with above men during pauses in conversation with Sproul form content of this transcript)

H.M.Jr: (On phone) Just wait a minute, will you?  
 Sproul: Yes.  
 H.M.Jr: (On phone) And we'll settle it right now.  
 Sproul: Yes.  
 H.M.Jr: Dan?  
 Bell: Well, on the basis of these prices of this morning, I'm in favor of one and three-eighths.  
 Hadley: One and three-eighths.  
 Haas: Same.  
 Lochhead: Prices say one and three-eighths, and as long as New York is willing to say they'll go along - the dealers - that removes the objection we had.  
 Seltzer: I feel one and three-eighths would go. I'm not afraid of letting people make money on the first of a new series, giving it a good send-off; I wouldn't object to one and a half at all.  
 Hanes: I'm learning to go with the majority here. One and three-eighths sounds all right.  
 H.M.Jr: (On phone) Did any one of the dealers talk above one and three-eighths? ..... Just a second.

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H.H.Jr: All right?

Bill: It sounds good to me, unless this other thing is in there strong, and something liable to happen tomorrow - this foreign situation. Archie ...

Lochner: Do you want me to tell ....

H.H.Jr: Just hold the wire, please. (On phone)

Lochner: Knoke was speaking to the bank of England this morning in regard to the uncertainty on the other side. The Bank of England says that the general market interprets the ousting of Schacht and a couple others - and Bessing from the Reichsbank has also been ousted - they feel that's a sign of desperation on the part of Germany, that they can't go along farther in ordinary, orthodox manner; therefore, they're on the way down. They also feel that Germany, being in that position, might in desperation take stronger actions. So they think that's the feeling there: that they may take stronger action. And the reason for Holland going down is that Holland is very nervous, feeling they're first on the list, if Hitler is going to do anything on the West.

Bill: That's a little bad news, I think. I mean that situation and the information you've got there is a little bad news.

H.H.Jr: Well, five and a half points, and they still say one and three-eighths.

Bill: I mean supposing tomorrow or Wednesday morning that Germany would march.

H.H.Jr: Oh, no.

Lochner: I don't think they're looking for anything immediate; they're still marking time until April 1.

H.H.Jr: No.

(On phone) Hello. What does the street - how does the street account ..... - etc. ....

(On phone) Thank you very much. Good night.

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Haas: Mr. Secretary, that's as good as you can do on this sort of an issue, but if it were a Treasury issue we'd probably get away with less than one. So, you see, they've got ....

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

Bell: Of course, Treasury issues of notes would be fully tax-exempt.

Haas: That's right.

January 23, 1939.  
3:28 p.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Right.

O: Go ahead.

Allan  
Sproul: Hello.

HMJr: Hello.

Hells, Mr. Secretary.

HMJr: Well, what happened to the Government Bond market today?

S: Well, it -- as you know, was quite weak this morning, but caught itself along about the middle of the day and is a little above the lowest today now. The market says they are concerned about developments in the European situation, and also that the market was a little topy. It had a -- quite a rise anyway.

HMJr: Well -- well, what do you recommend we should price it?

S: On this new issue?

HMJr: Yeah.

S: Well, we've had a chance to sound out the market now since your announcement this morning, and the market thinks that one and a quarter would sell it. My recommendation -- our recommendation, however, would be to give yourself a little factor of safety, to make it one and three-eighths.

HMJr: Oh. The market says one and a quarter?

S: The market says one and a -- most of the market says one and a quarter would do it. Some say they'd vote for one and three-eighths.

HMJr: With one and three-eighths you'd feel comfortable?

S: One and three-eighths -- with one and three-eighths, we would feel comfortable.

HMJr: You -- you'll underwrite it?

S: Yeah. I'd underwrite it at -- almost at one and an eighth as far as just selling out one hundred million

is concerned, if there wasn't something else in the picture than that.

EMJr: What else is there?

S: Well, I mean the -- keeping it -- the whole Government Security market in some sort of proper relationship, one issue with the other.

EMJr: Are you going to buy some of these for your portfolio?

S: Well, I wouldn't mind. I think we'll get -- we'll replace those bills this week, and next probably.

EMJr: Well, I haven't had a chance to ask my crowd. Let me ask these sharks around here. Just wait a minute, will you?

S: Yeah.

EMJr: And we'll settle it right now.

S: Yeah.

(Pause)

EMJr: Ah -- did anybody of the dealers talk above one and three-eighths?

S: No, they all said that one and one half would be a gift, too much.

EMJr: Well. -- Well, then they could be one and three-eighths. Just a second.

(Pause)

Just hold the wire, please.

S: Yeah.

(Pause)

EMJr: Hello.

S: Hello.

EMJr: What is the street -- how does the street account for the big break in the market today?

S: Well, they say that there wasn't a great deal doing, but that there was some selling based on the fact that there has been quite a rise and some people wanted to take a little profit and the fact that they don't like the way the European situation is going.

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- EMJr: At one and three-eighths -- how many thirty-seconds are there in a margin, a comfortable margin?
- S: Well, there's -- we think a safe margin there of three-quarters of a point.
- EMJr: Three-quarters?
- S: Yeah. And it might be a point to a point and a third after a little while.
- EMJr: I think that's enough.
- S: I do too.
- EMJr: I think that's enough.
- S: The market is really pretty anxious for issues of this character, I think, and I think that's enough to give them on it.
- EMJr: Well, after it came out and they knew what it was, any criticisms of any kind?
- S: No, I haven't heard any criticisms of it.
- EMJr: And, did they -- did they fairly hug me for it?
- S: I think so. I think there is no question about that.
- EMJr: It will all go in the banks, won't it?
- S: Yeah.
- EMJr: I say the banks -- it will be exclusively banks, won't it?
- S: I think the banks will be the ones who will take it, yes.
- EMJr: Well, I think it -- with that much margin, why, I think the worst that could happen would be it could go down to a hundred and a half.
- S: I think that's enough margin to give them in the -- in their present state of mind about it.
- EMJr: They say one and a half would be a gift?
- S: Yeah.

HMJr: I think it's too rich. O.K., we'll get her out one and three-eighths.

S: All right, I'll get a telegram on that later.

HMJr: Sure.

S: Thank you.

HMJr: Thank you very much. Good night.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JANUARY 23, 1939.

TO Secretary Morgenthau  
FROM Mr. Haag  
Subject: Decline in Holdings of Governments by Weekly Reporting Member Banks in New York City

1. New York City weekly reporting member banks showed a net decline of \$205 millions in their holdings of direct Governments during the calendar year 1938. The net decline in the last six months of 1938 amounted to \$59 millions.

These declines took place despite Treasury cash allotments of \$865 millions of bonds and \$671 millions of notes during the year; and despite a net decline of \$497 millions in the banks' total loans.

On the other hand, the remainder of the weekly reporting member banks increased their holdings of direct Governments during 1938 by \$453 millions, and increased them by \$555 millions during the last six months of the year.

2. The principal explanation for the decline in holdings of direct Governments by weekly reporting New York City member banks would appear to be the substantial reduction in the volume of Treasury bills and notes available -- the types of securities most in demand by large metropolitan banks.

During the calendar year 1938, there was a net decline of \$646 millions in the volume of outstanding Treasury bills and a net decline of \$2,051 millions in the volume of outstanding Treasury notes (exclusive of special issues). The supply of marketable Treasury bonds, on the other hand, exclusive of amounts purchased by Government trust funds and agencies, was increased by more than \$3 billions during the year.

3. The view that the decline in holdings of direct Governments by weekly reporting New York City member banks during 1938 was due to the reduction in the volume of available bills and notes, rather than to any categorical distaste

For additional Governments, is supported by the fact that the New York banks increased their holdings of Government-guaranteed obligations by \$494 millions during the year, and by \$182 millions during the last six months.

It will be recalled that cash offerings of short-term notes were made during the year by the RFC and the CCC in the amounts of \$211 millions and \$206 millions, respectively; and that the RFC also sold a refunding note issue of \$297 millions.

In addition, obligations issued several years ago by the HOLC have recently become more attractive to large banks because of their imminent maturity (June 1, 1939 for \$325 millions of HOLC 1-1/2's) or because of the probability of early call and refunding (\$979 millions of HOLC 2-3/4's of 1939-49 become callable August 1 next, and are now selling on a no-yield basis).

4. During the month of December 1938, the weekly reporting member banks in New York City showed a net reduction of \$27 millions in their holdings of direct Governments despite allotments aggregating about \$100 millions on their cash subscriptions to the mid-December Treasury offerings. In the three weeks ended January 18, 1939, there was a further net decrease of \$83 millions in their total holdings of direct Governments.

The declines in New York City bank holdings of direct Governments in recent weeks have been due largely to their failure to replace fully their maturing Treasury bills. This was notably the case in the week ended January 4, when banks in the Chicago Federal Reserve District, by bidding par or better, obtained some \$83 millions of the week's bill offering. Illinois institutions, as is well known, exert a special demand for Treasury obligations maturing shortly after April 1, because personal property taxes, from which Governments are exempt, are assessed as of this date in Illinois. Some New York banks in previous weeks had relinquished bills to their customers, thereby reducing their own FDIC assessments.

The par and near-par prices received for Treasury bills during the last several weeks have been largely due to the demand for Treasury bills for year-end window dressing purposes on bank statements, and to the special Illinois demand just cited.

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Prepared by Lawrence H. Seltzer

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TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE January 23, 1939.

TO Secretary Morgenthau  
FROM Mr. Haas *HA*  
Subject: Price behavior of December new bond issues

Attached hereto is a chart showing the daily closing prices of the two new bond issues offered on December 5 and dated December 15, 1938 — the 2's of 1947 and the 2-3/4's of 1960-65 — from the first day of trading, December 5, 1938 through January 18, 1939.

The relative price behavior of these two issues during the first few days of trading was contrary to our expectations; but has since been more in line with these expectations.

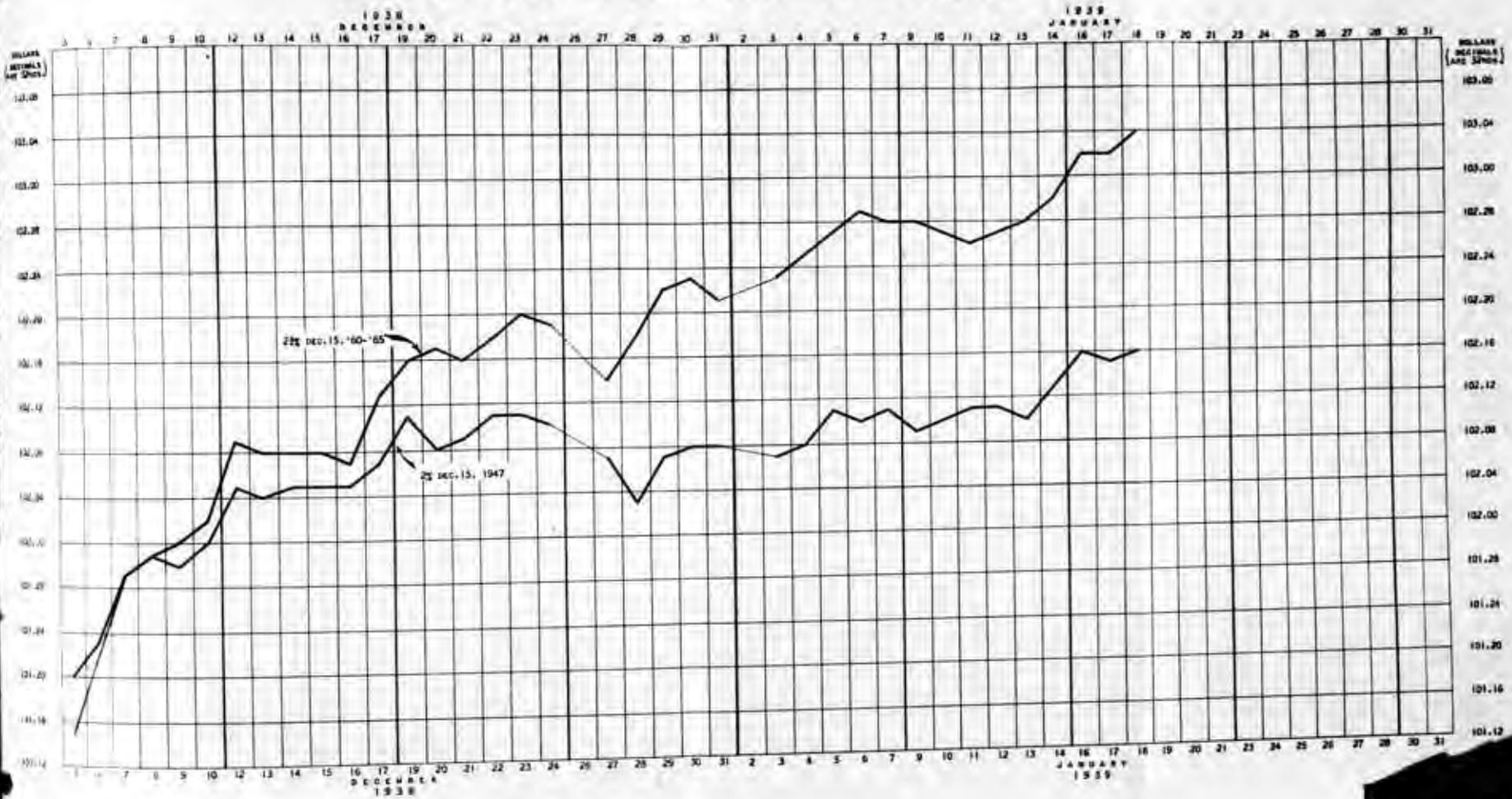
Based strictly upon the then-existing yield structure of the market, we had expected the 2-3/4's to sell at about 1/2 a point higher than the 2's. Instead, the 2's closed on the first day of when-issued trading some 5/32 of a point higher than the 2-3/4's. However, by the close of the fifth day of when-issued trading, the price of the 2-3/4's had risen above that of the 2's; and the margin in favor of the 2-3/4's has since widened to 5/8 of a point.

The preponderance of exchange subscriptions for the 2's as against the 2-3/4's was undoubtedly influenced to a powerful degree by the temporary absence of a significant price advantage for the latter during the critical period — the few days between the announcement of the offering and the closing of the exchange subscriptions.

The new 2's, as may be seen from the Great Circle chart for January 16, attached hereto, still appear to be selling relatively high as compared with adjacent issues; whereas the new 2-3/4's are selling well in line with their neighboring issues.

Attachments

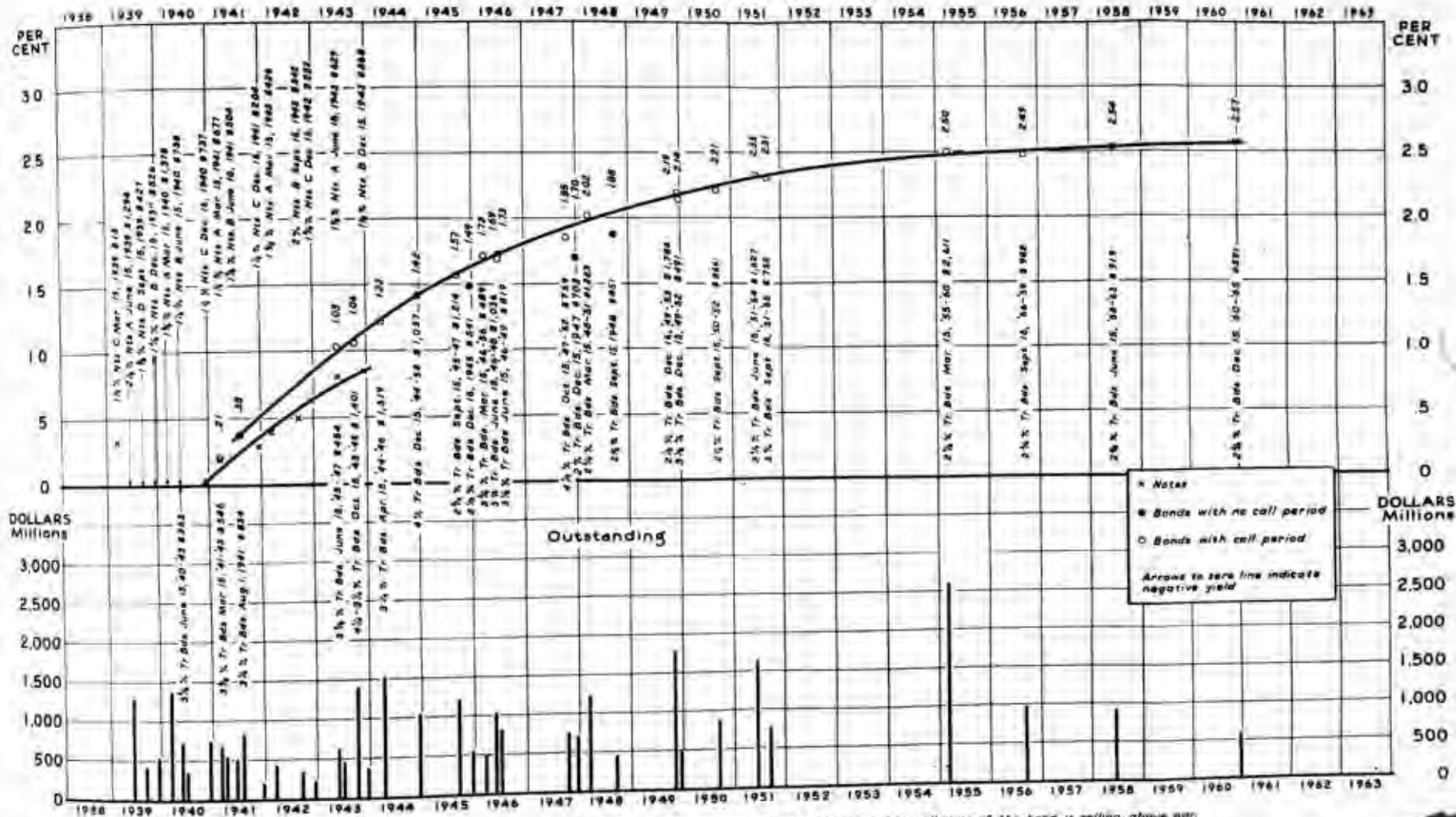
PRICE COMPARISON OF TREASURY 2 1/2 1947 WITH TREASURY 2 1/2 1980-85



Office of the Secretary of the Treasury  
Bureau of Finance and Accounts

# YIELDS OF TREASURY BONDS AND NOTES JAN. 16, 1939

## Based on Closing Prices



Note: For callable bonds, yields are computed to, and issues plotted as of, the earliest call date if the bond is selling above par, and as of the final maturity date if the bond is selling below par. The smooth curves are fitted by eye.

WAR DEPARTMENT  
OFFICE OF THE CHIEF OF STAFF  
WASHINGTON, D. C.

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January 23, 1939.

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

My dear Mr. Morgenthau:

I was able Saturday morning to contact Mr. Shingleton, who is a Director of the Greyhound Bus Company. He told me he would let me know yesterday when he could be here with the man he recommends for the job you have in mind. Shingleton is a Legion man and an ex-Adjutant General of his State. I have not heard from him since but will let you know as soon as I do. I impressed upon him the necessity for a conference either today or tomorrow.

With kind personal regards,

Sincerely,

*Walter Gray*

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE January 23, 1939

TO Secretary Mergenthau  
FROM Mr. Haas *MA*  
Subject: The Business Situation,  
Week ending January 21, 1939.

Conclusions

(1)

Some slackening in business activity on a seasonally-adjusted basis has become apparent during the first part of January, following a flattening of the upward trend during December. The adjusted index of steel production has continued to decline. New orders have remained relatively low. The New York Times index for the week ended January 14 reached the lowest figure since early November.

(2)

Evidence of a renewed decline in business activity in Great Britain, accompanied by weakness in British stock prices and an increased volume of foreign selling of American securities, has been an unsettling factor in our domestic business outlook. On the other hand, there has apparently been some improvement in France.

(3)

Clearly needed at this time is some development which will bring a renewed increase in industrial buying. Any influence which would bring an improvement in commodity prices, particularly if accompanied by a strong stock market upturn, would provide an incentive for increased buying. The outlook for commodity and stock prices, however, remains clouded by uncertainties arising from the foreign situation.

The present business trend

The rise in industrial production flattened out during December, confidential data from the Federal Reserve Board indicating an index of 104 for that month, which compares with 103 for November. The 1-point increase was due to a rise in the production of minerals, with manufacturing production remaining unchanged at the November level.

During January, according to weekly data, some setback in business activity has occurred, largely representing a failure of production to show its usual seasonal increase in that month. For the week ending January 14, which is the first week in which business indices have been free from the uncertainty of recent holiday influences, the New York Times index dropped to 90.7, the lowest since early November. (See Chart 1.) As compared with the previous week, each of the seven components showed greater or less decline.

Steel activity, seasonally adjusted, has continued to decline through the third week of January, the actual rate of output showing but a moderate rise in place of the substantial improvement which usually occurs at this time of year. In large part this has been due to a failure of new orders to improve, particularly for the heavier steel products. Sales of fabricated structural steel during the week ending January 14, for example, dropped to 28,000 tons, as compared with 43,000 tons the previous week. Reflecting a probable further decline in orders, new inquiries for this product last week are reported to have been the smallest in several months.

Commodity prices, as shown in Chart 1, have continued the flat trend of the past several months. The unusually prolonged horizontal movement of raw material prices, in the opinion of the Annalist, "reflects as well as anything else the prevailing deadlock between the forces of recovery and the forces of reaction". The effect of a declining business trend on commodity prices during the past several weeks has doubtless been offset in some degree by the recent improvement in sterling as shown on the chart.

Accompanying the recent falling off in structural steel orders mentioned above, new orders for lumber have also declined rather sharply (See Chart 2), reaching nearly to the low levels established during the corresponding weeks of the previous year. While this decline may reflect merely the current hesitation and cautious attitude among businessmen, it may possibly indicate that dealers in building materials had become somewhat overstocked with lumber during the fall months.

Automobile production increased more than seasonally during the current week, the estimated output of 90,200 units being within 12½ per cent of the 1938 high reached in December. Retail sales by General Motors during the period ending January 10 showed about the usual seasonal decline, and trade reports indicate that sales generally are holding up well. Factory and dealer stocks of new cars, however, have been built up steadily during the past month, more rapidly than is usual. At the end of the first period of January these stocks were 5.3 times as large as the sales during the period. This compares with a ratio of 2.8 in January 1937, and with 11.4 last year, when stocks were very heavy.

#### Foreign business turns less favorable

A possibility that the fall upturn in business activity abroad may have been of a temporary nature is suggested by the renewed business decline in Great Britain which occurred during November, carrying the Economist adjusted index to a new low for the year at 101½ (preliminary), which compares with 104 in September and October. Commenting on the downturn, the Economist says: "Seen in retrospect, the autumn revival seems to have been a short-lived re-stocking movement, stimulated in part by the rise in commodity prices due to recovery in the United States."

The Economist calls attention to the fact that the trend of private investment in Great Britain has been downward for more than a year, though its effect on business has been cushioned in part by increased Government expenditures for defense purposes. Following some increase in new industrial orders earlier in the fall, latest reports from industrial centers, according to the Economist, indicate that the volume of new business has been declining in many industries. New building contracts continue to fall off, and it is feared that the decline in demand for private houses may be accelerated, since buildings cannot be insured against war risks. A decline

In new orders in the cotton industry is again forcing it to curtail output, and other consumption goods trades are said also to be gradually reducing their activity. The failure of commodity prices to improve is cited as an important factor in the business decline, since this has discouraged new industrial buying and has prevented an increase of purchasing power in countries producing raw materials.

More recent reports indicate that business in Great Britain has probably continued to decline since November. Steel output in December was the lowest of any month since December 1934, dropping 24 per cent to 655,700 tons, as compared with 860,000 tons in November. Seasonal influences and a recent reduction in steel prices doubtless had some effect, though the decline in output from November to December in the previous year was only 6 per cent. In the cotton industry, Lancashire mills have been curtailing heavily during January, according to the New York Cotton Exchange Service, but have not been able to sell their reduced output.

In France, on the other hand, cotton mill conditions are improving and weavers are reported to be well booked with orders into the second quarter of the year. According to the Economist, signs of business improvement in France have become more numerous in recent weeks, though the extent of the expansion in industrial activity is difficult to measure due to the lack of up-to-date production statistics.

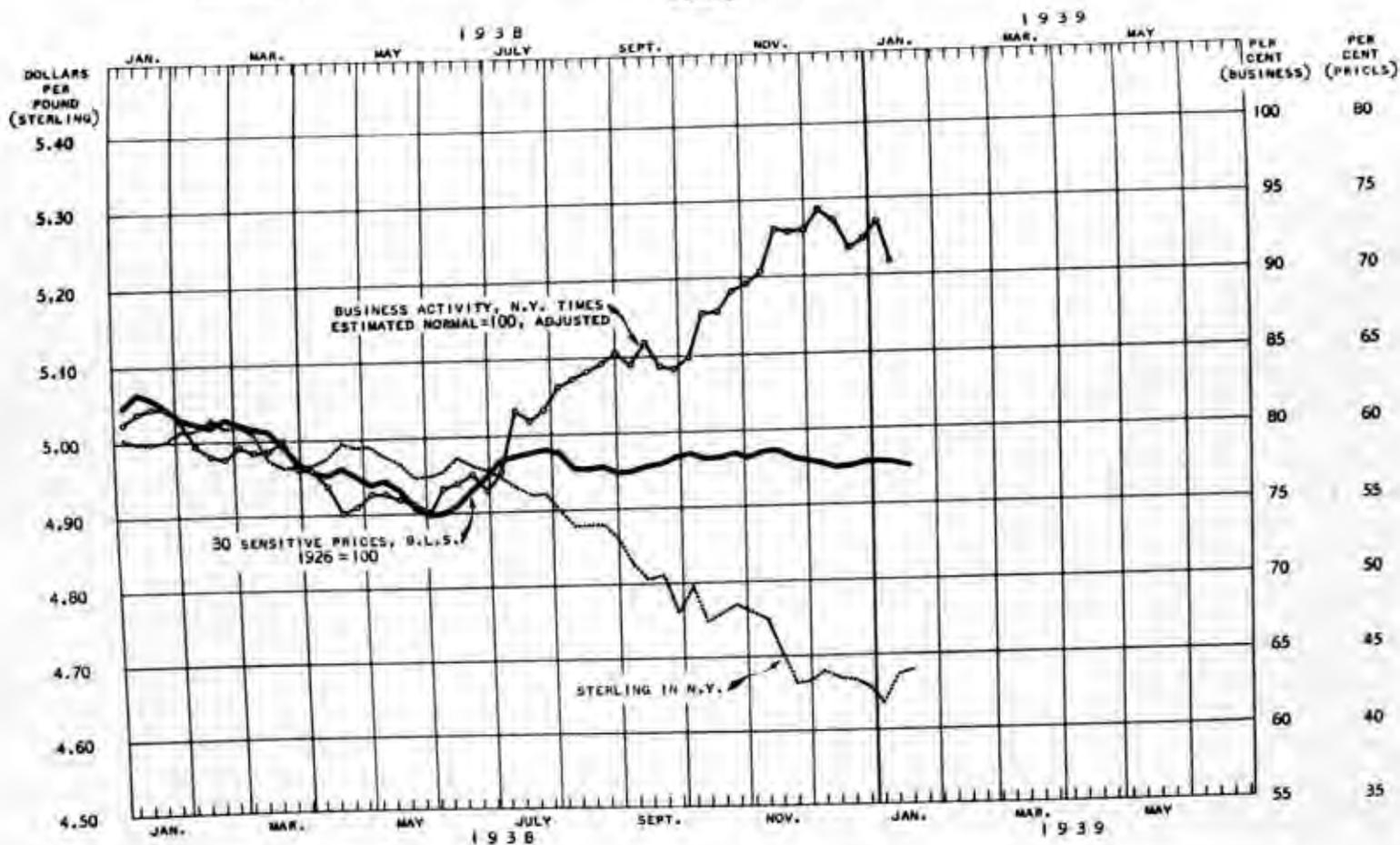
#### Stock prices affected by foreign uncertainty

The weakened business situation in Great Britain has been reflected in a decline in British industrial stocks during January to the lowest level since the time of the Munich crisis, while British railroad stocks have established new low levels. French security prices have also weakened, following their previous sustained advance. A recent increase in the volume of foreign selling of American securities, coming largely from Great Britain, has put additional pressure on stock prices in this country. (See Chart 3), probably accounting in part for the declining market trend during January. Stock prices in New York turned down rather sharply on Saturday, following a gradual improvement earlier in the week.

Foreign uncertainties continue to cloud the outlook for stock and commodity prices, and were credited in part for the decline in the stock market on Saturday. A somewhat over-bought speculative position in stocks has been an additional weakening factor, though speculative accounts have apparently been reduced somewhat over the past two weeks, as indicated by a moderate decline in brokers' loans. The market foundation, on the other hand, has been strengthened by an increased pressure of idle funds for investment, accompanying a further rise in excess bank reserves to a new high level. This influence has already resulted in increased prices for high grade bonds and high grade preferred stocks.

Some development seems clearly needed at this juncture to create a more confident attitude toward the future in the minds of businessmen, and thereby bring an expansion in industrial buying. Hand to mouth buying policies continue to prevail, despite low inventory levels, because of uncertainty over the trend of commodity prices and the near-term business outlook. A development which would bring about a rise in commodity prices, particularly if accompanied by a strong stock market upturn, would provide the immediate incentive needed for an expansion of industrial buying and a renewal of the recovery movement, since the domestic business structure remains basically sound. A declining trend of stock and commodity prices, on the other hand, would accentuate the prevailing cautious attitude and tend to postpone further recovery.

COMMODITY PRICES, BUSINESS ACTIVITY AND STERLING EXCHANGE  
Weekly



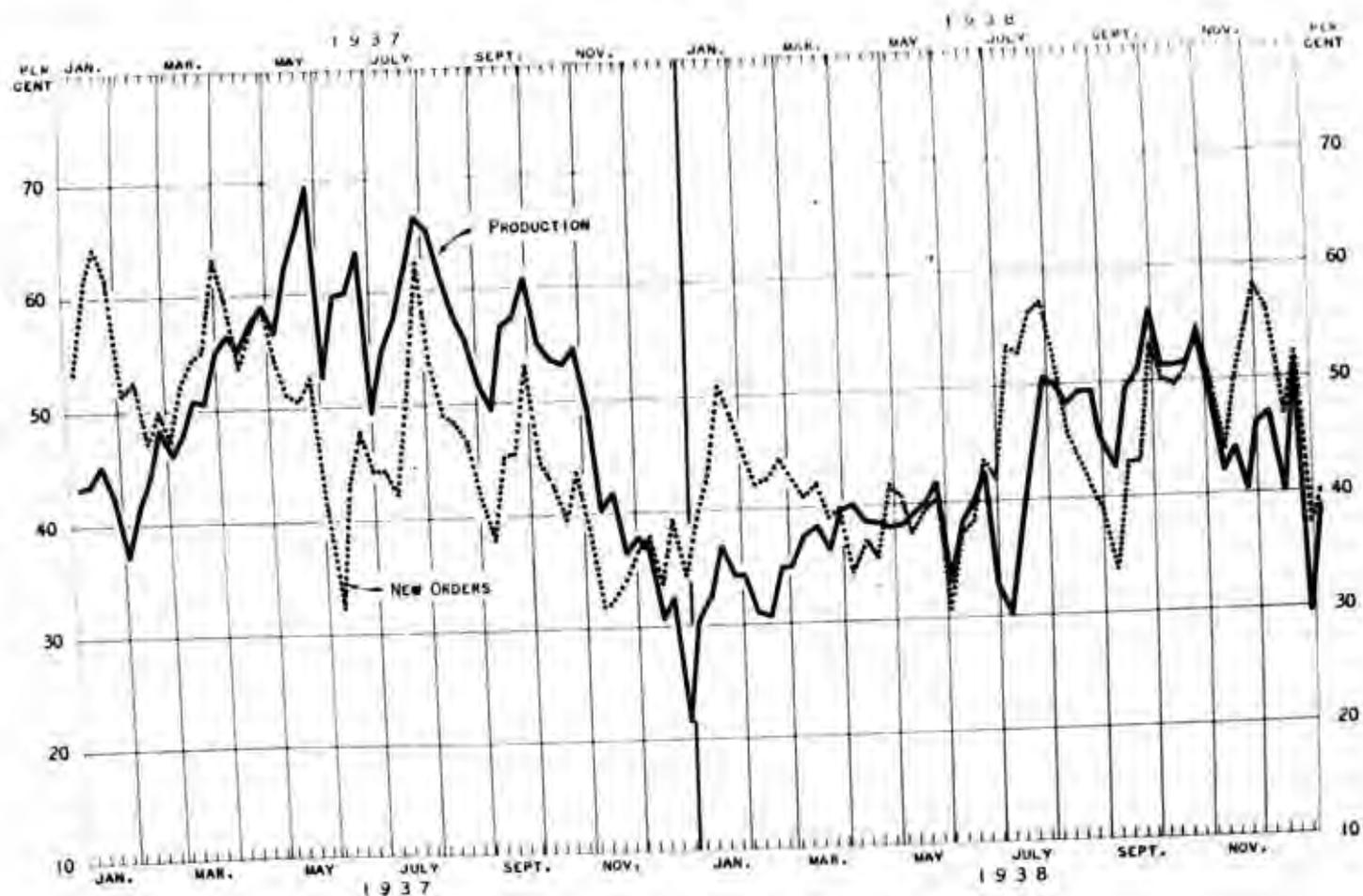
Office of the Secretary of the Treasury  
Division of Research and Statistics

P - 172

120 Chart 1  
Confidential

Regraded Unclassified

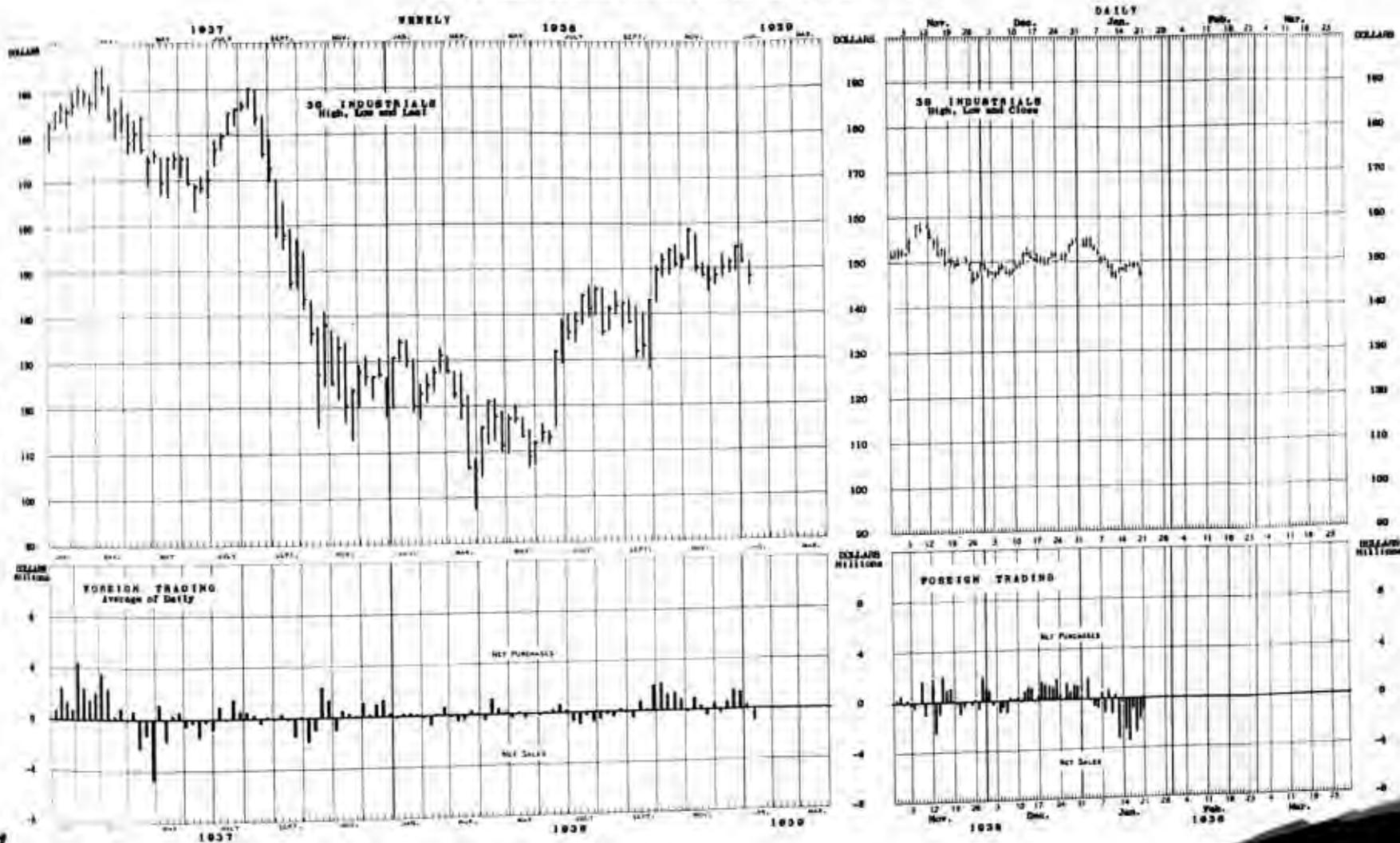
PRODUCTION AND NEW ORDERS OF LUMBER\*  
1923 - '25 = 100



\*BASED ON FIGURES FROM NATIONAL LUMBER MANUFACTURERS ASSOCIATION

221 Chart 2

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



U.S. GOVERNMENT PRINTING OFFICE: 1938

High Lights of Eccles Speech

The fundamental issue between Senator Byrd and myself is whether the Government can and should contribute to bringing about an increase in private employment by borrowing the idle money, and lending and spending it, at a time like the present, when there are millions of people who cannot find jobs in private industry, when there is an abundance of natural resources, unused productive facilities of all kinds, and billions of savings and of bank credit waiting to be used.

I do not believe in Government spending at any time for spending's sake. I do believe in Government deficit spending in depression periods as a supplement and stimulant to private spending, using only the man power, materials and money that otherwise would be idle, and using them only in a way that avoids competition with private enterprise.

I am as anxious as any one to see the Federal budget balanced. In my judgment this cannot be accomplished until the national income is higher than it will be this year.

I do not believe it can be done at this time either by reducing Government expenditures or by increasing Federal taxes, particularly those that bear most heavily upon consumption.

I believe that the only way the budget can be brought into balance is through increased Federal revenue from an increased national income.

I am just as much against inflation as I am against deflation. However, we do not want to stay in a perpetual deflation because of fear of inflation.

Inflation can and should be prevented, and this can be done by giving adequate powers to the Treasury and the Federal Reserve System.

I do not see how it would be possible to have a dangerous general inflation so long as we have a large amount of idle men and unused resources. Long before inflation could develop, we would have a volume of business activity that would increase the national income to a point where the budget could easily be balanced.

I do not believe, and I have never said, that the Federal debt should continue to grow indefinitely and no part of it ever paid.

I do believe that it cannot safely be reduced except when national income is high and when private debt is expanding.

Reduction of Government debt at such a time would tend to counteract any trend toward inflation that might develop, just as expansion of the Government debt during depression tends to offset deflationary developments.

I realize that Government spending is not a cure-all or a remedy for all of our problems, or for special conditions that may be retarding private employment and investment. Everything should be done to bring about a prompt solution of these problems.

- 3 -

In the meantime I can see no practical alternative except to sustain purchasing power through public employment until private employment substantially increases.

If I felt that the Government were risking a dangerous inflation, or that it could not afford the expenditures, because of the size of the national debt, I would not advocate a continuance of the present stimulus - on the basis of a deficit. I do not share these fears.

I do not agree with those who believe, as Senator Byrd does, that the Government is like an individual in its fiscal affairs and therefore, should not spend more than its income, but should always balance its budget and keep out of debt.

We have never had a period of prosperity without an expansion of debt. Conversely, we have never had a period of deflation without a contraction of debt.

Statements for verification in Eccles radio speech  
Monday, January 23, 1939.

It is beyond dispute that as debt contracts or expands business activity rises and falls and National income increases or decreases in relatively greater volume.

From 1929 to 1933 total debts, public and private, contracted 14 per cent; National income fell by more than 50 per cent.

For the calendar years 1931, 1932 and 1933 the Government had a deficit of \$7,000,000,000. This was not a "pump-priming" deficit, since it resulted largely from decreased revenues rather than increased expenditures.

In this period the sum of annual losses of National income, measured by 1929, was \$120,000,000,000.

We had no increase in National income until 1934, when the spending-lending program was inaugurated.

From 1934 to 1937, inclusive, the Government spent \$11,000,000,000 more than it collected. This was the result of a deliberate policy of stimulating recovery.

The combined increases in the National income for the four years were more than six times the cash deficit.

In 1937 the Government contributed about \$3,000,000,000 less to buying power than it did in 1936; its cash receipts were only about \$400,000,000 less than it spent.

This too rapid withdrawal of the Government's stimulus was accompanied by other important factors including: (1) sharply increased construction costs, (2) large scale speculative inventory buying, (3) a too rapid expansion of short-term installment credit, (4) serious conflicts between capital and labor, and (5) a widening spread between agricultural and industrial prices.

The result was another period of rapid deflation in the fall of 1937. This continued until the present spending program was begun last summer. The National income has been rising steadily ever since that time.

The National debt is owned by all of the people and amounts to an average of exactly \$430 owed to every man, woman and child. In other words, all of the people are borrowing through their public bodies from all of the people.

The British Government never permitted National income to fall more than 10 per cent. The British rates of taxation if applied to the United States would very likely balance our budget. The British balanced budget is not due to the fact that they spend proportionately less than we do, but because their income and inheritance taxes are relatively much higher.

## TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: January 23, 1939

TO Secretary Morgenthau  
FROM W. H. Hadley

Review of the Government Security Market  
for week ending January 21, 1939

The market for government obligations was strong and moderately active for the week as a whole. Although trading was substantially a two-way affair with both buyers and sellers, considerable outright buying by insurance companies and banks forced prices to new high levels. Substantial buying interest has developed in the June, 1939 Treasury notes as possible "rights" for the next quarterly Treasury financing.

Gains in prices ranged from 3 to 10/32nds in Treasury bonds for an average rise of 6/32nds. Treasury notes were up 1 to 7/32nds for an average of 3/32nds. The greatest gains were in the long Treasury bonds, up over 1/4 point, and long notes, up over 1/8 point on average. Guaranteed issues were also 1/8 point higher. The two most recent bond issues, the 2-3/4s of 1960/65 and the 2s of 1947, were quoted Saturday at 103.6/32nds bid and 102.16/32nds bid, up 1-3/4 and 7/8 points respectively on the original opening prices of December 5, 1938.

Today (January 23) the government market became weak in sympathy with downward reactions in other markets caused by unsettling foreign reports. Treasury bonds were off 1 to 7/32nds at the 3 o'clock closing and declined as much as 6/32nds further in late trading for a total drop during the day of an average of about 8/32nds. This decline more than neutralized the gains of the previous week. The greatest declines were in long bonds, Treasury notes, which, incidently, determine the market for the new U.S. Housing issue, were little affected, being off only 1 to 3/32nds.

Dealers' Portfolios

Total holdings of dealers show a reduction of only \$4.2 million for the week as a whole. The only significant change was an increased short position on notes maturing after one year. The nine dealers were short \$10.8 million in this classification, indicating a feeling among dealers that there may be a downward reaction in Treasury note prices. Day-to-day portfolio changes indicate that dealers were unwilling to carry any sizeable Treasury bond holdings for more than a day. Holdings of bonds oscillated between \$1 million and a maximum of \$12 million during the week.

(in millions of dollars)

	Holdings Jan. 14	Holdings Jan. 21	Net Change
Treasury bonds	6.0	3.5	- 2.5
Treasury notes (1 year)	33.0	36.5	+ 3.5
" " (1-5 yrs.)	-3.9	-10.8	- 6.9
Treasury bills	20.1	19.8	- 0.3
E. O. L. C. bonds	6.3	9.4	+ 1.1
F. F. M. C. bonds	<u>0.2</u>	<u>1.1</u>	<u>+ 0.9</u>
	63.7	59.6	- 4.2

Although total volume of business as recorded by dealers' turnover was less than during the previous week, volume in Treasury bonds was substantially higher. Total volume was about \$125 million a day while bond volume, which in the past has been in the neighborhood of 45% of total volume, accounted for almost \$80 million, or 65% of the total.

New Security Issues

There were no corporate bond issues during the week. The \$70 million debenture issue of North American Company is expected to be offered soon after the first of February.

### Corporate Bond Market

The corporate bond market as a whole was strong and fairly active during the week. Considerable investor buying interest continued in the high grade bonds. The principal feature of the market was the substantial gain shown by utility obligations of all classes. On average, utility bonds were up about 3/4 point, industrials up about 1/4 point, and rails about 3/8 point. In the foreign list, there was some weakening in German and Italian bonds while Japanese issues developed a firmer tendency.

Beginning Saturday, the market developed an easier tendency and today (Monday) pronounced weakness developed in the market, attributed to a generally uncertain European picture, with losses in corporate bonds up to 3 points in the second grade and speculative issues.

### Treasury Investment Accounts

There were no transactions in the market for Treasury investment account during the week. However, an additional investment of \$1,100,000 in special 2% notes was made for Government Life Insurance Fund, bringing the total of these holdings to \$9 million.

### Federal Reserve System Account

The only transactions by the System were purchases in replacement of the \$56,854,000 bill maturity of January 18. \$26,500,000 new Treasury bills maturing April 19 at par and \$30,354,000 various Treasury notes were purchased.

Original of this returned to  
Dr. Magill 2/2/39

BERNARD KOLLEBERG  
305 WEST VALLEY ST.  
NEW HAVEN, CONNECTICUT

July 24, 1939

Roswell McGill, Esq.  
Dunnington, Bartholow & Miller  
One Wall Street  
New York City

Dear Ros:

I have resisted the suggestion, without speaking to President Seymour, that it would not be right for me to consider the position of General Counsel of the Treasury Department. If the opening had come a year ago I would have accepted it with alacrity, because I was eager to get into public service, and the Treasury Department was the place where my training and experience would presumably make me most useful. Furthermore, I had heard a good deal about Mr. Vorgantheu through a mutual friend, Joel Spingarn, and all that I had heard led me to believe that he would be a particularly pleasant and interesting person to work with.

But having taken this job at Yale, I think I have a commitment to stay with it to do the things that President Seymour hoped that I could and would do, that is, to create a credit-rating organization and make the Yale Library a center of research in the field of American history. If the work had proved uncongenial or I had not made the progress that we all hoped I could make, I might possibly be justified in thinking of something else even at this early date, but I have been extremely happy here and have apparently done an acceptable job so far.

I perhaps ought to have reached this decision without further consultation. I called you on the telephone yesterday, but your suggestion was so tempting that

Magill, Esq.

January 14, 1950.

I am afraid if I turned it down, offhand, I might later bitterly regret that I had acted so hastily.

If I can do any pinch hitting, consistent with my work here, I shall be delighted to have Secretary Morgenthau, Johnny Hanes, or anyone else call on me at any time.

Sincerely yours,

*KwBlie*

Kw/wh

ADDRESS THE COMMANDANT, U. S. COAST GUARD  
AND REFER TO NO.

## TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 24 January, 1939.

From: Spagent, Hongkong, China.  
To : Secretary of the Treasury.

Message from Professor Buck (Haiphong, January 15).

Derailed freight train has delayed traffic and news from station master who now reports wood oil coming from Kwangsi border about one hundred tons daily starting last week. Loaded cars daily from Yunnan eleven, mostly tin, and from Kwangsi ten. Found one hundred fifty boxed trucks, one hundred seventy-five assembled trucks without bodies. Ford agent says firms assembling four hundred trucks Hanki. See no more than six cars loading at one time and rail break probably accounts for small amount. Southwest Transport Company agent reports: "Transportation conditions better than last September but cargo on docks requires three months to clear by rail; cargo half for merchants, half for Chinese government. I know of no instance of goods held for non-payment. Average one steamer per day of thousand tons unloading compared with one per week formerly. Six hundred tons Chinese silver stored Haiphong." Chinese consul -in\* says factory materials going thru but factory power machinery held up on grounds might be used for arsenals. Now trying to make arrangements to move this type machinery. Says no non-payment goods; is anxious for shipments.

SECTION TWO TO FOLLOW

\* Garbled

January 21, 1959.

Dear Harry:

I was very glad indeed to have your letter of January 21st, which gave me so much detailed and interesting information in regard to trade with Chile, and the work of the Bureau of Foreign and Domestic Commerce in that country. Thank you for sending me this material.

Sincerely,

(Signed) H. Morgenthau, Jr.

Honorable Harry L. Hopkins,  
Secretary of Commerce,  
Washington, D. C.

GWF/aba

DEPARTMENT OF COMMERCE  
OFFICE OF THE SECRETARY  
WASHINGTON

January 21, 1939.

Dear Henry:

With reference to your communication of January 16, I have been advised by the Bureau of Foreign and Domestic Commerce that the press report referring to the purchase of railway supplies by the Chilean State Railways is in connection with an order placed in December, 1937, delivery of which is now occurring. No report has been received from our Santiago Office indicating that this is a new transaction.

We have held our own in the Chilean trade and Germany's advance has been at the expense of other nations, especially Great Britain. The figures we have indicate that for the first eleven months of 1938 the United States had approximately 28% of the total value of Chilean imports, Germany 26% and the United Kingdom 10%. Comparing this with 1934, the United States had 28%, Germany 10% and the United Kingdom 23%.

The problem facing us with our Chilean trade is that Germany is forcing Chile to trade on a bi-lateral basis. Germany has shown a considerable increase in imports from Chile, especially in nitrate and agricultural products.

So far as we are concerned our difficulty is that we require more exchange from Chile than we supply, which is indicated by the following figures for the first eleven months of 1938:-

<u>Exchange required</u>		
Merchandise .....	\$23,000,000	
Return on American Investment .....	15,000,000	(1)
Freight .....	2,000,000	
Debt service .....	2,000,000	(1)
	<u>\$ 42,000,000</u>	
<u>Exchange supplied</u>		
Merchandise imports from Chile .....	26,000,000	
Gold imports .....	7,000,000	
Silver .....	1,000,000	
	<u>\$ 34,000,000</u>	

(1) This is a preliminary confidential estimate.

- 2 -

It may be of interest to you to review the activity of the Bureau of Foreign and Domestic Commerce in connection with the railway equipment that has been referred to in the press release, and I am attaching enclosure relating to this transaction.

Sincerely,



The Honorable

The Secretary of Treasury,

Washington, D. C.

PURCHASE OF RAILWAY SUPPLIES BY CHILEAN STATE RAILWAYS.

Decree No. 2875 of the Ministry of Fomento, dated December 2, 1937 but not published in the "Diario Oficial" until December 18, 1937, authorizes the State Railways to purchase the following equipment from Ferrostaal A.G.,

Essent:

7 articulated electric trains, for local service between Calera and Valparaiso, at RM. 410,768.46 each .. . . .	RM. 2,875,379.22
5 articulated Diesel-electric trains, for service on the Southern Section of the State Railways, at RM. 673,836.46 each .. . . .	RM. 3,369,182.30
4 articulated electric trains, for service on the San Antonio Branch, at RM. 410,768.46 each . . . . .	RM. 1,643,073.84
3 Electric locomotives for freight service on the San Antonio Branch, at RM. 342,032.62 each .. . . .	RM. 1,026,097.86
3 Fixed Sub Stations .. . . .	RM. 831,837.60
1 Portable Sub Station . . . . .	RM. 187,286.25
1 Supplementary Equipment .. . . .	RM. 14,897.17
Replacement stock .. . . .	RM. 301,614.90
<b>T O T A L</b> .. . . .	<b>RM. 10,229,368.14</b>

In connection with the placement of this order, Wessel, Duval & Co., Inc., the Chilean agents for Westinghouse Electric International Company, informed the Santiago Office of the Bureau of Foreign and Domestic Commerce on November 15, 1937, that they had been asked by the Director General of the Chilean State Railways to tender on it and expected to do so between January 15 and January 30, 1938. The company went to considerable expense in the preparation of its bids but as will be seen from the date of the purchase decree mentioned above, was not afforded an opportunity of submitting them.

Under date of February 2, 1938, the Commercial Attache in Santiago informed the Bureau of Foreign and Domestic Commerce that the Chilean State Railways had requested private bids for 7 steam locomotives, the bids to be opened on March 1, 1938. The Commercial Attache indicated at that time that it seemed almost sure these locomotives would be contracted for in Germany. Attached to his report were confidential inclosures from Wessel, Duval & Co., Inc., indicative of the action taken by the State Railways on the previous order for trains which had been placed in Germany, and recommended that the Department of Commerce ask the Department of State to make representations to the Chilean Government on behalf of American manufacturers. This request was based on the fact that Wessel, Duval & Co., Inc., although asked by the Chilean State Railways to submit tenders, was not afforded an opportunity to do so, and that "the indeed obvious reason for this will lie upon Government pressure on the Railways so as to thus absorb compensated marks". "Personally, I feel the electrical equipment deal was the limit, for, even in the aspect of price, ours would have been lower despite the fact that value of RM in Chilean Currency might have been taken as low as 7.9 pesos to the mark."

Subsequently, the Bureau of Foreign and Domestic Commerce was advised through personal visits of the Foreign Sales Managers of the Baldwin Locomotive Works and of the American Locomotive Company, that these companies were particularly interested in knowing whether to go to the expense of submitting tenders on these 7 locomotives, having in mind the treatment accorded Westinghouse.

As a result of these requests, the Secretary of Commerce, on February 16, 1938, addressed a communication to the Department of State suggesting the advisability of making some form of representation to the Chilean Government on this matter.

The State Department replied under date of March 31, 1938 that it had "been forced to conclude that no grounds exist upon which representations to the Chilean Government could be properly and effectively based."

In the interim - that is between February 16 and March 31, 1938, Mr. Harold M. Randall, our Assistant Commercial Attache at Santiago, was in Washington and had occasion to lunch informally with the Commercial Secretary at the Chilean Embassy. During the luncheon, casual reference was made to the above-mentioned German articulated-train transaction. Apparently, as a result of the above-mentioned German articulated-train transaction, the Secretary, acting on his own initiative, discussed the matter with his

Ambassador who in turn informed the Chilean Foreign Office in Santiago that "The action of the State Railways in placing important orders in Germany without giving American manufacturers the opportunity of bidding, created a very bad impression in Washington." The Foreign Office, in turn, expressed its displeasure to the Railways and has also called the attention of the Subsecretariat of War to the desirability of giving American firms the opportunity of quoting on contemplated automotive purchases.

On March 1, tenders for the 7 locomotives were opened in Santiago and although the American bid was 17.5 percent higher than the lowest German offer, the order was placed with the Baldwin Locomotive Works. There apparently exists no doubt that the Bureau's action, while somewhat indirect, was responsible for the order being given to an American firm.

Note - See attached Weekly Administrative Report No. 30 - Santiago, 5/16/38.

May 14, 1938

Merwin L. Bohan

Commercial Attache

Oftentimes the most important accomplishments of the Bureau are the most difficult to clearly substantiate. However, in the case of the \$500,000 order for seven locomotives, placed by the State Railways last month, we believe that between the Bureau and this office at least two-thirds of the credit may be safely taken. The chain of reasoning follows: As soon as we learned that the State Railways had placed the \$3,200,000 order in Germany without giving American manufacturers the opportunity of quoting, we called on three of the principal officials of the State Railways. We had already discussed the matter with representatives for American firms and decided that the best policy was not to protest but to make the Railways ashamed of itself. Each of the officials was approached as follows: "The Chilean State Railways enjoys the highest respect of American manufacturers. That respect is founded on the impartiality which the organization has always shown in its purchasing policies. What can we say to Washington that will explain the recent purchase in Germany as the respect of American manufacturers is shared by us and we do not wish to do anything which might affect it?" In each case, the official approached was patently embarrassed and gave no satisfactory reply. In order that no ill feelings should exist, other matters were then taken up. The Bureau, in turn, must have seen someone from the Chilean Embassy for the Ambassador wrote the Foreign Office about the very disagreeable impression made in Washington as a result of the State Railways' action and this communication was passed on by the Foreign Office with a rather sharp note of its own. Credit naturally goes to Wessel, Duval & Co. who handled the sale of the Baldwin locomotives although we honestly believe that the Department of Commerce has a right to feel that its efforts bore fruit in this instance.

THE UNDER SECRETARY OF STATE  
WASHINGTON  
January 24, 1939

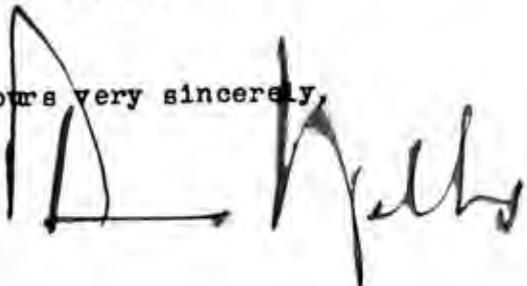
Personal

Dear Henry:

The British Chargé d'Affaires, in the course of a conversation which I had with him this morning, left with me an aide mémoire, of which I am enclosing a copy for your information. Will you let me know at your convenience if there is any reply you would like to have made to the British Government in this matter at the present time.

Believe me

Yours very sincerely,



The Honorable  
Henry Morgenthau, Jr.,  
Secretary of the Treasury.

AIDE-MÉMOIRE

His Majesty's Government in the United Kingdom are most grateful to the United States Government for the helpful attitude which they have adopted with regard to His Majesty's Government's proposal for assisting China by means of a currency loan. In the light of the President's views, which the Under Secretary of State was so good as to convey to Mr. Mallet on the 11th January, His Majesty's Government now intend to proceed with an examination of details of their project for assisting the Chinese currency. They will of course keep the United States Government informed of the progress they make.

Meanwhile they will be grateful if they may be furnished when this becomes possible with further information, in a form as detailed as the United States Government may feel able to give, as to the nature of the parallel action which the United States Government hope to take. This would be helpful to His Majesty's Government in the event of their deciding to proceed, as they would have to introduce legislation and may therefore be in a position where they would wish to state what is parallel and simultaneous action which United States are prepared to take.

An unexpected complicating factor has however been introduced by the recent decision of the Chinese Government to suspend the service of  
foreign/

-2-

foreign loans secured on the Customs. In the view of His Majesty's Government this step is bound to prejudice efforts to maintain the credit of China and before they undertake to contribute to any stabilization fund it will be necessary to secure that all possible measures are taken to restore security for their loans. For this purpose the first essential is to persuade the Chinese Government for their part to permit the implementation of the arrangement relating to the China Customs negotiated by His Majesty's Ambassador at Tokyo with the Japanese Government on 2nd May last. His Majesty's Government are convinced that this arrangement is in best interests of China and affords the only basis for attempts to maintain the integrity of the China Customs.

BRITISH EMBASSY,

WASHINGTON, D. C.,

January 24th, 1939.



HEADQUARTERS

TREASURY DEPARTMENT  
UNITED STATES COAST GUARD

WASHINGTON 24 January, 1939.

From: Spagent, Hongkong, China.  
To : Secretary of the Treasury.

Message from Professor Buck (Haiphong January 15).

SECTION TWO

Yarg of Foreign Trade Commission says his office has not received shipment of wood oil, although papers received for shipments en route. Some shipments go direct Hongkong via Haiphong from Kwangsi. We have no trouble securing space for cargoes to Hongkong. Chen of Kwangsi Foreign Trade Commission was once largest exporter tungsten and impresses me as excellent man for job. Chinese National Resources Commission opened office here as Tee Hua Express Company for shipping antimony, tungsten, wolfram formerly shipped via Canton. Li of China Develop(ment) Company says: "I have been one month in Haiphong trying to ship trucks to Chungking. The French are slow, inefficient, vacillating, and work short hours. They agree to a thing, and later revoke. There is difficulty sending large batches trucks at one time on account of limited ferryspace; eleven ferries between Haiphong and Chungking. Chinese government rules also impede shipments 200 Benz German trucks held up by French." Re station master's statement, Chinese non-payment arriving goods, possible he is attempting to hide rail limitations and possible instances may occur. Movement of goods has improved and expect continued improvement. No trouble in moving export products as traffic largely inward.

REB

GRAY

London

Dated January 24, 1939

Rec'd 3:30 p. m.

Secretary of State,  
Washington.

92, January 24, 6 p. m.

FOR TREASURY.

The stock exchange appeared at the opening to be viewing the outlook with the greatest pessimism which was reflected in yesterday's markets and practically all securities fell below yesterday's levels which were reported in this morning's papers as the worst since the Munich crisis. But before noon most securities rose a few points and New York's brighter opening gave impetus to this movement so that the market here closed more cheerfully with the war loan three and a half per cent at 97-1/8 after touching 96-13/16.

The dollar has been quoted throughout the day around 4.67-1/2 on a very quiet market, the British fund selling small amounts of dollars in the latter part of the day. Gold was fixed at 148 shillings 8-1/2 pence giving 1 pence premium at 4.67-5/8. Of the 101 bars sold 53 were married and

REB

2-#92, From London, Jan.24, 6p.m.

and 10 were furnished by the British fund. A small amount of gold was dealt in after fixing. The British fund continued to operate in the forward market keeping the rates steady.

The franc was relatively inactive, the rate hardly moving in either direction from 177 with the Bank of France apparently not dealing. A feature of the day as of yesterday was the weakness of the Dutch guilder and the Swiss franc but both improved towards the end of the day the former being supported by the Dutch authorities.

JOHNSON

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 24, 1939, 5 p.m.

NO.: 140

FROM COCHERAN.

At noon today I had a telephone conversation with Trip, President of the Netherlands Bank at Amsterdam, who said that the market there was quite calm and certainly did not show signs of the panic which other centers attributed to it. Some foreign funds had left the country, and because of the German situation, even a little Dutch money, but he said the amounts were not significant and it was only because the market was so very narrow that the florin had been affected. Today he said he expected the florin to pick up. But until the political situation is somewhat clarified, he does not expect a general improvement in the international monetary field.

I understand from Trip that at least Pawke and Blessing may be left in the Reichsbank to help out Brinkmann and Funk. Trip said he is curious to see whether Funk will be inclined to contact other central bank governors right away and go to the February meeting of the BIS directors himself, or whether he will name Brinkmann as his alternate instead. So long as the British control holds sterling at the present cross rate with the dollar, Trip said he is satisfied with its action.

I was told by Trip that it was true that the Dutch

banking

- 2 -

banking syndicate which had floated the 4 percent French conversion loan on the Dutch market did not have these bonds any more and the syndicate had been dissolved. Trip did not think there would be any undue pressure on his market against these securities.

I am told by private banking sources that although the Dutch syndicate has been dissolved, banks which participated in the syndicate still hold 55,000,000 florins of the Dutch tranche. These same sources figure that the Swiss issuing bankers likewise have on their hands 25,000,000 of the Swiss tranche. I understand that these bonds can be obtained in Zurich at 92, although there is as yet no official quotation - the bonds were issued at 95. Today there is less tense sentiment on the market in Paris, with some evidence of support for the forward franc by the French control.

It is reported in the press that Schacht has canceled his contemplated visits to Helsinki and Tallinn for the purpose of visiting the central banks.

END OF MESSAGE.

WILSON.

This should all 150

He fled together  
in Stahlypton

under date of 1/24/39

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern, Switzerland

DATE: January 24, 1939, 11 a.m.

NO.: 7

Reference is made to telegram No. 62 of December 8 from the Department.

Mr. Tyler submits below his report to the Secretary of the Treasury.

I visited in Milan, Venice, Florence, Rome, and Siena from December 31 to January 15.

According to published figures (which probably give an incomplete picture) the following is the <sup>combined</sup> ordinary and extraordinary budget deficit for the years given (fiscal years ending with June) -

	<u>billions of lire</u>
1935 ...	2
1936 ...	12
1937 ...	16
1938 ...	12

The deficit in the ordinary budget for the fiscal year 1939-40 is estimated at around 5 billion lire. No estimate is given for the deficit in the extraordinary budget for 1939-40, but taking into account efforts at compression, it is likely that there will be another 5 billion, making a total of 10 billion lire. Sources largely non-current like the sale of foreign assets and capital levy on most forms of property were used to meet recent deficits. It

is not likely that increases in appropriations can be met by further conversion issues. The Italian Government no longer publishes report on the Treasury situation. The only information which is available is contained in closed accounts which mixture all kinds of liabilities, including compensatory items, making it impossible to disentangle funded or floating or total debt. It was remarked by a good authority that even the Treasury did not know the total floating debt - that it was "way beyond that", that departments are heavily in arrears, and that control commitments are inadequate. An attempt is being made by the Treasury to protect itself by instructing agencies that whenever it is practicable they shall withhold or delay payment. I have personal knowledge of a case where a state official made an advance from his own pocket on the Minister's order, and in final satisfaction received a tardy refund of only one-third of the amount advanced. There is ever-increasing meddle at source with official salaries. Savings and insurance funds have already been looted by the State. Political nominees recently were entrusted with management of Trieste insurance companies, which were the last stronghold under private management. It is reported that the result of this action was wholesale cancellation of policies

policies

policies in the Near East and India where these companies had old connections. There is a requirement that bank depositors must invest/in state bonds to a maximum which is arbitrarily fixed. There were cases cited in which deposits exceeding 3,000 lire were so employed without the depositors being consulted by the bank.

For 1937 the import surplus was nearly 6 billion lire; in 1938, through efforts to recover an equilibrium in foreign trade, it is shown that this import surplus was reduced to about half, accomplished through curtailing imports. Exports remained about the same as they were during the year 1937. There is a shortage of raw materials, and it is reported this has resulted in airplane production falling far below the published figures, and in munitions stocks being depleted. Inroads because of the Spanish war are not being compensated. It is said that Germany is getting anxious about this situation. I could not get any information about the recent payments balance, but it is certain there has been deterioration because of the decrease in sound money, expenditures by tourists, and remittances by emigrants. The accumulated gold in the Banca Italia is down to about 120 million dollars, and this bank has only a couple millions in foreign exchange.

It would appear that the main preoccupation of the

- 4 -

the Government is to avoid traceable inflation because they fear the effect on inland prices. Only small increases in prices are shown by statistics, but housewives say that staple foods are more expensive by three times and more than they were three years ago, not to mention the deterioration in the quality. Manufactured goods are also more expensive. There has been a not so rapid increase in costs of transportation, electricity, gas, and water. Salaries have remained the same, wages are barely moving, with intensification of the struggle for life.

The complaint is heard from businessmen that they are being turned into bureaucrats. State control is invading not only banking and industry, but also retail trade. Even the farmers are not permitted to sell their produce direct to the retailer or consumer; they must deliver their goods at fixed prices to cooperatives which provide jobs for 23 men- the cooperatives frequently do not pay punctually for the goods, which they distribute to the retailers. The customers, instead of getting the produce fresh and cheap from the farmer, get state found dear goods. For those people who are able to pay there is certainly no food shortage and the food situation is better than that in Germany - but your correspondent's

usually

- 5 -

flawless digestion was sharply affected by the deteriorating conditions. Openly pessimistic remarks about autarchy are made even by party members, who mention instances of failure such as artificial wool and the new aluminum process, for which costly plant was recently erected. The claim is made by the régime that there is no unemployment, but many women who were once gainfully employed have been dismissed to provide jobs for men, and many men who have no work and are not receiving a dole are not recognized as unemployed. The complaint comes from property owners that they have been reduced to a status of underpaid administrators. Orders from the State are frequently paid by Treasury bills which are renewable indefinitely at the expense of the creditor.

Going back to the financial situation, I would emphasize its tightness. Great efforts have been made to recover the balance but the success is doubtful because of exhaustion of reserves, and the economic mechanism is being crippled by other non-recurrent sources. This is the result of spending beyond means on arms, non-productive public works, and on autarchic stunts while trying to avoid the consequences by refusing to recognize increases in prices and curtailing imports in order to compensate for shrunken exports. In Switzerland the lire is sold

about

- 8 -

about 30 to the dollar as against the tourist rate of about 20 and the official rate of 18. Italy is less heartily in favor of closed economy than Germany, and it is not so competent at running it as Germany, but because a larger percentage of Italy's population lives from the farm, it is less vulnerable. There seems to be rapidly increasing discontent with the régime. The belief is expressed by many Italians that one spark would cause an explosion. However, it is difficult to see how the hold of the régime could be shaken, except by famine or war. The former is a long way off, and there is a general impression that unless forced into war by Germany, the régime will not fight a big power.

HARRISON.

EA:LWW

THE WHITE HOUSE  
WASHINGTON

CONFIDENTIAL

January 27, 1939.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

At a guess — or hunch — the conclusions drawn from this report are overdrawn. The facts may be correct but I doubt whether "one spark would cause an explosion" or that "the régime will not fight a big power".

F. D. R.



TO:

Miss Chauncey

Copies furnished  
Mr. White and  
Mr. Taylor.

Letter to Pres with  
Original report sent  
Spec 4:30 pm 1-26-39  
to Zuster marked Personal

158. MORRISNOLDS <sup>Confidential</sup>

January 26, 1949.

My dear Mr. President:

I am enclosing herewith a very confidential report from Mr. Tyler of the League of Nations, who has made a second trip in Italy for me. I think you will be interested in its contents.

You will undoubtedly remember that Mr. Tyler was very solicitous of our keeping secret that he is doing special work for the United States Treasury.

Faithfully yours,

(Signed) H. Morgenthau, Jr.

The President,

The White House.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Bern, Switzerland

DATE: January 24, 1939, 11 a.m.

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HARRISON.

Pls file these 172

Stat 1-24-39

(you will find hist  
cable 1-24-39  
already filed)

may 24  
1-26-39

## AND OTHER MATTERS

(Royall Tyler)

Italy and the Chamberlain Visit.

When the visit was first announced Italy thought it meant British money and at last a hope of breaking out of the downward spiral, with its increasing difficulties in everyday life. While the program of the visit was being arranged, the papers started warning opinion not to expect financial results: the official attitude is that Italy would spurn any offer of credit. But even so, down to the publication of the final communiqué, Italians anxiously scanned the news for some indication of forthcoming financial support, hoping against hope. The English, French and Swiss papers permitted to enter Italy were snapped up the moment they arrived. The visit was popular, despite disappointment. Italians want to see sound-money tourists back again, and were glad to greet a prime minister who wore no uniform.

The Italian authorities were worried lest Chamberlain get a better reception than Hitler's. The hour of the arrival was kept secret; there were hints that it was to be about 6:30 - while it actually was shortly after 4. Shops were prevented from stocking British flags. However, there was a crowd at the station and people gathered as if by

magic along the route to Villa Madama. Next day, the papers tartly explained that the Romans were just curious to see Chamberlain's umbrella. On the same page, Palestine atrocities and Burmah riots were featured, with pictures of British police clubbing natives. But the average Italian associates the axis with lean years and friendship with England with fat ones, and not all the triumphs Berlin has got out of the axis will make him forget it. Realisation of this probably accounts for some of the optimism about Anglo-Italian relations professed by the present British ambassador and to some extent shared in Downing Street: an optimism that does not give due weight to Germany's control of Italy and Fascism's impotence to get out of the economic mess and consequent tendency to be tempted to try more burglary.

Italian Opinion Today.

The country was downhearted before Munich. Mussolini's share at Munich won him renewed prestige and set many Italians hoping that reconciliation with England was at hand. This prestige has now evaporated, and feeling is pessimistic and resentful as never before. The Anschluss is not forgotten, the anti-Jewish measures are highly unpopular, even with many (probably most) Fascists. Franco's successes arouse no enthusiasm; many Italians expect to see Spain

bought

bought up by England if and when the whole country is brought under one government. Claims on Corsica, Tunisia and the rest meet with no popular response. A story is current that Ciano's November 30 speech in the Chamber, as written, contained a formulation of these claims, but that while Ciano was delivering the earlier part, news arrived that the French general strike had failed, whereupon Mussolini sent over a pencilled note to the orator to cut out the claims - but forgot to call off the demonstration the deputies had been instructed to put on. There are no signs of popular feeling against France. The French Embassy receptions are thronged by the Roman nobility, ostentatiously friendly. Many Italians believe that Mussolini has been egged on in his anti-French campaign by Germany, which wants to nail Italy in an attitude of irreconcilable hostility to France as a precaution against Italy's flying the coop.

From the beginning of sanctions down to recently many Italians were reticent in talking with foreigners. Today they seem anxious to buttonhole anyone speaking English and show off their dislike of the régime. The President's message to Congress was hailed with enthusiasm by a surprising number of Italians. Though the Italian papers did not reproduce it, foreign papers giving it in full were sold publicly and circulated from hand to hand. It probably got

better

better publicity than it would had it appeared in the Italian press. The message was contrasted favorably with British blandishments. Many Italians would like to see England take an equally strong line. Having given up hope that the Anglo-Saxon world will settle with Fascism, they would welcome Fascism's downfall. What they long for is a return to good neighborliness, normal conditions, less taxation, reasonable cheapness, good food: an escape from the bitter struggle for life that, in one way or another, is the lot of most Italians today. As for the warlike spirit of Italy, Italians straining at the leash and ready, at a word, to fly at the French: it is much easier to believe it when one reads the papers outside Italy than when one travels the country and talks to the people.

Attitude towards Fascism.

Allowing for the fact that large numbers of Italians live on the Party, it is astounding how many, even Party members included, express hatred of it. A great difference lies between Germany and Italy in that it is rare to find a German, even in circles hostile to Nazism, who does not profess respect for Hitler, while it is about equally rare to meet an Italian who does not speak ill of Mussolini. Mussolini is commonly said to be losing his grip, to have abdicated in favor of Ciano (and

Ciano's wife), Starace and Farinacci, to have tried in vain to halt the anti-Jewish measures. The present Party trend antagonises all classes. The property owners say they are taxed out of existence and that Farinacci, who has a lot of the old Socialist about him, will start class-warfare as soon as he can. The intellectuals resent official domineering, being unable to travel, to get foreign publications. The business and commercial class is sore at not being allowed to make money, unless by prodigies of ingenuity and with Party backing. The people, and many white-collar workers, feel the pinch of want. A little ditty is going the rounds:

Quando Bandiera Rossa si cantava  
Qualch  pollastro si mangiava.  
Adesso ch  si canta Giovinezza  
Si crepa di debolezza.

(When we sang the Red Flag, we sometimes ate chicken. Now we sing Giovinezza and starve.)

In a popular restaurant, one night in Rome during the Chamberlain visit, I had to sit down at a table with a couple of Italians, most of the place being occupied by a big banquet of Black Shirts. My Italians cast eyes at the dishes borne to the banquet. I asked who was paying for it. "I'm paying for it," came the reply. "I and my friend here, and you too if you stay a few days in Italy."

Travelling in a third-class car, I opened a

window

window, which was shortly afterwards closed by a Black Shirt. An Italian sitting opposite remarked to me: "Yes, I'm like you. I want fresh air. Air, Light and Liberty!" And he pointed, when the train stopped, to one of the inscriptions that are painted over the walls of houses: "Viva il Regime Fascista!" and said: "You know what Regime means? It means a systematic manner of eating." (In Italian, the word mangiare, to eat, also means to graft).

Disbelief in the Regime is far more general now than it was before the conquest of Abyssinia and the spectacular successes of the axis. In those days, Italians expected that triumphs on the political plane would induce the outer world to accept Fascism and give it financial support, and that Italy would soon be comfortable again. But now they see the material situation getting ever tighter, and no prospect of improvement. They know they are allied with the have-not powers, and that any spoils will go to Germany rather than to them, if indeed Germany does not actually seize the parts of present Italy that belonged to Austria-Hungary down to 1918. The German association is unpopular. Officials resent the presence of the German observers who have been planted in Italian departments. The hotel industry and the trades catering to foreigners hate the German tourists

whose

whose expenses are paid in the clearing and who have hardly a cent of Italian money to spend in the country.

Many educated Italians say discontent is such that it would take only a spark to cause an explosion. But the Party organisation is powerful and reaches into every branch of the country's life. There are stories of discord among the Party leaders, but the Party leaders know they must hang together or hang separately. War might well mean an upheaval, if there were a reverse, and for all its use of intimidation the Party knows this and will probably take care to keep out of war with France, while blustering in the hope of getting enough concessions to recapture some prestige again. The general feeling is that economic deterioration will continue, with internal chaos rather than war as the outcome. An Italian who was in Russia during 1917, remarked to me that the atmosphere in Italy today reminded him of Russia just before the revolution. There certainly is a recrudescence of street-begging, of petty cheating and short-changing: things which the Regime prided itself on having abolished. In trying to judge such a situation, it is well to remember that it is always the unexpected that happens, but today in Italy the unexpected can

hardly

hardly be anything but sinister. Some optimists think that an upheaval will come, but that the Prince of Piedmont, who is said not to be committed to the Party, would then take charge, with Army support.

Where does the Vatican stand?

Vatican circles believe measures against the church are being worked out on the German model by Farinacci, that Mussolini is against any such policy, but that the way Mussolini was overridden on the Jewish question bodes ill for his ability to check the wilder elements in the Party. Some think the situation is so far gone that the only hope for the church would be to elect a foreigner (Cardinal Mundelein, for instance) to succeed the present Pope, and for the Papal court to be ready to leave Italy if the failure to elect an Italian provoked a breach with the Regime. The dropping out of Germany and Austria from the countries contributing Peter's Pence makes it of vital interest for the Church to keep up its relations with the sound-currency countries, and in particular with the English-speaking world.

If the election of a foreigner as Pope seems too revolutionary a step to the Sacred College, even in such stormy times as these, it is expected that

the choice

the choice will fall on a prelate of saintly life and a clear record where any flirting with the Party is concerned. The Archbishops of Bologna and Florence are mentioned in this connexion. Some members of the Sacred College are said to have compromised themselves with Fascism. But even Cardinal Schuster, of Milan, who attracted unfavorable attention by ordering for his cathedral doors a relief showing himself receiving Mussolini, has recently delivered a strongly-worded protest against the anti-Jewish decrees, particularly in the matter of mixed marriages. It is said that there is no longer any Italian cardinal who ventures to curry favor with the Regime. Cardinal Pacelli's relations with Mussolini personally are reported still to be good, but that is not taken to be a guarantee that the Party is not shortly going to attack the Church.

The Danubian and Balkan Scene.

Ciano's trips to Belgrade, Warsaw and Budapest, his attempts to establish a new axis in that direction, no doubt aim at reasserting Italy's prestige in Eastern Europe, after the heavy blow it suffered from her failure to secure a common Hungaro-Polish frontier. Neither Poland nor Hungary have given up the idea of obtaining it. Hungary, at Germany's insistent demand, has acceded to the Anticomintern Pact. Italy has for a long time been trying to get Hungary to leave the

League. Hungary may comply. But there are many Hungarians who don't want to slam that door. There appears to be a tendency to put off the Italians with a statement that Hungary means to leave, but wants to take her time about it. If things started going less well for the Tokio-Berlin-Rome axis, this decision might yet be revised, especially as in spite of the fear of Germany in which Hungary lives, hatred of Germany is running high in the breasts of the Magyars.

Stoyadinovitch, the Yugoslav Premier, is willing to get what he can out of Ciano, but he has ideas of his own about policy, which don't fit in with those of the axis. Having secured himself where Italy is concerned, and perhaps Hungary too, he may now be ready to embark on the classical Yugoslav program aiming at the incorporation of Bulgaria and access to the Aegean. The means to this end might be utilisation of the Balkan Entente to obtain a working agreement with Turkey. Bulgaria, won over by the retrocession of Tsaribrod, might then be encouraged to demand back the Dobrudja from Rumania and an outlet to the Aegean from Greece. With the weight of Yugoslavia and Turkey behind these demands, they might succeed. The next step would be to oust King Boris and to create the great South-Slav state, running from Susak to Varna and to Salonika.

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He may be encouraged in the belief that Yugoslavia's hour is at hand by the increasing difficulties encountered by King Carol in Rumania and by King George in Greece. Carol probably has not got rid of the dangers threatening him by the death of Codreanu and the other Iron Guard leaders. From a very good source, it is heard that George is fast losing ground in Greece. If one or both of these monarchs were to go, Boris' chances of keeping his throne would suffer. It seems that as long as King Alexander lived, Boris did not expect to be turned out by Yugoslavia, but that he is not so confident where Stoyadinovitch is concerned. He might be able to stand against a Yugoslavia hostile to Bulgaria, but hardly against a Yugoslavia instrumental in giving Bulgaria back her lost territories.

News from Greece are that the King is in the hands of Metaxas, who is unsuccessfully trying to play the part of a dictator, for which he is not completely equipped. The King will hear no criticism of Metaxas, even from his own brother, Prince Paul, who is said to know the situation and to be anxious to rescue the King from too compromising an association with Metaxas. In spite of Metaxas'

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CONFIDENTIAL

NOTES ON ITALY, JAN. 1-15, 1939

AND OTHER MATTERS

(Royall Tyler)

Italy and the Chamberlain Visit.

When the visit was first announced Italy thought it meant British money and at last a hope of breaking out of the downward spiral, with its increasing difficulties in everyday life. While the program of the visit was being arranged, the papers started warning opinion not to expect financial results: the official attitude is that Italy would spurn any offer of credit. But even so, down to the publication of the final communiqué, Italians anxiously scanned the news for some indication of forthcoming financial support, hoping against hope. The English, French and Swiss papers permitted to enter Italy were snapped up the moment they arrived. The visit was popular, despite disappointment. Italians want to see sound-money tourists back again, and were glad to greet a prime minister who wore no uniform.

The Italian authorities were worried lest Chamberlain get a better reception than Hitler's. The hour of the arrival was kept secret; there were hints that it was to be about 6:30 - while it actually was shortly after 4. Shops were prevented from stocking British flags. However, there was a crowd at the station and people gathered as if by

magic along the route to Villa Madama. Next day, the papers tartly explained that the Romans were just curious to see Chamberlain's umbrella. On the same page, Palestine atrocities and Burmah riots were featured, with pictures of British police clubbing natives. But the average Italian associates the axis with lean years and friendship with England with fat ones, and not all the triumphs Berlin has got out of the axis will make him forget it. Realisation of this probably accounts for some of the optimism about Anglo-Italian relations professed by the present British ambassador and to some extent shared in Downing Street: an optimism that does not give due weight to Germany's control of Italy and Fascism's impotence to get out of the economic mess and consequent tendency to be tempted to try more burglary.

Italian Opinion Today.

The country was downhearted before Munich. Mussolini's share at Munich won him renewed prestige and set many Italians hoping that reconciliation with England was at hand. This prestige has now evaporated, and feeling is pessimistic and resentful as never before. The Anschluss is not forgotten, the anti-Jewish measures are highly unpopular, even with many (probably most) Fascists. Franco's successes arouse no enthusiasm: many Italians expect to see Spain

bought up by England if and when the whole country is brought under one government. Claims on Corsica, Tunisia and the rest meet with no popular response. A story is current that Ciano's November 30 speech in the Chamber, as written, contained a formulation of these claims, but that while Ciano was delivering the earlier part, news arrived that the French general strike had failed, whereupon Mussolini sent over a pencilled note to the orator to cut out the claims - but forgot to call off the demonstration the deputies had been instructed to put on. There are no signs of popular feeling against France. The French Embassy receptions are thronged by the Roman nobility, ostentatiously friendly. Many Italians believe that Mussolini has been egged on in his anti-French campaign by Germany, which wants to nail Italy in an attitude of irreconcilable hostility to France as a precaution against Italy's flying the coop.

From the beginning of sanctions down to recently many Italians were reticent in talking with foreigners. Today they seem anxious to buttonhole anyone speaking English and show off their dislike of the régime. The President's message to Congress was hailed with enthusiasm by a surprising number of Italians. Though the Italian papers did not reproduce it, foreign papers giving it in full were sold publicly and circulated from hand to hand. It probably got

better

better publicity than it would had it appeared in the Italian press. The message was contrasted favorably with British blandishments. Many Italians would like to see England take an equally strong line. Having given up hope that the Anglo-Saxon world will settle with Fascism, they would welcome Fascism's downfall. What they long for is a return to good neighborliness, normal conditions, less taxation, reasonable cheapness, good food: an escape from the bitter struggle for life that, in one way or another, is the lot of most Italians today. As for the warlike spirit of Italy, Italians straining at the leash and ready, at a word, to fly at the French: it is much easier to believe it when one reads the papers outside Italy than when one travels the country and talks to the people.

Attitude towards Fascism.

Allowing for the fact that large numbers of Italians live on the Party, it is astounding how many, even Party members included, express hatred of it. A great difference lies between Germany and Italy in that it is rare to find a German, even in circles hostile to Nazism, who does not profess respect for Hitler, while it is about equally rare to meet an Italian who does not speak ill of Mussolini. Mussolini is commonly said to be losing his grip, to have abdicated in favor of Ciano (and

Ciano's wife), Starace and Farinacci, to have tried in vain to halt the anti-Jewish measures. The present Party trend antagonises all classes. The property owners say they are taxed out of existence and that Farinacci, who has a lot of the old Socialist about him, will start class-warfare as soon as he can. The intellectuals resent official domineering, being unable to travel, to get foreign publications. The business and commercial class is sore at not being allowed to make money, unless by prodigies of ingenuity and with Party backing. The people, and many white-collar workers, feel the pinch of want. A little ditty is going the rounds:

Quando Bandiera Rossa si cantava  
Qualchè pollastro si mangiava.  
Adesso chè si canta Giovinezza  
Si crepa di debolezza.

(When we sang the Red Flag, we sometimes ate chicken. Now we sing Giovinezza and starve.)

In a popular restaurant, one night in Rome during the Chamberlain visit, I had to sit down at a table with a couple of Italians, most of the place being occupied by a big banquet of Black Shirts. My Italians cast eyes at the dishes borne to the banquet. I asked who was paying for it. "I'm paying for it," came the reply. "I and my friend here, and you too if you stay a few days in Italy."

Travelling in a third-class car, I opened a

window

window, which was shortly afterwards closed by a Black Shirt. An Italian sitting opposite remarked to me: "Yes, I'm like you. I want fresh air. Air, Light and Liberty!" And he pointed, when the train stopped, to one of the inscriptions that are painted over the walls of houses: "Viva il Regime Fascista!" and said: "You know what Regime means? It means a systematic manner of eating." (In Italian, the word mangiare, to eat, also means to graft).

Disbelief in the Regime is far more general now than it was before the conquest of Abyssinia and the spectacular successes of the axis. In those days, Italians expected that triumphs on the political plane would induce the outer world to accept Fascism and give it financial support, and that Italy would soon be comfortable again. But now they see the material situation getting ever tighter, and no prospect of improvement. They know they are allied with the have-not powers, and that any spoils will go to Germany rather than to them, if indeed Germany does not actually seize the parts of present Italy that belonged to Austria-Hungary down to 1918. The German association is unpopular. Officials resent the presence of the German observers who have been planted in Italian departments. The hotel industry and the trades catering to foreigners hate the German tourists

whose

-7-

whose expenses are paid in the clearing and who have hardly a cent of Italian money to spend in the country.

Many educated Italians say discontent is such that it would take only a spark to cause an explosion. But the Party organisation is powerful and reaches into every branch of the country's life. There are stories of discord among the Party leaders, but the Party leaders know they must hang together or hang separately. War might well mean an upheaval, if there were a reverse, and for all its use of intimidation the Party knows this and will probably take care to keep out of war with France, while blustering in the hope of getting enough concessions to recapture some prestige again. The general feeling is that economic deterioration will continue, with internal chaos rather than war as the outcome. An Italian who was in Russia during 1917, remarked to me that the atmosphere in Italy today reminded him of Russia just before the revolution. There certainly is a recrudescence of street-begging, of petty cheating and short-changing: things which the Regime prided itself on having abolished. In trying to judge such a situation, it is well to remember that it is always the unexpected that happens, but today in Italy the unexpected can

hardly

hardly be anything but sinister. Some optimists think that an upheaval will come, but that the Prince of Piedmont, who is said not to be committed to the Party, would then take charge, with Army support.

Where does the Vatican stand?

Vatican circles believe measures against the church are being worked out on the German model by Farinacci, that Mussolini is against any such policy, but that the way Mussolini was overridden on the Jewish question bodes ill for his ability to check the wilder elements in the Party. Some think the situation is so far gone that the only hope for the church would be to elect a foreigner (Cardinal Mundelein, for instance) to succeed the present Pope, and for the Papal court to be ready to leave Italy if the failure to elect an Italian provoked a breach with the Regime. The dropping out of Germany and Austria from the countries contributing Peter's Pence makes it of vital interest for the Church to keep up its relations with the sound-currency countries, and in particular with the English-speaking world.

If the election of a foreigner as Pope seems too revolutionary a step to the Sacred College, even in such stormy times as these, it is expected that

the choice

the choice will fall on a prelate of saintly life and a clear record where any flirting with the Party is concerned. The Archbishops of Bologna and Florence are mentioned in this connexion. Some members of the Sacred College are said to have compromised themselves with Fascism. But even Cardinal Schuster, of Milan, who attracted unfavorable attention by ordering for his cathedral doors a relief showing himself receiving Mussolini, has recently delivered a strongly-worded protest against the anti-Jewish decrees, particularly in the matter of mixed marriages. It is said that there is no longer any Italian cardinal who ventures to curry favor with the Regime. Cardinal Pacelli's relations with Mussolini personally are reported still to be good, but that is not taken to be a guarantee that the Party is not shortly going to attack the Church.

The Danubian and Balkan Scene.

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League. Hungary may comply. But there are many Hungarians who don't want to slam that door. There appears to be a tendency to put off the Italians with a statement that Hungary means to leave, but wants to take her time about it. If things started going less well for the Tokio-Berlin-Rome axis, this decision might yet be revised, especially as in spite of the fear of Germany in which Hungary lives, hatred of Germany is running high in the breasts of the Magyars.

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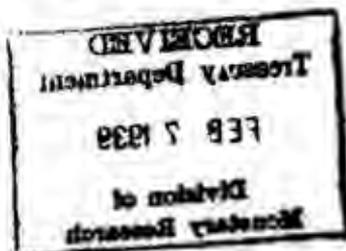
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JR

GRAY

London

Dated January 25, 1939

Rec'd 3:36 p.m.

Secretary of State,  
Washington.

25, January 25, 6 p.m.

FOR TREASURY.

The dollar has remained at 4.67-1/2 all day with the British fund selling dollars but losing a very small amount. Gold was fixed at 148 shillings 8-1/2 pence giving a one-half pence premium at 4.67-9/16. Of the 207 bars sold the British fund provided 47. The forward dollar is still quoted at 7/16 for one month and 1-7/16 for three months and the British fund has provided most of the forward dollars the demand being chiefly from American banks. The bank remained again around 177 all day and the Bank of France is thought to have sold a very small amount of sterling.

The stock market has been very weak today with 3-1/2% war loan again below 97. Selling is reported to be heavy from Amsterdam especially of American securities and other international stocks. The general atmosphere in the city is gloomy and the volume of business small on both the stock exchange and the foreign exchange market.

JOHNSON

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 25, 1939, 5 p.m.

NO.: 147

FROM COCHRAN.

Inactive exchange market here, but somewhat better sentiment. Some spot sterling gained by French control, but in order to support three months franc it spent some. Report from Paris-American bankers that some Jewish-held funds from Switzerland and the Netherlands are being converted into dollars over Paris. Today the first official quotation in Amsterdam of 4 percent French external loan was 92.75 as compared with 95, the issue price.

It is reported that the Finance Minister of the Netherlands in his communication to his Senate said that the purpose of the Dutch stabilization fund has not undergone any change, but that details of its tactics and the holdings of gold abroad must be kept secret in order to guarantee its effective functioning and to check speculation.

END SECTION ONE.

WILSON.

EA:LWW

PARAPHRASE, SECTION TWO, TELEGRAM NO. 147 OF JANUARY 25, 1939, FROM PARIS.

This afternoon I called on Charles Rist. He said that he expects France to be faced with an international crisis within a week or two after Barcelona falls, and that within three months France will be in a war unless a very stiff attitude is taken at once by the French Government. He remarked at the same time that his country is not now in a position to go into a war, particularly since there is not much prospect of early cooperation from Great Britain except on the sea, unless the United States is definitely behind France. I got the excited professor to change the subject to finances only with some difficulty.

Rist told me that he thinks Reynaud did splendidly. He said he was the only Finance Minister of France for several years of whom he had thought enough to write a series of favorable articles. Professor Rist still thinks that France has an excessively large extraordinary budget, but while war is so threatening and armament consequently so essential, he sees no other possibility. For the present, he remarked, the Treasury situation is easy, and the stabilization fund is in good shape. He said he admired the Finance Minister's determination to bring about voluntary conversion of rentes, but he cannot see that there is early prospect that this will be accomplished.

END SECTION TWO.

WILSCH.

EA:LWW

100

PARAPHRASE, SECTIONS THREE AND FOUR, NO. 147 OF  
JANUARY 25, 1939, FROM PARIS.

I asked Rist whether the economic situation was improving correspondingly with the financial situation. He said it was too early yet to judge fairly in this regard. He mentioned as favorable factors the improvement in foreign trade figures toward the end of 1938 as compared with 1937, and also the smaller deficit trade balance for 1938 as compared with the previous year. Rist expressed particular pleasure with the spirit of response of French labor since November 30 when the strike failed; he feels labor is doing its part now, and if compensated will gladly work more than 40 hours. Most factories, as it is, are now operating on a 40-hour schedule and no more, because they do not have enough orders to make overtime necessary.

Last night I had a talk with the Italian Ambassador to France. He expects that whenever the time becomes opportune for the official formulation of Italian demands, only the points upon which the French could yield without violating promises not to cede territory would be included. The Ambassador said that these would be the originally planned claims regarding better treatment through the Suez Canal and on the Djibouti Railway. Furthermore, they would request that in Tunisia Italians and other foreigners be given improved status. The

Ambassador

- 2 -

Ambassador hinted that the latter claim could be facilitated if the British would join Italy in recommending that the French protectorate of Tunisia be internationalized. There might also be suggested some arrangement for giving military identity to the islands of Sardinia and Corsica. I did not understand whether this meant equal strength or neutralization. They would look to a trade treaty with (omission) in order to compensate for the military expenses of Italy.

END MESSAGE.

WILSON.

EA:LWW

Prepared by Lawrence H. Seltzer

202

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**TREASURY DEPARTMENT**

INTER OFFICE COMMUNICATION

DATE January 25, 1939

TO Secretary Morgenthau

FROM Mr. Haas *HA*

Subject: Mr. Eccles' Radio Address of January 23, on Governmental Spending

1. This was an excellent speech -- earnest, forthright, clear, persuasive, liberal, and human. Deficit spending in "depressions" (including the present time) is vigorously defended. Naturally, as is to be expected in an address for a popular audience, there is little detailed reasoning; and much of the plausibility of the argument is obtained by recourse to the familiar, but inadequate, logical method of post hoc, propter hoc.

2. The argument briefly is as follows: Deficit spending during depressions, using only the man power, materials and money that otherwise would be idle, and using them only in a way that avoids competition with private enterprise, is sound policy. The budget should be balanced, in due course, but only through the increased revenues resulting from an increased national income.

The underlying reason why so many bankers and businessmen disagree with this view and want to balance the budget immediately (in order to restore confidence and thereby create jobs in private industry), is that they, like Mr. Eccles before 1929, have not fully perceived or appraised the fundamental changes that have taken place in the American economy.

These changes (similar pessimistic ones have been emphasized in every past depression) include the passing of the frontier, the virtual cessation of immigration, the loss of our position as a debtor nation, the absence of an expanding foreign trade, the slowing down in the growth of the automobile and other industries, etc.

It would be preferable to have business expand without the creation of debt, but under our system, this is impossible. We have never had a period of expansion without an expansion of debt, nor a period of deflation without a contraction of debt.

Secretary Morgenthau - 2

Because the Government did not recognize the necessity of offsetting the contraction between 1930 and 1933, the country suffered staggering losses. When, in contrast, a comprehensive lending and spending program was launched beginning in 1934, the national income rose prodigiously.

But when the Government sharply reduced its contributions to the public buying power in 1937, another period of rapid deflation ensued. This recession was also due, in part, to other factors, including increased production costs, speculative income buying, excessive instalment credit, serious conflicts between capital and labor, and a widening spread between agricultural and industrial prices.

Mr. Eccles does not advocate an ever-increasing debt but he argues that since our internal public debt is owned by the people, as well as owed by them, it is not alarming.

3. The present address is a more disciplined presentation of Mr. Eccles' views than was contained in his recent letter to Senator Byrd. Care is now taken formally to disavow advocacy of an ever-increasing public debt and to concede that other factors besides deficit spending have influenced the processes of recovery and depression in recent years.

Nevertheless, Mr. Eccles retains his essential position with little change in argument or evidence. These remain general and qualitative, as contrasted with specific and quantitative, in character, and a good deal is lacking in logical cohesion. A few examples are cited below:

Confronted with the fact that an aggregate Federal deficit of more than \$7 billions was sustained during the deflationary period 1931-1933, inclusive, Mr. Eccles argues that this deficit was not of the "pump priming" variety, because it resulted from decreased revenues rather than increased expenditures. Nevertheless, in explaining the 1937 recession, Mr. Eccles forgets his distinction between revenues and expenditures as causative agents. In asserting that the 1937 reduction in the Federal contribution was a great deflationary influence, Mr. Eccles ignores the fact that less than one-third of this reduction was due to diminished expenditures (and even this part to the near-completion of the bonus payments), and that the bulk of the reduction was due to the

Secretary Morgenthau - 3

increased revenues arising out of a higher level of business activity. This is true whether it is measured by Mr. Curry's figures for "the net Federal contribution to the public buying power", or by the Treasury's figures for the net cash deficit.

In replying to the contention that the British achieved recovery by balancing their budget, Mr. Eccles asserts that their Government never "permitted" their national income to fall more than 10 percent, while our national income was falling 50 percent. Mr. Eccles fails to cite any positive measures undertaken by the British Government, though he doubtless has in mind chiefly the departure from gold.

He then appears to forget that he is arguing in favor of deficit spending, rather than a given level of spending as such, for he argues that the balanced budget of the British is not due to the fact that they spend proportionally less than we do, but to the fact that their income and inheritance taxes are relatively much higher; and he says that we, too, could probably balance our budget if British rates of taxation were applied to the United States.

Mr. Eccles has apparently never analyzed in detail the timing of the recession of 1937 in relation to the net cash deficit of the Federal Government. We have previously brought out (in a chart entitled "Excess reserves, bond yields, new orders, production and net cash deficit") that the trend of business activity was strongly upward in the last half of the calendar year 1936, and continued upward during the first 8 months of 1937, as measured by the New York Times' index, during the whole of which period the net cash deficit was declining. We have also previously observed that the decline in the net cash deficit during the last 6 months of the calendar year 1936 and the calendar year 1937 was not due to any significant decline in Federal expenditures, other than bonus payments.

Mr. Eccles never really faces adequately the implications of his position with respect to debt. The growth of private debt is itself capable of producing severe strains and violent maladjustments in our economy. But private debt has this advantage over public debt: Through the processes of default, bankruptcy, and composition, substantial readjustments are almost continually taking place in the volume and terms of the private debt -- readjustments that make the burden of these debts tolerable in ordinary times.

Secretary Morgenthau - 4

Public debts are in a different category in this respect. They can not be defaulted or adjusted downward without involving the good faith of the Government or the stability of the currency.

Moreover, Mr. Eccles' insistence that a per capita governmental debt of \$430 is not alarming because the per capita ownership of the obligations incorporating this debt is also \$430, is not reassuring. The tendency of an expansion in the public debt is to increase the concentration of income. Who are able to buy public debt securities? Apart from banks, it is mainly members of the upper income classes and the financial institutions through which they operate. Interest on the debt must be paid by taxes raised from the whole people, for we have found that progressive income and death taxes, by themselves, are not sufficiently productive to meet the needs of government. A continuing large growth in the interest-bearing public debt must be considered as an influence tending to freeze or further accentuate the existing unequal distribution of wealth and income.

A good deal of Mr. Eccles' present position apparently rests upon views that he did not possess less than two years ago. In the present address he says that he does not "see how it would be possible to have a dangerous general inflation so long as we have a large amount of idle men and unused resources. Long before inflation could develop, we would have a volume of business activity that would increase the national income to a point where the budget could easily be balanced."

On March 15, 1937, however, when millions of men were still unemployed, Mr. Eccles, in a statement to the press declared:

"Under present conditions of accelerating recovery, a continued easy-money policy, to be successful in achieving and maintaining a balanced recovery, must be accompanied by a prompt balancing of the Federal budget and the subsequent retirement of public debt by the government in relationship to the expansion of private credit. I have not been and I am not now in favor of balancing the budget at the expense of the destitute and the unemployed who are unable to find private employment, but I am in

Secretary Morgenthau - 5

favor of increasing taxes on incomes and profits if necessary to sustain the volume of relief and at the same time bring the budget into balance and permit the paying down of public debt as private debt expands. Only by this process can monetary inflation be prevented."

Nor was there any hint in this and similar pronouncements early in 1937 of the "fundamental changes" in American conditions that Mr. Eccles now recognizes. We have already noted that pessimistic views with respect to the economic outlook are nearly universal in every depression. The fact that Great Britain has been able to forge ahead since 1932, even though her economy is inherently subject to much the same types of influences as Mr. Eccles cites for our own, is good evidence that the pessimistic influences which Mr. Eccles cites are not necessarily and at all times decisive.

January 25, 1939

(Dictated by Leo Crowley at 4:30 in his office in the presence of Mr. William H. McReynolds)

I asked for a conference with the Secretary to discuss the Glass Bill which dealt with Bank Holding Companies. He was home sick and so I went to his home and he, of course, was not familiar with the details of the bill and we discussed it in general form and he made one suggestion and that was that he felt that the Administration was committed to a death sentence and that this bill should include some limit of time for the operation of these Holding Company Banks. I then suggested perhaps three years and it could be extended to five years if we had to. I told him that the bill we now have didn't include that provision and I would talk with Senator Glass and I didn't believe the Senator would have any great objection to having an amendment put in the present bill, before it was introduced, which would deal with that subject.

It was also agreed that, if Senator Glass so wished, it would be introduced Monday or Tuesday of next week and that the Secretary talk with Mr. Douglas and Mr. Douglas was to contact me and Mr. Douglas has and contemplates seeing Senator Glass at 11 o'clock tomorrow morning and is going to see me before that time.

In the meantime, there are no copies of the bill in anyone's hands other than the copy that the Secretary has and the analysis that will be given to Mr. Douglas.

208-A

Note:

The Secretary has seen this. He told  
Mr. Duffield that he would see Mr. Crowley  
at his house this afternoon at 3:30.

McH

Jan. 25/39

January 24, 1939

FOR THE SECRETARY:

Mr. Crowley called me yesterday and although he did not say so directly he plainly wants to see you about his holding company bill as soon as possible.

I believe Senator Glass is insisting on seeing the bill and that Mr. Crowley does not want to give it to him until he has talked to you.

ESD



## TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 25 January, 1939.

From: Spagent, Hongkong, China.  
To : Secretary of the Treasury.

Message from Professor Buck (Haiphong, January 18).

Haiphong station master reports: "Imported goods shipped rail Haiphong to Yunnan December, 1937 in amount one thousand three hundred tons; December 1938 seven thousand six hundred tons. Break-line repaired now, shipping nearly three hundred tons daily. Sixty thousand tons in dock, but some going by water to Kwangsi daily. Thirty to forty trucks move out, some loaded. From Kwangsi one hundred tons arriving daily, mostly wood oil, some tin and wolfram. This at once put on outgoing ships." Railroad Administration estimates capacity can be increased to ten thousand tons monthly to Yunnan. Above with November figures gives total for 1937 of thirty three thousand tons; 1938 of fifty four thousand tons.



TREASURY DEPARTMENT

UNITED STATES COAST GUARD

WASHINGTON 25 January, 1939.

From: Spagent, Hongkong, China,  
To : Secretary of the Treasury.

Message from Professor Buck (Haiphong, January 16).

One freight car thirteen tons wood oil from Kwangsi unloaded today and transferred steamer Hongkong and freight train, nineteen cars, left late this afternoon. Loaded freight cars sufficient to three more trains. Last three days activity moving assembled trucks, fifteen daily. Tonight fleet of fifteen Dodge trucks warming engines, some loaded with freight. Four boxed Ford trucks left by freight three days ago today; four boxed Chevrolet trucks loaded ready to leave; ten freight cars loaded, one lot rails. Other loaded cars, box cars, four on outgoing train marked inflammable. Quite evident available space is allotted to different shippers. Three steamers came in yesterday, one left today, one unloading Chevrolet boxed trucks, ore, petrol products; some activity moving freight from oblong dock green.

WAR DEPARTMENT  
OFFICE OF THE CHIEF OF STAFF  
WASHINGTON, D. C.

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January 25, 1939.

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

My dear Mr. Secretary:

The following telegram came in yesterday evening:

"The party I had in mind for the position has been married since I first mentioned him. I expect to contact him tomorrow again. Will call you if I have any success.

P. D. Shingleton"

This, I hope, will explain the delay in producing this man for you but I will let you know as soon as I can get in touch with him, with a view to making an appointment with you.

With kind personal regards,

Sincerely,

*Lucian Gray*

The Secretary read this 1/25/39  
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MEMORANDUM

January 25, 1939.



TO: The Secretary  
FROM: Mr. Gaston

SUBJECT: Seymour Weiss Case.

This memorandum repeats the substance of my telephone conversation with you this morning with later events.

Robinson, assistant to Bascom Timmons, correspondent for the New Orleans States, asked my help this morning to get some information on the Seymour Weiss case. He had been watching the Board of Tax Appeals and this morning learned that a stipulation had been filed, but after a search for the stipulation and the prior record it was learned that the entire file had previously been sent to New Orleans where Charles F. Smith, a member of the Board, was to hold hearings this week on the Weiss, Shushan and Hart cases. To complete the record in Smith's hands, the stipulation was also mailed to him yesterday and nothing was available at the Board to show either the conditions of the stipulation or the previous record in the case.

I told Robinson I would see what I could do to help him and call him later. I called Wenchel and put the situation before him. He knew that Smith had gone to New Orleans and two of his attorneys also, and therefore believed that the explanation given to Robinson at the Board was correct. He instructed Streater, one of his assistants, to investigate. Streater confirmed the situation as ~~reported~~ by Robinson. I told Wenchel of your desire to have the record available at the earliest possible moment and your suggestion that it be rushed back here by plane. He said that it was out of our control and in the hands of the Board but he would make such suggestions as he could diplomatically. Streater talked to Chairman Arundell and Arundell told him that Smith could make the record available to newspaper men in New Orleans.

When Robinson called again, I suggested that he message his paper to get in touch with Smith at the DeSoto Hotel in New Orleans. Later, Wenchel advised me that Streater had talked over the long distance phone to Smith and Smith had told him that he would be glad to give out the facts to the newspapers in New Orleans. Wenchel said, however, that the stipulation might not arrive in New Orleans until tomorrow. We thought, however, that Smith would be able to get authority to reveal the amount of the settlement.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE JAN 25 1939

TO Secretary Morgenthau  
FROM E. H. Foley, Jr., Acting General Counsel

For your information:

We have received a letter from the Acting Comptroller General in which he states that the fact of Homer S. Cummings' former official connection as Attorney General does not preclude the acquisition of his land at Stamford, Connecticut, for post office purposes, notwithstanding the fact that he submitted his offer to sell this parcel while he still held office.

E. H. F.

## Comptroller General of the United States

Washington

January 20, 1939.

C  
O  
P  
Y

B-411

The Honorable,

The Secretary of the Treasury.

Sir:

I have your letter of December 30, 1938, in which you refer to a proposed acquisition of additional land for the extension and remodeling of the Stamford, Connecticut, post office, under a project selected for prosecution by the Secretary of the Treasury and the Postmaster General pursuant to the provisions of the act of August 25, 1937, 50 Stat. 773, and Public Resolution 122 of June 21, 1938.

It is stated in your letter that since the present site of the post office at Stamford is located at the intersection of two streets it may be expanded only by acquiring the adjoining improved property of the Young Men's Christian Association on the north or by acquiring unimproved property on the west owned by Mr. Homer S. Cummings and a small intervening and adjoining parcel owned by Mr. Charles F. Maguire, and that it has been administratively determined that if the project is to go forward the public interest requires the acquisition of the Cummings and Maguire parcels in preference to the improved property of the Young Men's Christian Association and with reference to the matter you state:

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"\* \* \* in view of the fact that Mr. Cummings now holds the office of Attorney General of the United States, an expression of your views as to the propriety of entering into a contract with him is desired in advance of any obligation of the appropriation by acceptance of his offer to sell his parcel for \$50,000."

In view of the fact that Mr. Cummings no longer holds the office of Attorney General of the United States the question as to the propriety of entering into a contract with an official of the Government is no longer involved, notwithstanding Mr. Cummings may have submitted his offer to sell his parcel while he held office. Consequently, if it be determined by the Postmaster General and the Secretary of the Treasury that the project to expand and remodel the post office at Stamford should be prosecuted, and it is further determined administratively that it is to the best interests of the Government to acquire the additional lands necessary for the extension of the site to the west rather than to the north of the present site, the fact of Mr. Cummings' former official connection does not preclude the acquisition of such lands from him and Mr. Maguire.

The papers transmitted with your submission are returned herewith.

Respectfully,

/s/ R. N. Elliott

Acting Comptroller General  
of the United States.

Inclosures.

THE WHITE HOUSE  
WASHINGTON

January 27, 1939.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

Will you please tell Chairman Doughter that I wish to see the government salary and government pension matter deferred, for I fear it will fall by the wayside, and that I will hope they can tie it up in one bill with the retroactive tax amendment that is necessary before March fifteenth?

T. S. R.

*TSR*

SECRETARY OF THE TREASURY

1939 JAN 27 PM 3 07

THE SECRETARY OF THE TREASURY  
WASHINGTON

January 24, 1939

My dear Mr. President:

I submit herewith for your information a progress report, which was given to me by Under Secretary Hanes, on the state salary taxation question. If you have any suggestions to make with respect thereto, we will be pleased to receive them.

Faithfully yours,

*Henry H. Hays*

The President,

The White House.

January 24, 1939

The Secretary

From Mr. Hanes

Yesterday afternoon, January 23, at 4:00 P.M., I attended a conference at the office of Chairman Doughton of the Ways and Means Committee. Those present besides the Chairman and myself were two members of the Committee, Mr. Jerry Cooper of Tennessee and Mr. John McCarver of Massachusetts, who, together with the Chairman, form the Committee steering group, and

Mr. Middleton Tamm, Legislative Counsel of the House  
Mr. Colin Gian, Chief of Staff of the Joint Committee  
Mr. Thomas Carleton, Legislative Counsel of the Treasury.

It was immediately apparent that the feeling of the Committee members was that a bill should be immediately passed to provide relief to those taxpayers who are State and municipal employees, and who were taken by surprise by passage of the Gerhardt Decision. The Congressmen seemed to feel that it was impractical to take up the question of the future taxation of State and municipal salaries at this time because of the necessity for extended public hearings and the lack of available time for such hearings due to social security legislation and other matters, which might prevent the passage of the bill by the 15th of March.

I presented in as strong terms as possible the undesirability of separating the retroactive features from the matter of future taxation, and I spent over two hours in arguing every phase of the matter with the Congressmen.

In substance I pointed out that the problems of both retroactive and prospective taxation in salaries were part of one policy and that an attempt to separate them might only result in the gaining of one part at the expense of the other. I suggested that because of the lack of time it might be well to separate salaries from the question of tax-exempt securities and take up immediately at one time the retroactive and future taxation of salaries leaving room for action later in the session. After considerable debate, I believe that I won Mr. Doughton and Mr. Cooper to my view and Mr. McCarver seemed inclined, at least,

give it sympathetic consideration. It was decided by the Congressmen, however, that if there was an urgent necessity for the passage of retroactive legislation by the 15th of March, that it might be necessary to immediately pass a retroactive bill without any consideration of the prospective taxation of State salaries. If, however, after consultation with Commissioner Helvering, I could assure them that while it might be helpful, it was not urgent, that legislation be passed on the retroactive point by the 15th of March, then the Congressmen would consider a bill as quickly as possible in which the retroactive and future taxation of State salaries would be treated together. Possibly such a bill might receive consideration before the Social Security hearings started, but if time would not permit, then immediately thereafter.

I have called Commissioner Helvering this morning and I hope that by this afternoon I can get some definite idea from him as to the necessity of obtaining the retroactive legislation by the 15th of March.

*John Hanes*

NATIONAL INCOME AND RECOVERY

January 26, 1939.  
11:35 a.m.

Present: Mr. Gaston  
Mr. Bama  
Mr. White  
Mr. Lubin.

Q. 12-1: What I asked - the reason I wanted to speak to Lubin - wanted to give him a chance to say, without having to advertise what I'm trying to do .... I've got something which, as far as I know, isn't in the form I want to see it, and I haven't had a chance to explain it. And that is this. The base line, for my purposes, is national income for the last ten years. Now, what I want to do is to separate - separate what I call the sheep from the goats. I want to take all the known business indices and apply one after the other to the national income and see which of these help build it up and which of them push - help push it down; as I say, separate them, using always as a base national income.

And after we get these two kinds of things separated if we'd use these devices, unless somebody has a better one - take national income for ten years, then put these indices - transparent thing - you know, just lay it across the chart, just do one after the other, laying it right on top; or lay two or three on top of each other. You know the way these things are put out - transparent - what do you call it?

A. 12-1: It's a negative in reverse.

Q. 12-1: I asked Lubin whether he knew that this thing had been done in this way. He said the materials are available; didn't know whether it's ever been approached from that standpoint. Did you know, George, whether anybody has set down and tried to separate the various business indices, those which seemed to help increase the national income and those which pull it down over a period of ten years?

A. 12-1: Not just quite that way.

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In business series would you include such things as excess reserve requirements, all those things?

- H.M.Jr: Anything - I mean I think fifty or a hundred of them.
- Lubin: Every factor which has ever been segregated as being causal.
- H.M.Jr: Just say that again, will you?
- Lubin: Every factor which has ever been segregated as being causal.
- H.M.Jr: That's right. I mean after all, for ... Wesley Mitchell runs a series of fifty, doesn't he?
- H.M.Jr: Study he made for us is about that much.
- H.M.Jr: Yes, I mean all kinds of things, all kinds of industries. Just run off a few, Lubin, so we could say what they are.
- Lubin: Not only the index of activity in specific industries - I'm thinking of housing and railroads, for example, as opposed to certain of your highly durable goods where, no matter what you did to national income, they wouldn't be a stimulating factor to any large extent.
- H.M.Jr: Or like Moody's curve, orders for plant equipment.
- H.M.Jr: Yes, I mean - for instance, I wouldn't run in other combined business indices.
- H.M.Jr: I see, I see.
- Lubin: The thing the Secretary said to me was, he doesn't think that there is only one thing responsible or there is only one solution to the problem; a lot of segments have got to be attacked.
- H.M.Jr: In other words, if after we had a big thing we had this basic thing and when you could see that these things definitely over a period of ten years have dragged the national income down and these things

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think as though they definitely build it up - then, after we get that, then we could examine them, and each one separately. Then we could, if this is right - and I'm going to keep poking at this thing - then we could say, "Well now, Mr. President, this thing - here are three or four very important things which over a period of ten years have successively knocked the national income down. We think you could do this about it. Here are the three or four or five years, over a period of ten years, that have helped to increase the national income. We think you could do this about it." That's my approach to the objective of recovery.

Now, on this thing, the suggestion I want to make, which I also think is good, George, is to break down the different kinds of taxes. Now we talk a lot, for instance, about consumer taxes - in a big mouthful - are harmful. Well, we've never taken - I just use as an example - break down tax on cigarettes, the tax on automobiles, tax on gasoline, different kinds of income tax, inheritance tax. And get through in this - Blough's a good man, see? - ....

Un-nun.

I mean surplus tax - I don't mean - not surplus tax - I mean profits on corporations, profits on individuals. I mean see if in that thing - tax on payrolls - segregate that part of the thing, always applying it to this one base line. Now, there may not be a thing out of it, but as long as you men say that this particular test method has never been applied, I'd like to try it.

Do you think it would be worth while, Lubin?

I think it would be worth while, very definitely. For instance, one of the ideas I've been playing with myself is to see whether or not - now for a change in - a rise in activity in a given industry affects unemployment. Now we've been playing with building - I mean does a billion dollars worth of building mean more employment eventually than a billion dollars somewhere else? I don't know. We've

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been playing with that idea.

- H.S.Jr: Well, after you've applied this - your so-called basic line of national income, there's no reason why you can't change your base line.
- Lubin: That's one of the tests you'd want to make.
- H.S.Jr: And apply it to employment. You could keep shifting it, as long as - everything would have to be done on the same scale, same method, so you could always supersede one on the other and make combinations. I think be very careful, whatever you do, that one can be laid on top of the other, so they'll fit. What?
- Wosten: I think another idea might be to take your net contribution thing and begin to break that up; break it up into taxes and expenditures, and then break up your expenditures into different classes, to see if you can trace any effect there.
- Lubin: Harry, it's something like we were - sort of thing - one of the phases of that would be the sort of thing we did for Colonel Wait.
- H.S.Jr: Who?
- Lubin: Colonel Wait, Resources Committee. Remember those charts I made for him?
- Wite: Yes. It's ...
- H.S.Jr: Well, is that along this line?
- Lubin: Fits right into the picture: Government expenditure on different types of construction in terms of national income.
- H.S.Jr: Can you think of a better base line than national income? Lubin?
- Lubin: Well, it's apparently the sole criterion of one's economic status.
- Rees: It's got - there's one ...

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H.W. Jr:

What I'm trying to think of - explain to Lubin - I don't want to get into any controversy with any individuals. I want to know - now, the President, as he's put it to me - I mean he believes in this, and until somebody can prove it's wrong, he's going to continue to believe in it. But the thing to me is so experimental that I feel I want to challenge this whole business with the hope that we can find some things that he could then concentrate on to encourage, and some things that he'll say, "Well, we just won't have any more of it, we'll do away with them."

I mean I think I'm close enough to know that he isn't - nothing like that is in his mind now, because he has no facts to go on other than he wants to attain an 80 billion dollar national income. Well, we all do. But in the conversations I've had with him very recently, I know that he has no particular formula of how to arrive at it, and that's what I want to see: is there something we could do to help him help the country?

And I don't want to get into any personalities or anything else. I'm not interested in trying to place the blame for what's happened onto anybody in the past. I mean whatever's been done or said is over the dam. That's the way I look at it. But let's look into the future.

Do you get it, Harry?

White:

I quite agree. It forces attention where it belongs, away from the palliatives and on the real obstacles to a high national income. It's in line with what you (Lubin) - remember that statement you presented to them a year ago, was it? There are these things, and this might be able to show it graphically. I'm not sure how successful it would be, but certainly it's worth trying.

Lubin:

worth trying, and it will mean a lot of work in drawing certain correlations to be sure there is a relationship.

White:

Be a lot of interdependence. You may agree there are certain indices - for example, the most obvious

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case would be railways, construction, and agriculture, which would be the factors pulling on the down side. It's worth seeing what you can find; whether you come out with something you don't know until after you've tried, because there are so many of these factors that are interdependent. And if you go back ten years, there will be difficulties. But that's the way to pursue it, to get away from the tangles with respect to the compensatory fiscal system, that that corrects - that that can restore healthy recovery. It's very largely in the nature of a palliative rather than any approach to the real problem. So that this will serve to direct attention to the fact that there are these really basic characteristics which must be improved and altered, or else you simply won't get anywhere.

Quinn: There's one other thing. When talking about compensatory spending, we've been talking in aggregates.

Quinn: That's why Herbert's point, I think, is important.

Quinn: Yes, we don't know what works that way.

Quinn: That's why the taxes - the idea with regard to taxes is to break down those taxes, which is another way of saying that certain of these taxes at certain times during these ten years - certain of these taxes unquestionably reduced employment less than certain other taxes. We can put some on the down side and some on the up side without attempting to measure them quantitatively. And the same thing with expenditures; there are certain expenditures which help much less than other expenditures.

Quinn: I think there's a possible fallacy in one point Mr. Lucas raised. He said the 1952 expenditures through A.R.C. didn't help, because there was a great increase in taxes, there were heavy taxes at that time. Well now, the explanation may be something else; it may be in the character of the expenditures made at that time rather than the fact that they were offset by taxes.

White: Didn't help much because they were just transfers - the A.R.C. loans.

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- Lubin: To pay off bonded indebtedness.
- Guest: That's what I think, but that isn't the explanation he made.
- A. J. Jr: What I want to say - I think you've (Lubin) worked with me often enough - I'm not interested in "getting" anybody. I have nothing in mind but what I told you. I'm interested in trying to find if we can give the President - how we can direct the economy of the Federal Government towards stimulating the things which we're satisfied will help and curtailing those things which look as though they've hurt. Now, I'm doing this in a big broad way, and as I say, I - maybe after a week we'll find nothing; but certainly today I can't get up - I'm not satisfied what the answers are, and until I am satisfied I'm going to keep my mouth shut.
- Now, you take, for instance - take this question of private investment. I don't know whether S.I.C. has the figures how much money private capital, new - not refunding, but new money, see - well, let's take a look at new money going into business. Does new money flow in - under what circumstances and at what times will the business man expand and put new money in, see?
- Now, that's - everybody says the thing we've got to do - I've said it - we've got to get the driving force of private capital. Has it been - under what circumstances will the business man en masse put new money in? I'd like to know when they'll do that, see?
- Lubin: Now you people have access to income tax returns, don't you?
- A. J. Jr: Oh yes.
- Lubin: The thing that interests me is, one of the fallacies we might explode very definitely is the fact that the public offerings haven't risen by as much as we'd like them to doesn't necessarily mean that there isn't new money coming in. I was in Pittsburgh the other day. They took me to their new United

States Steel plant, their Irving plant. Spent 57 million dollars last year; didn't borrow any money for it.

White: "Set it out of reserves. There's been a whole series of studies made by this chap Terbourgh covering important industries. He examined that very fact; been at it for three years.

Hess: All annual ....

H... Jr: Who is he?

White: Terbourgh; he's under Currie.

H... Jr: well, the point ...

White: And he's published them.

Hess: They're very good.

H... Jr: What I'm getting at - take this question of new money and private initiative - is there some chart or yardstick which shows over ten years, when will that function? Now we know, for instance, American Tel & Tel spends millions every year; we know the Standard Oil of New Jersey spends millions of dollars; we know the public utilities have been spending four or five hundred million dollars. But, as I say, are there certain combinations of factors when they will?

White: Those are the significant, those are the basic questions. The failure of economics as a whole to throw more light than it has on this question is a fact that you can ask them - I mean at this stage of the game is one of the severe criticisms of general economics. I mean difficulty of our data plus the inability - those are the questions.

H... Jr: Now, I take it that you all think it's worth while trying. Is that right?

Cubin: I do want to repeat what you said, that we may find nothing; so we shouldn't be disappointed if we don't ....

H... Jr: That's why I said I don't want it to leak out and have people think I'm doing this. Now, who is there

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outside of your place and outside of the Treasury who we could call in, who would keep his mouth shut and have something to contribute?

Lubin: well, of course, the first person I think of, because of the fact that he has a staff under him to make certain specific studies, is Currie. He does have access to a lot of those materials that we'll want.

H. A. Jr: It's a little difficult, but I can think about it.

Lubin: Then, of course, I suppose the one person who knows as much about agriculture as anybody is Ezekiel or Bean, I don't know which.

White: Is there anybody you know, Lube, outside of that group, that is doing any work on this? I mean I ask - I run over the same names - the only ones.

Lubin: Only ones in the Government.

H. A. Jr: Who on the outside?

Lubin: Merle Thorp, I think, has been doing some work over - some very good work on inventories and problems of that sort.

White: Kurnets might be good for capital issues.

H. A. Jr: Why don't you do this? Between now and Monday could you three men meet and work out a sort of program, the kind of things that we want? Could you do that, Lubin?

Lubin: Oh yes.

H. A. Jr: What? And then I'll meet with you Monday morning and you might say, "Well now, in order to get this we have to have Currie. Here are the things we'd like to get in order to get this; we'd have to go outside of the Treasury."

You know - answering Lubin - if I wanted the thing, maybe the best thing would be to throw this into the Fiscal and Monetary Committee's lap.

White: I think that would be.....

H. S. Jr:

What?

White:

I think that would be preferable, for the reason you'd get many more people working at it. And it's a sufficiently broad program so that it doesn't in any sense direct it at any one individual or can be so interpreted. You're asking a basic question that might very well be asked of that committee; so the National Resources Committee, Industrial Committee, can work on that.

H. S. Jr:

I tell you what you do. Can you people come back Monday at 10:30? And then have, say, an agenda. If the President has me for lunch, I might even show it to him, say, "What do you think of it? Would you like, for instance, your Fiscal and Monetary Committee to take this up?"

Rubin:

Who is on that committee?

H. S. Jr:

McCles, Bell, and Frederic Delano. I call it my Peaks and Valleys Committee. And this is certainly a peaks and valleys study.

Rubin:

The damnable thing about a study of this sort is that all of the materials, except some certain - probably your money market stuff - are right in one ...

H. S. Jr:

Right in what?

Rubin:

In Government sources. And even the people who work on it outside of the Government come back to those sources.

White:

That's right. Academic studies are not being made on it.

Rubin:

You get back to the same group of half a dozen people.

H. S. Jr:

But this - I mean I'm just thinking - again taking what we have and applying it differently.

Haas:

There's quite a few people on the outside.

Rubin:

What I'm trying to get at is that even though you

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to apply it differently, they don't know what's available, they have to come back to these same ...

...Jr: Who?

Robin: People on the outside have to come to these same half-dozen people.

White: Who do you have in mind, George, on the outside?

...: You see, this problem the Secretary is talking about is a fundamental problem in estimating the future course of business, and there are many of these investment consultant outfits that work up their own service and different things.

...Jr: No, that isn't what I'm trying to do.

White: But it's the same problem.

...Jr: What I'm trying to do is to see if during the last ten years there's anything we can learn; we feel now there's something that we know helped and there's something we know that was harmful.

White: They examine things of that sort. For instance, now, they'd want to know which are the factors that would make for an increase in capital goods expansion. They go back and study the past ten years to see what the factors were, and they get bullish or bearish answers depending on what their analyses show.

...Jr: Well, I - there are a couple fellows I could get like that to come down.

White: I think it would be all right.

...Jr: Ness. Do you know Ness?

White: He's got a lot of services worked up.

Robin: Fellow who's crazy as the devil but on a problem of this sort might be very stimulating - that's Alex Sachs. He has a tremendous amount of weaknesses - terrible guy to work with - but he does have an occasional light strike him.

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A. Jr: I think anybody like that would be tickled to death to come down and spend a week. Anybody like that. Johnny Manes has a man that he has up at Smith College ready to come down. Says he's been right and he's remarkable.

But I think the thing to do would be to get a little bit further along and then when we begin to draw some conclusions let these fellows look at them and try to tear them down. That's what I would say.

Walter: I think that's usually much better, because then if they have any contribution to make they can say, "we've got this" and "we've got that."

A. Jr: I'd say, "All right, here are ten things we think are helpful, ten things harmful. What's the matter with it? Where are we wrong? You fellows in commercial life take a look at this." Any of those fellows would come down, be delighted to.

Walter: To be sure, this is true, Mr. Secretary: on a priori grounds, I think probably most people could sit down and after a while put down what the problems were and what's been dragging down the economy.

Robin: But your problem becomes one of relative importance. Alex Sachs would say taxes.

A. Jr: I'm going to make a statement. You fellows can challenge it. I know from a very recent conversation with the President and, in the room here, conversations that he had with John L. Lewis, that both men, talking to each other - my informant is the President - admitted they didn't know what the answer was today to the unemployment problem. That's the problem. Well, the unemployment problem is the same thing we're talking about.

Walter: Sure.

H. C. Jr: Now, the President of the United States and John L. Lewis, talking together, say neither of them know what it is, and both of them say it's the problem. And Lewis begins to talk a little bit about how wonderful it's handled in Germany. I say

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that it's time that those of us burn the midnight oil at least to make it certain - to say, "Well, we're licked, we don't know," or "Here's something we think can stand up." Just to have the President keep talking about 60 billion dollars isn't going to put the country there. I'm willing to burn myself out, the way I have continuously, to try to find something.

But I'm - if we don't, then when we get through, the better - when we get through, we're no better off than the President and John L. Lewis. But that's the problem.

Now, if you fellows will get together; and fix it up for Lubin's convenience, see, will you; and between now and Monday try to have an agenda. Will you do that? I mean as a guest I'll let Lubin fix the time and place, if you'll do that. Is that all right, Lubin?

Lubin: Perfectly all right.

A. J. J.: Thank you.

January 26, 1939  
Thursday

The Government bond market was again nervous and under pressure today and prices declined 5 - 6/32 on top of the declines registered in the previous two or three days. Although there was no general selling pressure, the brokers were withdrawing their bids in the absence of any buying orders.

Upon consulting the Secretary he authorized the placing of an order for the purchase of \$1,000,000 worth of bonds for account of the Government Life Insurance with the idea of lending a little element of stability and to keep the market orderly. This order was executed toward the close today and the Secretary authorized the purchase of an additional million tomorrow morning.

At the Secretary's request I telephoned Vice President Sproul of the Federal Reserve Bank of New York and explained the reason for our order and requested that he let Governor Eccles know of our action. Also requested that he ask Governor Eccles whether or not the system wished to place any similar orders for their own account in order to join in our efforts to maintain an orderly market.

Geneva. 26. 5. 39 H.C.  
1-26-39 235 him

My dear Mr. Morgenthau,

Here are some more general impressions on Italy. Much of this stuff will be familiar to you.

The dictators have certainly managed to put across to Western Europe an idea of their power and possibilities which is not shared by great numbers of their own people. And the British & French Govts know what heavy blows the dictators could deal, at any rate at the outset of a war. Conditions for the dictators stepping another hold-up, I fear, are such as to tempt them to try it. And if it is managed so as to enable Brit. & France to resist without appearing to capitulate (perhaps trying to make Belgium and Portugal pay most of the bill), it may succeed. Further deterioration under the armaments burden would be the result, as far as I can see, for both the dictatorships and the Western Powers.

With kind regards

Yours sincerely

R. Tyler

February 6, 1939

My dear Mr. Tyler:

Thank you for your letter of January 26th containing the report of your recent visit to Italy.

I was very much interested in reading your comments and am glad to have the benefit of your personal impressions.

With kind regards,

Yours sincerely,

Mr. Royall Tyler,  
Care, League of Nations,  
Geneva,  
Switzerland.

January 26, 1939.  
2:44 p.m.

237

WJr: Hello.

Operator: Mr. Noble. Go ahead.

WJr: Hello.

Edward J. Noble: Hello, Mr. Secretary.

WJr: How are you? Noble --

W: Yes?

WJr: I can't talk very loud, I have a sore throat. Can you hear me?

W: Oh, perfectly.

WJr: I have Admiral Waesche here of the Coast Guard in my office, and at your convenience I'd like very much to have him see you, because he has a plan on the monitoring of these ships over the ocean.

W: Yes.

WJr: And he was working with the weather bureau, and I'd like you to talk to him.

W: Well, any time that you say.

WJr: Well, he could do it either today or Monday. He's leaving town tonight.

W: Well, any time that is most convenient to him I'd be very glad to see him.

WJr: Well, how late this afternoon?

W: Well, I'll be here up until six o'clock.

WJr: Are you free, say at --

W: Yes?

WJr: Four o'clock?

W: Four o'clock would be fine.

WJr: He'll be at your office at four.

W: Thank you very much, Mr. Secretary.

WJr: Good bye.

JR

GRAY

London

Dated January 26, 1939

Rec'd 3:30 p.m.

Secretary of State,  
Washington.

108, January 26, 6 p.m.

FOR TREASURY.

The atmosphere of the city is well reflected in the comparison the financial editor of the TIMES makes between the present movement on the stock exchange and that of previous crisis periods. He notes as significant, however, the fact that sterling and the French franc have held steady with practically no official support and attributes the pound's strength partly to the ban on speculative dealings and partly to the reduction in the volume of mobile balances in London. Einsig in the Lombard Street column of the FINANCIAL NEWS also notes that sterling has been steady and almost self supporting and attributes this to the off-setting of such sales of sterling as there have been to the liquidation of forward positions in gold and the realization of gold stocks hitherto carried on with the aid of bank loans. He notes, however, that, as this  
form

-2- #108, January 26, 6 p.m., from London.

form of support for sterling will endure only for another two months while existing gold positions are maturing, the present should be regarded as a breathing space during which the authorities have an opportunity to improve their fundamental position.

The FINANCIAL TIMES (money market notes) attributes the steadiness of sterling to the "successful tactics of the authorities" and points out that American and French authorities may be counted upon to support a firm pound.

The dollar remained again steady all day at 4.67-1/2. The British fund was thought to have sold only a very small amount of dollars, a natural support being given to sterling by gold sales resulting from maturing forward contracts which cannot be continued under the new embargoes. 320 bars were sold at the fixing at 148 shillings 8 pence which was shipping parity at 4.67-0/16. 220 bars were married and the remainder were supplied by the market. There was a fairly large turn over after fixing in which the British Fund is believed not to have participated.

The franc remained steady all day around 177 the Bank of France buying a small amount of sterling in the morning but the market was quiet. Evidences of nervousness in Holland continue and the guilder was inclined to be offered. There was also evidence of some demand for

dollars

-3- #108, January 26, 6 p.m., from London.

dollars from Stockholm.

A further fall in prices on the stock exchange today was general though there was a slight hardening at the close; 3-1/2% was loan after touching 96-3/8 closed at 96-5/8 which was 1/4 down on last night's closing and was fairly typical of the general list.

JOHNSON

CSB

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 26, 1939, 4 p.m.

NO.: 150

FROM COCHRAN.

Last night the French stabilization fund held in gold 14 billion 200 million francs. The fund on balance has gained every business day this month with the exception of the seventeenth of January. Some repatriation of French capital from London is thus continuing, despite British steps to strengthen sterling, and notwithstanding the Franco-Italian difficulties and the situation in Spain - all of which demonstrates the improvement recently brought about in the French financial and monetary affairs. This morning by 11 o'clock at the time I called at the Bank of France, 50,000 pounds had been gained by the fund, but the fund has yielded some ground on arriving at the rate for three months.

Statement of the Bank of France as of the nineteenth of January showed no significant changes. Coverage was 62.75 versus 62.73. Today on the Paris exchange market there was little business. Traders are calmly awaiting the speech by Bonnet, the fall of Barcelona, and the totalitarians' next word. Gold is being gained from London by the National Bank of Belgium. London seems to

be

- 2 -

be more nervous than the centers on the continent. In Paris we are hearing rumors of possible difficulties of certain banks in London if payment on debts to these banks should be stopped by Germany.

Yesterday before the First Chamber of the Civil Court of Paris the attorney of the Bank of Spain of Burgos argued the case of the Bank of Spain gold which is held by the Bank of France. The attorney pointed out that 242 thousand of the 347 thousand shares of stock of the Bank of Spain are represented by directors of the Bank who live in Burgos territory. The court has postponed further hearings for eight days.

END OF MESSAGE.

WILSON.

REB

GRAY

Berlin

Dated January 26, 1939

Rec'd 4:55 p. m.

Secretary of State,  
Washington.

75, January 26, 5 p. m.

No. 5. FOR TREASURY FROM HEATH.

The Reichsbank statement for the third week of the month shows the reduction in credits and currency circulation which is usual in January. Total investments in bills and checks, security loans and securities decreased 347,000,000 marks during the week to a total of 7,490,000,000 marks. This figure is almost the same as on November 23, 1938 but is a reduction of 1,654,000,000 marks from the year-end total. Total currency circulation stood at 9,185,000,000 marks as compared with 9,494,000,000 marks a week ago and 10,398,000,000 marks at the end of the year.

For the first time in months a statement of the Reich's disclosed debt showed a small decrease. At the end of November 1938 the Reich's disclosed debt stood at 25,580,000,000 marks on October 31. Some 3,000,000 marks of the decrease was due to external debt amortization and

10,000,000

REB

2-#75, From Berlin, Jan.26,5p.m.

10,000,000 marks due to automatic reduction of the foreign debt as a result of British, French, and Swedish currency depreciation. The floating debt decreased by 176,000,000 marks but this decrease was almost entirely offset by the issuance of long term bonds to savings banks, insurance companies, et cetera.

The tax returns for the third quarter of the fiscal year ending December 31 reached a record figure of 4,718,000,000 marks as compared with 3,688,000,000 marks for the third quarter of 1937. The greatest increase was in income tax revenue which was 328,000,000 marks higher than a year ago. The corporation tax which was raised last August yielded as was forecast some 239,000,000 more: the turnover tax yielded 182,000,000 more mainly occasioned by the extension of this tax to Austria and the Sudetenland. The next largest increase was in receipts from the capital flight tax which as a result of increased action against Jews was 67,000,000 marks greater than the corresponding quarter in 1937.

Total tax revenues for the first nine months of the fiscal year amounted to 13,022,000,000 marks indicating that such revenues not including the "punitive levy" imposed on  
Jews

REB

3-#75, From Berlin, Jan. 26, 5p.m.

Jews last November (receipts from which were not included in the statement) may exceed the total of 17,200,000,000 marks forecast for the current fiscal period.

December foreign trade figures for Greater Germany show that imports amounted to 560,000,000 marks and exports to 455,000,000 marks respectively 3.3 and 11% above November figures. The adverse trade balance was only about 37,600,000 marks as compared with 69,000,000 in November. For the calendar year 1938 Greater Germany's imports at 6,052,000,000 marks were 433,000,000 marks in excess of her exports of 5,600,000,000 marks. The import surplus for (?) Germany in 1938 was 192,000,000 marks as compared with an export surplus of 413,000,000 marks in 1937.

It appears that no further dismissals from the Reichsbank Directorate are contemplated at this time. It is not certain that the vacancy created by Huelser's dismissal will be filled in the near future.

GILBERT

EPL

EMB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 27, 1938, 4 p.m.

NO.: 156

FROM COCHRAN.

This morning I called on the Minister of Finance, M. Reynaud. The Minister told me that the rate of exchange and the Treasury's position are two topics which are no longer discussed in France. As for the exchange rate, He said that France is the only European country today which is acquiring gold, and it is doing this every day despite the threatening international situation. He said that in view of this success, and considering Schacht's fall from power - and he was the great champion and creator of exchange control methods - surely no one could criticise him, Reynaud, for his choice of policy last November when he entered office, and rejected exchange control. With regard to the situation of the Treasury, he said that short term Treasury bills are being used to meet current needs. At present he consequently has no need for any other kind of financing.

With regard to the international situation, the Minister asked me if I did not think that the competition which the British are now experiencing from American steel and other factors indicates that the pound is still sufficiently over-valued to place England in a packed economic position; I replied that I thought the present flight

- 2 -

flight from sterling did not arise from economic reasons but that the cause was rather psychological and political. I made mention of the decline in American exports, which at least coincided with the sterling drop, whether or not it was directly due to such drop. I also told the Minister of my conviction, following my conversations with Finance Ministers and Governors of Central Banks in Belgium, the Netherlands and Switzerland, that competition from pound depreciation is being felt so strongly in these three countries that it was entirely likely that if the pound dropped further, these three countries would permit their currencies to decline also, and thus we would all be threatened with another currency debacle. Reynaud remarked, with reference to the American situation, that the recovery policies being followed by France and the United States are quite divergent. His own plan he specifically mentioned as being, first, to give business the encouragement of the possibility of making profits, second, a policy of retrenchment through cutting down unconditionally public works except (omission) it is considered to be (omission).

In his annual report today to the meeting of shareholders of the Bank of France, Governor Fournier reviews the important steps taken in French monetary policy during the year and particularly sets forth the results of the

new

- 3 -

new arrangements of November 12 with and by the Ministry of Finance. He recalls the efforts of the French stabilization fund in accord with the similar organizations of the countries adhering to the tripartite agreement to eliminate speculative fluctuations from the exchange market.

Today the market in Paris is quiet, following the parliamentary victory of Daladier last night. But the possible demands by the dictators have created a gloomy atmosphere. Sterling is still being gained by the French control, but some pressure on the forward franc is being felt. This week's developments involve some speculation against the florin, Paris-American bankers believe. These bankers do not know anything about the American-Dutch syndicate which the press alleges is bearing down American securities.

I was just informed by an official of the French Ministry of Finance that this afternoon there was to be signed in London the agreement for the "loan" to Czechoslovakia by Great Britain and France; the loan consisted of two parts - (1) a cash loan of 8,000,000 pounds guaranteed by the Governments of France and Great Britain; (2) the British Government will give a cash gift of 4,000,000 pounds, and the French will contribute 7,000,000 francs (about 4,000,000 pounds) through the French Treasury assuming Czechoslovakia's responsibility for this amount

of

- 4 -

of the 1937 Czechoslovak guaranteed loan. 12,000,000 pounds cash is involved in the foregoing. 10,000,000 pounds of this amount will repay the credit of the Bank of England, and the 2,000,000 cash balance would be utilized for refugees. The 4,000,000 pounds that otherwise would be used on the 1937 loan will be free for internal expenditure in Czechoslovakia. I obtained all this information by telephone, and it is subject to confirmation when an official communique with regard thereto may be issued.

END OF MESSAGE.

WILSON.

EA:LWW

orig in meeting re French Airplane  
Purchase, Jan 27

January 27, 1939.  
9:44 a.m.

250

HMJr: Hello.

Operator: All right. Go ahead.

HMJr: Hello.

Senator  
Sheppard: Mr. Secretary?

HMJr: Yes, Senator.

S: General Arnold has gone to New York.

HMJr: Yeah.

S: Would you wish to come on anyway?

HMJr: Well, I think that -- the way --

S: Woodring is not down yet. I'm watching him. I'm trying to get him.

HMJr: Well, I think the way the story reads, I don't want -- I don't want the sun to set on this story without your hearing me.

S: Oh, sure. We are going to hear you. You know that.

HMJr: Yeah.

S: And I'm just trying to -- you stated you wanted both of those gentlemen present.

HMJr: Well, you --

S: But I can say that you asked that they be present.

HMJr: Yes.

S: Yes.

HMJr: You know -- you heard General Arnold, you know what he said.

S: Well, I -- I have a dim -- just a hazy -- you know in the rush and hurry of those things -- he was down at one end of the table and I was at the other and he said something about the Treasury Department, and then one or two of the Senators said they would like to hear you.

HMJr: Well, now, did you have a stenographer present?

S: Oh, yes, he's there, and the -- and the proof is at the printing office.

HMJr: I see.

S: You see, up here, everything is in -- is -- is in quite a and rush. It's hard to keep in line with it. Right now -- of course, the best proof would be the -- the stenographic report.

HMJr: Yeah.

S: That might be up this morning.

HMJr: Well, if that could -- if that could be there and could be read out loud just as what General Arnold did or didn't say, I think it would be helpful.

S: Yes. Well, I don't know whether that's back yet from the printing office.

HMJr: Well, I'll be ready -- I -- I've got a copy of who signed the order.

S: Yes.

HMJr: And it's an Army officer.

S: Well, I think then you'd better come on up anyway at eleven o'clock.

HMJr: All right.

S: All right.

*orig. in meeting re French Airplane  
Business, Jan. 27*

152

January 27, 1939.  
9:53 a.m.

HMJr: Hello.

Operator: Secretary Woodring.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Harry Woodring: Hello. Say, Henry.

HMJr: Yeah?

W: Arnold is out of the city, and as near as I can get from General Craig is that they asked him up there -- he called up this morning and said that they asked him this question -- ah -- of -- no, they didn't ask him who did it. They told him who did it.

HMJr: Yeah.

W: They told him that the Treasury Department -- wasn't it true that the Treasury Department had made this arrangement, and as near as we can understand from him -- he telephoned in here-- that he said "yes". Now -- ah -- Senator Sheppard just called me and I'm going up there at eleven o'clock with copies of the orders.

HMJr: Yeah.

W: Now, of course, when it comes down to the question of who issued the orders, why we did.

HMJr: Of course.

W: Yes.

HMJr: And I just talked to the President --

W: Yeah.

HMJr: And I told him I was going up, and I wanted to know how far I could go and he said that -- tell the whole story and say that I got my -- that if they ask where I got my authority, I got it from him.

W: Well, I see.

HMJr: But the order -- I've got it before me.

- 2 -

W: Yes, they tell me that --

HMJr: Signed by Arnold.

W: That's right.

HMJr: And, of course, you can't convince me that somebody who is connected with the War Department didn't fix it so that -- that I'm on the spot.

W: Well, of course, I -- I don't know about that, Henry.

HMJr: Well, I say that's what I --

W: Yes.

HMJr: That's what my intuition tells me.

W: Yes.

HMJr: And --

W: Well --

HMJr: And I'll be up there, and I told Senator Sheppard that I'd be delighted to come up there.

W: Yes, of course.

HMJr: Are you bringing Craig with you?

W: What do you think? Do you think I better?

HMJr: I -- I think it would be fine.

W: All right.

HMJr: I think it would be fine.

W: And -- of course, Arnold is in New York -- in New York, you see?

HMJr: Well, I got his order right here.

W: Yes, well we've got a copy of that.

HMJr: Sure.

W: And, now, Burns, they tell me, called Arnold, and gave him the instructions on the order.

HMJr: Who is Burns?

- 3 -

W: Well Burns is -- is Administrative Assistant of the Assistant Secretary of War.

HMJr: Well, where would he get his authority?

W: He walked -- well, that came from the letter, you know, that came to all of us.

HMJr: Well -- ah -- Harry --

W: Yes?

HMJr: I'm -- I'm -- when I go on the hill, I always tell the story from beginning to end.

W: Yes?

HMJr: And that's what I'm going to do this time.

W: Well, now, you think that we ought to bring Burns along too?

HMJr: I don't -- I don't know how your organization works --

W: Yeah.

HMJr: But --

W: Well --

HMJr: I don't know -- I don't know -- I'm prepared to answer any and all questions of the Treasury's participation. I -- I don't know how to answer the War Department's.

W: Well, all right. I'll bring General Craig with me.

HMJr: Thank you so much.

W: At eleven o'clock.

HMJr: Thank you.

W: Good bye.

*orig. in meeting re French  
diplome Purchase, Jan. 27*

255

January 27, 1939.  
9:57 a.m.

HMJr: Hello.

Operator: I have Mr. Edison.

HMJr: Thank you. Hello.

Charles Edison: Good morning, Mr. Morgenthau.

HMJr: Hello, Edison. How are you?

E: Glad to hear from you.

HMJr: Edison, with the President's knowledge and approval I'm going to testify on the hill at eleven o'clock before Senator Sheppard on this French mission.--

E: Yes?

HMJr: And I'd like to have your approval to take Captain Klaus with me.

E: Oh, sure, go ahead.

HMJr: Is that all right?

E: Absolutely.

HMJr: He's sitting here now, and I -- but I didn't want to take him up unless it was all right with you.

E: No, sir. Any other -- anything else you want?

HMJr: No, that's all. I just want your approval.

E: All right, fine. Well, have they bought them yet?

HMJr: Just a minute, I'll have to ask Collins.

(Pause)

Collins says they increased their order of Curtis pursuit by one hundred and signed that last night.

E: I see, well, that's two hundred altogether?

HMJr: That's two hundred of that. Now, they are going to order how many Martins? (Said to Collins aside) They are planning today or tomorrow to order the -- the hundred and fifteen of the so-called "improved Martin".

E: Well, that will be three hundred and fifteen planes?

HMJr: Well, the -- no, that other order was placed not by this mission. Now you've got two fifteen, you see?

E: Yeah.

HMJr: The hundred -- that other hundred was placed some time ago.

E: Yeah.

HMJr: Just two fifteen -- (talks aside) - and a hundred of this new B-7 Douglas, so that will make a total of three hundred and seventeen planes.

E: Three hundred and seventeen? All right, thank you very much.

HMJr: But that's -- that's what their plans are, but they shift all the time.

E: Yeah.

HMJr: Thank you.

E: All right, sir. Good bye.

*sig. in meeting re French airplane  
Buchanan, Jan. 27*

257

January 27, 1939.  
10:00 a.m.

HMJr: Hello.

Operator: Mr. Welles is with Secretary Hull. Do you want me to try to get him there?

HMJr: Yes, it's -- let me -- or let me talk to his secretary.

O: All right.

HMJr: Let me talk to his secretary.

O: His secretary.

HMJr: Hello.

Secretary: Good morning, Mr. Secretary.

HMJr: Good morning. I'd like Mr. Welles to tell me -- if you could look it up and then let me know -- I've got to appear before Senator Sheppard at eleven o'clock on this French mission, and I -- I can't find it in my files. The day that Mr. Welles called me up and said that the State Department approved the Treasury receiving this mission, you see? Hello?

S: Yes?

HMJr: He called me up, I think -- I know it was on a Friday night around six o'clock. I'd like to know what day, if it's in his records, you see?

S: I'll look and see.

HMJr: And then -- you'll most likely want to clear with him, but I -- I've got to have it before I go on the hill at eleven.

S: All right, sir.

HMJr: There will be another -- the State Department gave a clearance on this French aviation mission and I'd like to know what day it was.

S: Yes.

HMJr: My records are incomplete.

S: Let me look it up.

HMJr: Thank you.

S: Yes.

January 27, 1959.  
10:35 a.m.

EWJr: Hello.

Wm. D. Douglas: Good morning, Henry.

EWJr: How are you?

D: Fine.

EWJr: I had every expectation of being over at Justice --

D: Yeah.

EWJr: At eleven, but I'm going on the hill at eleven o'clock to explain that I didn't authorize the French mission to buy the planes.

D: I see.

EWJr: It was the Army who did. I don't know whether you saw it or not.

D: Ah -- something, yes.

EWJr: Well, Sheppard has had me on the wire and we just -- the President has had me on the wire twice, and I'm going up about eleven o'clock to testify up there.

D: Yeah.

EWJr: But, Ed Foley and Cy Upham will be over.

D: Swell.

EWJr: How's that?

D: That's grand.

EWJr: Is that all right?

D: It's -- yeah. That's O.K.

EWJr: For your information, I had both Cy Upham and Gus Folger in here yesterday and I asked each one separately. I said, "Have you any question on your mind whatsoever as to my right and -- and duty to furnish the S.E.C. with a copy of the bank reports of the Bank of America?" And both of them separately said that they didn't have the slightest doubt that I had this right.

D: Yeah.

- 2 -

WJr: I said, "Are you willing to testify to that publicly?"  
And they both said, "Yes".

D: Yeah.

WJr: Well, I thought you'd like to know that.

D: Well that's grand.

WJr: Because I think that's terribly important.

D: Yes, it is.

WJr: There has been some talk about the Comptroller's office  
having doubt.

D: Yeah.

WJr: But they are both convinced that I have the right --

D: Yeah.

WJr: And the duty to do so.

D: Yeah.

WJr: And I want you to know that.

D: Well, thanks very much.

WJr: All right.

D: O. K. I'll -- I'll -- if there's anything that comes  
up that I think --

WJr: Foley will be over there, but if you want any more, let  
me know.

D: I'll do that. Thanks very much. Good bye.

January 27, 1939.  
4:39 p.m.

WJr: Hello.

Operator: Mr. Altmeyer, Go ahead.

WJr: Hello.

A. J. Altmeyer: Hello.

WJr: Hello?

A: Hello, this is Altmeyer.

WJr: Yes.

A: Awfully sorry to hear you aren't feeling well.

WJr: Well, I'm not.

A: Well, that's too bad.

WJr: Tell me -- ah -- I got a message that you wanted to see me.

A: I wanted to see you if I could to find out how your ideas checked on this Social Security Report so that we don't say anything to embarrass the Treasury position.

WJr: When are you going to talk?

A: Next Wednesday, I understand, they are going to start the hearings and they want the Government people to come on first.

WJr: Well, supposing -- how about three o'clock Monday?

A: That will be fine.

WJr: Three o'clock Monday.

A: All right.

WJr: Now, I can tell you what's running through my mind -- you can be thinking about it. I had these people down and I've gone over this thing, see?

A: Yeah.

WJr: The principal thing that I want is to get before the public what these suggestions are going to cost.

A: Yes.

SMJr: See?

A: Yes.

SMJr: And I just want to find out whether you want to present them or whether you want us to do it.

A: Well, all right, we'll be thinking about that. Then there's one other thing I want to ask --

SMJr: See, but I think that -- my own feeling, but I'll argue about it. Now, listen, is it -- at the opening, right at the beginning, whatever the suggestions are, the committee should be advised just as to what it is going to cost.

A: That's right.

SMJr: That's all I want to get. Now -- and will you be thinking about that?

A: Yes. Now, I wonder whether you would instruct your people as to what they should do relative to these various proposals like the Townsend Bill and the General Welfare Bill. We feel that -- ah -- the Treasury, giving estimates of costs and the arguments, would be much stronger than for the Social Security Board to do so.

SMJr: Well, if you come in at three we'll sit around the table and -- we'll play ball.

A: Yeah, all right.

SMJr: How's that?

A: Fine, thank you.

THE WHITE HOUSE  
WASHINGTON

January 27, 1939.

MEMORANDUM FOR

THE SECRETARY OF THE TREASURY

What do you think of giving me two trial balance sheets — one as of March 4, 1933 and the other as of January 1, 1939, showing assets and liabilities; net amount of debt, deducting money loaned on basis of being paid back?

On 1939 sheet give credit for \$2,000,000,000 soldiers' bonus, which was a debt in 1933, but not included.

F. D. R.

*for*

My dear Mr. President:

In compliance with the request contained in your memorandum of January 27, 1939, I am attaching hereto a statement showing as of March 4, 1933 and January 1, 1939, the amount of the gross public debt, against which have been offset the General Fund balance, the Stabilization Fund, and recoverable assets (representing loans and the Government's proprietary interest in governmental corporations). As suggested in your memorandum there is included in the figures for January 1, 1939, a credit of \$2,050,000,000 representing the debt increase arising from pre-payment of the soldier's bonus.

This latter amount is not necessarily the amount of the "pre-payment" but rather is the difference between the amount which was actually expended since March 4, 1933 on account of the soldier's bonus and the amount which would have been expended if there had been no change in the original law. I believe it would be advisable to use the \$2,050,000,000 as a credit against the January 1, 1939 debt rather than treat it as a debt on March 4, 1933. This treatment would avoid any inconsistency with the statement contained in your veto message.

Faithfully yours,

(Signed) H. Morganthau, Jr

The President

The White House

EFB:HBW  
2/4/39

BALANCE SHEET AS OF MARCH 4, 1933 ANDJANUARY 1, 1932

(In millions of dollars)

	<u>Mar. 4,</u> <u>1933</u>	<u>Jan. 1,</u> <u>1932</u>	<u>Increase (+)</u> <u>Decrease (-)</u>
<b><u>Liabilities:</u></b>			
Public debt . . . . .	\$ 20,937	\$ 39,427	+ \$ 18,490
<hr/>			
<b><u>Assets:</u></b>			
General fund balance . . .	189	3,084	+ 2,895
Stabilization Fund . . . .	-	2,000	+ 2,000
Recoverable assets . . . .	2,808	4,022	+ 1,214
(Loans and proprietary interest in Govern- mental Corporations)			
<b><u>Deferred charges:</u></b>			
Loans prepayment (see attached statement) . . .	-	2,060	+ 2,060
Sub-total . . . . .	2,664	11,156	+ 8,492
Net. . . . .	18,273	28,271	+ 9,998

INCREASE IN THE PUBLIC DEBT ARISING FROM  
THE PRE-PAYMENT OF THE SOLDIERS' BONUS

(In millions of dollars)

Amount of debt increase from March 4,  
1933 to January 1, 1932:

Fiscal year 1934 . . . . .	\$	50	
" " 1935 . . . . .		50	
" " 1936 . . . . .		1,773	
" " 1937 . . . . .		557	
" " 1938 . . . . .		—	
Interest (estimated) . . . . .		120	
			\$ 2,550

Amount by which the public debt would  
have been increased had not the  
bonus been prepaid:

Fiscal year 1934 . . . . .	\$	100	
" " 1935 . . . . .		100	
" " 1936 . . . . .		100	
" " 1937 . . . . .		100	
" " 1938 . . . . .		100	
			500
Net increase in debt as a result of prepaying the bonus . . . . .			\$ 2,050

CENTRAL HOUSING COMMITTEE

286

307 SIXTEENTH STREET  
WASHINGTON

January 27, 1939

MEMORANDUM to the Secretary of the Treasury:

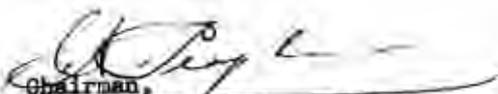
As a matter of interest, I am sending you the record to date of Central Housing Committee developments subsequent to my taking over the Chairmanship from Mr. Delano.

The minutes of the first meeting, July 20, 1938, contain a critical review of preceding work and the President's instructions as to reorganization, intensified efforts and extension of contacts.

A Ways and Means Committee was appointed at this meeting to survey the work of the Central Committee already under way, and to develop a constructive program for the current year. Reports on what was believed to be the most profitable lines of research and discussions were requested and received from each of the Chairmen of sub-committees and reference groups, and these reports were the subject of discussion at seven meetings of the Ways and Means Committee in the interim between the first and second meeting of the Central Committee.

The minutes of the second meeting, January 12, 1939, contain reports on the results of the deliberations of the Ways and Means Committee to develop these instructions into a constructive program of activity. Agreement was reached on ten items of the seventeen presented for discussion, and the other items will be discussed at subsequent meetings of the Central Committee. The unanimous support given two undertakings, — the Bureau of Standards' investigation of building materials and structures and the proposed Census of Housing, — is an encouraging accomplishment in the direction of unified effort.

It is my feeling that the possibilities of this undertaking in the direction of "coordination by cooperation" by the various Agencies of the Government interested have barely been touched. We have developed a working method of using staff specialists collectively as well as individually, also by utilizing their collective experience, thereby not only increasing their value to their respective agencies, but to assist in assembling and making available a pool of information not hitherto accessible.

  
Chairman,  
Central Housing Committee

Attachments

January 27, 1939

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Chairman,  
Central Housing Committee

Attachments

Regraded Unclassified

CENTRAL HOUSING COMMITTEEMinutes of 30th Meeting

DATE: January 13, 1939                      12:30 - 3:00 P.M.                      Cosmos Club  
 ATTENDANCE: Rear Adm. C. J. Peoples, Chairman  
 \*(Absent)

*HARRY L. HOPKINS	PROC	N. Max Dunning
John H. Fahey	DefC	Lyman J. Briggs
*STEWART McDONALD	PHLEB	Ormond E. Loomis
Will W. Alexander	FHA	Miles Colean; Ernest M. Fisher
*LOWELL MELLETT	FSA	John O. Walker
George B. Williams	NEC	*EUGENE LEGGETT; Philip C. Hamblot
Nathan Straus	RFMCo	*JAMES L. DOUGHERTY
	USHA	Warren J. Vinton

Horace W. Peoples, Secretary

Minutes: Minutes of the 29th meeting, July 20, 1938, having been previously circulated, were approved without reading, subject to correction.

The Chairman opened the meeting with references to the reorganization of committee undertakings through Ways and Means Committee hearings; and to his interim discussions with the Administrators of the Federal Housing and United States Housing Administrations and with the Chairman of the Home Loan Bank Board. He then called for a statement of current activities.

Progress Report: The Secretary summarized the status of sub-committee work -- a) seven authorized sub-committees, three of which were active; three, marking time while awaiting authorization of programs or assistance; and one, (Procedure and Administration) recommended for discontinuance; b) fifteen reference groups or sections, nine of which were active (one Technical Research, being recommended for sub-committee status); four, awaiting authorization or assistance; two, recommended for discontinuance.

SPECIAL BUSINESS

The Chairman stated that there were three items of urgent moment to lay before the Committee, two of which had to do with pending or proposed legislation. He called upon representatives principally concerned for statements.

BUREAU OF STANDARDS PROGRAM: Dr. Briggs advised the Committee that, under present Budget Bureau recommendations, the special program of technical research was scheduled to terminate at the end of the fiscal year 1939-1940; that the Department of Commerce had requested a change in phraseology to remove from the bill the time limitation but that no change had been made. On questions by Mr. Fahey, Dr. Briggs stated that he knew of no reason for this action other than to avoid the cost of a continuing appropriation; that a continuing investigation of the present scope was more desirable from the standpoint of efficiency than a larger current appropriation; that, although there was some leeway, early action was desirable so that plans could be made either for the continuation of program or its termination; that the change involved did not involve any additional appropriation but

would leave open for future determination the question of program extension. Mr. Colean remarked that such an investigation should not be terminated as new developments will be forthcoming from time to time. A prepared resolution was then read by the Secretary to record the special interest of the Central Housing Committee.

After discussion of alternative procedures, and an amendment offered by Mr. Straus, the Resolution (A) was adopted in the following form:

- "WHEREAS the research program on building materials and structures, with special reference to low cost housing, which was established at the National Bureau of Standards, with the support of the Central Housing Committee, has definitely shown the value of technical research to the Government Housing Agencies, and to the other building industries; and
- "WHEREAS the program has been authorized by the Congress for a period of three years, expiring June 30, 1940; and
- "WHEREAS the Technical Research Group of the Central Housing Committee has urged the continuance of the program beyond the three year period;
- \*"THEREFORE BE IT RESOLVED that the Central Housing Committee urgently requests permission of the Bureau of the Budget for its member agencies to advocate to the Appropriations Committees the removal of the three year limitation in the 1940 appropriation of the National Bureau of Standards for the investigation of building materials and the continuance of the research program."

The Chairman stated that he also would be pleased to appear on behalf of the Committee.

At the suggestion of Mr. Loomis that it would be helpful to stress the importance of the Bureau program to all agencies, the Chairman asked Dr. Briggs to prepare a statement showing the relation of the program to the work of the different agencies, for their use in preparing submissions.\*\*

CENSUS OF HOUSING: Dr. Fisher outlined developments leading up to the 1940 Census of Housing on which a group of the Research and Statistics Committee has been working, with the approval of former Secretary Roper, through the Bureau of the Census. The cost of this census is estimated at between 12 and 15 millions.

\*Phraseology of resolution as drafted: "THEREFORE BE IT RESOLVED that the Central Housing Committee urgently recommends to the Congress the removal of the three year limitation in the 1940 appropriation of the National ...etc." Phraseology cleared with office of the Acting Director of the Budget; letter of transmission prepared accordingly.

\*\*Prepared and transmitted separately to agencies.

Dr. Fisher mentioned the approval by the Budget and by the President of the Housing items in the draft of the original Act but expressed anxiety as to whether the President would look favorably upon the appropriation needed, although the commitments of government funds and government credit in the general field of housing are so large that the cost of the census would appear to be entirely justified, since the data to be secured are basic to the operations of all government housing agencies. He added that there is a large demand among private groups, as well as among government agencies, for such a census.

Mr. Strous suggested informal approach via the new Secretary of Commerce. The Chairman agreed, - after the introduction of the legislation. Dr. Fisher explained that advance indication of the President's attitude would save time and effort as both a special Bill and special Deficiency Bill were involved; and it was especially desirable to make \$500,000 available immediately upon the passage of the Act for necessary preliminary work.

On question as to the desirability of an expression of the Committee's approval, Mr. Foley and Mr. Strous agreed that it would be a good idea to give the Secretary of Commerce the Committee's unanimous endorsement of the general proposal; and that, to avoid delays, the subject should be brought immediately to the attention of Assistant Secretary Patterson. The Chairman stated that he would personally transmit such a resolution to Assistant Secretary Patterson and to Secretary Hopkins. The Committee concurring, the Chairman asked Dr. Fisher to draft a suitable resolution for incorporation in the minutes. This Resolution (B) follows:

"WHEREAS, The agencies represented in the Central Housing Committee are constantly confronting problems in housing and hence financing the solution of which requires more comprehensive and adequate information regarding housing conditions; and

"WHEREAS, The occasion of the 16th decennial census offers an opportunity to secure such adequate and comprehensive data correlated, as they must be to be useful, with population and data on family composition; and

"WHEREAS, No provision is contained in existing legislation for conduct of comprehensive housing surveys;

"THEREFORE BE IT RESOLVED, That the Central Housing Committee expresses its appreciation to the Secretary of Commerce and to the Director of the Bureau of the Census for the cooperation which they have given to the Sub-Committee of Research and Statistics in studying the problem of making a complete housing census; and

"BE IT FURTHER RESOLVED, That the Central Housing Committee requests the Secretary of Commerce to assist further in expediting appropriate legislation authorizing a census of housing to be made in connection with the 16th decennial census of population".

RURAL HOUSING: Dr. Alexander, when called upon by the Chairman, observed that he had no formal statement to make, although he understood a proposal would be offered on the subject of Rural Housing.

Mr. Straus stated that he saw no occasion for such a committee and felt that a general discussion of policy should precede detailed discussions of Subcommittee activities.

The Chairman acquiesced and called upon Mr. Dunning, Chairman of the Ways and Means Committee. (Dr. Alexander was obliged to leave the meeting. During the ensuing discussion of general policy before the discussion of Rural Housing was resumed: See Resolution C-1-2)

GENERAL POLICY DISCUSSION

Mr. Dunning recounted the discussions of the Ways and Means Committee, referring to a memorandum (Appendix X) which he had prepared for the Chairman CHC and to a list of activities (Appendix X) grouped as (List A) those which were either authorized or not specifically questioned; and (List B) those not authorized or controversial. He offered a resolution to accept this general analysis in order that the items could be placed formally before the committee for consideration and detailed discussion.

Mr. Straus opened the discussion by stating that he was taken aback by the list. He raised general questions about the origin and objectives of the Central Committee, stating that the housing agencies were no longer subject to press criticism; and that there was no longer occasion either to avert inter-agency friction or to deal with overlapping functions. He stated that he was opposed to joint reports to the President; to over-riding the action of Congress in its assignment of functions to agencies; and to the setting up of any super-housing agency. Incidentally, he referred to the appraisal set-up.

Mr. Colman said that Mr. McDonald would concur with Mr. Straus' objections as to joint activities in the field of original research, no matter how desirable, stating that the time which could be given properly by representatives of various agencies on CHC committees or groups did not permit of extensive research. He added that there were many subjects listed which were suitable for discussion but that their development should be assigned to special agencies. He made reference to cost studies.

Mr. Foley said that a wrong interpretation was being placed on the committee activities, as the sole objective was to develop and disseminate information needed by public and private agencies without in any way setting up a super-agency; and taking the same case Mr. Straus had cited, he added that the Committee might well go further into the question of appraisal practices as the system had been chaotic up to 1933. Over 4,000 practicing appraisers were rejected by HCLC as incompetent, or subject to question as to their ethical practices. He saw only advantage to the agencies concerned and no possible collision in such work.

Mr. Straus then read a resolution adopted by the Central Committee on March 2, 1937 (Appendix Y) as applicable to the current discussion. The Secretary mentioned that this resolution had been aimed specifically at a certain type of activity and that the Central Committee had definitely ruled against a projected prohibition of "joint research".

The Chairman said that certainly no one had any idea of developing a super-agency, least of all himself; that the Central Housing Committee was primarily a clearing house where men of outstanding ability, temporarily

in government service, could find common meeting places in which to pool their knowledge; that nothing but constructive results could come from such an undertaking; that no publicity or propaganda was involved; that he had received this conception of functions from the President, both in writing and in discussions.

Mr. Straus proposed that the Committee proceed to act on certain items to which he had no objection. He proceeded to read various items from lists "A" and "B" of the agenda. Noting the inclusion of the Index-Digest, the Secretary raised question about exclusion of the long established Legal Digest. Mr. Straus replied that his legal division had not been favorably inclined toward the Legal Digest.

Mr. Dunning stated that the items listed were only fragments of the committed programs, mentioned as typical, but subject to detailed discussion in connection with each group activity; that it was difficult in a phrase to give the full background. However, to advance conclusions, he offered to withdraw his motion.

Mr. Straus moved agreement on ten sections of Lists A and B, indicated by underlines on Appendix X. Mr. Foley seconded the motion. (Resolution C-1)

Major Walker raised a general question, stating that although Farm Security had been a regular contributor and although he was not in favor of a rural housing committee, he felt strongly that the general activities of the Central Committee had not regarded rural housing interests. He asked that in any further activities, such as the current proposal, this situation should be rectified. The resolution was adopted with express agreement on the part of Mr. Straus, as indicated by his amending his motion, to the effect that the sections indicated would specifically include Rural as well as Urban housing in their consideration. (Resolution C-2)

The Chairman stated that this action advanced agreements; and that the Ways and Means Committee, after further discussion and consideration, would present the remaining items to the Central Committee for action.

Mr. Straus raised further question about policy, bringing up a statement of "two alternative types of activity which the Central Housing Committee may undertake", drafted by Dr. Fisher at the November 9 meeting of the Ways and Means Committee. After some discussion, in which Mr. Straus suggested eliminating the alternative feature and also substituting agency staffs for staffs provided by CEC, he moved that the Committee adopt both types of activity. Mr. Foley seconded the motion which was passed, without further discussion, as follows: (Resolution D)

Types of Activity which the Central Housing Committee may undertake  
 General interchange of experience and thought among the heads of Agencies, and sub-groups of specialists representing the agencies, to promote mutual understanding and their mutual interests.  
 The prosecution of original studies and investigations in the various fields through technical staffs of the various agencies.

Meeting adjourned at 3:00 P. M.

Next Meeting: Subject to the call of the Chairman.

Horned W. Feasling  
 Secretary

APPROVED \_\_\_\_\_

\_\_\_\_\_  
 Chairman

MEMORANDUM TO ADMIRAL C. J. PEOPLES, CHAIRMAN, CENTRAL HOUSING COMMITTEE

November 29, 1938

Re: Program of Activities for the Fiscal Year 1939

1. Frederic A. Dolano, in reporting to the President June 23, 1938, on last year's activities of the Central Housing Committee said in part:

"A very real accomplishment has been made in bringing together in working units, the technical men in all agencies having common interests. These men have interchanged data and ideas, have stopped costly duplications of work and have produced invaluable composite findings..... It must be reported that the organization has proceeded as a cooperating group rather than as the coordinating committee implied in your memorandum... It is obvious that although there are conspicuous accomplishments, there are also conspicuous shortcomings where accomplishment might well have been expected.....Staff members are keenly interested in this pooling of knowledge and if their technical groups may have an assurance their contributions are wanted, and that they may contribute constructively without censorship, I believe it will go a long way toward developing and presenting to the public less divergent viewpoints on housing policies among Government Agencies... Infinite advances have been made in the general direction of coordination, gains which should be consolidated....Successful consummation calls for new leadership, strengthened by an indication of your interest in what has been done and instructions as to further objectives and more active participation."

2. I quote from the President's letter of July 5, 1938, enclosing Mr. Dolano's report and appointing you to serve, at Mr. Dolano's recommendation, as Chairman of the Central Housing Committee:

"This report covers in detail an unusual experience in coordinating through cooperative effort, and I am in full accord with Mr. Dolano's analyses and recommendations."

"I am hoping the committee will continue to intensify its efforts through encouraging work and free cooperation on the part of the various specialized groups, and the active participation of all principals concerned in collaborative review. Likewise the extension of participation or of contacts with other agencies or organizations, public or private, having related interests appears to be desirable."

"The established procedure of contributed services by member or affiliated agencies in lieu of special appropriations should be continued."

Reading the President's letter in context with Mr. Dolano's report and also in connection with Mr. Dolano's frank statement to the Committee that it should "either speed up tempo or disband", there can seem to be no other interpretation but that the President wishes to have the work of the Central Housing Committee intensified, not curtailed, and that participation be extended to both public and private agencies or organizations, and not restricted to a limited group.

3. Upon your acceptance of the Chairmanship, a Ways and Means Committee was appointed with myself as Chairman, and made up of representatives of those agencies most directly and actively interested in the housing problem. Complying with your request of July 25th, that the Chairman of such subcommittee and technical group submit to the Ways and Means Committee suggestions and recommendations as to what they believed to be the most profitable lines of activity to be undertaken by the group during the coming year the various groups, with one or two exceptions, have submitted carefully prepared recommendations for a program of action.

The Ways and Means Committee has held seven meetings at which the Chairman of those several subcommittees and technical groups have been called before them, their reports and suggestions have been reviewed and fully discussed, and the Chairman of the several committees have expressed great enthusiasm and interest in the work.

These discussions by the Ways and Means Committee of the past work of the Central Housing Committee and consideration of proposals submitted for intensified and extended activities during the coming year have developed two divergent points of view among the agencies represented as to what the policy and function of the Central Housing Committee should be. It seems desirable, therefore, at this time to refer these points of divergence to the Central Committee itself for full discussion and submission of its recommendations to the President for approval.

4. (a) Points of Agreement: It is generally agreed that the Central Housing Committee and its various groups should continue to function as a forum where principals of organizations directly or indirectly interested in the problem of housing can meet with some regularity to discuss common problems whereby each may benefit by the experience of others; also to sponsor and implement the activities of subcommittees and reference groups of technicians from the various Agencies, each engaged in the study of some particular phase of the housing problem; also to receive these reports, discuss them, and where approved make them available to member organizations.

It is agreed that it is a proper function of the subcommittees, through their reference groups or otherwise to lend their collective experience and abilities in directing the work of established research organizations such as the National Bureau of Standards, Forest Products Laboratories and other similar existing organizations in carrying on experimental work and investigation into the appropriate uses and characteristics of various materials applicable to low cost housing. The development of a basic plumbing code particularly applicable to housing falls in this category.

(b) Points of Disagreement: A divergent point of view expressed by certain of the members is that the activities of the subcommittees and research groups, except as above noted, should be confined solely to discussion of problems of mutual interest and for mutual benefit with no attempt being made to record conclusions; that these groups should not enter

the field of original research, and that it should be the general policy that no information collectively developed should be made available by the Central Housing Committee for the benefit of the building public.

5. Comparative Summary: There is appended for easy reference a summary of the present and immediately contemplated activities of the subcommittees and technical groups - segregated into two columns. This summary lists the activities now being carried on by the several groups, together with such expansions as have been recommended in their reports.

- A. Activities not questioned or generally approved
- B. Activities questioned or subject to authorization

It is recommended that activities listed under Column A be reviewed as a matter keeping the membership of the Central Housing Committee informed on activities meeting general approval, and that activities listed in Column B be fully discussed and a decision arrived at as to their propriety.

When the full program has been determined the question of any additional administrative or secretarial assistance that may be required to implement the program can be taken up.

Respectfully submitted,

/s/ N. MAX MERRING, Chairman  
Ways and Means Committee

Central Housing Committee : Appendix Y to Minutes of Jan. 12, 1939 : CHC 4010:9  
 (Underlinings indicate agreement of Resolutions C-1 and C-2)

1939 Programs Recommended by Members (165)  
 of 23 CHC Sub-Committees, Reference Groups and Sections  
 and Reviewed by Ways and Means Committee

## LIST "A"

ACTIVITIES NOT QUESTIONED  
 OR GENERALLY APPROVED

## LIST "B"

ACTIVITIES QUESTIONED OR  
 SUBJECT TO AUTHORIZATION

APPRAISAL & MORTGAGE ANALYSISContinuing

appraisal data assemblage and  
 discussion: Forum sessions

LAND USE & SITE PLANNING

Reorganized subcommittee--FHA-FHLBB-  
 NPS-NRC-FSA-USIU: discussion of land  
 use control programs: study of  
 blighted-area rehabilitation

Collaboration with NRC on ways  
 and means of establishing land  
 use programs

LAW & LEGISLATIONContinuing

Legal-Digest: preparation of Model  
 --Mechanics' Liens Act  
 --Land Title Registration Act  
 --Tax Collection Act

Revision of Uniform Mortgage Act

RURAL HOUSING

New FCA-WIA-FSA group to summarize  
 data and draft statement for pre-  
 sentation to CHC

CHC to determine use of report

OPERATION & MANAGEMENT  
Maintenance and Operation Section

Continuing

effort to avert repetition of errors  
 and to determine possibilities for  
 improvements in design and construc-  
 tion: Management Forum or tie-in  
 with other meetings to evaluate ex-  
 perience and standardize procedures

Authorization for general dis-  
 tribution to operating agencies,  
 public and private, of fact-  
 finding questionnaires (3 trial  
 returns in) and aggregation of  
 returns for analysis by groups  
 concerned (See D&C groups)

Accounting Section

Discussions of housing accounting to  
 establish common basis for determi-  
 nation of operating costs

Reconciliation of major divergen-  
 cies and detailed reclassifi-  
 cation of accounts, including  
 analysis of corresponding pri-  
 vate operations for which re-  
 turns have been offered

RESEARCH & STATISTICSContinuing

Discussion luncheons: Index-Digest:  
 standard housing library classifi-  
 cations: translation clearances

Development, 1940 Housing Census

LIST "A"  
ACTIVITIES NOT QUESTIONED  
OR GENERALLY APPROVED

DESIGN & CONSTRUCTION  
Planning & Design

Continuing group clearing house for experience and observations; discussions relating design to construction, maintenance, safety, livability, costs, regional influence, etc.

Structures

Continuing foundation discussions of current practices with B.O.S. specialists; complete check list of items to be watched during construction; study of B.O.S. and F.R. reports on structural practice

Mechanical Equipment

Continuing development of basic specification data; assembly and analysis of installation and maintenance cost data; cooperation with Technical Research Group

Landscape

Continuing 1938 beginnings on design and construction, specifications and terminology; planting and maintenance; and case studies (q.v.)

Case Studies

Original assignment completed (comparative studies by Mechanical and Landscape Groups for site planning economics; report filed Jan. 25, 1938.)  
Instructions sent

Construction Costs

Breakdown and analysis of trade costs to establish maximum and minimum costs and ratios for a) various types of construction; b) alternative materials; c) labor and materials; and d) ratios between structure costs and costs of utilities, etc. e) regional and seasonal variation

LIST "B"  
ACTIVITIES QUESTIONED OR  
SUBJECT TO AUTHORIZATION

Work schedule based largely on the questionnaire

Comparative study of current construction methods to determine wastage and to develop potential economies

Possibilities of returns largely dependent on CHC questionnaire and others at regular intervals for duration and cost data

Extension of original studies as recommended; and authorization for requested review by joint committee of large-scale housing agencies, NABO, NFA, and Am. Soc. of Cost & Vent Engineers

Preparation of reference table of comparative cost factors (relative unit costs of alternative materials and methods of construction) for use in designing, estimating and cost setting

LIST "A"  
ACTIVITIES NOT QUESTIONED  
OR GENERALLY APPROVED

Plumbing Code

New group working with B.O.S., (NFA assistant), to put various Standards findings into code form; basic plumbing code

Glossary

(Housing Terminology for specifications and legal documents; 1st edition in circulation; revision authorized by CHC Feb. 8, 1938)

Fire Resistance Classifications

New group developing general requirements for fire-resistant building members and construction; and structural requirements for structural members

Technical Research

Continuing determination, approval and incorporation of Federal technical problems; (Initiation), evaluation and reporting of technical investigations by Bureau of Standards and Forest Products Laboratory; preparation of Custodial handbook

Authorization for storage of status from CHC Reference Group to separate sub-committee

Exhibits Section

Organized to prepare joint exhibit for NABO and other meetings; continuing nucleus and holding material for future calls

On request from NABO for development of general exhibit authorization recommendations for CHC endorsement of same for NABO sponsorship of such exhibits developed by CHC groups

\*(Initiation) "questioned".

Central Housing Committee : Appendix 2 to Minutes of Jan. 12, 1939 : CHC 4010:12

Excerpt from Minutes of 24th Meeting - Feb. 11, 1937: In advance of the submission for this Sub-Committee, Procedure and Administration, Mr. Vinton asked permission to present a statement in which he raised objections to any such activity on the part of the Central Committee or of its Sub-Committees. With this statement he presented a resolution covering five points of CHC policy, on which he asked for action. The motion was seconded by Mr. Colean.

Excerpt from Minutes of 25th Meeting, March 2, 1937: Mr. Vinton resubmitted the policy statement offered at the previous meeting. The Chairman stated that he was not opposed to the resolution in general. Discussion focussed mainly on possible reactions to phraseology. On question raised as to effect on the initiative of Sub-Committees of prohibitions, it was stated that the resolution was for the guidance of the Central Committee and not for general circulation.... Mr. Russell stated that the prohibition on research in clause (a) would stop the work of his Sub-Committee. The secretary called attention also to the joint research work of other Sub-Committees. After further discussion and at Mr. Colean's suggestion, the prohibition on joint research was eliminated from the last section and the phrase "or any agency concerned" added. Mr. Vinton assured Mr. Russell that the resolution would not preclude recommendations to member agencies as to procedure.

On motion of Mr. Colean, seconded by Mr. Vinton, the statement was then adopted in the following form:

"The members of the Central Housing Committee wish to record their belief that the work of the Committee under the able and patient leadership of Mr. Frederic Delano, has been of the greatest value in establishing mutual understanding and cooperation between the various housing agencies of the Federal Government.

"The members further wish to express their belief that it is desirable to continue the work of the Committee, under Mr. Delano's chairmanship, in the function originally assigned it by the President, namely that of 'coordination of housing activities'.

"The members further express their belief that the Committee will best fulfill this function under the following conditions:

"(a) That the Committee limit itself in general to mutual consultation and discussion and to the exchange of information and experience; (b) that it restrict its contacts with the public to such matters as the distribution of bibliographies and legal digests which it has prepared for its own use; (c) that it refer requests for information or advice to the agency or agencies primarily concerned; (d) that it avoid any joint attempts to public statements, propaganda, or the formulation of policies on matters which are the primary concern of the Congress, the Chief Executive, or any agency concerned."

CENTRAL HOUSING COMMITTEEMinutes of 29th Meeting

DATE: July 20, 1938 1:00 to 2:15 P.M. Cosmos Club  
 ATTENDANCE: Frederic A. Delano : Chairman ; Rear Admiral C. J. Peoples  
 \*(Absent) Retiring Incoming

*DANIEL C. ROPER	CCM-BoFS	*LYMAN J. BRIGGS
-Lowell J. Chawner		-A. S. McAllister
Stewart McDonald	FHA	Miles Colean
-Gerard Lambert (Guest)		
John H. Fahey	FHLBB	Ormond E. Locmis
	FSA	John O. Walker
Eugene Leggett	NEC	S. H. Dykstra
*WILLIAM C. COSTELLO	RFCMCo	Geo. B. Williams
	Proc	N. Max Dunning
*NATHAN STRAUS	USHA	Warren J. Vinton

Horace W. Peoples, Secretary

Minutes: Minutes of the 28th meeting, held February 8, 1938 were approved.

Resignation: Mr. Delano read a statement, (Appendix A) in which he advised of having filed with the President his resignation as Chairman together with a report on the work of the Committee. He appraised accomplishments and pointed out some of the opportunities for constructive development under the guidance of the new Chairman, whom he characterized as deeply interested, free from bias and stimulating in his leadership. Mr. Delano then relinquished the Chair to Admiral Peoples.

Induction: Admiral Peoples, in taking the Chair, paid his respects to the retiring Chairman for his contribution in pointing the way to coordination by cooperation; and called upon the Secretary to read into the record the President's letter of July 5 to Mr. Delano accepting his resignation, acknowledging the service he had rendered to the housing movement, and appointing his successor. (Appendix B).

Remarks: The Chairman then offered members the floor, as previously requested, for opportunity to express direct to Mr. Delano appreciation of his leadership. Mr. Fahey spoke with great regret of Mr. Delano's retirement. He expressed agreement with the retiring Chairman's observations as to the opportunities ahead but recorded his own feeling that a notable accomplishment had been made, due mainly to the patience and tact of the moderator in stimulating collaborative efforts without exercise of authority. He recorded his appreciation of the association and his hope for Mr. Delano's continuation at least as unofficial observer.

Mr. McDonald protested that this must not be regarded as a "going-away party"; that Mr. Delano had performed a wonderful service even in "keeping the housers out of each other's hair"; that he had shown remarkable forbearance when trivial differences tended to disrupt discussions; and that his continued presence at meetings in an advisory capacity with his valuable thought on housing and civic matters would materially supplement the efforts of the new Chairman.

Mr. Vinton expressed Mr. Straus' regrets that absence from Washington made it impossible for him to attend. For the USHA, he recorded appreciation of Mr. Delano's contribution in bringing about better inter-agency relationships, adding that anyone attempting to write the history of housing in the United States must accredit him with a large share of responsibility for changed attitudes among protagonists of public and private housing. Mr. Vinton referred to Mr. Delano's leadership in thought, mentioning especially his Land Policy Memorandum which he characterized as a classic.

President's Message: The Chairman then read a communication from the President dated July 5 (Appendix C) expressing full accord with the First Chairman's recommendations and calling upon his successor to amplify and intensify the activities of the Committee, - developing full cooperation, active participation, and extension of contacts and continuing the contribution system. The Chairman enlarged upon the President's message (Appendix D) characterizing the CHC experiment as a unique undertaking in our form of government. He added that there was available a great pool of technical ability and experience of which advantage should be taken: that no one agency had the full answer to housing problems and that coordination through cooperation is essential.

To develop the full possibilities of the Committee, the Chairman proposed to establish a Ways and Means Committee and called for the designation of representation from FHLBB, FHA, RFC and USHA with Mr. Dunning of Procurement serving as Chairman: this Committee to receive recommendations and to formulate clearly defined policy, program and procedure to be submitted to the President for specific approval and authorization.

The Chairman stated that each agency must regard it as an obligation to be represented at all meetings by some one qualified to speak with authority; that members of the Committee should assume general responsibility for policy and direction of activities but should be relieved by executives capable of assuring continuity of directed, positive cooperation; that research and dissemination of information, for and on behalf of the Central Committee, should be handled by agencies having the best facilities for such work, - even non-federal or private agencies; that Sub-Committees and reference groups should be continued and stimulated.

In conclusion, the Chairman pointed out that selfish or conflicting interests and lines of demarcation between public and private agencies must give way to broad objectives in developing, organizing and disseminating a vast amount of data greatly needed for the advancement of housing construction: that for the pathfinders in this work there will be ample credit which will be given where due. He closed with an earnest request that the retiring Chairman continue his resources or as an individual.....  
.....to which Mr. Delano replied that he had a continuing interest in the work of the Committee and would be very glad to continue ex officio or emeritus, as a non-voting member.

General Discussion: In the discussion which followed the Chairman's remarks, question was raised about additional representation on the Central Committee. Among agencies mentioned as possibilities were Agriculture, Labor, National Resources Committee, Works Progress Administration, Federal Reserve and Tennessee Valley Authority. Mr. Dolano commented that participation by agencies having only incidental interest leads to loss of interest in attending meetings which disrupts undertakings; that for meetings of special concern, invitations could be extended. The Chairman referred the whole question to the Ways and Means Committee for recommendation.

Mr. Dunning as Chairman of that Committee invited constructive suggestions for consideration and requested designations for the Committee at the earliest possible moment.\* Mr. Fahy suggested that each Sub-Committee formulate its own suggestions as soon as possible and that copies of Mr. Dolano's observations and of Admiral Peoples' memorandum be made available to which the Chairman agreed.

Secretary's Report: No action was taken on the Summary Report of the Secretary circulated for general information in advance of the meeting. (Appendix E).

Adjournment: The meeting was adjourned with the general understanding that the Chairman would reassemble the Central Committee when its Ways and Means Committee was ready to report.

Herace W. Ponsler  
Secretary

APPROVED \_\_\_\_\_

\_\_\_\_\_  
Chairman

\*Designations subsequently filed for Ways and Means Committee

Federal Home Loan Bank Board  
Federal Housing Administration  
FHC Mortgage Company  
U. S. Housing Authority  
Procurement

John H. Fahy  
Ernest L. Fisher  
George B. Williams  
Warren J. Vinton  
N. Max Dunning, Chairman

OBSERVATIONS ON THE WORK OF THE CENTRAL HOUSING COMMITTEE  
By the Retiring Chairman Frederic A. Delano

As I have indicated on several occasions, it has become both necessary and desirable for me to discontinue my participation in housing matters. For some time I have felt that the Committee should either speed up its tempo or disband, as it was requiring an effort disproportionate to the results achieved. For the speeding-up process, I could contribute neither the time nor the energy: while for the alternative of disbanding, it seemed to me that such a decision could rest only with the President who authorized our experiment. Inasmuch as my own designation as Chairman came from him, it was incumbent upon me to place my resignation in his hands: and in doing so, I realized that no report had been filed as to what the Committee had accomplished. Accordingly, I transmitted the general summary report, which you will receive today, together with my observations and conclusions, so that the President might have data on which to base his decision as to the continuance of the Committee.

The Secretary's report gives a picture of accomplishments. My own report had to do more with opportunities for further accomplishments.

In general terms, I informed the President that we have functioned mainly as a committee of review, with initiative, within certain limitations, resting with subordinate specialized groups. While I have had great satisfaction in bringing together in working units the technical men of common interests from various agencies, the limitations imposed, collectively or individually, have unquestionably modified accomplishment in several directions. Speaking more frankly and specifically with you, I hope we are agreed that the Law and Appraisal groups have made contributions to this work which is not only useful but well beyond reasonable expectations. And again I had not anticipated that our legal advisers would have any such meeting of minds on model legislation: nor that the appraisers would so quickly produce such a mass of basic data. The Design and Construction group's achievements are also most worthy of note, although perhaps dimmed by possibilities yet to be realized, of answers on materials, methods and costs yet to be found. Perhaps Management's fault-finding questionnaire, the first fruits of which have just been reported, will help in this direction.

I must confess to regret that the economists and statisticians appear to have lapsed somewhat from the promise of good beginning, and without any real success in finding common denominators. It seems futile to foster conflicting interpretations of foreign ex-

perience instead of jointly analyzing available facts; and it has been especially unfortunate to allow a valuable reporting publication to lapse. Related to both design and economics is the field of land use and site planning, as yet untouched by the Sub-Committee specially constituted for the purpose. Our principal shortcoming, however, has been in failing to find any avenue of agreement on policy and procedure, certainly prime factors in coordination. I noted with regret, for example, that, brief as our memorandum of authorization had been, "the coordination of housing activities" definitely called for has not been realized.

Notwithstanding these gaps to which I have referred, I reported that the holding of over 350 meetings by specialized staff groups; the regular issuance of authoritative digests of general and technical information for the use of housing staffs; and the production of large volume of work outside of government working hours, indicated that a working method had been found of establishing coordination on a basis of cooperation rather than of imposition. The failures as well as the results obtained combine to convince me that staff members of common training or assignments can produce worthwhile results if given assurance that such results are wanted and that censorship will not be imposed. I am not finding fault. I have realized from the start that the problem, as old as Time, was a very difficult one and could not be easily solved.

I have been assured by the President that he is appreciative of what has been accomplished and of the methods we have developed. Moreover, there is no question but that he is interested in larger accomplishments and I am very glad indeed that he has designated Admiral Peoples to develop the full possibilities of achievement. I am appreciative of the opportunity I have had to meet with you around this table as moderator and in turning over the post to my successor, I do so with confidence that you will find him deeply interested, free from bias and stimulating in his leadership.

THE WHITE HOUSE

WASHINGTON

July 5, 1938

Mr. Frederic A. Delano, Chairman  
Central Housing Committee  
North Interior Building  
Washington, D. C.

My dear Mr. Delano:

I have your letter dated June 23, 1938, containing a resume of the work performed by the Central Housing Committee, of which you have served as Chairman for nearly three years.

It is regretted that you find it necessary to discontinue your work in the field of housing where you have pointed a new way toward coordination of effort. Your leadership has reached into every phase of the housing movement, and has been an inspiration to many technical groups. From the heads of various member agencies I have heard only the highest tribute to your services as moderator, and expressions of great regret that you cannot continue with the Committee. Your resignation is accepted, with my thanks for what you have accomplished, only because of the many other similar tasks you have so willingly undertaken.

Rear Admiral C. J. Peoples, Director of Procurement, has been designated as your relief in this Chairmanship, and has been given supporting authorization in accordance with your recommendations.

Sincerely,

(Signed) FRANKLIN D. ROOSEVELT

THE WHITE HOUSE

WASHINGTON

July 5, 1938

From: The President

To: Rear Admiral C. J. Peoples, Director of Procurement  
Through the Secretary of the Treasury

There is forwarded herewith the final report of Mr. Frederic A. Dolano, retiring Chairman of the Central Housing Committee. This report covers in detail an unusual experience in coordination through cooperative effort, and I am in full accord with Mr. Dolano's analysis and recommendations, including your own designation as his successor.

I am hoping that the Committee will continue to intensify its efforts through encouraging work and free cooperation on the part of the various specialized groups, and the active participation of all principals concerned in collaborative review. Likewise the extension of participation or of contacts with other agencies or organizations, public or private, having related interests appears desirable.

The established procedure of contributed services by member or affiliated agencies in lieu of special appropriations should be continued.

(Signed) FRANKLIN D. ROOSEVELT

Comments by the Incoming Chairman  
Rear Admiral C. J. Peoples

1. It is probable that the greatest pool of technical ability and experience, and the most comprehensive assembly of housing data ever available is centered here in Washington. This should be taken advantage of in the most effective manner.
2. No one Agency is in a position to deal with the many sided problem of housing or to evolve a sound program for the years ahead. A medium such as the CHC, as a coordinating agency would seem to be the only practicable method for the successful development of a long range housing program; this requiring the organized and unreserved cooperation of each Agency concerned.
3. A clear definition of policy with definite objectives and methods of procedure should be developed and receive the sanction and specific authorization by the President.
4. A "Ways and Means" Committee will be appointed to develop this program during the interim between this meeting and early September. USHA, FHA, HOLC, and RFC are each requested to nominate its desired representative on this temporary Committee of which Mr. Dunning of Procurement will be Chairman.
5. On the permanent Central Housing Committee each Agency should assign an alternate who can speak with authority for the Principal. It must be considered an obligation that the Agency be represented at all meetings.
6. Members of the Committee should only be called upon to develop policies and procedures and direct activities. The Central Committee should be properly staffed with full time paid executives, continuously at work, assuring continuity of directed, positive cooperation of the Agencies, thus avoiding conflict, duplication and over-lapping of effort. Results can thus be obtained with the least demand upon the time of principals, alternates or staff members.
7. Generally speaking the CHC has not the organization or facilities to conduct research itself, but should guide and direct research by Agencies best equipped to conduct it -- as for example, the work being done by Bureau of Standards and Forest Products Laboratory under the guidance of the Technical Research Group. The results of such research should be disseminated by CHC, and the facilities of best facilities for this purpose as designated by CHC, and the facilities of non-Federal and private Agencies should also be used when they will best serve the purpose.
8. Any selfish interest of members should be subordinated in accomplishing the broad objectives and conflicts of interest should be reconciled insofar as possible. There will be credit enough for all.

CENTRAL HOUSING COMMITTEE : Appendix D to Minutes of July 20, 1938 : CHC 3033:9

9. The work of the sub-committees and reference groups should be continued and stimulated as being of the greatest value.

10. A major problem to be worked out is to make the vast amount of data that has been and will be developed, useful to the building public; also to take advantage of the experience of private enterprise by calling representatives of organizations or individual business men to confer with sub-committees and reference groups.

11. Making the results of the activities of the CHC of the greatest benefit to the participating Agencies and to private enterprise would seem to be an obligation and a great opportunity. It is of vital importance that every assistance and encouragement be given to private enterprise to initiate the production of housing for the people who are able to pay an economic rent.

12. All Members of the Committee join with me, I know in desiring the continuance on the Committee as member or observer, of Mr. Frederic A. Delano, who has laid such a good foundation for us to build upon. I am happy indeed to have his assurance that he will continue, as Member emeritus, with the privilege of the floor but without assuming any burdensome responsibilities.

January 27, 1939

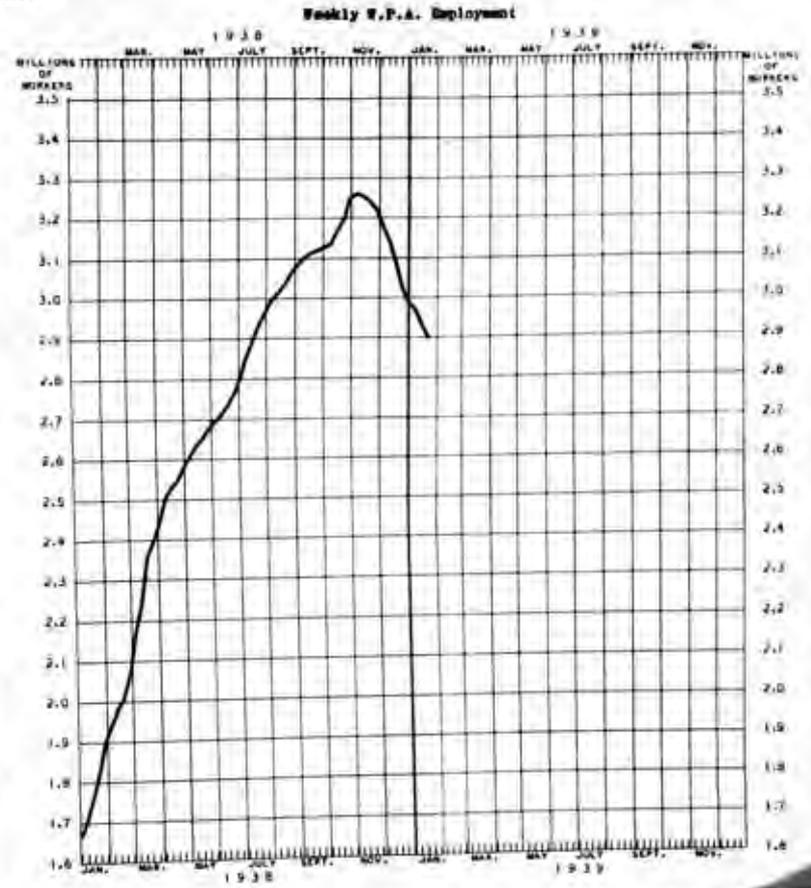
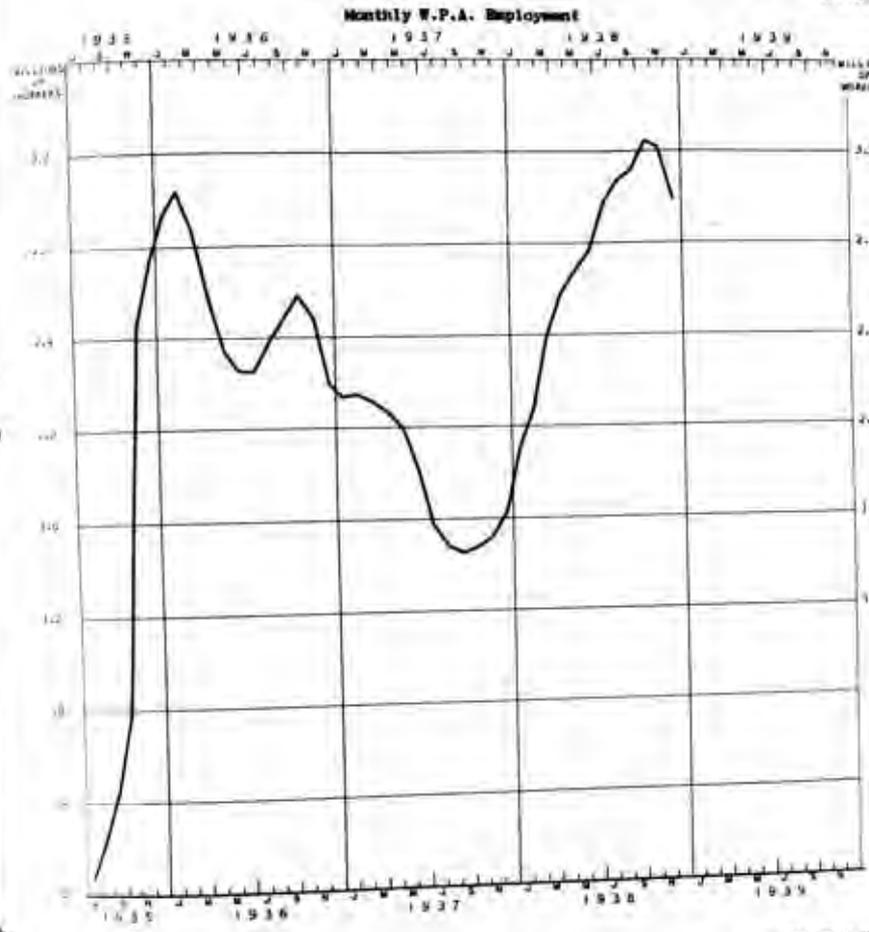
To: The Secretary

From: Miss Lonigan *EL*

The total number of WPA workers on January 21, 1939 is 2,898,084.

*WPA*  
The decrease during the week from January 14 to January 21 was 28,950 workers. However, WPA employment is higher for the third week in January, 1939, than of any previous year.

### WORKS PROGRESS ADMINISTRATION Number of Workers Employed United States



FOUNDED WORKS PROGRESS ADMINISTRATION

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

WORKS PROGRESS ADMINISTRATION  
 Number of Workers Employed - Weekly  
 United States

208

Week ending 1938	Number of Workers (In thousands)
April 2	2,445
April 9	2,504
April 16	2,531
April 23	2,544
April 30	2,582
May 7	2,607
May 14	2,626
May 21	2,650
May 28	2,678
June 4	2,693
June 11	2,712
June 18	2,736
June 25	2,767
July 2	2,807
July 9	2,853
July 16	2,899
July 23	2,938
July 30	2,967
August 6	2,993
August 13	3,017
August 20	3,039
August 27	3,067
September 3	3,086
September 10	3,102
September 17	3,114
September 24	3,120
October 1	3,129
October 8	3,137
October 15	3,167
October 22	3,201
October 29	3,245
November 5	3,263
November 12	3,258
November 19	3,244
November 26	3,216
December 3	3,185
December 10	3,139
December 17	3,083
December 24	3,021
December 31	2,986
1939	2,967
January 7	2,927
January 14	2,898 <sup>a/</sup>
January 21	2,898 <sup>a/</sup>

Source: Works Progress Administration  
<sup>a/</sup> Confidential

## WORKS PROGRESS ADMINISTRATION

289

## Number of Workers Employed - Monthly

## United States

	Number of Workers (In thousands)
1936	
January	2,926
February	3,036
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	2,967
August	3,067
September	3,120
October	3,245
November	3,216
December	2,986 <sup>a/</sup>

Source: Works Progress Administration

<sup>a/</sup> Confidential

Monthly figures are weekly figures for the latest week of the month. They include certified and non-certified workers.

-29-39

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

(Figures in thousands)

Commodity	Unit	Total	Total	11/3/38	11/10/38	11/17/38	11/24/38	12/1/38	12/8/38	12/15/38	12/22/38	12/29/38	1/5/39	1/12/39	1/19/39	Total
		fiscal year ended 6/30/38*	7/1/38 to 11/2/38	11/9/38	11/16/38	11/23/38	11/30/38	12/7/38	12/14/38	12/21/38	12/28/38	1/4/39	1/11/39	1/18/39	1/25/39	fiscal year 1939 to date
Apples (Dried)	Pounds	14,557	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Apples (Fresh)	Bushels	5,625	547	1	-	-	-	-	-	-	-	-	-	-	-	548
Apricots (Dried)	Pounds	2,090	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Beans (Dried)	Pounds	56,800	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Beans (Snap)	Bushels	33	38	-	-	-	3,430	6,360	2,670	4,380	3,750	1,330	2,280	5,060	950	30,210
Beets (Fresh)	Bushels	11	328	-	-	-	-	-	-	-	-	-	-	-	-	328
Blackberries (Canned)	Cases	80	80	-	-	-	-	-	-	-	-	-	-	-	-	80
Butter	Pounds	15,035	21,072	1,938	924	576	1,773	1,818	2,794	2,718	67	2,166	3,393	2,581	6,933	50,759
Cabbage	Bushels	290	2,274	124	89	100	47	43	14	-	-	-	-	-	-	2,692
Cane Syrup	Gallons	237	107	36	25	45	30	22	5	-	-	-	-	-	-	270
Carrots	Bushels	-	146	1	2	1	2	1	-	-	-	-	-	-	-	153
Cauliflower	Crates	-	21	-	-	-	-	-	-	-	-	-	-	-	-	21
Celery	Bunches	1,174	183	-	-	-	-	-	-	-	-	-	-	-	-	1,357
Cereal (Whole Wheat)	Sacks	405	-	-	-	-	-	-	-	-	-	-	-	-	-	405
Cheese	Pounds	3,446	-	-	-	-	-	-	-	-	-	-	-	-	-	3,446
Corn	Sacks	-	8	-	-	-	-	-	-	-	-	-	-	-	-	8
Corn Meal	Barrels	-	-	-	-	449	-	-	-	-	-	-	-	-	-	449
Cotton	Bales	-	25	-	-	-	-	-	-	-	-	-	-	-	-	25
Cotton Fabric	Yards	1,133	203	22	15	16	-	250	-	-	20	26	238	-	677	1,468
Cotton Mash Bags	Bags	-	-	-	-	-	-	500	-	-	150	180	-	-	-	830
Cottonseed Oil	Pounds	9,780	-	-	-	-	-	-	-	-	-	-	-	-	-	9,780
Crabs (Shell)	Cases	270	-	-	-	-	-	-	-	-	-	-	-	-	-	270
Fish	Pounds	2,877	-	-	-	-	-	-	-	-	-	-	-	-	-	2,877
Flour	Barrels	2,670	279	-	-	-	-	-	-	-	-	-	-	-	-	2,949
Grapefruit	Boxes	461	-	-	-	-	-	-	-	-	-	-	55	58	34	573
Grapefruit Juice	Cases	552	769	227	132	5	95	-	-	75	-	-	-	-	-	1,303
Grapes	Tons	8	-	-	-	-	-	-	-	-	-	-	-	-	-	8
Labels	Labels	-	15,560	-	-	-	-	-	-	-	-	-	-	-	-	15,560
Mattress Floking	Yards	-	2,550	-	-	-	-	-	-	-	-	-	-	-	-	2,550
Milk (Dry Skim)	Pounds	21,520	8,961	-	-	-	-	-	-	-	-	-	-	-	-	30,481
Milk (Fluid)	Quarts	12,497	9,620	2,947	4,823	3,042	4,559	4,107	5,185	6,170	6,845	541	733	607	435	49,614
Onions	Pounds	3,000	370	-	-	-	-	-	-	-	-	-	-	-	-	3,370
Oranges	Boxes	1,932	811	-	-	-	-	-	-	-	-	-	-	-	-	2,743
Paper Bags	Bags	21,825	9,075	-	-	-	-	-	-	-	-	-	-	-	-	30,900
Peaches (Dried)	Pounds	2,534	11,100	-	-	-	-	-	-	-	-	-	-	-	-	13,634
Peaches (Fresh)	Bushels	8	6	-	-	-	-	-	-	-	-	-	-	-	-	14
Pears (Fresh)	Boxes	318	229	-	11	3	-	-	19	24	6	-	-	-	-	294
Pears (Canned)	Cases	862	-	-	-	-	-	-	-	-	-	-	-	-	-	862
Pears (Dried)	Pounds	6,000	-	-	-	-	-	-	-	-	-	-	-	-	-	6,000
Pears (Fresh)	Bushels	-	3	-	-	-	-	-	-	-	-	-	-	-	-	3
Potatoes (Sweet)	Bushels	440	178	-	-	-	-	-	-	-	-	-	-	-	-	618
Potatoes (White)	Bushels	4,315	2,367	-	-	-	-	-	-	-	-	-	-	-	-	6,682
Potato Starch & Flour	Pounds	2,562	-	-	-	-	-	-	-	-	-	-	-	-	-	2,562
Prunes (Dried)	Tons	55	-	-	-	-	-	-	-	-	-	-	-	-	-	55
Prunes (Fresh)	Bushels	-	13	-	-	-	-	-	-	-	-	-	-	-	-	13
Salsina	Tons	15	11	-	-	-	-	-	-	-	-	-	-	-	-	26
Rice (Milled)	Pounds	73,190	-	-	-	-	-	-	-	-	-	-	-	-	-	73,190
Tobacco	Pounds	3,500	-	-	-	-	-	-	267	411	353	-	112	657	345	2,105
Tomatoes (Canned)	Cases	50	145	-	-	-	-	-	-	-	-	-	-	-	-	195
Tomatoes (Fresh)	Bushels	282	114	-	-	-	-	-	-	-	-	-	-	-	-	396

Treasury Department, Division of Research and Statistics.

January 26, 1939

\* Weekly figures reported by Federal Surplus Commodities Corporation are based on telegraphic reports and are unreviewed.  
Fiscal year 1938 totals have been revised to include all contract cancellations and other adjustments.

Regraded Unclassified

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro

DATE: January 28, 1 p.m., 1939

NO.: 40

Reference my 23, January 21, noon.

I am informed by the Director of Exchange that the Bank of Brazil will close exchange for maturities and daily quotas from December 25 to December 31 inclusive, during the week of January 30.

Will you please inform Commerce.

SCOTTEN

EA:DJW

292

Prepared by Lawrence H. Seltzer

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE January 30, 1939

70 Secretary Morgenthau  
FROM Mr. Haas  
Subject: Recent Experience of the Government Bond Market

Despite the violent declines in the speculative markets throughout the world during the past week, United States Treasury bonds gave up only a relatively small part of the gains that they had made since the September war crisis.

The bonds included in the average of long-term Treasury issues (all those not due or callable for twelve or more years) had risen approximately  $2\frac{3}{4}$  points between September 27, 1938 and January 21, 1939. During the past week, they gave up on the average about half a point net, and only about  $\frac{5}{8}$  of a point at the very bottom.\*

The Treasury note market likewise proved relatively resistant; the losses for the week ranging downward from  $11/32$  of a point on the longest notes.

In contrast the Dow-Jones average of industrial stock prices which had been in an irregular down trend since November 12, had, by the close of the past week, lost about 75 percent of its maximum gain since September 26, 1938.

Both in the week's decline and during the preceding rise, the price behavior of Treasury long-term bonds was not much different from that of the intermediate-term bonds, as may be seen in the accompanying table. The short-term bonds, on the other hand, which had risen least in price, likewise declined least.

\* Excluding the  $2\frac{3}{4}$ 's of 1960-65, which were not issued until December 15, 1938. This issue closed the week at 102-29/32.

Attachment

## Treasury Bonds

## Experience in Recent Periods of Price Change

(Decimals are thirty-seconds)

		Points	Points
		increased	decreased
		9/27/38 to 1/21/39	1/21/39 to 1/28/39
3-3/8 <sup>d</sup>	1940-43	.11	.05
3-3/8	1941-43	.11	.09
3-1/4	1941	1.05	.05
3-3/8	1943-47	1.27	.11
3-1/4	1943-45	1.31	.15
3-1/4	1944-46	2.03	.19
4	1944-54	2.09	.15
2-3/4	1945-47	2.15	.14
2-1/2	1945	2.14	.20
3-3/4	1946-56	2.28	.14
3	1946-48	2.23	.15
3-1/8	1946-49	2.18	.16
4-1/4	1947-52	2.05	.12
2	1947	1/	.12
2-3/4	1948-51	2.31	.18
2-1/2	1948	2.21	.17
3-1/8	1949-52	2.15	.10
2-1/2	1949-53	2.26	.20
2-1/2	1950-52	2.27	.14
2-3/4	1951-54	2.22	.17
3	1951-55	2.28	.17
2-7/8	1955-60	2.27	.15
2-3/4	1956-59	2.24	.21
2-3/4	1958-63	2.25	.15
2-3/4	1960-65	1/	.09

Treasury Department, Division of Research and Statistics.  
January 28, 1939

1/ Not issued until December 15, 1938.

295  
Prepared by Wesley Lindow,  
Division of Research and Statistics.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

136

DATE January 30, 1939.

to Secretary Morgenthau  
FROM Mr. Haas  
Subject: The Federal Housing Administration in 1938

I. Increases in business in 1938

The Federal Housing Administration showed very large gains in its insurance activities in 1938:

1. Small home mortgages

Mortgages selected for appraisal aggregated \$1,010 millions in 1938, an increase of 71 percent over 1937. Mortgages accepted for insurance increased 45 percent, and amounted to \$648 millions.

About 70 percent of the volume of mortgage insurance now consists of mortgages on new homes, as compared with 56 percent in 1937 ("new homes" is defined as including mortgages accepted for insurance before completion of construction or within 12 months after completion).

2. Rental housing

Approximately \$48 millions of mortgages on multi-family and group housing was insured in 1938, or about three times the total insurance previously written in this group.

3. Property improvement loans (previously called modernization loans)

This phase of Federal Housing Administration activities was restored by the February 1938 amendments, after having been eliminated in April 1937 (except for the minor category of disaster loans). Property loans insured during 1938 amounted to \$172 millions.

Secretary Morgenthau - 2

## II. Effects of the National Housing Act Amendments of 1938

Apparently, the liberalization in terms provided in the 1938 amendments was very important in bringing about the large increase in mortgages insured. A special study shows that of all mortgages accepted for insurance in April, May and June 1938, 42 percent were for amounts from 80 to 90 percent of property valuation -- ratios which were ineligible prior to the new amendments.

The most important of the 1938 amendments included (1) raising the maximum loan-to-value ratio of insurable mortgages from 80 to 90 percent and the maximum term from 20 to 25 years on a large proportion of mortgages on new small homes; and (2) reducing effective insurance premium rates.

The large increase in activity in small home mortgage insurance is due more to the fact that a greater proportion of the aggregate business is being insured than to an increase in residential construction. This is evidenced by the fact that the increases shown in two important series on new residential construction are both much smaller than in the case of the mortgage insurance figures:

	: Increase in : 1938 over 1937
Contracts awarded for 1- and 2- family dwellings (F.W. Dodge) .....	4.3%
Building permits (BLS) (Includes large-scale projects) .....	14.1%

## III. Increase in limitation on aggregate mortgage insurance

As of the end of the year, premium paying mortgages aggregated \$1,363 millions, of which \$1,300 millions was on small homes. The maximum of \$2 billions for insured mortgages outstanding at any one time was recently increased by the President, under authority of the statute, to \$3 billions; and Representative Steagall has introduced a bill providing for a further increase to \$6 billions.

Secretary Morgenthau - 3

IV. Insurance reserve funds

The insurance reserve funds of the Federal Housing Administration have been increasing steadily, inasmuch as losses have been negligible, and now have net worth of almost \$25 millions, after allowing for debentures payable of \$1.4 millions and minor liabilities. The assets consist almost exclusively of cash and Treasury bonds.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE January 30, 1939

TO Secretary Morgenthau  
FROM Mr. Hase  
Subject: The Business Situation,  
Week Ending January 28, 1939.

Conclusions

(1)

The slowing up in business activity that became evident during December has extended into January, largely concentrated in the steel industry. Recent declines in security prices have initiated a period of cautiousness among businessmen generally, which has tended to reduce the volume of new orders.

(2)

Business at this time is more vulnerable to unsettling developments, such as war scares, than it was at the time of the Munich crisis. The underproduction in various lines which existed last September has been largely corrected; production in December was in excess of basic demand; and the levels of new orders and consumer buying are not sufficiently high to provide an incentive for increased production, as they did at that time.

(3)

Since developments abroad that may affect American business are unpredictable, the probable extent of any business setback at this time cannot be anticipated. The low levels of inventories will tend to cushion any setback, while the Government spending program will provide a source for some industrial orders. The influence of the spending program will be limited, however, because of the small percentage which it contributes to the total volume of orders, and because it will have less stimulating effect when production is in balance with demand than at a time when production was far below the demand level.

The current situation

The slackening in business activity which began last month has continued during January, concentrated largely in the steel industry. In place of the strong improvement which normally occurs in this month, steel operations have been maintained with little change, and the seasonally-adjusted weekly index has steadily declined. New orders for steel, which started to decline in November, have apparently continued at a relatively low level during January. The Bethlehem Steel Company reports that new orders so far this month have been at a rate of about 46 per cent of capacity, which compares with a current operating rate of 51 per cent.

Other industries during January have made a somewhat better showing than steel. Automobile activity has been reasonably well maintained, in a month which is normally featured by a substantial reduction in output. Cotton mill activity has shown about a normal seasonal rise. Electric power production has been maintained at a high level. The trend in the steel industry is of particular significance, however, because of its heavy weighting in indexes of industrial production.

Were it not for recent unsettling developments, no lasting importance could be attached to the current let-down in orders and in business activity, since they represent a reaction from the very rapid upturn in 1938, and had been widely expected. The wide break in security prices this week, however, adds an additional factor to the situation which had not been expected by the public, and which will tend to prolong the business setback. Trade reports indicate that the heaviness in stock and commodity prices since the beginning of January has initiated a period of caution in business circles and industrial lines, which has caused new ordering to be held up or confined to immediate requirements.

Business more vulnerable to adverse developments

As compared with last September, when the Munich crisis had little or no effect in retarding business activity in this country, the present business situation is more vulnerable to war scares. This is clearly apparent when one examines the current position of industrial production in relation to two important determinants of the business trend: basic demand and new orders. Our composite index of basic demand (seasonally adjusted), as shown in Chart 1, turned slightly downward in December, and industrial production in that month was apparently somewhat above the basic demand level. This contrasts with the situation in September, when a relatively high level of basic demand tended to keep production on the up-grade despite the unsettling developments abroad.

It will be noted in the lower section of the chart that steel production rose sharply above the estimated level of basic demand for steel in November, which apparently accounts for the setback in that industry during December and January. The basic demand for automobiles, on the other hand, remains above production, and automobile production in December and January has therefore been well maintained.

Textiles are shown to be in a somewhat unfavorable position with respect to basic demand, which is apparently confirmed by current trade reports. The demand for lumber and cement has improved further, reflecting the rising trend of construction. In the petroleum industry, favorable motoring weather during November brought a sharp increase in demand for gasoline, according to Bureau of Mines data, which was not maintained in December. The production of leather and leather goods increased sharply in December, and exceeded the basic demand level for the first time in more than a year.

The basic demand index would probably not be maintained as high as the present level if a business setback should occur, since a decline in industrial production would result in reduced payrolls and in a smaller demand for industrial materials.

Our index of new orders (unadjusted) turned downward in December, and for the first time since the fall of 1937 it was at the same level as the FRB unadjusted index of factory output. (See Chart 2.) This contrasts with the situation at the time of the Munich crisis, when the level of new orders was well above the prevailing level of factory output. The decline in new orders in December, as shown in the lower section of the chart, was concentrated largely in iron and steel products and textiles.

Change in Government spending policy  
affects business sentiment

Whether justified or not, business sentiment has apparently been disturbed by the change in Administration policy toward a more permanent spending program, judging from recent comments of business advisory services and trade publications. While the current spending program continues to be regarded as a strengthening factor in the near-term outlook, the attitude of investors toward the longer-term prospect has apparently been unsettled by the shift in emphasis toward a spending philosophy.

Moody's Advisory Service comments on this in its issue of January 21, and the Standard Statistics Company in its "Business Prospect" of January 13. In a report dated January 13, L. L. B. Angas expresses the current sentiment in saying that the statement to Congress envisaging an "ever-increasing budget deficit and an ever-increasing national debt (coupled with the danger of increased taxation) has so frightened many of the capitalist class . . . that they are temporarily utterly scared to invest their idle balances."

While it may have been a pure coincidence, the recent decline in stock prices started on the day after the new policy of Government spending was outlined to Congress. (See Chart 3.) Foreign trading in American securities, which had been consistently on the buying side for a month previous to that day, turned immediately to the selling side, as shown in the lower section of the chart.

The Wall Street Journal this morning (January 30), after mentioning the foreign situation as a stock market influence, says: "There are some students of the market situation, however, who are inclined to attribute the January weakness in stocks and commodities rather to developments at home than abroad. It is pointed out that the market has been declining almost without interruption since the President delivered his budget message to the Congress, and it is suggested that the evident intention of the Administration to continue to borrow, lend, and spend is discouraging to investors who see ultimate disaster in the indefinite pursuance of such a policy."

#### Duration of setback indeterminate

No definite indications of the possible duration of the receding tendency in business are available at this time, particularly since developments abroad which may affect American business are unpredictable. The low levels of inventories, and the absence of any extended speculative positions (except perhaps in securities), will tend to cushion business against a prolonged setback. The spending program constitutes an additional stabilizing factor, though it provides an extremely small percentage of our total volume of industrial orders. Furthermore, the stimulating effect of Government spending is likely to be much less when business activity is relatively high and fully adjusted to the level of consumer demand, than at the bottom of a depression when production is far below the demand level.

Secretary Morgenthau - 5

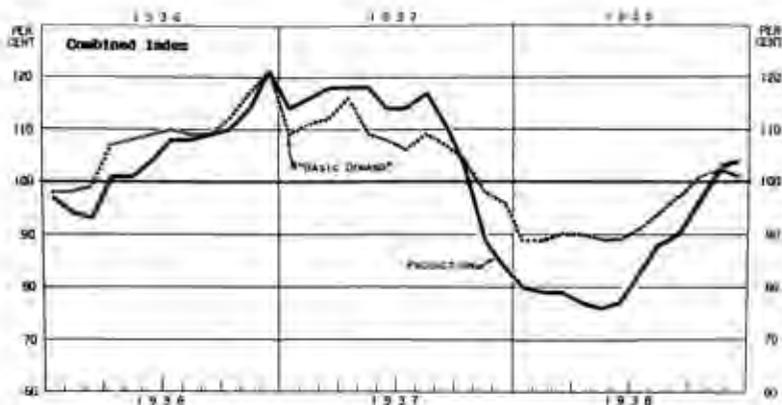
Our index of consumer buying in December (seasonally adjusted) declined 1 point to 104, where it equalled the FRB adjusted index of industrial production. This reflects a less favorable situation than that which prevailed during the summer and fall, when business was stimulated by a relatively high level of consumer buying.

The unsatisfactory trend of commodity prices may tend to prolong a setback in business at this time. The all-commodity index during the week ended January 21 equaled the lowest level reached in 1938 (See Chart 4), with raw materials showing greatest weakness. Anything which would bring about a strong rise in commodity prices, on the other hand, would have more than the usual stimulating effect on business, in view of the relatively low levels of inventories.

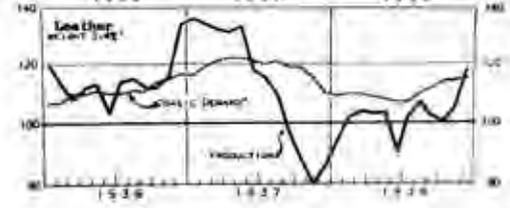
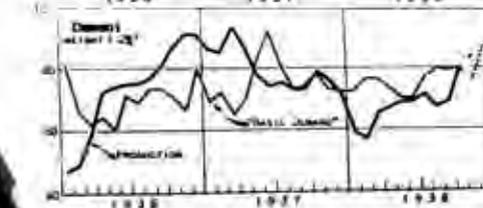
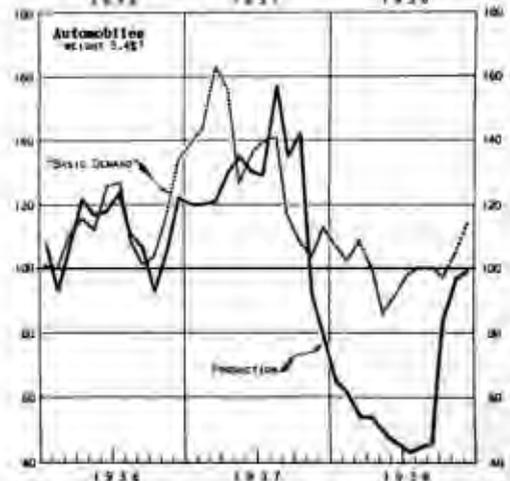
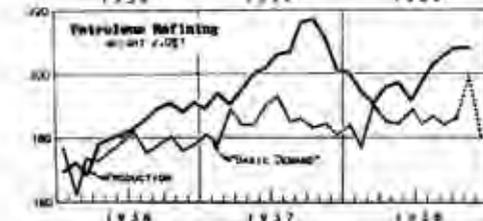
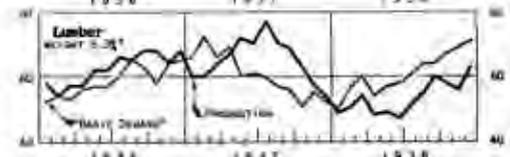
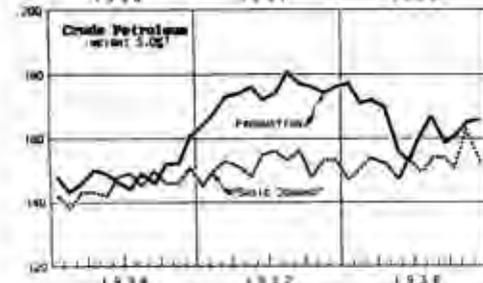
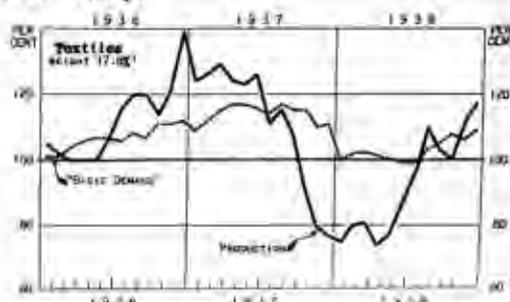
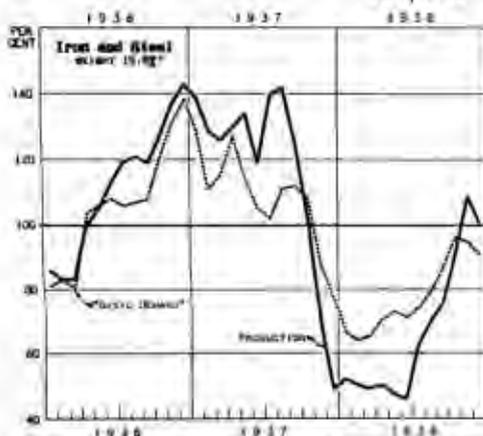
#### New York Times index higher

For the week ended January 21, the New York Times index rose 1.0 point to 91.7 with upturns from the low figures of the previous week recorded for most components. The adjusted indexes of steel production and miscellaneous carloadings, however, were lower. Preliminary figures for the following week indicate a further decline of about 4 points in the steel index and a rise of about 6 points in the index of automobile production.

ESTIMATED BASIC DEMAND COMPARED WITH PRODUCTION, BY INDUSTRIES  
1922 = 100, 1936=100



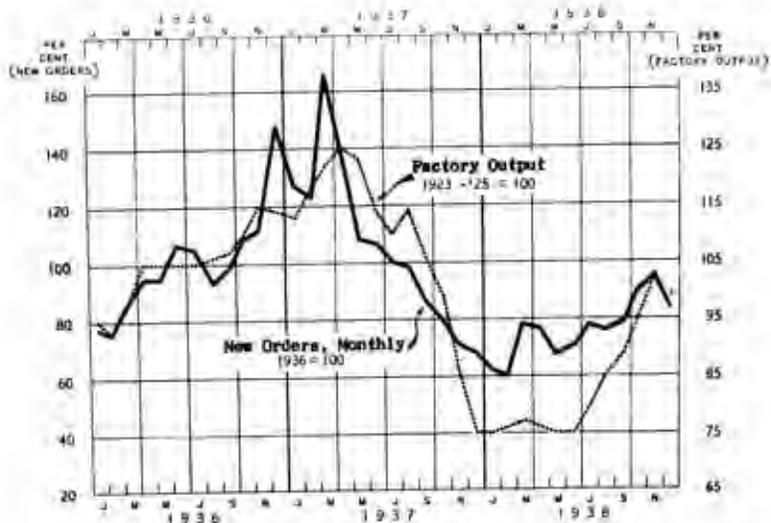
Selected Industrial Groups



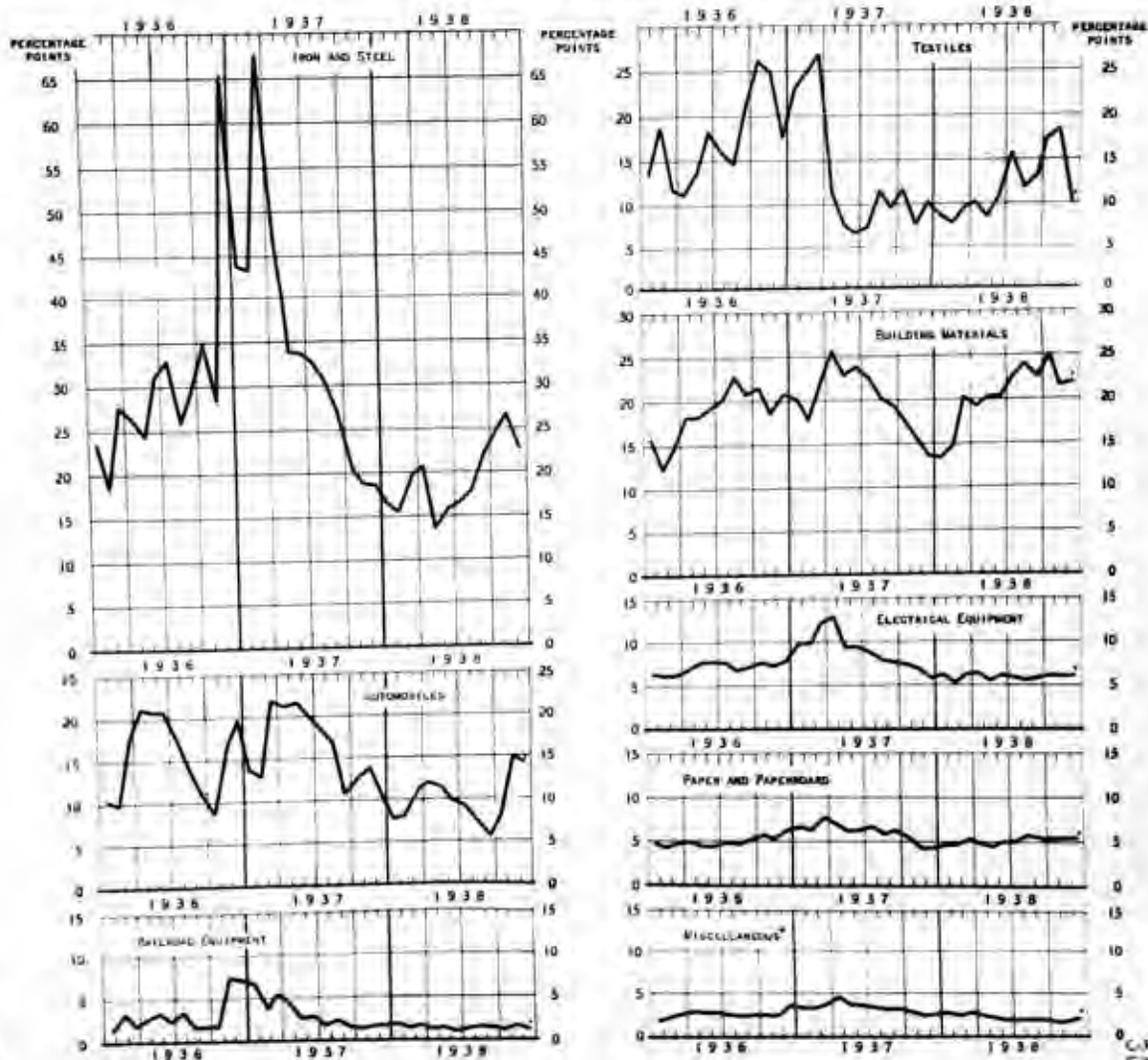
NOTE: LATEST FIGURES ARE PRELIMINARY TO NEXT ISSUE

INCLUDES 1939 SUMMARY DATA

NEW ORDERS AND FACTORY OUTPUT



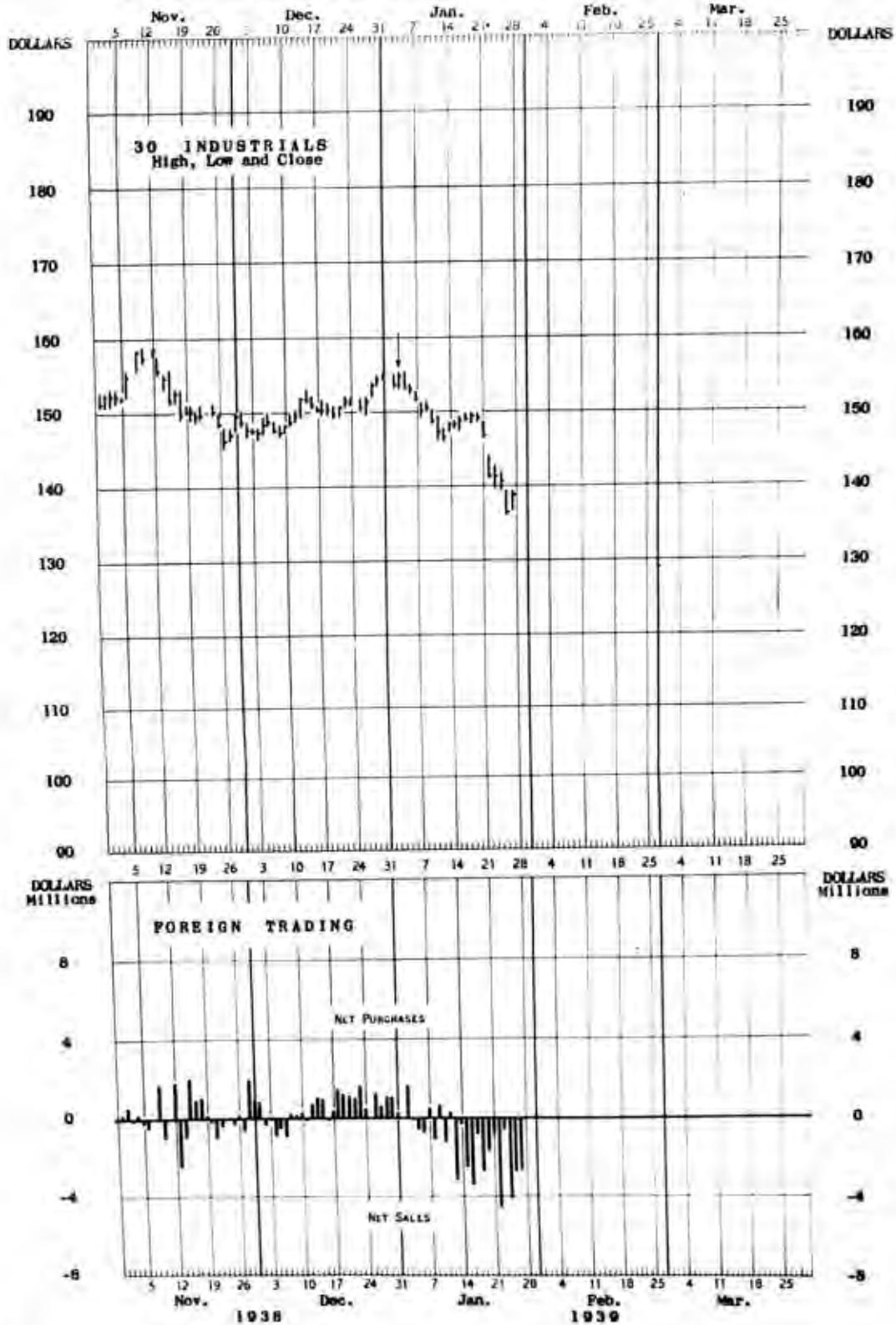
New Orders Grouped by Industries  
WEIGHTED ACCORDING TO RELATIVE IMPORTANCE



\* INCLUDES MACHINE TOOLS, AGRICULTURAL EQUIPMENT AND OTHERS

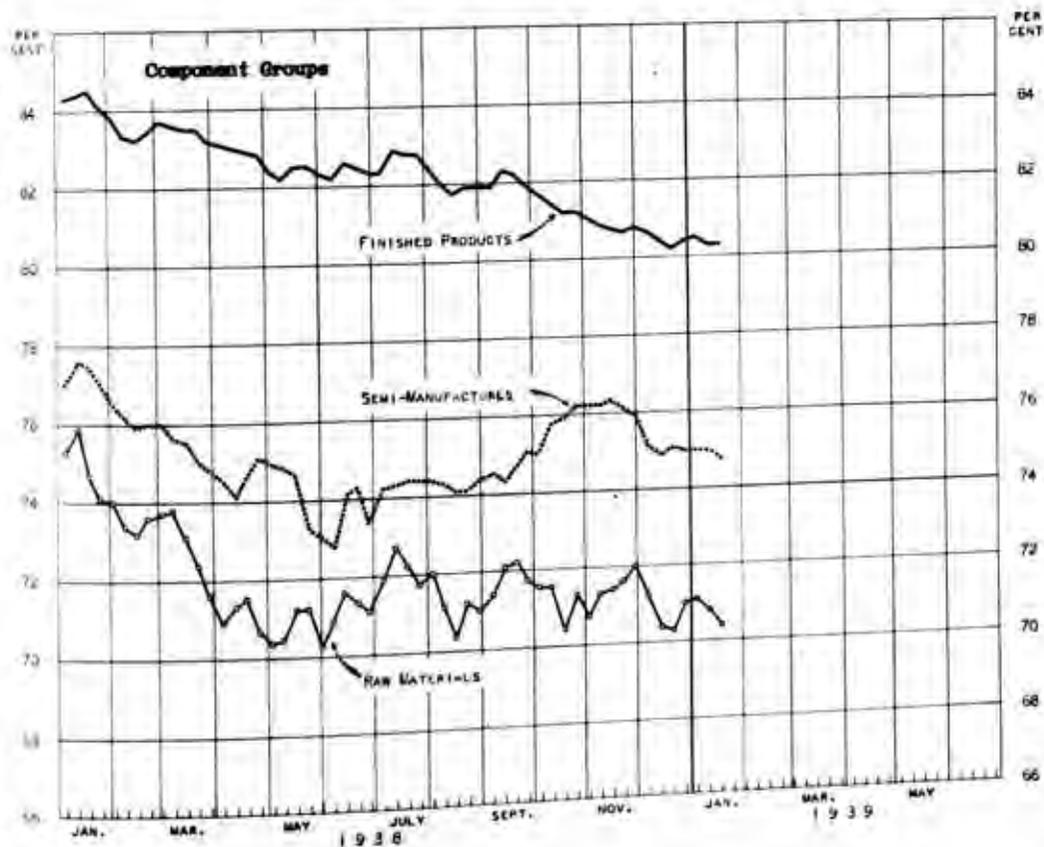
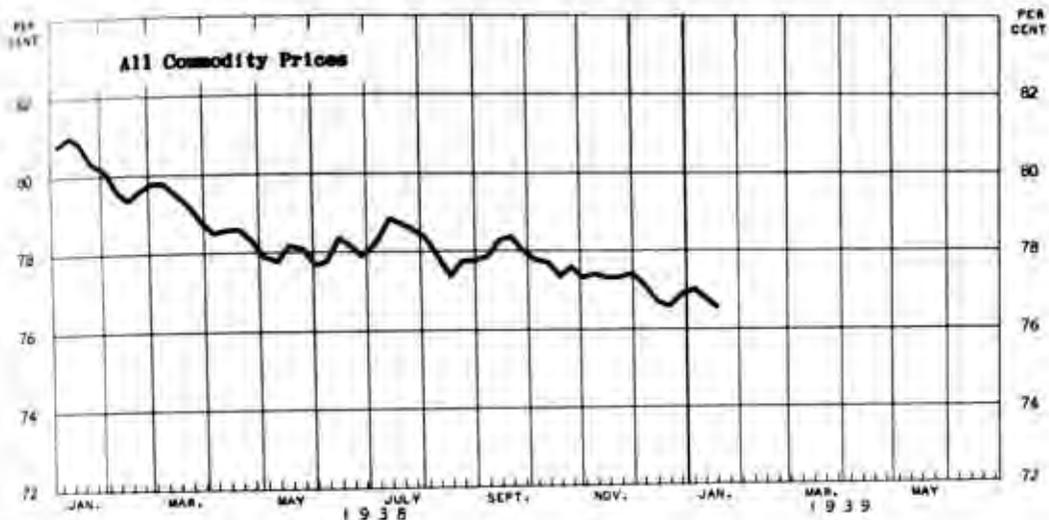
**STOCK PRICES AND FOREIGN TRADING  
IN DOMESTIC STOCKS**

Daily Movement, Dow-Jones Industrials and Foreign Net Purchases and Sales



B.L.S. ALL COMMODITY PRICE INDEX AND COMPONENT GROUPS  
1926 = 100

307





DEPARTMENT OF STATE  
WASHINGTON

In reply refer to  
EA 832.516/301

January 30, 1939.

The Secretary of State presents his compliments to the Honorable the Secretary of the Treasury and quotes herewith for his information two telegrams regarding the draft decree law creating a Central Bank in Brazil:

To Rio de Janeiro, No. 24, January 26, 1 p.m., 1939.

"If it is possible to do so, please obtain and air mail to the Department a copy of the draft decree law creating a Central Bank, mentioned in your despatch No. 1109 of January 16."

From Rio de Janeiro, No. 36, January 27, 3 p.m., 1939.

"Department's 24, January 26, 1 p.m.

"Draft decree law creating Central Bank is not (repeat not) available in the absence in Montevideo of the Minister of Finance."

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE JAN 30 1939

TO Secretary Morgenthau  
FROM Mr. Foley, Acting General Counsel

A question has been raised as to whether in recommending the extension of the monetary powers which expire on June 30, you and the President intended to include the power to coin silver as well as the powers relating to the stabilization fund and revaluation of the dollar. Your memorandum to the President of January 17 attaching copies of letters to the Speaker and the Vice President referred to the expiration of the silver power as well as the other powers. Since the position of the Treasury has been that it is for Congress to determine what the silver policy should be, it seemed advisable that the letters to Congress should not recommend expressly the continuance of the silver power. The language used in the letter follows that used by the Congress in 1937 in the statute extending the powers and in the Committee reports accompanying the bills. If Congress follows the form of the 1937 statute and simply changes the date from June 30, 1939 to January 15, 1941, all the powers extended in 1937 will continue to be extended, including the power to provide for the unlimited coinage of silver. The bill which Senator Wagner introduced does this.

E.H.L.

January 30, 1939

To: Mr. Hanes

Senator Allen J. Ellender (La.) called this afternoon around 4:30 P. M. and asked that you be given the following message: For eight or nine months he has been trying to get the Treasury Department to settle a few of the income tax claims in Louisiana, and he has been asked by a constituent, Abe Shushan, to try and get you interested in his claim. Mr. Shushan will settle for \$80,000.

The Senator wanted you to be sure and get this message, so in case you were asked about it you could say that he had spoken to you regarding it.

The Hanes was told to H. J.  
at 7:30 - not sure  
H. J. said to trust the man  
as there is no part

## TREASURY DEPARTMENT

311

## INTER OFFICE COMMUNICATION

DATE January 30, 1939

TO Secretary Morgenthau

FROM W. H. Hadley

Review of Government Security Marketfor week ending January 28, 1939

In sympathy with other markets which reacted severely downward on unsettling foreign news and in anticipation of the speech by Chancellor Hitler scheduled for today, government bonds moved substantially lower during the first four days of last week. The market firmed slightly on the last two days and Treasury bonds closed the week about 1/2 point lower on average. The decline was quite orderly considering that prices of government securities were at all time highs at the close of the previous week and had been moving steadily upward for 8 weeks. The main force within the government market forcing prices down seemed to be reluctance to buy rather than the appearance of a moderate amount of offerings, mostly in small lots. However, the basic cause of the decline was the disturbed foreign scene. At the end of the week buyers, reflecting improvement in the stock market, appeared more confident and some buying by institutions and banks was reported.

Treasury notes did not experience as severe a decline as Treasury bonds. Except for the two longest issues, which were down 11/32nds each, Treasury notes were generally 2 to 5/32nds lower for an average of 1/8 point. Guaranteed issues were 8 to 14/32nds lower for an average decline of 10/32nds. In spite of this weakened market, however, the Treasury's offering of \$100 million 1-3/8% 5-year U. S. Housing notes was well received and over-

subscribed 28 times. These notes are now quoted at a premium of 3/4 of a point and are selling in line with other guaranteed note issues in the market.

#### Dealers' Portfolios

For the week as a whole, dealers' holdings showed no significant net changes. However, an increase of \$19 million in Treasury bond holdings on Monday appears to have aided in keeping the market orderly on the first day of the decline by absorbing some of the offerings coming into the market. Furthermore, the fact that their own bond holdings were thus increased to \$22.7 million from the unusually low figure of \$3.5 million at the close of the previous week probably prevented dealers from lowering their quotations more sharply in the next three days of declining prices. By Wednesday bond holdings had been reduced to \$16.5 million and during the last two days of the week a further reduction of \$9 million was made after prices had become firmer and buying interest appeared.

An interesting feature of the dealers' positions was the continuous sizeable short position in Treasury notes maturing after 1 year. In spite of this condition which left the Treasury notes vulnerable for a sharp decline, the note market remained comparatively steady during the week.

(in millions of dollars)

	<u>Holdings</u> <u>Jan. 21</u>	<u>Holdings</u> <u>Jan. 28</u>	<u>Net Change</u>
Treasury bonds	3.5	7.7	+ 4.2
Treasury notes (1 yr.)	36.5	33.3	- 3.2
" " (1 - 5 yrs.)	-10.8	-9.6	+ 2.2
Treasury bills	19.8	17.6	+ 2.2
H. O. L. C. bonds	9.4	12.2	+ 2.8
F. F. M. C. bonds	<u>1.1</u>	<u>-0.3</u>	<u>- 1.4</u>
	59.5	61.9	+ 2.4

Dealers' total volume of business averaged only slightly above last week, totaling about \$150 million daily. However, volume in Treasury

bonds of over \$110 million daily was considerably above average.

New Security Issues

Corporate security financing this week consisted solely of private sales of two issues totaling \$8.8 million.

Corporate Security Issues

Corporate bonds also moved in sympathy with the stock market this week. Prices moved lower from Monday through Thursday, falling off considerably from the high points reached the previous week. Second grade bonds were off about 1 3/4 points while high grades were 3/4 of a point lower on average. In the individual groups, rails showed the greatest losses. However, the market firmed during the last two days of the week. Activity throughout the week was moderate.

Treasury Investment Accounts

A total of \$1,250,000 long term Treasury bonds were purchased in the market during the week for account of government agencies. \$1 million of these purchases were made for Government Life Insurance Fund and were so timed as to assist the orderliness of the market. The other \$250,000 purchase was for U. S. Housing Authority.

In addition to these market transactions, Government Life holdings of special 2% notes showed a net reduction of \$300,000 to \$8,700,000. On the other hand, \$5,000,000 special 2% notes were purchased for Postal Savings and \$10,000,000 for account of Federal Deposit Insurance Corporation. These last two accounts now have \$57 million and \$115 million respectively invested in special 2% notes.

Federal Reserve System Account

Transactions by the Federal Reserve Bank of New York included the replacement of \$32,018,000 maturing Treasury bills with a like amount of

-4-

new April 26 bills. In addition \$10 million of the same bills were purchased in anticipation of the \$42,830,000 Treasury bill maturity of February 1.

To aid in maintaining the orderliness of the market, the System purchased \$4,500,000 2-1/2% Treasury bonds of 1945 which were hanging over the market and sold a like par amount of other bonds which the market could more easily absorb.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 30, 1939, 5 p.m.

NO.: 166

FROM COCHRAN.

I visited the Bank of France today at noon. The control by that time had gained \$1,700,000 through Morgans. The Netherlands Bank at the same hour telephoned the Bank of France from Amsterdam that this morning it had yielded \$9,000,000 in support of the florin, on which there was still pressure because of flight of capital, especially Jewish funds frightened by the situation in Germany. Some repatriation of French capital, through the medium of the dollar, is apparently involved in this movement. At this time French officials are pleased to get dollars for conversion into gold under the tripartite arrangement. They can thus build up a reserve in New York for possible contingencies.

This morning the Bank of France had a telephone call from the National Bank of Belgium. The latter was asking whether the Bank of France was contemplating shipping any gold to Paris from New York; a definitely negative answer was given. It is my belief that the Belgians are now looking around for some possible sellers of gold held in the United States. Governor Janssen of the National Bank of Belgium told me when I saw him last that he was going to submit to his Board the proposition

proposition

- 2 -

proposition of building up in New York a reserve under earmark. He was worried by one thing, the publicity that might attend any shipment of gold to New York from Antwerp. This might arise especially since the German press has recently criticised Belgium for holding gold reserves outside of the continent - Belgium is a country whose independence is guaranteed by Germany. The National Bank of Belgium some time ago requested the Bank of France to make a shipment to the United States for its account, but the Bank of France refused to do so.

On the markets in Paris the sentiment is better today. There has been considerable improvement in French rentes and shares; more bids for forward franc. Part of this is due to the broadcast on Saturday night of a speech by Reynaud, Minister of Finance, in which he recounted improvement in French economic as well as financial situation. In this address he also announced steps taken to save 200,000,000 francs on highway improvement, and 500,000,000 on salaries of officials. The calm speech given by Chamberlain has inspired further confidence, as well as the feeling that the speech given by Hitler tonight has been sufficiently discounted already.

END OF MESSAGE.

BULLITT.

EA:LWW

OFFICE CORRESPONDENCE

Date **January 30, 1939.**

**CONFIDENTIAL FILES**

SUBJECT: **TELEPHONE CONVERSATION WITH**

**L. W. Kroke**

**BANK OF ENGLAND.**

I called Mr. Bolton at 11:02 a.m. They were having an extremely quiet day today, he said, with no pressure on sterling at all today, following much lighter pressure last Saturday. There had been no need for him to intervene in the exchange market; his only activity had been the sale of some gold in the amount of from £300,000 to £400,000. He had spoken to Amsterdam this morning and understood that de Jong, after having a very bad hour which cost him about \$10,000,000, had been extremely quiet ever since. Schnorf in Zurich had told him that things there were also extremely quiet. Chamberlain's speech last Saturday had helped to get rid of some of the fears entertained last week and the publication of statistics on the British airplane production, which from many points of view was highly satisfactory, had also helped.

I referred to reports carried by both the Tribune and the Times here to the effect that there were heavy gold shipments totaling \$85,000,000 on the water here from England and that all indications pointed to Dutch ownership. According to these press reports, all arrangements for shipment had been made in England by a single authority. Bolton replied that as far as he knew this was all manufactured by the press. He had no knowledge of any Dutch shipments or shipments from London for Dutch account and as far as the British were concerned the only program so far worked out by them was that which he had given in his cable of last Friday indicating a shipment of \$1,000,000 per SS Carinthia and \$1,500,000 per SS Aquitania.

FEDERAL RESERVE BANK  
OF NEW YORK

OFFICE CORRESPONDENCE

DATE **January 30, 1939.**

TO: **CONFIDENTIAL FILES**

SUBJECT: **TELEPHONE CONVERSATION WITH**

FROM: **L. W. Knoke**

**BANK OF ENGLAND.**

2

The Swiss had given him instructions to ship £4,500,000 of their earmarked gold and this total would go forward to New York in three lots per SS Washington, SS Paris and SS Queen Mary (this is obviously identical with the lot of ex. 843,000 which Banque Nationale Suisse in its cable of January 27 advised us would be received from the Bank of England).

LWK:KW

RECEIVED

JAN 31 1939

FEDERAL RESERVE BANK

HRE

GRAY

LONDON

Dated January 30, 1939

Rec'd 6:42 p.m.

Secretary of State

Washington

124, January 30, 7 p.m.

FOR TREASURY.

One. The foreign exchange market has been quiet today awaiting Hitler's speech tonight. The dollar opened at 467  $\frac{3}{4}$  bid and the British authorities <sup>(have?)</sup> has been offering dollars at 467  $\frac{5}{8}$  most of the day but giving very few as the market is also selling some dollars. Gold was fixed at 148 shillings 7 $\frac{1}{2}$  pence quoted as a one half penny premium at 467  $\frac{13}{16}$ . Of the 217 bars sold 155 were married and 62 supplied by the British fund.

Paris has been a buyer of dollars and seller of francs but this market has also been quiet with the franc quoted around 177. The Dutch guilder is still weak.

The stock market showed some firmness toward the close most prices being slightly up on the day except for British Government securities which though hardening at the close lost slightly on the day, war loan 3 $\frac{1}{2}$ % closing 5/16 at 96 $\frac{1}{2}$ .

Two. With reference to the second of paragraph of

No.

HRE

2-#124 From London, January 30, 7 p.m.

No. 115 of January 27, 7 p.m., Einzig in today's Lombard Street column of the FINANCIAL NEWS states that there is every reason to suspect that a considerable part of the bear activity on Wall Street and on European stock exchanges and commodity markets during the past week has been on German account. But other organs of the press do not mention this point except for the EVENING STANDARD which states, "We are told that the Germans have been selling short on the London market."

JOHNSON

NPL:EMB

## PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: January 31, 1939, 5 p.m.

NO.: 173

FROM COCHRAN.

Considerably better sentiment on the French market today following the speech by Hitler. Some dollars were acquired by the French control through the Chase Bank. The control took in sterling also. Some dollars were acquired early today by Lazard, and on the rise sold again. More bids for forward franc, and good gains made by French rentes and shares. Sharp recuperation in florin.

Editorial in AGENCE ECONOMIQUE today recommends that London, New York and Paris, should undertake some constructive development of international credits instead of working together in checking exchange speculation on their markets. In the article reference was made to Hitler's admission that raw materials and export outlets were needed by Germany. In the editor's opinion this is an opportune moment for other countries to accept this admission and give an opportunity to autocratic countries to overcome their financial and economic difficulties by methods other than rearmament and war - mainly through producing for peace and being able to find markets for what is produced.

The financial press in Europe today mentions an agreement between coal producers of Great Britain and

Germany,

- 2 -

Germany, and cooperation between the potash industries of France and Germany. The press refers to prospects of the next meeting of European steel cartel straightening out questions over former Czech production, and so on, and of increased exports of coal to Italy from Wales. In other words, the countries which are most vitally concerned in the political tangle in Europe are finding ways of augmenting commercial interchange. The idea is already being sponsored in the press for having an international conference to settle questions of a politico-economic nature.

This afternoon I had a talk with my Italian friend, who told me that he was quite happy over the speech given by Hitler. He pointed out that it would have been highly improper for Hitler to have enunciated demands of Italy which had not yet been advanced by the Italian Government. He told me that he thinks Mussolini will hold to his promise to the British that before the Spanish question is settled he will not make any specific requests. Many things might happen by that distant date to make easier the negotiations with France.

END OF MESSAGE.

WILSON.

EA:LWV

REB

GRAY

London

Dated January 31, 1939

Rec'd 5:12 p. m.

Secretary of State,  
Washington.

134, January 31, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

The dollar opened at 4.68  $1/4$ - $1/2$  and the British Fund bought a few dollars at 4.68- $3/8$ . Gold was fixed at 148S 6D giving  $1/2D$  on 4.68- $3/16$ . Of the 294 bars sold 143 were married. The British Fund bought a small number of bars at the fixing and there were no after fixing dealings. Sterling then remained steady around 4.68- $1/4$  until the New York market opened and the dollar was bid 4.67- $3/4$  at which rate the British Fund offered dollars but are thought to have given only very small amounts.

The Bank of France on the other hand bought a fair amount of dollars in the morning and some sterling in the afternoon the rate remaining around 177. The forward franc strengthened, the three months discount going to  $5/16$ .

The

REB

2-#134, From London, Jan.31,6p.m.

The day was not particularly active the exchange market finding little of significance in Hitler's speech and awaiting Mussolini's speech. The stock exchange which is in a technically strong position interpreted Hitler's speech as a bull point and has been active and buoyant with practically all prices up several points.

JOHNSON

HTM

NPL



## TREASURY DEPARTMENT

## PROCUREMENT DIVISION

OFFICE OF THE DIRECTOR

WASHINGTON January 31, 1939

MEMORANDUM TO THE SECRETARY:

Re: Temporary National Economic Committee

A special executive session of the committee was called in the Senate Caucus Room this morning at 10:30 A.M. adjourning at 12:30 P.M.

Present: Senator J. C. O'Mahoney	E.L.Davis	Federal Trade Com.
" W. H. King	G.S.Ferguson	" " "
Cong. Clyde Williams	Thurman W. Arnold	Justice
" B. C. Reece	W.O.Douglas	SEC
I. Lubin	Labor	C.J.Peoples
		Treasury

The matter under consideration was the presentation by the SEC in the case of the life insurance companies which was set for 10:00 A.M. February 6, and will take about a week or ten days.

Immediately thereafter the Federal Trade Commission has proposed a schedule for the presentation of the hearings on the following subjects:

Steel	Copper
Farm Machinery	Cheese
Rubber	Anthracite
Sulphur	Trade Associations, etc.

These will require the next succeeding two weeks.

When started the above hearings will be continuous; the afternoon sessions being contingent upon the Senate and House legislative programs.

The committee will make a preliminary report to Congress giving the results of the hearings with respect to the patent laws and their application to certain industries upon which hearings have already been held.

*[Signature]*  
Director of Procurement

January 31, 1939.  
12:54 p.m.

EWJr: Hello.  
William D. Douglas: Hello, Henry.

EWJr: I haven't been subpoenaed yet.

D: (Laughter) Neither have I.

EWJr: O.K.

D: They -- they decided this morning, I understand, to -- not to subpoena you.

EWJr: Subpoena who?

D: You.

EWJr: How about you?

D: Oh, I think they gave me up yesterday.

EWJr: Oh. (Laughter) Well, I -- I thought it was -- I looked out of my window this morning to see if anybody was around.

D: (Laughter) Well, I kind of did to, but nothing turned up, and the Attorney General has been perfectly grand on the thing --

EWJr: Good.

D: And -- Arnold, who is representing the A.G., has been very, very helpful. I talked with him this morning and he seems to think that we've got the thing right in the icebox.

EWJr: Really?

D: Yes, so far as the law goes that it is a swell case, and if we lose in that court I don't -- the Judge isn't all that could be expected, I think, of a District Judge, but if we lose there it doesn't bother me very much because we'll go right straight up and it will keep the Holding Company -- it will be swell for -- anything -- everything that happens will be swell for the Holding Company legislation.

EWJr: Now on that, Bill -- ah -- you know -- I was -- I've been sick and I was home Friday, Saturday and Sunday --

D: Yeah.

HMJr: And Monday, and I only got out last night --

D: Yeah.

HMJr: And -- I can't quite make out -- I haven't had time to go in with it, but up to last night, Carter Glass wouldn't introduce this bill, and he sent me a message from Crowley to Duffield to me -- that he wanted to talk to me, see?

D: Yeah.

HMJr: And, -- have you heard the story?

D: No.

HMJr: And that -- if you've heard it, stop me; that Ronald Renshaw and McKee came up to see Carter Glass. Have you heard this?

D: I heard that they were up, yeah.

HMJr: And -- to persuade them not to do it, because it only would give Eccles a chance to put on some radical legislation.

D: Yeah.

HMJr: Well, I thought that I would sit tight until Carter Glass called me.

D: Yeah. Well, Carter Glass -- when I saw -- I saw him the other day, had a very pleasant talk with him and told him that I would do anything at any time that -- that he wanted me to do to help him on any bill that he was planning to put in, and he said that he would like to have me come up and testify at the appropriate time. He indicated that he was going to introduce a bill soon. He said that one thing that he had to watch out for were some of the "crack pots" on the -- on the Senate and on the House side who might try to attach to it unsound pieces of legislation in the form of amendments for manufacturing currency and things like that. Well, he --

HMJr: I -- I --

D: He wasn't -- didn't seem to be particularly worried about it. He just --

HMJr: Well, he hasn't introduced it. I -- I think that after all he knows where I am. I think that I'll wait until he calls me. I think the strategy would be better, don't you think so?

D: Yes, I should think so.

WJr: What?

D: I should think so.

WJr: And so if you hear anything on it, let me know, and I'll do the same.

D: I'll do that. I might tell you I didn't tell him -- ah -- but I went over it with -- over the -- a draft bill with Leo and I thought it was a swell bill.

WJr: Yeah.

D: I thought it was swell.

WJr: Yes.

D: And we just -- we just made two or three suggestions on the Holding Company phase of it.

WJr: Fine. Well, if I hear anything I'll let you know.

D: Yeah.

WJr: But I think I'll sit tight and let Carter call me.

D: Yeah. Well, that's -- that's -- I think that's best.

WJr: All right.

D: Thank you very much.

WJr: Good bye.

D: Good bye.

January 31, 1939.  
4:10 p.m.

HMJr: Hello.  
Harriner  
Eccles: Hello.  
HMJr: Harriner?  
E: Oh, hello, Henry.  
HMJr: How are you?  
E: Oh, pretty good.  
HMJr: Harriner, I wanted to make sure that somebody in the Treasury told you that we're proposing to sell three hundred million dollars more of R.F.C. notes next Monday. Had you been so advised?  
E: Well, I -- I think -- yes. I didn't know that it was Monday, but you will recall you asked me to give you a memorandum on that and I did some time ago, and -- ah I think Haas notified Goldenweiser about two weeks ago.  
HMJr: Yeah.  
E: And that's the only notification I got. He gave me a memorandum.  
HMJr: Well, I just wanted to --  
E: Well, now that's -- that -- that's on Monday, and what are the terms?  
HMJr: Well, I haven't got into it yet. When I looked at it, oh, a week ago, it looked like seven-eighths.  
E: Seven-eighths?  
HMJr: But I haven't checked, and the market, as you know, has been down and it has been up again.  
E: You mean, let's see, seven-eighths for what, in three --  
HMJr: In three years, less a month.  
E: Three years? That's as long as they can issue them, isn't it?  
HMJr: Less a month.  
E: Huh?

WJr: Less one month.

E: Less one month.

WJr: We are issuing it for two years and eleven months.

E: Yeah. Now, let me -- that -- that's done -- that plus this hundred million that you put out, was it yesterday or the day before yesterday -- this --

WJr: Yeah, Monday -- a week ago.

E: That you are hoping to get -- to get by March without any new finance.

WJr: That's right.

E: And merely refund the issue.

WJr: That's right.

E: And that's why you are doing this now?

WJr: Well, that plus the fact that the President wants them to keep down the -- the Treasury --

E: Keep down the Government debt.

WJr: The Government debt, yes.

E: Yeah. Well, I -- that's -- you've got this -- you've got this to be used when -- when you need to, and whether it's used now and you do new Treasury finance in March are you -- I mean, whether you -- whether you do new Treasury financing in March and so this later, or do this now and pass that up -- it doesn't --

WJr: It's six of one and seven of another -- six of one and a half a dozen of the other.

E: It what?

WJr: It's six of one and half a dozen of the other.

E: In other words, you increase the public debt later instead of now?

WJr: That's right.

E: And, of course, that -- that -- well, I suppose the political question and the President knows what he wants on it. I don't.

HMJr: Yeah.

E: Well, all -- all right then, I'll --

HMJr: I just wanted to make sure -- we work through Allan Sproul, and I take it that that's acceptable to you.

E: Well, that's -- yes, sure, because this isn't a question that requires the short-term issue. It isn't like putting out a bond issue. It isn't like a big refunding issue, and it's a new issue. It isn't anything that we've got in the portfolio either.

HMJr: That's right. But I just wanted to be a hundred percent sure you knew about it.

E: Well, that's all right.

HMJr: All right.

E: Well, thank you.

HMJr: All right.

E: Good bye.

January 31, 1939.

Dear Mr. Spraul:

This will acknowledge your letter of January 30th, giving a survey of the corporate security financing for the past week.

The Secretary is always most interested in this current data.

Sincerely yours,

H. S. Klotz,  
Private Secretary.

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

GTF/dbs

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**FEDERAL RESERVE BANK  
OF NEW YORK**

January 30, 1939.

Dear Mr. Secretary:

Corporate security financing made little progress this week, total issues being about \$11,000,000, mostly for refunding. A second large issue has appeared on the horizon however. In addition to the North American Company financing, totaling \$105,000,000, it is now reported that the Pennsylvania Power and Light Company may float \$100,000,000 of bonds for refunding during the next month. The North American Company issues of \$70,000,000 of 3 1/2, 3 3/4, and 4 per cent debentures and \$35,000,000 of preferred stock is expected to be offered Wednesday or Thursday of this week.

Arrangement for sale to banks of \$2,500,000 Pan American Airways equipment trust certificates was announced last week. The first financing of this kind to be secured by airplanes, the issue apparently will be carried as a bank loan and hence will be excluded from our security totals.

Municipal bond awards last week amounted to about \$10,000,000. New York City is to award \$30,800,000 of long term securities tomorrow.

The recent decline in bond prices, generally ascribed to European conditions, is not as yet reported as having affected new security flotations, partly because few issues are ready to appear. Distribution of the Chesapeake and Ohio and Central Illinois Public Service Company issues, a good portion of which had to be taken up by underwriters last month, is said to have advanced fairly near to completion during the last week or so, so that underwriters' inventories are again very low.

Yours faithfully,

  
Alan Sproul,  
First Vice President.

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

0

334 <sup>OK 11/2</sup>

P.L.S file  
under date  
8-1-31-39

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Note:

On the instructions of the Secretary to-day the original of this was turned back to Admiral Waesche by Mr. McReynolds.

Mr. McReynolds also gave a copy of this to Mr. Gibbons.

MCH

Jan. 25/39

CG-IOF 601  
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CONFIDENTIAL

JAN 31 1939

My dear Mr. Secretary:

The Commandant of the United States Coast Guard has been authorized to comply with the request contained in your letter of January 24, 1939 ((SC) AB-2/QM/EN CONFIDENTIAL).

Very truly yours,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Admiral William D. Leahy, U.S.N.,  
Acting Secretary of the Navy,  
Washington, D. C.

FEP:LJW

DEPARTMENT OF THE NAVY

OFFICE OF THE SECRETARY

WASHINGTON

(SC) AB-2/QN/EW.

~~Confidential~~

CONFIDENTIAL.

24 JAN 1939

Sir:

It has developed from informal discussions that the United States Coast Guard is in a position to be of value to the Navy in the preparation of certain plans concerning national emergency. It will be appreciated if the Secretary of the Treasury will authorize the Commandant of the Coast Guard to cooperate with the Chief of Naval Operations in this connection, the Coast Guard liaison being established with the Director of Naval Intelligence.

Respectfully,

*William D. Leahy*

Acting Secretary of the Navy

The Honorable,

The Secretary of the Treasury,

Washington, D.C.

*To:  
Admiral Wessbe:  
Please comply  
with request.*

*Myerthaus*

OFFICE OF CHIEF OF NAVAL OPERATIONS

WASHINGTON, D. C.

OFFICIAL BUSINESS

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PAYMENT OF POSTAGE

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OFFICE OF CHIEF OF NAVAL OPERATIONS  
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Secretary of the Treasury,

Washington, D. C.

REGISTERED

NO. 147807

~~340~~ 340

REB

GRAY

London

Dated January 31, 1939

Rec'd 4:10 p. m.

Secretary of State,  
Washington.

131, January 31, 4 p. m.

FOR TREASURY FROM BUTTERWORTH.

The speeches of the chairmen of the big five banks were delivered this year during a period (January 19-28 inclusive) somewhat unpropitious for the optimism and complacency which usually characterize these annual dissertations. Nevertheless though hardly to be described as optimistic they cannot be called pessimistic.

Comments on the management of the sterling exchange all expressed both approval and complacency. McKenna (Midland Bank) devoted most of his speech to praise of managed currency, described the method by which internal credit conditions are insulated from the effects of internal capital movements and said "to this extent at least we have become masters in our own house". Beckett (Westminster Bank) considered that in the experiences of 1938 "the exchange equalization fund has proved its worth

REB

2-#131, From London, Jan.31,4p.m.

worth as a defensive weapon". Campbell (National Provincial Bank) after emphasizing that the management of the country's currency was a formidable task considered that the gold accumulations of the exchange equalization account in previous years had enabled the British authorities "to deal satisfactorily with the withdrawals" of recent months. Fisher (Barclay's Bank) considered that the outflow of capital in 1938 as contrasted with the inflow of previous years had tested the new machinery. Such references as were made to the restrictive measures taken at the end of 1938 showed approval of the government's action. Lord Wardington (Lloyds) contrasted the financial problems of August 1914 and September 1938 and referred to the fact that although "nearly £100,000,000 of gold" was used in defending sterling in the autumn crisis only minimum disturbance was caused to the banking system.

He regretted the fall in the dollar-sterling rate but noted that it did not weaken the tripartite agreement which meant that it was recognized as not deliberate and said that he emphasized this point because there were voices in favor of deliberate depreciation on the grounds that

REB

3-#131, From London, Jan.31,4p.m.

that sterling was over-valued while in fact he considered it a fallacy to explain the course of British trade with the rest of the world by reference exclusively to the sterling-dollar exchange rate. He says "sterling may be over-valued (\*\*\*) but the over-valuation is presumably in relation to the currencies of the countries from which imports come and to which exports have declined; and the United States is only one among a number of these. Most of the Empire and sterling area currencies have been maintained at a discount in terms of sterling ever since the extensive devaluation movement of 1930-33." He further considered it a fallacy to explain the sterling-dollar rate by reference exclusively either to British or American foreign trade because it depends on the aggregate of transactions between the sterling and dollar areas as a whole and only a fraction of these transactions are commercial, capital movements outweighing those of trade, while gold capital to the United States offset the excess of imports from that country.

The importance of export trade to Britain was again stressed in all the speeches but this year's comments are significant in the approval expressed by the Chairmen of

REB

4-#131, From London, Jan. 31, 4p.m.

of the Westminster and Lloyds Banks of the points made by Hudson (third paragraph No. 13, January 4, 5 p. m.) in respect to the measures which should be taken to meet subsidized and unfair competition, especially from Germany. Beckett advocated bulk selling as well as bulk purchasing and further stated that "our industries cannot hope to compete successfully in foreign markets unless each is organized to speak, to negotiate and to bargain as a unit." While the other bank chairmen did not go quite so far or mention so specifically the steps which should be taken to assist the export trades, most of them referred with approval to the government's action in extending the export credit department's resources and scope and to <sup>the attention given by</sup> ~~the~~ the Federation of British Industries and the Chamber of Commerce to export problems (last paragraph of No. 75, January 19, 6 p. m.) and admitted that other steps might be necessary.

On the balance of payments situation apart from pointing out the reduction in the adverse merchandise balance of 1938 and emphasizing the need for expanding exports there were no comments of significance except that

REB

5-#131, From London, Jan. 31, 4p.m

that Mr. McKenna who considered that <sup>of</sup> in so far as Britain is accumulating stocks of raw materials and foodstuffs she is merely exchanging one kind of asset for another so that the effect on the armament program on the balance of payments though evidently adverse is not necessarily so in the long run.

The need for an increased supply of treasury bills for the smooth working of the London money market and the desirability of financing a reasonable amount of armament expenditure by borrowing were points also mentioned in most of the speeches.

Reference was made in the speeches to the hope that recovery in America would stimulate British business through its effect on commodity prices and the working of the American trade agreement. On the business outlook in the United Kingdom the usual attempt to look on the brighter side was evident in all the speeches but the grounds for this optimism were anything but specific.

JOHNSON

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NPL

ROW