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GROUP MEETING

March 1, 1939.
9:30 A. M.

(Secretary's Office)

PRESENT: Mr. Morgenthau
Mr. Bell
Mr. Knoke
Mr. Lochhead
Mr. White
Mr. Haas
Mr. Gaston
Mr. Hanes
Mr. Foley
Mr. Duffield
Mrs. Klotz

H.M.Jr: What happened yesterday with Mr. Bean? Was it helpful?

White: We met in the afternoon.

H.M.Jr: Was it helpful?

White: Yes, he was very helpful in the general discussion. We came to an agreement that a long statement -

H.M.Jr: Gather your thoughts, my boy, gather your thoughts.

Foley: There was a pretty good piece in the Times, this morning.

H.M.Jr: Hello Daniel, the old silver expert; the old silver shooting Senator, Daniel W. Bell. Incidentally, between today and tomorrow you might find out how many silver certificates you have got out. Somebody in the Treasury ought to know.

White: We have the complete figures.

H.M.Jr: Well, don't keep them so secreted.

Bell: Who is going to answer the question?

H.M.Jr: Well, Mr. Bell.

Bell: It is on the daily statement every day.

H.M.Jr: Well, that doesn't mean anything.

Listen, on this Manufacturers' Association I have changed my mind. I thought it might be good for both them and ourselves, for them to come in and after they are here we will tell the Press they are here.

Duffield: After they are here?

H.M.Jr: Yes, if that is agreeable to them. Well, come on, I am waiting.

White: Well, we decided that a lengthy statement would get us into more trouble and would be much worse than a simple statement, so we just put it in the form of three answers to the questions which we put together.

H.M.Jr: Before we go into that, am I going to read the same rigmarole?

White: No.

Gaston: We have a re-written statement.

H.M.Jr: Have you got a couple of snappy stories in it?

Gaston: Yes.

Foley: I think you should read the new statement to see where it differs from the one read yesterday.

Bell: They must want something to take up time.

White: And in certain portions more emphasis was put on the de-valuation and I think the first part is better written.

H.M.Jr: Do you consider that the re-valuation of the dollar caused prices to rise, Mrs. Klotz?

Mrs. Klotz: No, sir.

H.M.Jr: You don't?

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Foley: On the wrong side of the table.

White: Now, the cat is out of the bag.

H.M.Jr: Do you believe in the silver policy?

Mrs. Klotz: No, sir, I am on your side now.

Bell: Well, it is always safe to say "no".

H.M.Jr: Between March '33 and '34 wholesale prices in the United States rose 23 per cent; the average farm prices about 43 per cent and commodities rose about 60 per cent. Now, of course, no single factor alone was responsible for the rise in prices which took place during this period. There were numerous developments which contributed to the price rise. But, Mr. White, why did it go back to where it was in 1933?

White: It did not go back.

H.M.Jr: Well, it is practically back, Mr. White.

White: 78 and even with that -

H.M.Jr: Where was it in 1933, Mr. White, and where was it in 1934. Why the sharp recession? Why hasn't gold de-valuation held prices up?

White: Well, there are a lot of answers to each one of the questions you put.

H.M.Jr: What are you going to do, pull a Major Angus on me.

White: The facts are as follows -

H.M.Jr: Let us have the facts.

White: That in March 1933 the index number of wholesale prices, which is the most significant price index, the one that affects business most -

H.M.Jr: Whose are you using?

White: ELS. Seven hundred eighty four commodities. In February 1933 it stood at 59.8. It is now 77. That represents an increase of 17 or 18 per cent which is a very substantial increase. It was

higher in 1937 but prices rose a little too rapidly.

H.M.Jr: Is that entirely due to de-valuation of gold.

White: Not at all. There are numerous factors.

H.M.Jr: Such as.

White: Such as the general recovery in the United States, increased business activities always cause it and accompanied by a rise in prices. The world situation, economically, is much better than it was in 1932.

H.M.Jr: Let me see that. (Mr. White handing document to the Secretary).

Bell: How about the price of wheat and cotton on the Liverpool market?

White: Well, as we go into that, we begin to get into trouble.

Bell: It went down.

White: Yes, but one of the reasons why they said they did that was to help our exports, so it is better to keep away from that.

H.M.Jr: When did we de-value?

White: We began to depreciate in April 1933. The formal de-valuation took place in January 1934 and during that eight month period there was a more or less steady depreciation.

H.M.Jr: In April 1933?

White: April 20, 1933. That is when the gold embargo was placed on gold and when the price of gold began to change in the world market. I have that on a chart just for your own information and not for their's.

H.M.Jr: Let me see that. (White handing document to the Secretary).

White: Now, the prices we were talking about are shown by the lowest red line there. That shows the steadiest

and that is the best one to use for our purpose. The price of gold is this line here.

H.M.Jr: What do you mean?

White: The dollar price of gold.

H.M.Jr: Where, in London.

White: No, in New York.

H.M.Jr: I have never seen that before - the dollar price of gold.

White: Well, it is the dollar value of the gold; it is not put quite that way.

H.M.Jr: Well, that is the price that they pay in London.

White: Converted into dollars.

H.M.Jr: Yes, but that is the London price.

White: Theoretically.

H.M.Jr: The dollar price of gold does not do any good unless you are in London.

White: Insofar as the prices are concerned. It is the exchange rates and the exchange rates began to change on April 20th. It is the London market converted into our currency.

H.M.Jr: Into dollars yes.

White: I think that question should be used exclusively to answer the charge, if it is repeated again, that, do you think de-valuation contributed to the rise in prices, and I would cite that one year. Subsequent to that year there are a lot of other things happened.

H.M.Jr: You have the BLS farm products -

White: The most sensitive commodities rose.

H.M.Jr: That does not look so bad; I would leave out the dollar price.

- White: That was for your own information. I did not think you would use that.
- H.M.Jr: Are you going to use this one?
- White: Yes, I think you better not have either of those; just have the general impression in your mind and then you might turn to somebody and say "What are the facts".
- H.M.Jr: I need something like this.
- White: Here is one here for that one year.
- H.M.Jr: What is the matter with this?
- White: That is all right.
- H.M.Jr: I think this is the best one.
- Hanes: What does this show? I have not seen this chart.
- White: Now, there is another very important point: All world prices are falling now and that shows the mere fact that they are not a great deal higher. But that is not as significant as other world prices. The dollar is higher.
- H.M.Jr: The last two or three weeks they have not dropped the world prices.
- White: And this, even with regard to stability of prices, this wholesale price index is pretty stable. It runs throughout the year after steadily rising, it runs 78, 79 and 80 and then 80 on throughout practically the whole of the next year. It is only in 1937 that you had a pretty sharp rise. Then it ironed out again.
- H.M.Jr: Well, I think that the BLS figures are the most commonly known.
- White: The best ones to use.
- H.M.Jr: Did Bean contribute anything?
- White: Anyone of us could have written this. It was a question of agreeing what was the best thing to do.
- H.M.Jr: I better do it extemporaneously.

Haas: He did feel that he thought the answers ought to be very brief because as you expand it, you open yourself up to numerous other questions. Now, we talked all afternoon and came out with that little paragraph.

White: He had a long statement with respect to the price of wheat and cotton and corn on that and the more we talked about the statement the more we agreed that it would be very dangerous to use it. There are a couple of other short questions and answers they might pursue - (handing paper to the Secretary).

H.M.Jr: Where is Archie?

Foley: He is with Knoke.

H.M.Jr: Leave those things here with me.

White: Now, this is about what the President has said and we have a lot of his statements.

H.M.Jr: Let me have them.

White: The President's statements?

H.M.Jr: Has he said much?

White: Well - this is what he said on silver.

H.M.Jr: I will read that just before I go to bed.

White: And this is his statement on gold. Some of them can be substantiated very well.

H.M.Jr: Well, now, in order to save time - you fellows have a new statement for me.

Gaston: Yes.

White: There is just one more thing I would like to call your attention to. Possibly you know the letter that was sent by the fifty-five economists and was printed in the record yesterday.

H.M.Jr: I saw the reference to it. Is it the same fifty-five?

White: The same fifty-five, and we referred to them in

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there and there is also an excellent technical answer which shows them to be wrong, if you want to go into that.

- H.M.Jr: Well, can't you find fifty-six economists who will answer them.
- White: I said I could find one hundred and fifty but their ages would not total, probably what theirs do. These are all old fellows.
- Gaston: One class "B" economist should be sufficient to answer that crowd.
- White: There are a few good ones there. But if they push you on that, and they might do that, on that letter, if they push you on that there is a very devastating answer to what they said on technical grounds.
- H.M.Jr: All right, begin to devastate.
- White: With respect to that.
- H.M.Jr: Yes, but not here, save me that.
- White: All right.
- H.M.Jr: What else.
- White: That is all except the statement.
- H.M.Jr: Let us get to the statement. (Mr. Gaston reading statement).
- Gaston: This is all re-phrased.
- H.M.Jr: Is it the same thing?
- Gaston: It is all re-worked.
- H.M.Jr: Do you think that is worth while doing.
- Gaston: I don't think we ought to present to the Senate Committee the identical statement presented to the House Committee.
- H.M.Jr: The melody is the same.
- Gaston: It is substantially different in many parts.

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- H.M.Jr: All right, I will read it. (Reading statement)
"Monetary disturbances"?
- Gaston: Yes.
- H.M.Jr: Do you like that word? (Continuing reading)
I hope no one has one kidney and will object to
this "floating currency" (Continuing reading)
Now, I'm going to tell you people something.
I just haven't got time to do this thing word
for word and I'm going to do the one yesterday
again. Now, there are a lot of things in here
I don't like. The other one was good. I just
haven't got the physical time and energy to do
this. It is all right for them to listen to the
other one. The other one I put a lot of time
on and I know every single word in it and to
weigh every word in this one, I haven't got the
time and I can not take any chances. There are
a lot of things in here I don't like. What is
the sense of it?
- White: There is one other suggestion: The second part
was an attempt to strengthen it.
- H.M.Jr: If you have something new that is all right, but
just to paraphrase the other one which will require
me to look at a lot of new words I haven't got the
time for that. I would have to go through this
again and it would take me hours and hours and I
am too tired. Have you anything new in here?
- White: Yes, we can take some of the new parts out and
insert them in the old, if you like.
- H.M.Jr: What is the use of paraphrasing this old one and
throwing a lot of new words in here.
- White: Practically the entire second part and a substantial
part of the first is new.
- H.M.Jr: If you will take a pencil and underline it, I will
read the part that is different.
- Gaston: I don't know how they will view it up there, but
it seems to me it is not very respectful to the
Committee to give them the same identical document
you gave the House Committee.

H.M.Jr: I would rather do that and be disrespectful than not to do it and be wrong. The other document was a nice document. I like it. Dan, you have been testifying more than anybody else. What do you think?

Bell: Well, I haven't got much thought on it. I don't know - I think if we could give them a new statement it would probably be better.

H.M.Jr: But who is going to sit down and weigh every word. I haven't got time to do it. Governor Harrison is coming in this morning.

Knoke: Yes.

White: This is independent of the other, the part that is bracketed in blue, and after you get to that the rest of it is -

H.M.Jr: The part that is bracketed?

White: Marked in blue.

H.M.Jr: Is new.

White: Yes, is new.

H.M.Jr: Let me tell you, I am not in the frame of mind to do this this morning. If I have time I will take it this afternoon. I admit I am over-tired. I went through a great strain which you fellows don't get and I just can not do it now. If I can do it this afternoon I will.

White: If you think there is any possibility that you might we can polish that again.

H.M.Jr: I will look at it again and I will try and see how I feel this afternoon, but I just can not do it now.

Foley: When are you going up?

H.M.Jr: Going up tomorrow morning.

Gaston: That is quite different.

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- H.M.Jr: We don't go until ten-thirty tomorrow morning.
- Foley: That makes it a lot better. We haven't had really a fair chance to polish this. Give us an opportunity to polish it and show it to you late this afternoon.
- H.M.Jr: I can tell you now that I can see you at three-fifteen. Let us see what you have at three-fifteen.
- White: And you might find out in the interim what the practice is with reference to reading the one statement to both Houses.
- Foley: There is no practice.
- H.M.Jr: May I just make this suggestion, gentlemen: I am entirely satisfied with what I read yesterday. There would not be one out of ten people that have read it. The papers did not carry it. Now, just to give them something fresh and, get me, where I have to weigh every word all over again, I would not do that. If there is something new you think should be added to strengthen my statement I am willing to consider that and put it in italics.
- White: We will try that.
- H.M.Jr: But just to interpolate and paraphrase the thing, I don't want to do that, but if you have got something which due to the questions which were asked yesterday and which will strengthen my argument, I will be glad to consider that. The easiest way for me to do it would be to take yesterday's statement and then paste over in loose leaf in here, insert that this way, I would rather do it that way.
- Duffield: Mr. Secretary, may I ask your reaction to one idea. Since this de-valuation thing is evidently the toughest question on the Senate side, would you see any benefit in hitting that thing first when you go over there; take that section of your statement and hit it first. There has been some tendency as regarding this portion of the legislation, as unnecessary. And you think it would be proper to discuss that first and emphasize that. It seems to me when you go over to the Senate you are going

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to meet that head on.

H.M.Jr: I will tell you gentlemen this: I talked to Senator Glass last night and for some reason his entire tone of voice has changed since the last time I talked to him. "Now", he says, "Mr. Secretary, you have nothing to worry about". I said, "That is terribly nice, Senator, I appreciate your saying that".

Duffield: Well, I don't think you do have anything to worry about.

H.M.Jr: I think we should take it up in the order of the Bill.

Duffield: All right, let it stay as it is.

H.M.Jr: Let us not do as the State Department does, just change the words around. I don't want to do that. And I can not weigh these new words in this statement. I just can not do it. There is a limit to my nervous energy.

White: We can do as you suggest.

H.M.Jr: If you have something which will strengthen my statement, O. K., will you do it that way?

White: Yes.

H.M.Jr: At three-fifteen. I am satisfied. I think we have a good Press. I don't see anything unfavorable. Now, you take the financial column of the New York Tribune, the financial column. They even were very complimentary. They said, "This is fine and we hope the Secretary will do this every three months". Now, we have got what we want and I don't want to take a chance and use some one word which they can just hang on because I am too tired to weigh every word.

White: I think that is true with the Stabilization Fund. I think there will be no trouble there and they will be with you. But I think they will go after the gold content of the dollar.

H.M.Jr: I have a trick up my sleeve on that. I don't know whether I am going to be able to play it, but I

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hope I will, but let us leave it that way. I appreciate your trying to improve it. Don't think I don't appreciate it but you have a machine to deal with and you have got to keep him as even as possible.

(Meeting concluded)

SECOND GROUP MEETING (Financing)

March 1, 1939
10:15 A. M.

(Secretary's Office)

PRESENT: Secretary Morgenthau
Mr. Hanes
Mr. Bell
Mr. Murphy
Mr. Seltzer
Mr. Haas
Mrs. Klotz

H.M.Jr.: I have been reading this stuff that you people have been feeding me on the financing, and those of you who have worked with me closely before, know I always said I did not want to open up an old issue.

Well, I have changed and I want to say, to give you people the background, why I have changed, and I don't want to say it before the 11 o'clock.

The reason that I have changed is this: Now, I want to get this to you and I don't want to make that statement except to my own people. This market is just out of all proportions. I mean it is way up on a pinnacle. Heretofore I have always been lucky in that I had a floor in my Government bond market before my Government financing. Then it usually stiffens up just before, but I had a good sound base. Now they tell me I have a sound base but I don't like it. I think it is - I mean Government bonds are now at the highest point that they have ever been.

Now, the normal thing would be - I want you to get what I am thinking - am I right?

Haas: Yes.

H.M.Jr.: Now, the normal thing would be to sit here and say, "Well, you know ten year bonds will sell at 101½, but that 1½ now is not enough because I think the thing is abnormally high and it would be very easy for that 1½ point premium to go below par. That would cast a cloud of doubt over all our securities.

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Now, on the other hand, we open up the 2-3/4, 60's, 65's which now sell over 104 and say we offer it at 102½. We have right there a 2½ point premium in a safety margin between ourselves and par. I mean we knock it down 1½ ourselves. We are giving securities which are selling at 104 plus today, we are offering them, say at 102½, so there is really 4 points. It has to go down 4 points before it goes below par and I think, at this time, it would be smart to open up what I have always been opposed to.

I was amused at the notes that Henry Murphy gave me from the Fed. in New York. They think it was their idea that sold the RFC thing at a premium.

Haas: He heard you talk about it and it amused him so much that he took the credit.

H.M.Jr: But having tried and been successful, and if we can assure ourselves the banks don't mind paying a premium and then write it off, I am very much inclined, because the thing is so high, to open up the last one and get that extra cushion. By doing that we will have a 4 point cushion because I think right now, oh, something happened in Europe which was very disturbing in bonds and the bond market could very easily sell off a point and a half and then the last Treasury issue would have broken par and that would be very bad, psychologically. You know everybody will be rubbing my nose: "Look at the last issue of the Treasury, it has gone below - broke par". And I don't want to make this little speech before the Fed crowd because I don't want to be that frank. But I do want you fellows to think and have it in your minds.

Hanes: Have you ever opened up one of these before?

Bell: Yes, we used to do it quite a lot.

Hanes: Lately, Dan?

H.M.Jr: Before my time largely. Larry, for the first time (speaking to Mr. Seltzer) I am inclined to open up a former issue in order to get that margin of safety.

Seltzer: You mean the long bonds?

H.M.Jr: Yes.

Seltzer: One thing you have to consider is that these two and 1/8 notes were issued in the refunding of the liberties, and I don't think they are as well concentrated in New York as previous note issues.

H.M.Jr: Well, I would not give one; I would give two.

Seltzer: Would you also use a short bond?

H.M.Jr: I am open to argument. I am talking (addressing Mr. Murphy) for the first time, of opening up another one in order to get that extra cushion, because the bond market is so abnormally high that I am fearful if I just do the normal thing and give the boys 1 1/2 or 2 points that that is not enough if something really happens. I think the market could be very vulnerable. I disagree with what everybody else says. I mean what the - that the market is sound and so forth. It is just too high. It is abnormally high and I just don't want a new issue in the next two or three months to go below par and the only way I know to do it on a long bond would be to open up the last one which is a very small one.

Seltzer: Would you charge them 2 1/2 points premium?

H.M.Jr: I will "hondle" with you, if you know what that is?

Seltzer: If you are going -

H.M.Jr: If you live in New York, you know what that is.

Seltzer: If you are going to give them a big premium -

H.M.Jr: I will bargain with you.

Seltzer: What I want to say is this: If you give them a big premium net then they are likely to lose if the market goes down no less than if they get a 2-5/8.

H.M.Jr: Well, the difference - but look, old man.

Seltzer: Your price would not go below par.

- H.M.Jr: I want you to get the way I think. The present 60-65 is selling at 104 something, isn't it?
- Seltzer: Yes, just about 104 flat.
- H.M.Jr: Now supposing we offer that at $102\frac{1}{2}$ from today's price. It has to break 4 points to go below par.
- Seltzer: Right.
- H.M.Jr: And that I don't think would be possible. And as opposed to, say, getting out a new $2\frac{1}{2}$, all right, we will give them - we will price it so it sells at $101\frac{1}{2}$. They get $1\frac{1}{2}$ points that way, which is the same thing. You give them $101\frac{1}{2}$. By doing that you only have $1\frac{1}{2}$ points. Something happens in Europe, crack she goes below par and then for weeks and weeks they will talk about the issue that went below par and Government credit and everything else and all the rest of that business.
- Hanes: Is a point and a half enough to absorb the quantity that you are going to throw into that particular segment? I just wondered if the $2\frac{1}{2}$ points, if you haven't got the figure pretty carefully as to what it is going to do to the market when you throw the new issue in.
- H.M.Jr: I am talking about the principle of the thing. I could talk 2 points or 1 point. As to the spread I have not arrived. I wanted these fellows to tell them what I have been thinking about so they can be digesting it. I can talk about 2 points or I could talk 1 point. I don't know. It is the idea.
- Hanes: Sure.
- H.M.Jr: You are quite right I don't know what opening up a new issue would do - how much that would automatically depress it, but I would announce it tonight in order that I get two days, that I am going to open that issue and see what happens to it and I will get the benefit of that, and I want to do that tonight - make up my mind tonight.
- Hanes: Sure.

Seltzer: You would have to be prepared for a heavy subscription in it, any other issue that you offered at par.

H.M.Jr: Well, I was leaning again towards a ten year two to a fixed maturity.

Seltzer: No, not at all.

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

Seltzer: I think that is a good possibility at this time, not to have any note issue, just a straight two and a long bond.

H.M.Jr: And price the two not too attractively.

Seltzer: Yes.

H.M.Jr: I mean to make it more attractive to go into the long one than the fixed two.

Seltzer: You would have to make up for that premium.

H.M.Jr: Yes, they ought to have -

Bell: Might go eleven years if you want to make it up.

Seltzer: You are betting on the forty-sevens as against the forty-eights. You see this new bond will be selling to yield less than a bond maturing ahead of the forty-eights if you made it eleven years.

Bell: Yes.

H.M.Jr: I mean that can all be done very quickly by the market experts. I mean they can get together and whether it is a ten and a half or eleven that can be figured out very quickly. But it is just the thought at this time. I never want to make a mistake if I can help it. But I want to make it now. What do you think about opening up that two and three-quarter 60 - 65.

Murphy: I was going to remark earlier in the discussion that other things being equal it was much easier to give a generous premium on an entirely new issue than on the old, but if you give two days advance notice it will be opened up so you will have your adjustment in advance rather than

subsequently. It seems to me the safest course and the easiest way of giving a satisfactory premium and it is making sure that your issue will go over. It certainly seems to me to be very popular with most of the people whom I talked to.

- H.M.Jr: If we do it I want to announce it tonight or tomorrow morning, that we are going to open up that issue. By doing that we have two and a half days to see what happens to it.
- Murphy: Yes, under those conditions I would look upon it very favorably.
- Seltzer: I haven't any violent objection to it although my own preference would be two and five-eighths of about the same maturity.
- H.M.Jr: Larry, I would say if the market had not done that on me - you know, I have not said this in a long time and I say it - Hanes most likely has not heard me say this, but in pricing these things I am a burned child. I mean I have gotten my fingers burned so often and it does not mean anything to me that the bond market is up there because I could see somebody doing something in this Administration which tomorrow would just pull the plug right out of the Government bond market, and somebody has got to pat me on the back and say, "It is O. K., we want business to go ahead". I want to believe it and therefore until I believe it I have got to take -- I mean I have got to remember the things that have happened to me during the last five years where just before financing somebody pulled a plug and left me up high and dry. If we had not had these big premiums we would have had failures.
- Now, you priced these two and five-eighths, let us say, we figure two points profit and with a market where it is perfectly possible to see the thing go right out --
- Seltzer: It is always possible.
- Murphy: I would not be very apprehensive, though, with that margin.

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H.M.Jr: No, but so many times in the last five years something did happen we had not figured on; somebody made a speech or somebody did something.

Seltzer: I imagine you will have a lot of secondary distribution of those long bonds, because a lot of the banks that had to take them in at a heavy premium, instead of taking them on their books -

Bell: We are ready to sell some of our shorter stuff.

H.M.Jr: How much have you got all together?

Bell: We can rake up probably seventy or eighty million.

H.M.Jr: We have seventy or eighty million dollars in various accounts coming due in '42, '43 and '44, along in there.

Bell: Up to '48.

H.M.Jr: We could sell that stuff at a handsome profit and buy these others and that would be the time to do it.

Bell: We have some three to five dollar profit in some of the shorter bonds and we can get the same yield, same coupon on sixty-sixty five.

Haas: You have another advantage on this; the fact that you can announce it and get the reaction.

H.M.Jr: I have always argued against it but I never sat here and had the bond market go up just as rapidly before financing.

Bell: Has there been any indication in the market that there is a churning or rolling over of the rights - any rolling over of the rights. You see, the rights are selling for 102. A man that buys the rights in the market today at 102 and he turns them in and pays a two dollar premium, he is paying 104 for his new bonds. I wondered if there was much of that.

H.M.Jr: We can ask about that at eleven o'clock.

Hanes: To what do you attribute that very sharp upturn?

Seltzer: No cash.

Murphy: Opened right up the next morning.

Seltzer: And our theory has been that the new issue always sells relatively better on the Street refunding than with new cash.

Hanes: The sharpest upturn we have had all along here.

Bell: Went up almost a half a point yesterday.

H.M.Jr: You might get me a line on the non-Government bonds - whether they followed that or not.

Haas: We will have that at eleven.

H.M.Jr: Well, I wanted you to know - I did not want to be this frank before this group, you see, but does it make horse sense to you, Johnnie?

Hanes: It sounds good to me, yes.

H.M.Jr: You see, this issue I am talking about has about five hundred sixty million, hasn't it?

Bell: Five hundred ninety.

Murphy: The private bonds did not move at all.

H.M.Jr: Did you hear that?

Hanes: What is that?

Murphy: The private bonds did not move at all.

Seltzer: The spread has been such that they don't have to move.

H.M.Jr: No, but which just adds again that this thing is up. Well, you fellows turn it over in your minds and if you will all be back at eleven, and you want to be here when Bob Reynolds comes at ten-thirty.

Hanes: Yes.

H.M.Jr: I would like Mr. Hanes here in any case but think this thing over and, as I say, I don't want to be quite so frank before these other fellows. Will you all be back at eleven o'clock.

(Meeting concluded)

IN RE: OPEN MARKET COMMITTEE

March 1, 1939
11:00 A. M.

(Secretary's Office)

PRESENT: Secretary Morgenthau
Mr. Hanes
Mr. Eccles
Mr. Piser
Mr. Goldenweiser
Dr. Williams
Mr. Sinclaire
Mr. Sproul
Governor Harrison
Mr. Haas
Mr. Bell
Mr. Murphy
Mr. Lochhead
Mr. Seltzer
Mr. Hadley

H.M.Jr: Shall we go ahead, Mr. Eccles, in the regular way?

Eccles: It is all right with me.

H.M.Jr: What are our needs for the rest of the calendar year?

Bell: This estimate has in it a 310 million dollar financing for the RFC in February, and, also, 114 million dollars for the United States Housing.

In addition it has no cash in March. I should say 750 million dollars of new cash in June; 750 million in September and 500 million in December.

And then for the corporations, it has 200 million in July for Commodity Credit; 100 million in October for United States Housing, and 300 million in November for the RFC.

On that basis we get balances at the end of the periods: February, two billion five hundred ninety six; March, two billion four hundred thirty; April, one billion nine hundred sixty five, and May, one billion seven hundred seventy four. June, two billion seventy four; July, one billion eight forty three; August, one billion seven eighty-three; September, two billion two hundred fifty one; October, one billion nine hundred sixty;

November, two billion one hundred nineteen and December, two billion three ninety eight. Pretty substantial balances all along.

There is in the picture also Home Owners' Loan maturity of three hundred twenty five million on June first. It is contemplated that we will pay off one hundred forty million of that in cash and refunding about one hundred eighty million.

There is callable of a Home Owners' Loan issue on August 1, nine hundred fifty million.

So there is a possibility of bringing that back for coupling the two together in some way.

And then there is one hundred million dollars of Federal Farm Mortgage Corporation bonds on September 1, which are due, which we will pay off about thirty and refund the balance.

In November there is two hundred six million dollars of Commodity Credit, which we will pay off in cash or refund out of the three hundred million issue as contemplated at that time.

That about completes the picture, Mr. Secretary.

Eccles: Can you sum it up, Dan? Give us the - I know it is pretty hard.

Hell: Well, there is nothing in the picture at the present time except the refunding in March of the June maturing notes. And then in May we possibly will have a small issue of Home Owners' Loan to take care of the June 1, maturity, with a possibility of increasing it by a called issue of nine hundred fifty in August. That is yet to be decided.

In June, we would have seven hundred fifty million dollars issue for cash and the question before you then would be as to whether or not you would want to bring into September four hundred twenty seven million. And when you reach September you would have another seven hundred fifty million with a question as to whether you would want to bring into December's of five hundred twenty-six million.

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And December is a small issue of five hundred million.

Eccles: There is no Housing authority or RFC in the picture between now and September, is there?

Bell: Nothing in this estimate except two hundred million dollars of Commodity Credit in July.

Eccles: Yes.

Bell: And that is to take care of cotton payments of about one hundred twenty million dollars.

Eccles: That is new money.

Bell: That is new money. Most of it will go right back into the market.

Recently we talked about having an RFC issue in May. I don't think the Secretary has made up his mind as to whether we will do that or not.

H.M.Jr: No.

Bell: I might state incidentally, I put the RFC out into November and left the Home Owners' Loan refunding in May.

Eccles: An RFC issue would be merely a question of paying off the Treasury which would reduce the amount of new money the Treasury would need and if you did RFC in May you would need less in June.

H.M.Jr: That is right.

Bell: That is right, but it might have the effect of switching the June amount of seven hundred fifty to December where we have five hundred million and the reason it is cut down is because of the three hundred million issue in November.

Eccles: That is the RFC.

Bell: And Commodity Credit, yes.

Eccles: How much farther can you go on RFC?

Bell: You mean in financing?

Eccles: Yes, so far as the Treasury is concerned. What do they owe the Treasury now?

Bell: They owe the Treasury -

Eccles: Four hundred million.

Bell: About five hundred million.

Eccles: That would clean that up.

Bell: Yes.

H.M.Jr: Is it that much, Dan, that they still owe us?

Bell: I think it was seven hundred eighty million and the three hundred million brought it down to about four hundred eighty million. I will check that.

Eccles: You can finance RFC any time and reduce Treasury new financing by that amount, can't you?

Bell: That is right. Of course, we would have to meet RFC requirements out of the general fund, but during the past seven months the requirements have been very small - twenty-five or thirty million.

H.M.Jr: Mr. Sproul, do you want to tell us what the New York market is thinking about.

Sproul: Yes. The New York market first is taking a look at the maturing issue of two and one-eighth. They feel they are not so well able to gauge as they were last time just how those notes are held, because there was a pretty good coupon and the issue does not show up as it did last time when you could say with some assurance that about eighty per cent was held by banks and insurance companies.

Now, quite a bit of it seems to be held out around the country in small amounts, probably in trust funds and some by individuals and small banks. So now you can only see perhaps fifty or sixty per cent of it and, therefore, it is a little more difficult to tell just how it will act on an exchange offering.

The second thing the market is thinking is or saying, is that you still have the two principal types of buyers; two principal types of demands; one from banks chiefly for a short or intermediate bond, with some willing to go out into the longer bonds and, second, from insurance companies for a longer bond and some willing to go into the short and intermediates, and with a secondary demand for a note which is not so large and so important, but which nevertheless exists, although that market has been pretty well starved on account of both shrinking supply and the declining yield.

The third thing they are telling about is the possibility of putting out, making an addition to an old issue at this time, and putting out something therefor at a premium. The market in New York at least feels that the ground has been laid for that by the RFC issue. They are somewhat expecting it and a good many of them are sold on the idea that it would be a good thing to do again; that it permits greater flexibility in placing; it permits you to add to old issues where there is a small amount out and you want to increase the amount to improve its trading value and, finally, that it will prevent an indefinite increase in the number of issues in which the market has to list and trade.

With that background, the four principal types of offering - there is an infinite variety of offerings you can put together. I think there are four principal items and one is the note and the long bond which would have to be quite a bit of a spread between them as far as yield and profit is concerned, and, therefore, you would probably shove some unwilling holders into the long bonds as well as the speculators, and that might have a dampening influence on the market during a period of distribution, which might have something to commend it at this time.

The second possibility is a note and a long intermediate bond. You could shove out your two and a halves in the 54-57 area. That would be all right. It would not fit anyone's pocketbook exactly, however.

The third possibility is a short bond and a long bond of ten years two. For instance, plus a two and five-eight in the early sixties or two and

three-quarters out in no man's land, and sixty-five to seventy-five, somewhere in there, or opening up at sixty-sixty-five. The two and a quarter at sixty-sixty-five, which is a small issue, and which could stand some addition, opening it up at a premium.

The fourth possibility is the short or intermediate bond and the long bond, plus an offering of notes and specifically re-opening the December '43 notes which are out in small amount. That would merely be a gesture in ordinary circumstances.

The last exchange offering on notes, you remember, they were only about thirty-nine million taken, of which we took thirty, so there wasn't much of a demand for them on an exchange basis. If, however, anything happens between the time of the announcement and the time of payment it is a storm cellar to which people could run, so it has some insurance value.

Putting together all of the opinions I have gotten, I would be in favor of the last alternative. It is a two way issue, really, with an appendage of a note which in the ordinary course of events would not get anywhere.

- H.M.Jr: What do you recommend?
- Sproul: A two way issue. Now, that could be either -
- H.M.Jr: Three way, aren't you?
- Sproul: Three way issue and you count this note which would not get anywhere as an issue - three way issue.
- H.M.Jr: The note and the last one.
- Sproul: The intermediate bond and the long bond.
- H.M.Jr: And you are taking the intermediate to a fixed maturity.
- Sproul: I think there are two possibilities there. One would be a ten year two fixed maturity; the other would be to re-open the fifty, the two and a half at 50-52 at a premium but not in excess. On a

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long bond you could either reopen the 60-65s I think, or else put out a two and five-eight in the early 60 or step out of the two and three quarters at 65 or 70 or 70-75. It is pretty hard to place the price out in that area.

There is one other thing that the market is coming to feel up there and, I think, it is important. That is that the amount of profit which can be made on these exchange offerings and new subscriptions is getting out of hand. It has been working up from a half point to a point and a point and a half and now they are pricing the rights around two points. I think it would be desirable to begin pricing a little closer so as to shave down on that profit, and it could be done without interfering with the success of the issues.

- H.M.Jr: Didn't that fellow Morgenthau say last week he wanted people to make money?
- Harrison: Well, within reason; not all in the Government bond market.
- Eccles: You wanted them to earn it, but you did not want to give it to them.
- H.M.Jr: Mr. Chairman, has the Board taken any position?
- Eccles: No, no official position as a recommendation of the committee. We discussed it and we have always felt before - we have never come over with the idea of making a recommendation as a committee, but merely come over to advise individually as members of a committee. I feel, in the future, if you want the committee to make recommendations - we have never done that.
- H.M.Jr: But we have gotten some ideas.
- Eccles: Individually.
- H.M.Jr: Yes. Have you got some ideas now?
- Eccles: Yes, but I would like to hear from Mr. Harrison and the others, but I have some.

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- Harrison: Well, Mr. Secretary, I agree with Mr. Sproul and I have nothing to add to that. He has covered just exactly the way I feel about it and I think we have reached the same conclusions independently.
- I feel too as he does, that there is some advantage, sooner or later and probably now rather than later, in opening up some one of your longer issues. If you are going to make a three way offering, and I also agree with him that the time is coming when you should cut down on the gravy.
- H.M.Jr: That is good news when New York talks that way.
- Bell: Would you recommend the reopening of an old issue if it were just a two way?
- Harrison: If you had, for instance, an intermediate and long bond, I think I would reopen one of them, yes, just to try it. I would not reopen both because it is more or less experimental and there is some disinclination on the part of banks to buy bonds at a premium. At least they say so although they are quite accustomed to doing it with state and municipal offerings and corporate offerings.
- Bell: They are paying 102 for the rights, which is about the same.
- Sproul: Purchase of outstanding issues -
- H.M.Jr: How much does the System own of them?
- Sproul: Eighty five million.
- H.M.Jr: Well, Mr. Eccles, now having heard from Governor Harrison, will you speak?
- Eccles: All right. If you are going to give the market what it seems to want it is just a question of how you are going to approach this; whether you are going to - as you say, you have goods to sell and you want to supply the customer. Decide whether you want to give the market what it wants and then approach it from that standpoint. It seems to me that you have got to give a long bond - an intermediate bond and not necessarily a note, but it seems to me there could be no objection in it

and then you would be satisfying, if you gave a three way offering, you would be satisfying the entire market.

I am very much in favor of reducing the premium. I think that it is a great mistake, under present conditions. It is not necessary at all to give such a very large premium and now would be a good time to reduce it - keep these rights from getting out of line any further than they are.

I would favor, so far as it seems to be possible, to offer existing issues at a premium. I can not personally see any objection. Banks are constantly buying bonds at premiums and amortizing the premiums over the life of the bond. They say they don't like it but they are buying all the time, and there should be no objection to it, because the premium permits it to be treated on a basis of the maturity yield basis and amortize the premium over the life.

Now, of course, I am looking at the thing from quite another point of view. I am on record here in the past and I don't mind going on record again in stating that I don't like long term bonds of any kind, particularly Government. I think we are assuming a great responsibility when we put out twenty-five year bonds. You might just as well put out twenty-five, thirty or forty year bonds when you are talking about twenty-five. It is trying to guess what the rates may be at that time. We are in a position vastly different from a private company. We have this responsibility, it seems to me! In the first place if war should eventuate or something else develop and the interest rate go down then we have an advantage at the expense of our citizens. On the other hand if the reverse should be true then we are paying more money than we should pay. That is the way I feel in principle about a long bond.

Another thing. We want funds to go into private investment. So long as we furnish the market with a desirable yield, such as we do, say, we give two and three quarters per cent on a tax-free security that we are supplying the investor with, whether institutional or individual, with a fine opportunity for investing his funds, why on earth should they, under those circumstances make much of

an effort to go out into private activity. I know I would not, under the circumstances. I don't see why we should do that.

The little fellow is taken care of through the Baby Bonds. I think that we may have some obligation to supply the small investor while he hasn't the facilities and the opportunity. We should supply him with some opportunity to increase his funds and that is done through the Baby Bonds. *invest*

Now, supplying your big investors and institutions along with what they want in the long term field, I don't know whether we should. The question of the Government bond market is largely determined by the situation with reference to the excess reserves and the total volume of deposits in the banks. Now, that is going to be the determining factor and that is within the control of the Treasury and the Reserve System itself for an indefinite period.

Now, I say we should be perfectly orthodox on this thing and say we would operate it as we would in an international gold standard. I think the suggestion of Mr. Sproul and Governor Harrison to approach it that way is the thing to do in the situation that now exists and is likely to exist for an indefinite period. It is entirely within our own control.

I don't like a long bond and I would, under those circumstances, favor not to exceed a ten year - maybe ten and a half, two per cent bond. The market will holler if they are not given an opportunity to invest their funds but let them go out and invest them somewhere else.

H.M.Jr:

And what do you say?

Binolaire:

From our experience around Philadelphia the demand is for the intermediate bond, somewhere between ten, ten and a half and up to twelve years. There is some demand for the longer bond from one of the insurance companies and some of the trust companies. However, as I think I have said here before several times, I think in our district, the primary demand is the intermediate bond. Whether or not a new issue or an old one could be opened up, we have talked about the question of the bond with a premium and they all really expect that.

H.M.Jr: Expect what?

Sinclair: At a premium.

H.M.Jr: They do expect that?

Sinclair: Yes, they talked about not liking it and so forth, but they recognise the practical situation and are prepared for it.

As far as the notes are concerned, there is very little demand for the notes. I recognise what Mr. Sproul said with reference to the insurance feature of the notes in case anything happens between now and the fifteen, but there was very little of that shown with us.

H.M.Jr: Is the System showing any interest?

Sinclair: The System?

H.M.Jr: The Federal Reserve System.

Sinclair: I guess we will have to.

H.M.Jr: In the notes, I mean.

Sinclair: Yes, I guess we will have to but I think it might be well to consider the note along with the shorter - the shorter and longer bonds. As far as we are concerned we don't get very much of it. I do recognise the other feature of it - the desirability of the note from the insurance point of view.

H.M.Jr: And what do you have to say?

Piser: We have made a survey in New York and Philadelphia and there has been a considerable shift since December in the preference of investors. There has been quite an increase in the popularity of short term bonds since the issue that was put out in December. There also has been some increase in the popularity of the long term bond; whereas the notes have declined in popularity since December, and there is very little demand for a two and a half per cent bond. The commercial banks seldom favor a ten year two per cent bond. And they have less interest in either the longer term or the notes.

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The savings banks seem to be evenly divided between a two per cent ten year bond and a long term bond. There is very very little interest in the other two types of issue.

The insurance companies seem rather definitely to prefer a long term bond.

And two other points were raised by quite a number of the investors that we talked with. There is a definite preference for bonds with a definite maturity as against bonds with long call period, and as Mr. Sproul mentioned, there is a good deal of opposition outside of New York to the Treasury selling issues at premium.

A number of banks objected to the premium on the RFC issue and said they cut down their subscriptions because of the premium and other banks -

H.M.Jr: That is not true. Excuse me. They took the maximum. I am not contradicting you but the statement they made, because they took all that their capital and surplus would permit.

Piser: And a number of them sold the RFC issue rather than hold it because of the premium. How serious that is I don't know, but quite a number of the banks did raise the objection to an issue with premium.

H.M.Jr: I was not contradicting you.

Piser: That is all right.

H.M.Jr: As to what the subscription books showed. Thank you. Williams?

Williams: I don't believe I can add very much to what has been said as regards the monetary aspect of it.

I agree with the Chairman that it is desirable to do more short financing. It makes for a more stable situation and it does tend to force investment into private channels. I agree with that entirely.

I don't know how much practical bearing it has on the present situation. If the effect of the short financing right now were to increase the volume of deposits more than the long financing, I don't

know whether that is desirable right now or not. After all, we have a large volume of deposits and some time or other we will probably get to worrying whether it is not too large. If the volume of deposits were increased I should think that would have the effect of pushing up security prices all around, at least Government security prices, and that might make for greater instability. So I think it is a very hard question to say what you should do. If your long bonds were to go to insurance companies, institutional investors, I don't think that is desirable as against having them all go to the banks under the conditions that we face right now. And it may be that the urge for private investment has got to come from some other source than the interest rate. It may be that it depends, fundamentally, on the general outlook for business and the state of confidence and things like that.

I suppose the concrete question that is raised is whether in view of the fundamental validity, as I would put it, of short financing from a monetary standpoint, you ought to be dominated by that thought now - change of policy, on account of that, and I would think not under all of the circumstances for the reasons that I have given.

- W.M.Jr: You would not let it influence you.
- Williams: I don't think I would very much right now. It may be that later on you have some financing to do for new money and it would be more appropriate to think of the short issues because you have got those up your sleeve all the time.
- Eccles: I agree on new money, it would be preferable. I was merely discussing this from a general standpoint as to whether it would apply better to refunding or new money.
- Harrison: Mr. Secretary, I was wondering even if you accepted the principle pronounced by the Chairman and Mr. Williams, and then consider the practical situation as it exists today, whether shortening your issues in order to encourage private investment would in fact have very much effect on private investment. There is plenty of money available both for long time Governments and

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long time corporates provided the risk is not there. In other words prime securities sell and they sell at good rates. I doubt very much whether as things exist today, again going to the practical, if the Treasury should issue merely short ones that you would encourage the investors to assume any greater risk in a long time private security. In other words, as Mr. Williams pointed out, it is not so much the yield but it is a question of the risk the people are interested in. And bank examiners and laws both are stricter and stricter so far as going down into risk securities.

- H.M.Jr: I am surprised at some of you people discussing what to do to encourage private investors that you don't mention the length of the Government bonds - that is, how many of them there are going to be.
- Williams: That is very important.
- H.M.Jr: It seems to me that that is something which throws a little influence on the man that has control on his own money.
- Williams: I think fundamentally it is a question of the state of confidence and the business outlook more than the price of money. But that does not deny the validity of this principle. I think the principle is all right. I just don't see any way of applying it usefully right here.
- H.M.Jr: You are saying the principle is all right but for the moment just pigeon hole it.
- Williams: I would say so.
- H.M.Jr: O.K.
- Bell: Don't you think when the demand comes for more money that it will go down and it will force the Treasury to a high coupon or short maturity. I mean it will be brought about almost automatically when the situation develops.
- Williams: Well, of course you have huge excess reserves.
- Eccles: You mean a demand for money for what purpose?

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- Bell: I mean for business. That is what you want it to go into.
- Eccles: That is not a question of bank money; that is a question of the use of existing money. The great difficulty today is in a large measure - you look at your corporation statements and there is already a supply of idle deposits. It is not a question of that. It is a question of the companies using the money they have and that is a problem itself. It is a question of the velocity of money rather than any substantial new bank credits. That is the principal thing. There may be some increase in volume but it is pretty largely a use of existing deposits.
- Williams: If I could make one more remark. It seems to me you would have a perfect case of what you had in mind - perfect illustration by saying this: If you were at the bottom of the depression and had a deficiency of money and were trying to build it up and then force the additional money into private investment, you see then there would be a lot to be said for short financing, but that is not the case. This is a very mixed situation. We have such a large volume of deposits anyway.
- Eccles: When you are at the bottom of the depression you cater to the market and give it anything it wants in order to be able to sell your securities. That is the other aspect of it too.
- Harrison: May I ask Mr. Williams a question, Mr. Secretary?
- H.M.Jr: Why not.
- Harrison: In announcing this principle, which I think there is something to be said for, certainly, he has not demanded another principle that I have often heard him pronounce here on this little machine. That is that it is good fiscal policy for the Treasury, when it gets an opportunity to project its maturities forward, and not to have too big a percentage coming due too soon.
- Williams: I think that is true. It is a question of balance.
- H.M.Jr: Williams is good today (facetiously).

- Williams: Well, you have got a complicated problem. There are several elements. One is good housing from the point of view of the Treasury. The question of what the market will take, and then there is no question of the correct monetary policy and how mix them? That is it.
- Harrison: As I see it, you have got two principles involved and one practical situation. The practical situation fits within the area of principles but not so well with this principle that has just been discussed.
- H.M.Jr: And the practical one can not be pigeon holed.
- Sinclair: That is why we want the intermediate bonds.
- Eccles: I would like to say just one more word. I think it is very practical and very realistic. I did say, however, there was a difference of whether you are going to approach this thing on a basis of the orthodox, assuming as we have always done that we have an international fixed gold standard, or whether you are going to approach it from the basis of a money situation. It all depends entirely on which way you approach it. Now, you can do pretty largely what you want.
- Williams: I don't get the gold standard point.
- Eccles: What I mean, John, is the question of capital running out of the country and having a shortage of your base, such as we were in in 1932. For instance, you had - in other words when enough gold leaves the country you have tight money. It tends to control the supply of credit. That is what I mean, which has always been true in the past.
- Williams: The difficulty of long Government financing under a gold standard is that you are constantly up against the danger that there would be a gold flow which will change the price of securities drastically.
- Eccles: That is right.
- Williams: So I should say under a gold standard it would be even more a question of long standing, except there you have got to do what the market wants.

You can not control it. You have to do what it wants.

H.M.Jr: Mr. Goldenweiser, I have some bonds to exchange. Have you any suggestions?

Goldenweiser: Well.

H.M.Jr: That I don't have to pigeon hole.

Goldenweiser: I am afraid that what I think on this is destined for the pigeon hole because I definitely think that it is a perfectly practical matter and a perfectly desirable matter, and if enough people think that way we should not go out and issue very long bonds.

I think that we can give a great many reasons for it but I think the principal ones were mentioned.

I shall only say one other thing, and that is that the time when these bonds cease to be tax-exempt is sure to come sooner or later and I don't believe that we should provide long time tax-exempt bonds if we can help it, because if you ever do abolish your tax-exempt bonds it would be a desirable thing not to have tax-exempt securities outstanding any longer than is necessary. I think it is better economic management and I think from the Central Bank's point of view, it is a better monetary market when the Government hasn't too much long stuff outstanding. I think you would have no practical difficulties with it. You have got a situation now that is almost perfect for doing exactly anything you choose to do. It is not as though you have a difficult situation in which you have got to take into consideration every whim of the investor.

If you were convinced that you wanted to have nothing but intermediate bonds and notes, for example, you would have no difficulty in doing it.

I for one would think that that would be the best policy.

Harrison: Another argument on that, if you are going to have tax-exempt securities, perhaps you better reserve some of your shorter dates to sell the non-tax-

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exempt later on rather than to leave open only the long maturity for non-tax-exempt.

Bell: Maybe the tax-exempt feature would keep them above par.

Sinolaire: Help to anyway.

H.M.Jr: George, do you want to say what your group found and recommends?

Haas: I think we are about in this position - we are about as Mr. Sproul has outlined. We probably would be happy if we just had two issues, but I don't think the point is very strong whether or not we have the note, except as Mr. Sproul has stated, it is purely a safety factor. We were thinking of the opening up of the two and three quarters 60-65, and another proposition out in the long term field was the two and five-eight bond and the intermediate bond. We are thinking in terms of two per cent fixed maturity. And those two issues, the intermediate and the fixed maturity at two per cent and one of the long term issues would, I think, satisfy our group. But we would not object if you want to put a note on it for the purpose of being safe.

We were concerned somewhat, Mr. Secretary, with some of the difficulties we would probably have in pricing particularly that two per cent fixed maturity.

H.M.Jr: Hanes?

Hanes: I haven't anything to add, Mr. Secretary.

Bell: I have nothing more.

H.M.Jr: Well, it is rather unsatisfactory for me. I will have to do some thinking and if Mr. Sproul can come back at two-thirty, can you?

Sproul: I will be here at two-thirty.

H.M.Jr: Are you secretary to this committee.

Sproul: My title is "Manager of the Accounts".

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- H.M.Jr: But you report to this group, is that right?
- Eccles: Yes, the same thing as Burgess had.
- H.M.Jr: He is the best channel of contact between the two organizations, is that right?
- Eccles: Yes, work with him just like you did with Randolph.
- Harrison: If it is all right with you, don't tell him something in confidence. (facetiously)
- H.M.Jr: He is not interested in French airplanes, is he? (facetiously).
- Sproul: Not yet.
- H.M.Jr: Have they made a deposit?
- Sproul: Not yet.
- H.M.Jr: If you can come back at two-thirty. On account of having to testify Thursday morning and Friday morning, I think we will have to do a little business this afternoon.
- Sproul: All right, I will be here.
- H.M.Jr: Unless somebody else has some ideas, why I will have Mr. Sproul come back at two-thirty.

(Meeting concluded)

RE: OPEN MARKET COMMITTEE

March 1, 1939
3:00 P. M.

(Secretary's Office)

PRESENT: Mr. Morgenthau
Mr. Hanes
Mr. Gaston
Mrs. Klotz

H.M.Jr: After this morning's meeting with the Federal Reserve crowd, I asked Harrison and Allen Sproul to stay behind. I told them I wanted them to think over the following suggestions, namely:

That we open up three old issues: The last 5 year note we sold; the two and a half per cent 50 - 52, and the two and three quarters 60 - 65.

That I felt that we should not sell two old issues and one new one because everybody might take the new issue in order to try to teach the Treasury a lesson.

I also told them by only using the old issues I felt that we could price them more accurately.

I asked them to think it over and asked them to come back at 2:30 and to give me their advice.

They returned and I had in Mr. Hanes and Mr. Bell, Mr. Haas and myself. In going over the notes of Allen Sproul of the people that he interviewed in New York, I found out that a number of concerns interested in Government bonds were willing to open up old issues.

Hanes: Do you want their names?

H.M.Jr: Yes.

Hanes: Garner of the Guaranty Trust Company Green of the Chase National Bank; Quincy of Quincy & Company; Solomon Brothers, and Hutzler, and the Federal Reserve crowd in New York -- all agreed.

H.M.Jr:

So after discussing the matter further we all agreed that tonight we would get out the announcement for tomorrow morning's papers -- that the refunding would consist of giving the June noteholders the right to convert into one of the following three issues: The last five year one and one eighth note; the two and a half per cent 50 - 52, and the two and three quarter 60 - 65.

(Meeting concluded)

March 1, 1939.
3:15 P. M.

IN RE: SENATE TESTIMONY

(Secretary's Office)

PRESENT: Secretary Morgenthau
Mr. Hanes
Mr. Duffield
Mr. Foley
Mr. White
Mr. Knoke
Mr. Gaston
Mrs. Klotz

H.M.Jr: Mr. Knoke, I told Mr. Harrison you were being very useful as well as ornamental and he said "Do you need him for two more days?" and I said "I certainly do". And I said, "If you object I will ask you also to stay".

Knoke: So that is the final word, I take it.

H.M.Jr: He said "What do you want him for?" and I said, "Well, in case they ask me a question why this big payroll in New York".

Knoke: Well, I will explain that to them.

H.M.Jr: I would like to have you stay and it is entirely agreeable to George Harrison and Allen Sproul.

Foley: I bought a vote for you cheap on the coinage, Weights and Measures Committee this morning.

H.M.Jr: An \$1800 job.

Foley: Easier than that. Byron said, "What can we do for you", and I said "You are going to be there Friday", and he said, "I did not know you were going to be up Friday but I will certainly be there", and he said, "I think your boss made a very good impression yesterday", and he said he thought you handled Luce very well. He said, "It might interest you to know that I had lunch with a good friend of mine and Luce, this fellow said, he thought the Secretary got the best of him. He tried every way he could to get him into a hole and could not do it."

White: Certainly got that impression from reading over the testimony.

Foley: In reading the testimony you can understand why Luce had that impression.

H.M.Jr: Will you fellows confine yourselves to wood oil and not soft soap.

Foley: Those are the facts.

H.M.Jr: We are in the wood oil business and what is the other one? Banana oil.

Hanes: Banana oil.

White: Congressman Sheppard remarked to Archie and to me, if we were to supply him with questions he would take care of Luce next time. Now, do you want to do that?

H.M.Jr: Well, I think what I would do is - I am about ninety per cent sure that Luce comes from Waterbury.

Foley: Waltham, Massachusetts.

H.M.Jr: I knew it was an alarm clock.

Foley: A little better; that is a dollar watch, isn't it, a Waterbury.

H.M.Jr: And look up their exports, if any.

White: Shoes and cotton materials.

H.M.Jr: What we have done to help the watch people in keeping Swiss watches out. Of course, that would not help us in this testimony, but we have done a beautiful job on Swiss watches and Swiss movements. You might look that up.

White: What is the technique of that - who will handle that?

H.M.Jr: Well, we have a representative up there by the name of Bernard.

Foley: I had an appointment to see Sheppard this afternoon about -

H.M.Jr: He is supposed to be the slipee if we have anything to slip.

White: I don't know whether he wants to have questions and then the answers.

H.M.Jr: Will you fellows do it and just let me be pleasantly surprised.

Foley: Vandenberg put in the record yesterday the questions. In view of the Secretary's willingness that these questions should be answered in the Committee on Banking and Currency, I ask that this entire correspondence be referred to that Committee and I request that the questions be posed to the Secretary when he appears as a witness.

H.M.Jr: And, question one.

Foley: Is the Government of the United States under agreement with the Governments of Great Britain and France to sustain the value of the French franc and the British pound in relation to the value of the American dollar?

H.M.Jr: No.

Foley: Second. What is the nature and extent of this agreement, if any; and, if any, is it summarily revocable in the event that any of these nations become involved in war.

H.M.Jr: Have no agreements.

Foley: Third. Are there any agreements of this same general nature with any other foreign Governments.

H.M.Jr: No.

Gaston: Yes, because there are no agreements.

Foley: Well, there are no agreements with anybody.

H.M.Jr: Knoke may have made one on the side.

Knoke: Don't bring that out now.

Gaston: The answer is correctly "Yes, we have none".

- Foley: Fourth: Does the Treasury construe its authority under the Stabilization Fund Act to include the power to deal with wartime problems of international exchange precisely as with peacetime exchange without further instructions from the Congress.
- I think we can say that that involves mixed questions of law and policy that cannot be determined at this time.
- White: Can not tell who is at war. What does he mean by that?
- Foley: We don't know what legislation Congress might pass if a war develops. We have never operated with this fund during a war, and we have not considered the fund in relation to a possible war.
- Gaston: Wouldn't it be sufficient to say: "If I did not find my present powers adequate of course, I would come to Congress and suggest that I be given new powers".
- Hanes: Couldn't you go a step further and say "As long as I am Secretary of the Treasury if any move that the Stabilization Fund is going to make involves a change in the policy, as I understand the meaning and intent of Congress by this act I certainly would not do it without coming to Congress and laying the whole thing before them".
- H.M.Jr: I think I could go a step further and say "All of my thoughts are directed toward peace; I am not thinking in terms of war and if this country should get involved in a war why, of course, we would look for Congress to direct us as to what position we should take, but nobody in the Treasury is thinking in terms of war."
- Foley: That is right, nobody in the Treasury is thinking in terms of war. If war develops I assume Congress will enact legislation to deal with it.
- H.M.Jr: "To what extent international trade and expansion of international trade is in the direction of peace we supplement Mr. Hull's trade policy through adding stability which we all think is a movement in the direction of peace", or something like that.

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I mean I want to get in that peace stuff and also in case of war naturally we would come up and ask Congress for direction. I mean we are just not thinking about it, that is all. Were there any echos today of any sour note about the testimony or the statement or anything

- Foley: I know everybody says it is pretty good. Bob Kintner dropped in a few minutes ago and said he thought it was an excellent statement. I asked him what he heard and he said it was all favorable.
- Gaston: Gene Duffield and I just exchanged the mutual impression that the newspapers did a pretty lousy job of handling it; they muffed the story.
- Duffield: From the newspaper point of view.
- Gaston: From our point of view the stories were all right; from the newspaper point of view I think they are pretty sad.
- H.M.Jr: I agree with you, but I am willing to leave it alone. There is big stuff there they did not get at all.
- Duffield: That is right.
- Gaston: I was going to say that they gave the story just one sentence and then you appeared and went right into the Stabilization Fund statement.
- H.M.Jr: Now, gentlemen, what suggestions have you for me.
- White: Well, I think the general agreement is that probably the wise policy would be for you to give the same statement but to precede it with a one page statement.
- Gaston: My idea is and I think Ed agrees with me, my idea is that you should present identically the same statement, simply making appropriate substitution for the name of the committee and make a brief verbal statement the chairman when you start your statement, saying "I have a statement here which is in substance identical with the statement I presented to the House Committee yesterday. If you would like me to read it I shall be glad to do so; if you wish only to include it in your record that is satisfactory to me. I am also

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presenting copies of a statement of the condition of the Stabilization Fund for June 30, and December 31, which I also presented to the House Committee", and then await for their wishes as to whether you read the statement.

H.M.Jr: I hope you fellows did not just do this because I was tired this morning.

White: That was our general conclusion.

Gaston: I feel very strongly that either there should be a complete re-write - a completely new statement or you should do this one over again - the identical statement. I am not satisfied with this new statement which evolved last night. I don't think it is any improvement on this statement at all.

H.M.Jr: John, do you want to get in on this as a neutral, so to speak? I know I was tired this morning.

Hanes: I will tell you my reaction to the thing this morning was about the same as when I was appearing before the House Committee and in the Senate Committee on this question of tax exemption, and I said in effect, to the boys here that were preparing that statement; "We have said all that we had to say the first time when we were here and the second time, all I am going to do is simply say 'there is nothing that I can add to that statement, insert that statement in the record' and stop right there".

Well, it did beautifully and reacted beautifully so far as I could see on the committee. Simply say, "There is nothing more I can add to it; this tells the whole story". There isn't time enough to get together a new statement which would simply be a change in words and verbage and not in ideas or substance and, therefore, "I am presenting to the committee and will be glad to read it", as Herbert says, "Or insert it in the record if you see fit".

H.M.Jr: Somebody this morning said it would be an act of discourtesy to go before the Senate and present the same statement.

Gaston: I don't think it would be discourteous to do it that way.

Foley: If you go down and ask their pleasure, but to start reading the same statement might be construed as being a discourteous act, but if you put it up to them and ask them whether they would like to have it for the record or like to have it read, because it anticipates questions that some of the members might otherwise ask. I think it is entirely proper.

Gaston: I think if we were to make changes just here and there in another statement with something we thought was slightly better that they would ask you "is this any different", or they would notice the difference and they would say "What is the object of this? Were you wrong in your other statement - why do you make these changes?"

White: It might show there has been a complete reversal of position.

H.M.Jr: Well, I am worried now as to why you have changed -

White: We convinced each other as to that.

Foley: I still have the other statement.

Gaston: It is not a bad job but I don't think -

H.M.Jr: I told you people I was tired this morning. I am no less tired now but I don't want that to influence you. If you think after all I can be wrong at least once a day, once in the morning and once in the afternoon - I mean, if you people think that I am wrong don't hesitate to say so. What do you think, Gene?

Duffield: I said last night, when you saw this statement this morning you would go back to the old statement and I think you should.

H.M.Jr: You should do what the President does. I have got it in the safe.

Duffield: I did not put it in the safe - I had witnesses.

Foley: He only made one mistake. He meant this morning, that he said that. I think it was quarter after two this morning. He said that when you see this one in the morning you are going to say, "I am going back to the old one".

H.M.Jr: Did you fellows work that long?

Duffield: Yes.

Gaston: We thought it might be necessary to have a totally different statement and there was no time but yesterday to do it.

H.M.Jr: Do you feel all right now?

White: I am firmly convinced it would be an error to give it a few amendations because they are not important enough to warrant a new statement and to give a re-hash would, I think, - well, you described it properly by saying "paraphrasing it". It would look kind of silly for your staff to be kind of pushing words around when they did not have anything to add.

H.M.Jr: They would not know it was the staff. They don't know how much I lean on you. If that is the way everybody feels and you worked until two-thirty this morning I suggest you go home and go to bed. I will see you in the morning. I mean it, go on home.

Duffield: There is only one thing I would like to ask -

H.M.Jr: Certainly some one will need a clear head tomorrow.

Foley: And he is sitting right over there (indicating Secretary Morgenthau)

Duffield: I think you should have in your own mind a reply to questions, a good bang up statement on how this devaluation power does not contribute to instability.

H.M.Jr: That thing is in my blood. I mean I feel that nobody need pump that into me. I feel that very very strongly and I don't care how many economists think the other thing. After all, it is like a general in a big battle or before a big battle. He has to have reserves. He can not have committees going into a huddle and saying "Come on boys , we are going to use this regiment or this brigade" or, "we are going to use these guns and so forth and so on".

Until they put General Foch in charge of the whole thing the Allies were losing. They were losing just as long as they did not have one boss, but just as soon as they made Foch Commander-in-Chief they began to get somewhere. It is the same thing with the President. I mean the fact that he has got the strength and the reserves and everything else is what can make us win. Archie isn't here. Would you mind - I would like to have it. I may not use it. I would like to know between the 15th of September and the 1st of October just how much gold we bought; how much we put on the steamers and how much we used in the Navy. I would just like to show them the terrific turnover which was necessary in order to keep the dollar stable, and I want to - Knoke, I would like to make it as dramatic as possible. I mean, get whatever those ten days were - was it the 15th or was it the time -

Knoke: Well, of course, it was the 28th of September, wasn't it?

H.M.Jr: I just don't know. I know we looked it up. I know that the Queen Mary -

Knoke: Three Navy vessels with twenty-five each plus.

H.M.Jr: What they had on the Queen Mary - she landed with forty five million or fifty million.

Knoke: That wasn't the biggest boat.

H.M.Jr: The Queen Mary came in and the Normandie. If you will look those up - give me the figures whichever way it looks the most dramatic. I may not use them but I want to show that with using every boat and everything else we had a bottleneck there and all of that was done without - and the fact that we did have secrecy kept the people from being unduly worried. Those boats and those dates are easy to get, aren't they?

Knoke: Very easy.

H.M.Jr: I know the George Washington and the Manhattan came in at that time.

- Knoke: One of those two was the one that carried the load.
- H.M.Jr: I thought it was the Queen Mary that had forty-five or fifty million on it.
- Knoke: I am pretty sure it was one of the American boats, but we will get the whole story.
- H.M.Jr: Just that period there.
- Knoke: Yes, I will get it.
- H.M.Jr: Nobody has to write that for me.
- Duffield: I think it is better if you do it that way.
- Gaston: Ed has your testimony there, the transcript, and they want it back this afternoon. We have been over it except for one or two points than Dan Bell and Archie have to check. I think we have finished with it.
- H.M.Jr: I don't want to see it; I will leave it with you people. I am not so worried about tomorrow. I am taking my father up to protect me (facetiously). He wanted to go.
- Gaston: Better look out or they will have him on the stand.
- H.M.Jr: They better ask him where he stands on gold. (facetiously)
- Gaston: He will take care of himself.
- H.M.Jr: He would too. I think we are all right.
- White: Here is one thing you might read tomorrow. They throw those at Congress (handing paper to the Secretary).
- H.M.Jr: I read everything the President said on silver and commodities. I have read all that.
- White: It is just a suggestion for an idea as to how you might want to answer them.
- Hanes: Is he pretty definite in his statements about the purchase plan?

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H.M.Jr: Yes. In fact he is pretty definite on bi-metalism too.

White: International bi-metalism.

H.M.Jr: I am awfully disappointed, gentlemen, aren't you? I think we are going soft (facetiously).

Mrs. Klotz: I did not work with them and I have no right to criticize.

White: On November 24, 1933, those same men predicted serious danger of inflation - that same group of economists. You might bear that in mind.

H.M.Jr: What date?

White: The end of November, 1933.

H.M.Jr: How many other predictions have they been making. Why not get a flock of their predictions.

White: They are pretty cagey.

Gaston: Fifty-five of them.

White: There are ninety, I think.

Gaston: I think the remark the Secretary made the other day was that "The same fifty-five" is a pretty good way to deal with them.

H.M.Jr: All right, gentlemen. I will see you all tomorrow morning. Go home and get a good night's rest.

(Meeting Concluded)

GROUP MEETING

March 2, 1939.
9:30 A. M.

(Secretary's Office)

PRESENT: Secretary Morgenthau
Mr. McReynolds
Mr. Duffield
Mr. Bell
Mr. Haas
Mr. Gaston
Mr. Lochhead
Mr. Foley
Mr. White
Mr. Gibbons
Mrs. Klotz

H.M.Jr: Herbert, do you think it would be a good thing if I wrote a personal letter and sent the Washington Post Editorial to each member of the Committee of Coinage, Weights and Measures in the House?

Dan: I think that would be a very good thing.

H.M.Jr: Mr. McReynolds?

McReynolds: We have not decided on this fellow Edwards, yet. I did not know just what to say to him. We agreed that I was going to talk to him but I did not know whether to tell him - I did not know whether there was anything in abeyance that you wanted to hold - any reason why you would want to let the thing hang on.

H.M.Jr: Well, I will tell you exactly how I feel. If anybody disagrees with me, say so. The State Department has indicated very definitely that they want to run the show and, following my policy where another Department wants to run a show, which is its own responsibility, I am not going to bother with it, that is all.

McReynolds: I think that is the right attitude. I wanted to make sure whether there was any possibility in your mind - I will talk to Edwards today.

H.M.Jr: As a matter of fact, if Mr. Hull or Mr. Welles calls me up to see Mr. Aranha again in regard to Central Bank, as they indicated to Lochhead they would, I am simply going to say that my effectiveness is gone as far as Mr. Aranha is concerned. As the Chinese

say, "I have lost face in front of him", and I suggest they let either Mr. Eccles or Mr. George Harrison discuss it, but as far as I am concerned I have lost face and I can not do business with Mr. Aranha. Last night we had Mr. Wallace at the house and I think we had one of the most constructive meetings we have had in a long time. He wants to go ahead with his export subsidy on cotton and we all agreed. He wanted me to go up to see Mr. Hull. I said I would not, "But if Johnnie Hanes wants to go", I said, "God bless him, he has all my best wishes". I want to let you people know how I feel. I mean I am not going to do anything more with that. We will let the State Department run it as they should and as they want to, but I am not going to sit here and let two representatives of the State Department insult me.

McReynolds: That is all I have.

H.M.Jr: I want everybody to know how I feel.

McReynolds: It is very useful to get that.

H.M.Jr: But on the other hand if some other Cabinet member thinks he is going to carry the tax program why, Johnnie and I each have a knife and each a sharpening stone and we challenge them publicly, not in any dark alley, but right out in the open.

Hanes: Who are we going to fight now?

H.M.Jr: Anybody. (facetiously)

Hanes: Everybody.

H.M.Jr: Anybody that butts in on our tax program.

Hanes: Right. Right.

H.M.Jr: Is that right?

Hanes: Right.

H.M.Jr: I say we will challenge them in the public square; not in a back alley. (facetiously)

Bell: There was a speech out in Iowa with reference to taxes the other night.

H.M.Jr: I invited Mr. Wallace to come to Poughkeepsie and make a speech. I told him I would be glad to arrange it. Might even get the Home Club at Hyde Park to act as host.

Gibbons: Smart.

H.M.Jr: If he wants to talk in Poughkeepsie I will be glad to arrange it. Anything else, Mack?

McReynolds: No.

Bell: I have nothing.

H.M.Jr: Incidentally Mr. Chamberlain made two moves with reference to world armaments since I talked to you. He made another one yesterday. It is interesting.

Bell: I see that Hitler or Goebels said that Hitler held out a chance to the world to reduce armaments, but nobody had taken it up.

H.M.Jr: You are going to see Eaton, aren't you?

Bell: Yes, Monday.

Gaston: A statement in that connection in the Eaton foreign letter yesterday was to the effect that the item that would cause Germany to be a little bit different in its foreign policy was the sale of American airplanes to France. That was in the letter.

H.M.Jr: Good. That sale of airplanes seems to be growing in favor constantly.

Gaston: It improved the chances for peace, is what the letter said.

H.M.Jr: Harry?

White: The gold matter - Davenport.

H.M.Jr: Keep it rolling.

White: That is all.

H.M.Jr: I would answer them by saying "Just as soon as we are through testifying we will be glad to get in touch with them". How is that?

White: All right.

H.M.Jr: Who has my reading copy for today?

Gaston: I haven't the reading copy but I think I have a copy here.

H.M.Jr: Is that the same thing? Here is mine right here.

Lochhead: The pressure has let up slightly on Belgium and Holland stepped in rather strong and they placed orders in this market through us. Belgium also told us if the rate went below the gold point they would like us (inaudible) was in the other day and I inquired, casually, about their shipments, how they were going to make the shipments, whether by French boats. He said, "Well I suppose you are interested in seeing it go by American boats", and I said that that would be the natural thing, and he said he wanted to propose another question; "If hostilities of any kind broke out and there was a shipment of American airplanes on one of our United States lines how would we feel about it".

H.M.Jr: That is something you have got to get from the State Department.

Lochhead: That is something the Maritime Commission has to keep in mind. I kept away from making a (inaudible)

H.M.Jr: Just brought it to their attention.

Lochhead: Yes.

H.M.Jr: I would not do any more.

Lochhead: And secondly he also brought up the question of whether or not if France decided to build up any stocks of various commodities we might have, whether or not the Export-Import Bank might be used for that. I suggested -

H.M.Jr: Stocks of what?

Lochhead: He mentioned cotton. Now, I am bringing that up because of the fact he is just feeling around. He did not have anything definite. He spoke about possibly copper and other things, and I told him of course, if he wants to speak to the

- 5 -

Export-Import Bank it would be proper for him to inquire from them.

H.M.Jr: That is out of our bailiwick. Ed?

Foley: The meeting this morning is in Room 301 of the Senate Office Building. It is going to be an informal meeting at a table where you sit around like you did at the House hearing the day before yesterday.

H.M.Jr: I don't have to wear my tuxedo. (facetiously)

Foley: You don't have to wear your cutaway.

H.M.Jr: Public?

Foley: That has not been determined yet.

H.M.Jr: Press.

Foley: We are not able to find that out either. That is entirely up to Glass, I guess. The clerk did not know. The Secretary of the Czechoslovakia Legation called on Johnston of Customs. He had heard, in New York, that the United States Government, through Federal surplus commodities, was subsidizing the exportation of Belgium linen goods to the United States. The arrangement is that the Surplus Commodities Corporation receives in cash from American importers of linen goods eighty-five per cent of the price for which they sell to Belgium, which is a fifteen per cent subsidy, and Johnston wants to know if we should look into it.

H.M.Jr: Milo Perkins is the fellow to talk to.

Bell: That is the first reaction to the foreign subsidy.

H.M.Jr: This is a swap; it is a little bit different.

White: I think the approach should be quite unofficial because it is getting into something there.

Foley: All I wanted to do was find out if we should contact - find out who it was up to.

H.M.Jr: Milo Perkins. You will find he is a very able person. Anything else?

- Foley: No.
- H.M.Jr: Even if he does wear a hat and coat. (facetiously)
- Haas: Douglas Brown is here today and tomorrow.
- H.M.Jr: I wrote him as far as I was concerned I would not be able to meet him. Incidentally I could not tell from the papers whether Mr. Swope did or did not come out for an increase in the taxes. You might look that up.
- Haas: I think the Advisory Committee was for the increase.
- H.M.Jr: Will you send up to the house the National City and monthly bulletin, please. I would like to read it.
- Haas: You are asking me.
- H.M.Jr: Yes. Is there anything else, John?
- Hanes: That is all, I think.
- H.M.Jr: You will be interested to know that I asked Mr. Wallace where he stood on a continuation of the President's power to devalue the dollar, and he said he was for it. I said, "How about trying to justify it on a commodity basis", and he said, "Stay just as far away from that as you can". He said, "Although I was amongst the originators of it back in 1931 when we used to have a slogan that "Iowa would rock this country off the gold standard", but he said "I would keep away from it today".
- Haas: I am glad to hear that because I thought Ben was doing some calculating for me.
- H.M.Jr: That is what he said. Am I reporting him correctly?
- Hanes: That is right.
- Gaston: There may be another reason - a different sort of reason for that attitude. He would like to have all the credit possible for the various measures they have taken in the direction of increasing commodity prices - agricultural prices.

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H.M.Jr: How unkind, sir. (facetiously)

Gaston: I don't think we have a right to assume it is solely on the statistical basis.

Gibbons: Aren't you with him as a candidate?

Gaston: That is another matter.

Duffield: Manufacturers at three o'clock.

H.M.Jr: All right, are you going to be here.

Hanes: Yes.

H.M.Jr: Has anybody read their report?

White: We have read it and analyzed it. I hesitate to give it to you because it is not very complimentary.

H.M.Jr: Will you get it in right after lunch; give it to Mrs. Klotz.

White: Yes.

Duffield: That is all.

Gaston: Quite political.

H.M.Jr: That is all right. They represent a lot of people. We will see what they have to say. My angle, John, is going to be: "I thought you might like to tell me about your study and that we are very much interested and so forth and so on," and then listen.

Hanes: Good.

H.M.Jr: If you have a chance to look at it before then.

Hanes: You mean the comments? I have read the report. I would like to see the comments on it too.

H.M.Jr: I have not read the report. I have not read it so I will kind of rely on you to start the ball rolling.

White: It is not very long. You could have a chance to read it before the meeting.

- H.M.Jr: Not with testifying and going to this luncheon today.
- Duffield: That is all.
- Gibbons: The Appropriation Committee of the House has gone along with us on the airplanes and the cutters and the air base.
- H.M.Jr: You mean on the fifteen.
- Gibbons: Yes. (At this point telephone conversation was had by Secretary Morgenthau with Mr. Sumner Welles in reference to Mr. Aranha).
- H.M.Jr: What do you think about that, John?
- Hanes: I don't know as I would mix into it until they get the State Department out of it. That is the way I feel.
- H.M.Jr: You can not get them out; they are in it.
- McReynolds: Can not change the situation.
- Hanes: It seems to me they should get in or out altogether. After coming over here and putting on a show like they did before I don't feel like going on with it.
- H.M.Jr: Certainly I was very courteous, what do you think?
- Lochhead: I would keep out of it. Of course, on the other hand, they are going to bring it up on the basis of not being the Central Bank but the Stabilization Fund. That is where they are going to try to work it around to if I can measure the situation.
- H.M.Jr: I am not going to let him direct the policies of the United States Treasury.
- White: That is why I would keep out of it. When he begins to insist on that then they will have to come to you and that is different.
- H.M.Jr: Well, Mr. Hull asked George Harrison: "Do you, George Harrison, feel that Mr. Aranha is entirely satisfied?" And George Harrison said, "No, I don't think he is; I don't know what is the matter, but he is not satisfied. I can not put my finger on it but Mr. Aranha is not satisfied".

White: I think you are in a strategic position and you ought to sit tight.

McReynolds: The farther you stay away while they are in the present stage the better.

H.M.Jr: Well, if you read Pierson today, who had an exclusive story on the Export-Import Bank decision last night and just read the way it is written, it is very interesting. He has an exclusive of what happened in the afternoon.

Gaston: Did you read Drew Pearson in Colliers "Who Picks Our Enemies" or something like that, or, "Who Chooses Our Wars".

Lochhead: Under the Neutrality Act.

Gaston: It is about the history of the State Department in relation to Spain and several others.

H.M.Jr: Will you send it to the house?

Gaston: Yes - last Friday.

Gibbons: The Appropriation Committee, they cut out two airplanes, the large ones, but I am going to see McKellar today.

H.M.Jr: Did you see what they said when they cut it out?

Gibbons: Yes.

H.M.Jr: That they did not approve of an extension of the flying corps.

Gibbons: Yes. I will talk to McKellar today and I think we can get it back.

H.M.Jr: I am all for it and I will back you up one hundred per cent.

Gibbons: McKellar is asking me for a collector of customs, so I can talk to him today about it.

H.M.Jr: Give him more collectors -

Bell: One collector for two airplanes.

- H.M.Jr: Do the best you can.
- Gaston: I haven't anything more to say except this requires a little verbal introduction by you.
- H.M.Jr: I will supply that ad lib and if the same people will go up with me that did before and we can leave about - I think we will leave here sharp at 10:15.

(Hearing concluded)

The National City Bank
of New York
ESTABLISHED 1812

New York March 1, 1939.

CABLE ADDRESS 'CITIBANK'

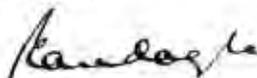
IN REPLYING PLEASE QUOTE INITIALS

Dear Henry:

Congratulations on your report of the stabilization fund. It seems to me a very wise thing to publish these figures at this time, and it also reveals an operation which has been extraordinarily successful.

I am reminded of the time when I sold you from the System account the 2 7/8s, and assured you you would never regret the purchase. It was not so bad, was it?

Sincerely yours,



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

WRB.H

March 8, 1933.

Dear Randolph:

Thank you very much for your letter of March 1st, congratulating me upon the report of the stabilization fund. You will be pleased to know, I am sure, that we have had most favorable reactions to the whole situation.

With all good wishes,

Sincerely,

(Signed) H. Morgenthau, Jr.

Dr. W. Randolph Burgess,
The National City Bank of New York,
New York, New York.

G^{RF}/dba

TREASURY DEPARTMENT

Washington

FOR RELEASE, MORNING NEWSPAPERS,
Thursday, March 2, 1939.
3/1/39.

Press Service
No. 16-61

Secretary of the Treasury Morgenthau today announced that the March 15 financing will consist of the offering of additional amounts of three outstanding Treasury issues in exchange for the Treasury Notes of Series A-1939, maturing June 15, 1939.

Holders of the maturing notes will be offered the privilege of exchanging them for 1-1/8 percent Treasury Notes of Series B-1943, 2-1/2 percent Treasury Bonds of 1950-52, or 2-3/4 percent Treasury Bonds of 1960-65. The prices at which exchanges will be made will be announced Monday, March 6.

—oOo—

March 1, 1939.
10:35 a.m.

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HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Senator
Wagner: Hello, Henry.

HMJr: Golly, you take a long breakfast for --

W: I -- I had some of your New York industrialists.
That's how I happened to -- and they talked me to
death so early in the morning, I'm tired out before
I start in.

HMJr: I see.

W: That's a bad thing to do, you know it -- have your
breakfast with a -- with a group, God damn it.

HMJr: I suppose you're so busy you have to?

W: Yeah. You -- you do it too, don't you, sometimes?

HMJr: No, I don't.

W: You don't? Well, you're sensible.

HMJr: I tried it but I'm too old now.

W: (Laughter) You're a child!

HMJr: Bob, Carter Glass called up last night and said you --
you wanted this thing postponed until tomorrow.

W: I -- I tell you why. We've got -- the Banking and
Currency has got this housing bill on, and we've got --
finishing hearings, and I'm afraid it's going to shoot
into the afternoon, and I didn't want to have any
confusion.

HMJr: I see.

W: And -- because I think some of the men -- they want to
be there when you're there.

HMJr: I see.

W: And some of them actually came to me yesterday and they
thought it was a sort of an inconvenient time with this
other housing bill on -- the housing bill on. So we
put it over to -- isn't that all right for you?

HMJr: Sure, but I didn't know whether there was any deep significance to it.

W: That's all. That's the only significance that we -- there's housing on this morning --

HMJr: Fine.

W: And I'm afraid we go into the afternoon.

HMJr: Now, another thing, I made the suggestion that we let the press in.

W: To have it open?

HMJr: Yeah.

W: Yes.

HMJr: I think it's better.

W: I think, in the long run, it always is better. I'll suggest it to Carter. He likes executive sessions.

HMJr: I know.

W: He likes -- he likes to shoot, you know.

HMJr: I know.

W: All right.

HMJr: If -- if you could, I mean, I'd much rather have it -- let the press in.

W: Yeah, all right.

HMJr: Thank you, Bob.

W: All right, Henry. Good bye.

March 1, 1939.
10:39 a.m.

HMJr: Hello.

Operator: Admiral Peoples. Go ahead.

HMJr: Hello.

Admiral Peoples: Hello.

HMJr: Peoples--

P: Yes, Mr. Secretary.

HMJr: Senator Reynolds has asked me to see Mr. S. S. Silberblatt of New York, the contractor of the Poughkeepsie postoffice.

P: Yes, sir.

HMJr: And he says he can't get a settlement out of you fellows on this contract.

P: Mr. Secretary --

HMJr: Yes.

P: That case is pending in General Counsel's office, sir. Manning has it now.

HMJr: Well, I'll tell him -- it's with Manning in the General Counsel's office?

P: Yes, sir.

HMJr: Well, have you made a recommendation?

P: Yes, sir.

HMJr: Which way?

P: Complete. Well, we're not -- we didn't propose to give him all the money he wanted by any means.

HMJr: Uh-huh. But it's over in Manning's hands?

P: Exactly, sir.

HMJr: All right, I'll get ahold of it.

P: McReynolds knows about it too.

HMJr: O. K. All right.

P: Thank you, Mr. Secretary.

HMJr: Thank you.

March 1, 1939.
12:12 p.m.

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HMJr: What I'm thinking of doing, and I want you to think
Daniel about it -- I'm thinking of offering three old issues.
Bell: Three old?
HMJr: Of the last note. The fifty fifty-two, and the sixty
sixty-five two and three-quarters. Think about it,
and come back at two-thirty.
B: O. K., yeah.
HMJr: See?
B: Yeah.
HMJr: Now the reason I don't want to give, say two old and
one new -- they'll all go on the new one to show us,
you see?
B: I think it all depends on --
HMJr: Well, you think about it.
B: Yeah, O. K.
HMJr: Please.
B: I will.

March 1, 1959.
12:14 p.m.

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Operator: Operator.

HMJr: Haas.

O: Right.

George
Haas: Hello.

O: Mr. Haas.

H: Yes.

HMJr: George --

H: Yes?

HMJr: At two-thirty when you're coming back, what I'm thinking of doing is to open up the last note --

H: The last --

HMJr: Note.

H: The last note.

HMJr: The last one we offered.

H: Yeah. Um-hm.

HMJr: The fifty fifty-two.

H: The fifty fifty-two?

HMJr: Two and a half.

H: Two and a half.

HMJr: And two and three quarters, sixty sixty-five.

H: Two and three quarters, sixty sixty-five.

HMJr: Yeah. Now, think it over and come back. I don't want anybody else with you. You can talk it over with your own crowd, but be back here at two-thirty, will you please?

H: Yes, I'll do that.

HMJr: O. K.

OFFICE CORRESPONDENCE

DATE March 1, 1929.CONFIDENTIAL FILESSUBJECT: TELEPHONE CONVERSATION WITHJ. W. McKeonBANK OF ENGLAND.

I called Mr. Bolton at 10:45 and in his absence spoke with Mr. Hawker. The exchange market was quiet and sterling appeared firmer. There had been quite a change in the situation; they had taken the initiative away from the totalitarian states. The firmer attitude of his Government and the armament program, together with the near settlement of the Spanish situation, were his reasons for the firmness in sterling. The same applied to France. There was still a considerable amount of capital returning to France, of which he believed a great deal was coming from Brussels. As far as Belgium was concerned, their position was not a very happy one at the moment. There was a divided opinion as to how successful Soudan, the Socialist senator, would be in forming a cabinet. The guilder appeared quieter this morning, but the following factors still prevailed to keep the picture unchanged:

1. The fear that Germany may invade.
2. The flow of capital to New York and other centers.
3. Rumors that the Royal Dutch and other companies had been moving their funds out of the country.

Further, there was a movement on the part of some of the industrialists in Holland for depreciation of the guilder, but whether that would come to pass was difficult to say. I told him that at the moment guilders were offered at 5000 1/2 and belgas quoted about 16.85, and that, for his confidential information, we were prepared to support guilders around this level and belgas at a slightly lower level. Hawker told me that the currency bill had become a law today which, of course, will mean revaluation of gold.

JWMcK:KW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 1, 1939, 5 p.m.

NO.: 384

FOR THE TREASURY DEPARTMENT.

A substantial amount of sterling was again obtained for the fund on today's exchange market, which was less active today than it was yesterday. There was some improvement in the belga and the florin, with the use of official support, although there was still considerable pressure on the belga.

On the Paris stock exchange business is becoming more active, and a more hopeful sentiment about the international situation appears to exist. It seems this sentiment is based upon reports that it is likely the Italian press campaign will cease, and that such grievances as the Italian Government may have will be presented through diplomatic channels. The prospect of an early settlement of the Spanish question, furthermore, has cheered financial circles. In today's trading rentes and most French securities showed gains.

AGENCE ECONOMIQUE received in time for publication today a full account of Secretary Morgenthau's statements before the House Coinage Committee yesterday, but it did not get the material soon enough to permit comment on it.

END OF MESSAGE.

BULLITT.

EA:LWW

REB

GRAY

London

Dated March 1, 1939

Rec'd 5:45 p. m.

Secretary of State,
Washington.

286, March 1, 7 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. The growth of confidence in the city referred to in my 244, February 17, 6 p. m. and subsequent telegrams is now manifest in the movement of British security prices, the financial news index for ordinary shares (1937 equals 100) having recovered from 73 just before Hitler's speech at the end of January to 85 yesterday, the upward movement having been steady since the middle of February and the present level comparing with 67 at the beginning of August. The low and the high of this index in January and February are almost precisely the same as the crisis low and the subsequent recovery in November. Meanwhile Government security prices as measured by the FINANCIAL TIMES index (November 1926 equals 100) which now stands at 108 has not recovered to the level of the beginning of August when it was 114 or to the post-Munich recovery level of 111 but it is notable that this index is now higher than the 107 of the day

REB

2-#286, From London, March 1, 7 p.m.

day before the mid-February announcement of the increase from £400,000,000 to £800,000,000 in borrowing powers, and that it has risen steadily since February 22 the day following the announcement that armament borrowing would reach £350,000,000 in the coming fiscal year. However, the volume of trading has not been large.

Two. With reference to the comments on the extent of the contemplated British borrowing for armament purposes contained in my 258, February 21, 6 p. m.; 263, February 23, 7 p. m., and 274, February 27, 7 p. m., it is worthy of note that Robert Brand of Lazards in a letter to the TIMES refers to the stress being laid on the good effects expected from this borrowing and after differentiating between the productivity of private and public borrowing points out first that "Government borrowing whatever Government necessity or whatever Government merits always adds to taxation and -- since presumably the service of any addition to the national debt must always be raised from revenue -- it must have a limit. Moreover, the larger that addition is and the more a country's economy becomes used to it the greater the difficulty of a transition to more normal times". Secondly, he refers to the unsatisfactory adverse balance

of

REB

3-#286, From London, March 1, 7 p.m.

of payments and concludes "if we were in the German position of having no foreign assets or very few we should have to reduce consumption and imports to a level of which there would be a balance. Our armament programme will tend to add some imports and will also tend to raise costs and so add to our difficulties of export. Thus we are likely to have a still more unsatisfactory balance of payments and an additional strain on the sterling exchange. (* * *) (* * *). We have never yet contemplated that we cannot have guns and butter as well as cigarettes and fur coats and anything else we want to import. Fortunately owing to our foreign wealth we have much more freedom of maneuver than Germany and it is to be hoped that we shall never have to follow the methods by which she has hitherto solved this problem -- namely, rigid control of wages and prices, direct restriction of imports, turnover tax, tax deductions from wages and so forth. But the effect of our programme on our balance of payments and our exchange will certainly require attention. This is not the time when we can afford to encourage rising costs or unnecessary imports."

Three. The recent trend of the foreign exchange markets continues. The most noteworthy development lies in the

necessity

REB

4-#286, From London, March 1, 7 p.m.

necessity of prorating gold at fixing and the steady decline in the number of bars married which indicates that continental reselling is dwindling. The big positions are being liquidated to an important extent as maturities fall due; inquiries of bullion dealers indicate that the process will have been largely completed by the middle of March.

KENNEDY

NPL

EMB

March 2, 1939.

MEMORANDUM

To: Secretary Morgenthau

From: Mr. L. W. Knack

The magnitude of American gold purchases in London between September 15 and October 1, 1938, and of gold shipments for American account from London to New York is illustrated by the following figures:

Firstly Total of gold bought in the London market for American commercial account \$71 million

Secondly Total of gold bought in the London market for account of American Stabilization Fund \$101 million

Thirdly Total of gold shipped from London to New York for American commercial account \$71 million

Fourthly Total of gold shipped from London to New York for American Stabilization Fund \$180 million

Fifthly The five largest shipments of gold from London to New York were:

President Roosevelt	\$ 51 million
Queen Mary	45 million
Washington	38 million
Normandie	29 million
Manhattan	28 million
Total	\$189 million

In addition two shipments of \$25 million each were made in that period by American naval vessels and one further such shipment was of \$25 million in the first week of October.

The size of these shipments is doubly impressive when one bears in mind that the largest amount of gold ^{ever} carried by one boat in pre-depression days was in the neighborhood of only \$20 million.

GOLD PURCHASED BY DAYS

Purchased or reported to us as having been engaged by commercial banks	Purchased for account of the Stabilization Fund
September 15, 1938 \$ 6,700,000	\$ 39,100,000
September 16, 1938 5,500,000	27,400,000
September 17, 1938 6,700,000	13,000,000
September 18, 1938 Sunday	
September 19, 1938 14,200,000	—
September 20, 1938 —	—
September 21, 1938 1,300,000	—
September 22, 1938 5,700,000	—
September 23, 1938 1,200,000	3,000,000
September 24, 1938 3,600,000	7,600,000
September 25, 1938 Sunday	
September 26, 1938 3,600,000	250,000
September 27, 1938 2,800,000	—
September 28, 1938 5,200,000	8,400,000
September 29, 1938 2,100,000	—
September 30, 1938 10,500,000	—
October 1, 1938 2,400,000	1,800,000
	<hr/>
TOTALS	\$100,500,000

FEDERAL RESERVE BANK
OF NEW YORK

82

OFFICE CORRESPONDENCE

DATE March 2, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITHJ. W. McKeonBANK OF ENGLAND.

Mr. Hawker called at 11:38 and told me that he had shipped on the President Harding, consigned to us for our account, approximately \$6,000,000 of gold. After the shipment had left they discovered that through an oversight they had shipped about 200 bars with Assay chips. He suggested that when the gold arrived in New York we should cable him whether or not the shipment was satisfactory to us with the Assay chips and that he would be glad to do whatever was necessary to adjust the matter. I agreed.

(Mr. Hawker was evidently a little concerned about this shipment containing bars with Assay chips because in July 1936 the Bank of England had written us to the effect that they were no longer earmarking gold for our account in the form of chipped bars with loose Assay chips. As far as we are concerned there is nothing else to do but take in the gold and have it weighed as usual at the Assay Office. We have received shipments of this type before and the final outturn was about the same as that of shipments containing unchipped bars.)

He said that foreign exchanges were very quiet with belgas and guilders weak. I told him our market was dead. He had just finished a telephonic conversation with Bolton who was in Brussels. Bolton told Hawker that he expected the Belgian situation to be cleared up in the next few days.

JWM:KW

REB

GRAY

London

Dated March 2, 1939

Rec'd 4 p. m.

Secretary of State,
Washington.

209, March 2, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

ONE. Another milestone in monetary management marks this week's Bank of England return, the first under the new currency and banknotes act which came into force yesterday. The reduction of pounds 100 million in the fiduciary issue is offset by an equal increase in the gold in the issue department resulting from the writing up of the pounds (sterling) 126.4 million stock by pounds (sterling) 90.4 million plus yesterday's purchase of pounds (sterling) 5.6 million; this leaves the total note issue unchanged at pounds 526.4 million. The reduction of securities in the issue department was affected by (a) the revaluation at current prices of the total security holdings of pounds (sterling) 400 million which involved a writing down of some pounds (sterling) 9,000,000 in their value together with the transfer of pounds 91,000,000 to the exchange equalization account.

Incidentally

REB

2-#289, From London, March 2, 6 p.m.

Incidentally since section two of the exchange and banknotes act provides that the assets of the issue department shall be valued at such prices as shall be certified by the Bank of England as current on the day of valuation and "ascertained in such manner as may be agreed between the Treasury and the bank" it is of interest to note that the gold was evidently valued at 148 shillings 5 pence per fine ounce which was the price at yesterday's fixing. Since the dollar sterling rate varied little yesterday and the gold price consequently remained steady it cannot necessarily be concluded that the gold fixing price will be used for the valuation if there should be a marked change after fixing on any subsequent Wednesday.

Apart from the changes given above due to the new act the week's movement of interest in the return include a more or less normal month-end increase in note circulation of pounds 5.7 million to pounds 478.4 million, a resulting decline in the proportion from 35 to 31%; an increase in bankers' deposits of pounds 7.2 million to pounds 110.5 million; an increase of pounds 20.4 million to pounds 99 million in Government securities in the banking department and a return of discounts and advances to the more normal

figure

REB

3-#289, From London, March 2, 6p.m.

figure of pounds (sterling) 6.3 million as compared with pounds (sterling) 117.5 million a week ago.

Two. The London Stock Exchange proved more sensitive to Italy's calling up certain reserve classes than the foreign exchange market. The British authorities prevented the pounds (sterling) depreciating below 4.68-3/4. But before both markets closed the view became current that Italy's action was not necessarily alarming, that the numbers involved were probably small and that perhaps it was also designed to test Italian public sentiment. The British fund not only supplied some 50 bars of the 189 sold at gold fixing, 22 being married, but allowed the market to buy a fair quantity after fixing.

KENNEDY

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 2, 1939, 5 p.m.

NO.: 397

FOR THE TREASURY DEPARTMENT.

Today's L'INFORMATION, a financial sheet, gave high praise and expressions of confidence in a lengthy editorial on the cabled reports published yesterday of statements made by Secretary Morgenthau before the House Coinage Committee, on the monetary policy of the United States and the activities of the American stabilization fund. It is noted particularly that under present circumstances the fund is indispensable to the American authorities. It is stated that apart from the necessity for the United States Government to maintain the power to devalue the dollar in the present international monetary chaos, the Government needs this weapon to protect the trade and commerce of the United States and to meet any untoward developments in international affairs. It is emphasized that the authorities in Washington are not only in a position to face developments but also to forestall them if they maintain a relative flexibility for the dollar. One point made is the fact that the dollar can be devalued would provide food for thought for those disposed

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disposed to undertake new monetary disturbances or new dumping operations. To quote from the editorial: "The dollar of Mr. Morgenthau is threatening only in appearance; in reality it is reassuring". In conclusion the editorial states that the dollar itself is a proof of the sincerity of the statement which Morgenthau made that unless he is forced by exceptional circumstances, he has no intention of modifying its gold value.

Today's press quotes the terms of a communique published in Burgos yesterday to the effect that under the recent agreement reached between France and Spain, France will make restitution of the gold which was deposited in the Bank of France at Mont de Marsan, and of the deposits of gold jewels and documents which belong to the State of Spain and all precious possessions which were exported from Spain since before the eighteenth of July, 1936, against the rightful owners' wishes.

END SECTIONS ONE AND TWO.

BULLITT.

EA:LWW

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SECTION THREE.

Today on the exchange market here business has been very dull, with no important changes in rates. A small amount of dollars was purchased through Lazard Freres for the fund. There was slight improvement in the florin, and the belga held its own.

At the opening the security market was disturbed by varying reports of Italian troop movements. At first stories were circulated that several hundred thousand men had been mobilized in Italy, but this was reduced to some sixty thousand later on. There was a moderate selling wave as a result of these rumors, and there were slight losses in many securities, including rentes.

The statement of the Bank of France dated February 23 showed no important changes. There was an increase of 646 million francs in commercial discounts, an increase of 376 millions in note circulation, and an increase of 312 millions in deposits. The gold cover ratio is 62.87 percent versus 63.19 percent.

END MESSAGE.

BULLITT.

March 2, 1939.
9:18 a.m.

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Carter
Glass: Hello.

HMJr: Henry Morgenthau, Jr.

G: Yes, Mr. Secretary.

HMJr: How are you?

G: Pretty well, thank you.

HMJr: Senator, my father is in town for a day or two --

G: Yes?

HMJr: And, would it be agreeable with you if I brought him up? He'd like to see me testify.

G: Oh, it would be entirely agreeable, yes.

HMJr: Entirely agreeable?

G: Yes.

HMJr: Well I'll -- I'll bring him along with me.

G: All right, Henry.

HMJr: He said -- he's anxious to see you.

G: Well, I'm mighty anxious to see him.

HMJr: All right.

G: All right, sir.

HMJr: Thank you.

March 2, 1939.
10:08 a.m.

Operator: Go ahead.

HMJr: Hello.

J. Pierrepont

Moffat: Good morning, sir.

HMJr: How are you?

M: How are you?

HMJr: Fine. Mr. Moffat, I wish you'd get off a little note to Mr. -- Ambassador Kennedy, telling him I particularly appreciate that cable of the conversation he had with Norman.

M: Oh, yes. Yes, indeed.

HMJr: Just a little note.

M: Yeah.

HMJr: That I appreciated it -- it was very helpful.

M: I'll be delighted to.

HMJr: And then if -- you see, Saturday I have to price a refunding issue of a billion three.

M: Yes.

HMJr: And if I could call you up sometime Saturday and get a -- oh, just a little view of what you might think would be happening. See, over the weekend and the next week -- if there's any dark clouds on the horizon, you see?

M: Yes, a little bit the way -- last summer -- when we -- you were trying to estimate the situation

HMJr: Yes, but it's just this point, I'd have to do my pricing Saturday and the issue opens Monday and it has to stay open for three days.

M: Yes.

HMJr: From the sixth until, well, either the eighth or ninth of March.

M: Right.

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HMJr: So if you would have that in mind.

M: I -- I certainly shall; in other words, keep the --
keep watching and make a little for you.

HMJr: If you would.

M: Yes -- be glad to.

HMJr: Thank you.

M: All right, sir.

HMJr: Good bye.

March 2, 1939.
10:09 a.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Hello.

Allan
Sproul: Hello.

HMJr: Allan Sproul --

S: Yes, good morning.

HMJr: How are you?

S: Fine, how are you?

HMJr: How'd the market like our announcement?

S: What?

HMJr: How did the market like our announcement?

S: Well, they liked it all right. Quotations are a little off to begin with --

HMJr: Yeah.

S: On the -- on the fifty fifty-two and the sixty sixty-fives, but I think that's more or less natural. I --

HMJr: Well --

S: Expect that bulge on the "no cash" announcement and now they have an announcement as to just what they're going to get and there will be some selling of those issues to begin with, but there's not a great deal doing yet, so it's not possible that -- to see just how far they are going to go.

HMJr: Well, I would expect them to do a little sharp shooting.

S: I should think so too. They would try to help write the price by a little sharp shooting now.

HMJr: And if it should become too aggressive, you let me know.

S: Right.

HMJr: But unless it really was quite disastrous, why I'd like to stay out.

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- S: Well, that's the way I feel, but if it seems to be getting aggressive and going too far, we'll let you know.
- HMJr: Right. I'm going up on the Hill now to testify and I'll call you up this afternoon again.
- S: All right, fine. I'll watch it closely.
- HMJr: Thank you so much. Good bye.

March 2, 1939.
4:23 p.m.

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HMJr: Hello.

Operator: Mr. Green. Go ahead.

HMJr: Hello.

Senator Green: Hello, Mr. Secretary.

HMJr: How are you?

G: Pretty well, thank you.

HMJr: That's good. I haven't seen you since I saw you at "Pins and Needles".

G: Yeah, it's been a long time. I think about you and follow your work and all that sort of thing, but I don't hook up with you very often.

HMJr: Well, that's my loss.

G: I feel the same way. Now let me tell you what I called you about. We -- there's a splendid man over in the department, I think, of Internal Revenue, with -- under -- working under Mr. Helvering.

HMJr: Yes.

G: And he's been very active in our -- in a big lodge of government workers affiliated with the American Federation of Labor.

HMJr: Yes.

G: I think his name is Mr. Hoffman -- Frank Hoffman. They are planning to transfer him to Philadelphia.

HMJr: Uh-huh.

G: Now, I -- I'm calling up to ask you whether you feel you could help us in that matter by having him retained here. Do you think you could?

HMJr: I'll certainly look into it.

G: What?

HMJr: I'll look into it at once.

G: Will you?

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HMJr: Right away.

G: Oh, his name is Charles Hoffman.

HMJr: Charles Hoffman. H-O-

G: H-O-F-F-M-A-N.

HMJr: Over at Internal Revenue.

G: Internal Revenue.

HMJr: And they're thinking of moving him out to Philadelphia?

G: Philadelphia, and we would appreciate it very greatly if we could keep him here.

HMJr: Well, I'll do the best I can. I'll let you know tomorrow.

G: Thank you so much.

HMJr: Thank you, Mr. Green.

March 2, 1939.
4:31 p.m.

HMJr: Hello.
George Rublee: Hello.
HMJr: Henry Morgenthau, Jr.
R: This is George Rublee speaking.
HMJr: Yes, Mr. Rublee.
R: I -- Sumner Welles asked me to -- to call you up about this.
HMJr: Please.
R: He said that your -- your father was in the city for a day or two --
HMJr: That's right.
R: And that he thought that he might like to hear from me an account of the situation in Germany -- about my negotiations there and so on.
HMJr: We'd both like to hear about it -- both my father and I.
R: Well, I'd be very -- if you can let me know sometime when I can call around, I'd be very glad to do it.
HMJr: I'm going to see him when I go home tonight and I'll tell him. It's very kind of you to have asked to -- to have made the suggestion.
R: I'd be very glad indeed to do it, and about most any time that would be convenient for your father and yourself.
HMJr: Thank you so much, Mr. Rublee.
R: YOU'll let me know tomorrow?
HMJr: Yes, I will.
R: Thank you. Good bye.

March 2, 1939.
4:40 p.m.

Allen
Sproul: Hello, Mr. Secretary.

HMJr: I hope you didn't wait for me.

S: No, I've been pretty busy today anyway and I still have some things to do.

HMJr: Good for you. Things look pretty good, don't they?

S: They look very good, and we've been around the market pretty thoroughly now and the report substantially everywhere is they think the opening up of the old issues is fine and that they'll go very well, and certainly the market's action today bears that out.

HMJr: I see. Well, that's good and we'll talk tomorrow about -- a little bit about pricing.

S: Yes, I think they'll be a little steadier tomorrow than they have been today. They were -- went down at the opening pretty fast without much doing and then they've come back during the rest of the day on fairly good buying, but I think we'll get a better idea tomorrow how they are really going to settle down.

HMJr: Fine. Well thank you.

S: All right.

HMJr: Good night.

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE March 2, 1939

TO Mr. White
 FROM Mr. Glasser, Mr. Ostrander and Mr. Cass.

Subject: RMO 1938 Report of the National Association of Manufacturers' Committee on the Study of Depressions.

Summary

In substance, this study is an unsupported assertion that private industry, with governmental policies such as prevailed prior to 1930, is able to produce full employment, stable prosperity, and a continually rising national income. The authors of this study give no reasons for believing that private industry can do these things. They merely affirm that private industry would have done it already had it not been for the New Deal. Recovery was proceeding "naturally" in 1932 until the New Deal came along. Since then things have gone from bad to worse. The recovery of 1932-1937 was handicapped by the policies and legislation of this Administration.

To our knowledge, economic research has not yet found a justification for the analysis and conclusions of this report. The authors state, however, that they have detailed economic studies to support each of the generalizations and conclusions. In order to properly evaluate the report it would be necessary to have available these supporting studies.

There is a long list of conditions which are said to be necessary for sustained prosperity once recovery is attained. Most of these factors resolve themselves into one factor, namely, absence of government participation directly or indirectly in business activity.

It is our considered opinion that this study is a political document and not an economic one. Its main burden is an attack on this Administration's policies during the past six years. There is no positive program for the government other than "do nothing" and "hands off".

The factual basis of the argument, as presented in Parts I and II comprises a series of prejudiced and perverse statistical comparisons which no economic research could justify. The base periods for the various comparisons shift back and forth in such a way as deliberately to show the United States in the worst possible light with respect to other countries of the world. One net effect of these statistics is to indicate that the conditions of full employment of high industrial activity, and "prosperity" are to be found in their most extreme form, not under governmental regimes favorable to free enterprise, but under the totalitarian regimes of Germany and Japan.

The report draws the following major conclusions:

1. The recovery from the 1929 depression really began in 1932, both in United States and the rest of the world.
2. The recovery of 1932-1937 was less than that of most countries, was uneven in character, and did not show any of the progress that was to be expected according to the past 150 years of our country's progress.
3. The recovery of 1932-1937 failed to be as high as previous recoveries because of the New Deal legislation and New Deal policies which handicapped natural economic forces.
4. The 1937-1938 depression was so severe in the United States because the previous recovery contained depressive factors, which, combined with the mistakes of government and business in 1937, caused a sharper recession than that of 1929-1930.
5. A list of factors is given which they say had a depressing effect on business during the recovery period 1932-1937. All of these factors listed are those which are usually associated with the Administration, correctly or no. The main items are those which usually used to attack the Administration.

(1) Taxes - United States Profits Tax, Capital Gains Provisions, excessively high surtax rates, and administration of taxes which are antagonistic to business and wealth.

(2) Labor - attitude of the government toward high wages, towards labor relations and towards sit-down strikes.

(3) Prices - Government attempts to influence prices.

(4) Control of farm prices and production.

(5) Securities regulation, public utility regulation and government competition.

(6) Administration of relief was unsound.

(7) Monetary policies which caused fear of inflation.

6. The immediate factors which caused the economic collapse of 1937-1938 were mistakes by the government and by business:

Government mistakes: (a) Increase in reserve requirements, sterilization of gold, and drastic, instead of gradual, reduction of government cash deficit expenditures.

(b) Failure to attack sit-down strikes

(c) Statements by government officials that some prices were too high.

(d) Supreme Court bill.

(e) The prospect of a special session of Congress.

Business Mistakes:

(a) Inventory policy

(b) Installment selling

(c) Failure of business to improve their financial structure by reducing fixed charges.

(d) Too ready acceptance of apparent effects of government spending policies by business "and in many instances, moreover, business deliberately sought government financial aid".

(e) Failure to develop satisfactory labor relationships and to convince workers that company policies were sound.

(f) Failure of business "to sell itself to the public.

(g) Disturbed labor relationships.

7. Part IV contains a list of essential conditions which experience shows should prevail to give assurance of continued prosperity. All of these conditions without exception are so vague and so platitudinous as to be meaningless and useless as a guide to government policy.

Prepared by: Lawrence H. Seltzer
and
Sidney Tickton 101

TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

To:

DATE March 2, 1939

TO Secretary Morgenthau
FROM Mr. Haas
Subject: Member Bank Holdings of Governments on
December 31, 1938

Preliminary data on member bank holdings of Government securities from the December 31 call report have been made available to us for internal use, and are presented in the accompanying tables. For the first time, a detailed breakdown by maturities is available. Some of the outstanding aspects of the figures are noted briefly below. (All figures are as of December 31, 1938.)

I. Holdings are Mainly Short-Term

- (a) All member banks. 63 percent of their direct Governments mature within 10 years, and 40 percent within 5 years.
- (b) New York City member banks. 75 percent of their direct Governments mature within 10 years, and 56 percent within 5 years.
- (c) Chicago member banks. They are more partial to longer-term Governments than any other class of member banks. 52 percent of their direct Governments mature within 10 years, and 38 percent within 5 years.
- (d) Reserve city member banks. 61 percent of their direct Governments mature within 10 years, and 35 percent within 5 years.
- (e) "Country" member banks. 56 percent of their direct Governments mature within 10 years, and 33 percent within 5 years.

Secretary Morgenthau - 2

II. Holdings of Reserve and Member Banks
as Percentage of Total Market Supply

(a) Member banks and the Federal Reserve banks hold 55 percent of the total open-market supply of direct Government securities maturing within 5 years; and 48 percent of that maturing within 10 years.

(b) Holdings of the Reserve and member banks total only 36 percent of the aggregate open-market supply of Treasury bonds; but 65 percent of Treasury bills, 54 percent of Treasury notes, and 49 percent of Treasury bonds maturing within 5 years.

(c) Member banks hold 50 percent of the open-market supply of Government-guaranteed obligations. The New York member banks hold 19 percent, the Reserve city banks 16 percent, the country banks 13 percent, but the Chicago banks only 2 percent of such obligations.

(d) Member banks hold 32 percent of the open-market supply of Treasury bonds maturing between 10 and 20 years hence, and 25 percent of those maturing after 20 years.

Attachments

Percent of Total Market Supply* of Direct United States Government
Obligations Held by the Reserve and Member Banks of the
Federal Reserve System, December 31, 1938

	Percent of market supply held by						Federal Reserve banks	Total
	New York City member banks	Chicago member banks	Reserve city member banks	Country banks	Subtotal All member banks	Federal Reserve banks		
Treasury bills	12.1	4.5	4.4	.9	21.9	43.3	65.2	
Treasury notes	13.5	3.5	14.5	8.7	40.2	13.7	53.9	
Treasury bonds								
Maturing 1939-1943	21.0	2.1	13.1	7.6	43.8	4.8	48.6	
Maturing 1944-1948	8.1	1.8	15.3	8.6	33.8	3.8	37.6	
Maturing 1949-1958	5.9	3.9	13.1	9.1	32.0	3.5	35.5	
Maturing 1959 or later	4.3	2.9	10.4	7.1	24.7	3.8	28.5	
Total Treasury bonds	7.4	2.9	13.2	8.4	31.9	3.8	35.7	
Total market supply	9.2	3.1	13.2	8.2	33.7	8.0	41.7	
Total maturing within 5 years	14.5	3.4	13.2	7.6	38.7	15.8	54.5	

Treasury Department, Division of Research and Statistics.

February 28, 1939.

* Total market supply means all interest-bearing obligations, less U. S. Savings, Postal Savings, and Adjusted Service bonds, and all securities held by Government corporations and credit agencies.

Holdings of United States Government Obligations, Direct
and Guaranteed, as Reported by Member Banks of the
Federal Reserve System December 31, 1938

(In millions of dollars)

(Preliminary figures, subject to change)

	: Total -	: Central Reserve	:	:	:
	: all	: city banks	:	: Reserve	: Country
	: bank	: New York	: Chicago	: city banks	: banks
	: members	:	:	:	:
Direct obligations:					
Treasury bills	286	158	59	57	11
Treasury notes	3,389	1,142	291	1,224	732
Bonds maturing in 1939-1943	727	348	36	217	127
Bonds maturing in 1944-1948	2,450	581	134	1,116	620
Bonds maturing in 1949-1958	2,902	534	353	1,186	829
Bonds maturing in 1959 or later	1,140	199	133	479	329
Total direct obligations	10,894	2,963	1,005	4,278	2,648
Obligations guaranteed by United States Government:					
Reconstruction Finance Corp.	427	235	80	65	47
Home Owners' Loan Corp.	1,325	505	10	451	358
Federal Farm Mortgage Corp.	434	98	5	166	164
Other Government corporations and agencies	159	56	13	58	31
Total guaranteed obligations	2,344	894	109	740	601
Total direct and guaranteed Government obligations	13,238	3,857	1,114	5,018	3,249

Treasury Department, Division of Research and Statistics. February 28, 1939

Note: Figures are rounded to nearest million and will not necessarily
add to totals.

Direct United States Government Obligations Held by the
Reserve and Member Banks of the Federal Reserve
System, Classified by Maturities
as of December 31, 1938
(In millions of dollars)

(Preliminary figures, subject to change)

	Amount maturing from				Total
	1939-43	1944-48	1949-58	1959-65	
Federal Reserve banks	1,803	267	318	176	2,564
New York City member banks	1,648	581	534	199	2,963
Chicago member banks	386	134	353	133	1,005
Reserve city member banks	1,498	1,116	1,186	479	4,278
Country banks	870	620	829	329	2,648
All member banks	4,402	2,450	2,902	1,140	10,894
All member banks, excluding New York	2,754	1,869	2,368	941	7,931
All member banks, excluding New York and Chicago	2,368	1,735	2,015	808	6,926

Treasury Department, Division of Research and Statistics February 28, 1939

Note: Figures are rounded to nearest million and will not necessarily add to totals.

TREASURY DEPARTMENT

107

INTER OFFICE COMMUNICATION

DATE March 2, 1939

TO Secretary Morgenthau
FROM Mr. Haas *HA*

There is attached herewith a table showing the actual and the estimated receipts for the fiscal year through February 1939.

For the month of February the actual receipts of \$417.3 millions are almost exactly in accordance with the estimate of \$417.8 millions. For the fiscal year to date, we have actual receipts of \$3,652.3 millions as contrasted with an estimate of \$3,632.0 millions, which represents \$20.3 millions, or 0.6 of 1 percent, more than the estimate.

Attachment.

Comparison of estimated ^{1/} and actual receipts for February 1939
and for the first eight months of fiscal year 1939

Summary table - daily Treasury statement basis
(money figures in millions of dollars)

February 1939				July 1938 - February 1939			
Estimated receipts	Actual receipts	Increase + or decrease - over estimate	Amount	Estimated receipts	Actual receipts	Increase + or decrease - over estimate	Amount
		Percent				Percent	

General and special accounts

Internal revenue:

Income taxes	54.8	55.7	+ .9	+ 1.6	1,239.4	1,268.8	- .6	2/
Tax on unjust enrichment	.5	.5	0	0	4.3	4.2	- .1	- 2.5
Miscellaneous internal revenue	150.0	142.3	- 7.7	- 5.1	1,479.9	1,514.5	+ 34.6	+ 2.3
Pay-roll taxes:								
Social Security Act:								
Taxes with respect to employment (title VIII)	96.4	102.2	+ 5.8	+ 6.0	384.0	388.7	+ 4.7	+ 1.2
Tax on employers of eight or more (title IX)	45.0	52.1	+ 7.1	+ 15.8	77.0	86.5	+ 9.5	+ 12.3
Total, Social Security Act	141.4	154.4	+ 13.0	+ 21.8	461.0	475.2	+ 14.2	+ 19.5
Carriers Taxing Act of 1937	27.9	27.5	- .4	- 1.4	81.8	81.7	- .1	- .1
Total pay-roll taxes	169.3	181.9	+ 12.6	+ 7.4	542.8	556.9	+ 14.1	+ 2.6
Total internal revenue	374.6	380.4	+ 5.8	+ 1.6	3,266.4	3,314.4	+ 48.0	+ 1.5
Customs	28.8	22.4	- 6.4	- 22.2	225.2	210.3	- 12.9	- 5.8
Miscellaneous revenues and receipts	14.4	14.7	+ .3	+ 2.1	142.4	128.2	- 14.2	- 10.0
Total receipts, general and special accounts	417.8	417.5	- .3	- .1	3,632.0	3,652.8	+ 20.8	+ .6

Treasury Department, Division of Research and Statistics.

March 2, 1939.

^{1/} Monthly distribution of estimates for fiscal year 1939 appearing in the January 1939 Budget Message.

^{2/} Less than .05 percent.

Rangoon, Burma, March 2, 1939.

STRICTLY CONFIDENTIAL

SUBJECT: American petroleum products for China.

THE HONORABLE

THE SECRETARY OF STATE,
WASHINGTON, D.C.

SIR:

I have the honor to report that, according to information received here by American oil interests, about 60 percent of the petroleum products obtained by China in the United States under a recent credit, which is understood to be part of the credit of \$25,000,000 granted in December by the Export-Import Bank to the Universal Trading Corporation of New York City, will be delivered at Rangoon for shipment through Burma and over the new highway in Yunnan. The remaining 40 percent will go to Haiphong, Indochina, for transportation over the French railway to Yunnanfu, in the event that railway remains open and the French place no restriction on the shipment of such supplies to the Chinese Government.

It is said that the information received here indicates that the exports from the United States will amount to 45,000,000 gallons of gasoline, 8,000,000 gallons of aviation gasoline, and 78,000 tons of Diesel oil, and will have an export value of several million dollars.

CONFIDENTIAL

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official advice of the purchase by China in the United States of petroleum products, and of intended shipments to Rangoon, has been received by T. K. Tseng, Vice Minister for Foreign Affairs of the Republic of China, now in this city, from Dr. H. H. Kung, the Chinese Minister of Finance.

American Oil Interests in Burma.

The Standard-Vacuum Oil Company is the only American oil concern with a branch office in Rangoon and a marketing organization in Burma. It imports and distributes kerosene, lubricating oils and greases, white oil, and asphalt. Some of the other American companies are represented here by agents, chiefly for the sale of lubricants and asphalt. The district manager at Hong Kong of the Texas Company (China), Limited, Mr. J. Morch-Hansen, recently visited Rangoon in connection with possible future business with China through this port, and en route to this city he traveled by car over the new road in China and through Burma. He was preceded to Rangoon by Mr. Wah S. Lee, a native American citizen of the Chinese race, who is also a representative of the Texas Company, formerly stationed at Shanghai. Before leaving Rangoon Mr. Lee said it had been decided that it would be inadvisable for his company to open an office here at present, as it would not be practicable to ship through Burma as long as the French railway to Lamsanfu remained open. He added, however, that if the Indochina route was closed for any reason the Texas Company would probably open an office in Rangoon to handle shipments over the new

highway

Regraded Unclassified

STRICTLY CONFIDENTIAL

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Highway.

May Be Entered in Bond.

In anticipation of handling the American petroleum products shipped to Rangoon, the Standard-Vacuum interests are arranging for additional storage facilities at this port. The American company has no storage tanks here, and the petroleum products from the United States will have to be sent to Rangoon in drums and tins. The Burma Customs will permit them to be entered in bond, and it is understood that they will be delivered from bond to the Southeast Transportation Company for shipment from Rangoon to China. Not more than one sixteenth, and possibly only one thirty-second, of the import duty will have to be paid on the release of each consignment, but the bond covering the full import duty will remain effective until the actual reexportation of the products from Burma. A proposal for a sliding scale of Customs drawbacks on supplies for the Chinese Government, based on values and rates of duty, is now being considered by the Department of Commerce and Industry of the Government of Burma, and may be adopted in place of the fifteen-sixteenths drawback now effective. Under the proposed scale, collections of one thirty-second, one sixteenth, and one eighth would be made, and war materials generally, on which the full rate of duty is 50 percent, would pay only one thirty-second of that duty. It is understood that petroleum products would be given the same benefit, in the event of the proposed scale being established.

The import duty on motor spirit (gasoline) is the same

STRICTLY CONFIDENTIAL

same as the excise duty levied on gasoline produced in Burma, or 11 annas (about \$0.24 at present exchange) an imperial gallon. One sixteenth of this would be about \$0.015 an imperial gallon, and slightly less than that a standard American gallon, and one thirty-second would be about \$0.0075. Diesel oil pays a duty of 12½ per cent ad valorem, and when imported in bulk there is a fixed tariff value of 36 rupees (about \$12.60) a ton; if imported in containers the duty is based on the actual value.

Storage Capacity at Rangoon.

It is understood that arrangements can be made through the Rangoon Port Commission for the storage here of at least 1,500,000 gallons, and possibly up to 2,000,000 gallons, of petroleum products in containers. Shipments from the United States would be governed largely by the storage capacity at this port, particularly because of the uncertainty of the Yunnan-Burma highway remaining open to traffic during the coming rainy season.

Respectfully yours,

AUSTIN G. BRADY
Austin G. Brady
American Consul

Distribution:

1. Original and four copies to Department.
2. Copy to American Embassy, London.
3. Copy to Consulate General, Calcutta.
4. Copy to American Consulate, Yunnanfu.

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THE FOREIGN DEPARTMENT

STATEMENT OF SECRETARY MORGENTHAU BEFORE THE SUB-COMMITTEE
ON MONETARY POLICY, BANKING AND DEPOSIT INSURANCE OF
THE SENATE COMMITTEE ON BANKING AND CURRENCY,
MARCH 2, 1939, 10:30 A.M.

Mr. Chairman and Members of the Sub-Committee:

On January 19, 1939, the President wrote to the President of the Senate and the Speaker of the House of Representatives recommending the extension of the powers conferred by Section 10 of the Gold Reserve Act of 1934 dealing with the Stabilization Fund and certain powers specified in the Act of May 12, 1933, relating to fixing the metallic content of the dollar, which would otherwise expire on June 30, 1939. S. 910, which was introduced on January 23, 1939, by Senator Wagner, Chairman of the Committee on Banking and Currency, is in accord with the recommendations of the President and I am appearing before you in support of this bill.

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A discussion of the provisions of S. 910 may be conveniently divided into the provisions dealing with the extension of the Stabilization Fund powers (Section 1 of the bill) and the provisions dealing with the extension of certain powers specified in paragraph (b)(2) of Section 43 of the Act of May 12, 1933, which principally involve (a) the power to alter the weight of the gold dollar and (b) the unlimited coinage of silver. If it is agreeable to you and the other members of the subcommittee, Mr. Chairman, I propose to take up the provisions of S. 910 in that order.

I.

Continuation of the Stabilization Fund Powers

The Stabilization Fund of \$2 billion was established by Section 10 of the Gold Reserve Act of 1934, which was enacted on January 30, 1934. The \$2 billion placed in the Fund was obtained from the increment accruing to the Treasury from the decrease in the weight of the gold dollar and consequent increase in the value of the gold held by the United States. As originally provided, the Stabilization Fund had a life of two years and the President was authorized to extend the period for one additional year. This he did on January 10, 1936. In January 1937 Congress, in an Act similar to the bill now being considered by the Committee, extended the life of the Stabilization Fund until June 30, 1939. The purpose

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of the legislation now before your committee is to extend the Fund until January 15, 1941.

During the three years immediately preceding the creation of the Fund more than 30 nations had departed from the gold standard and had adopted either floating currencies or exchange controls. Confronted with these monetary developments Congress, fully appreciating the need for a special fund, with ample reserves and adequate power to cope with this new trend in international monetary matters, created the Stabilization Fund.

Since the establishment of our Stabilization Fund other countries have abandoned the pre-1931 gold standard, until now every country except the United States and one other country important commercially

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has a currency which, in effect, is either a floating currency or is subject to exchange controls.

Whereas before 1931 currencies fixed in terms of gold and stable in terms of exchange rates characterized most of the world monetary systems, there now prevail currencies with differing nominal, actual and even bootleg rates, floating currencies, exchange controls, and exchange clearing agreements. Formerly rigid mint parities and unrestricted gold movements ruled international currency relationships; now dependence has to be placed chiefly upon the day-to-day decisions of governments adapted to the continually shifting economic, political and monetary conditions.

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The purpose of the Fund is to stabilize the exchange value of the dollar. In carrying out this purpose the Fund undertakes a variety of operations.

Sometimes it is called upon to prevent violent fluctuations in exchange rates induced by acute political developments which cause flights of capital from one country to another. Such, for example, was the situation created in the fall of last year when as a consequence of the Czechoslovakian crisis a large volume of funds sought to leave Europe for the United States. The outflow of funds was so large that the amount of gold which it was necessary to ship from Europe to provide dollar balances was far greater than could be taken care of through normal commercial channels. If there had been no Stabilization Fund

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to cooperate with the other funds, the dollar exchange would have fluctuated so violently as to disrupt our trade. International monetary chaos might have ensued.

The occasions which call for operations of the magnitude undertaken by our Fund last fall are, however, sporadic. Normally the Stabilization Fund is concerned with hour-to-hour and day-to-day fluctuations in the dollar exchange rate. When the exchange markets are quiet and there are no unusual disturbances, it is not necessary for the Fund to take an active part in the market. At such times it operates in relatively small amounts and participates in a relatively small number of transactions each day, and may even not enter the market at all.

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When, however, for one reason or another the operations in the various exchange markets become speculative or panicky in character, with abnormal fluctuations, then the Stabilization Fund steps into the market and becomes active in buying and selling gold and foreign exchange for the purpose of minimizing fluctuations.

During these operations it is frequently necessary for the Stabilization Fund to acquire foreign currencies. The Fund attempts to carry out all such transactions with a minimum of risk. In the past, we have been successful in avoiding risk of exchange loss through special reciprocal arrangements between cooperating Treasuries under which foreign exchange is immediately convertible into gold at a price fixed each

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day. Incidentally, it should be pointed out that because we wish to avoid the possibility of an exchange loss we frequently forego the possibility of an exchange profit.

There are also occasions when the exchange rate between the dollar and the currency of a country with small gold holdings is subjected to pressure because of unfavorable political or economic developments. The Fund can be employed, and has occasionally been employed in such circumstances, to help stabilize the dollar exchange.

For example, our arrangement with China was just such an operation. There was strong pressure against the dollar-yuan exchange and China needed dollars in order to strengthen the dollar-yuan exchange

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rate, thus avoiding additional obstacles to our trade. To eliminate any risk of exchange loss, China agreed to repurchase the yuan at the same rate at which the United States purchased them and China's promise was backed by adequate gold and silver collateral, which was kept on deposit with Federal Reserve Banks.

An arrangement of like character was made with Brazil in 1937, but owing to subsequent developments the arrangement was not utilized.

A similar arrangement was made with Mexico. We purchased Mexican pesos and in exchange made dollars available. Again, as in the case of China, the Mexican Government agreed to repurchase the pesos at the price we paid for them and deposited adequate collateral with the Federal Reserve Banks.

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There are times when the situation in the foreign exchange and gold markets calls for gold operations by the Fund in the London market. If, as a consequence of certain international, economic or trade developments, pressure should develop against the dollar sterling rate, the Fund might, in order to protect the dollar's position and American commercial and trade interests, engage in gold operations to relieve that pressure. It might, for example, place an order through its fiscal agent, the Federal Reserve Bank of New York, for the purchase in London of a specified amount of gold at a specified price. Upon execution of the order our Fund acquires gold in London and supplies dollar exchange in payment. This gold is placed on deposit in London and may be disposed of

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in any of several ways depending upon market developments. Should, for example, pressure against the dollar then occur, the Fund could release the gold in London for payment in sterling and then sell sterling for dollars. If, on the other hand, no such pressure develops, the gold can be brought to this country to be held in the Stabilization Fund or to be sold by it to the United States Assay Office.

There are numerous other technical ways in which the exchange and gold transactions are consummated depending upon where the pressure falls, what the reasons for the pressure are, the condition of the various exchange and gold markets, and even the shipping facilities for gold available at the particular time.

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From 1934 to the middle of 1936 the Stabilization Fund acted independently in the purchase of gold and foreign exchange. When in 1936 France was confronted with a monetary crisis, the United Kingdom, France and the United States realized the necessity of taking steps to safeguard their economies against competitive exchange depreciation which in the long run would benefit none and injure all. Therefore, in pursuance of our policy of promoting stability of the exchange value of the dollar, on September 25, 1936, we joined the governments of Great Britain and France in the Tripartite Declaration of policy with respect to international monetary affairs. Soon thereafter the governments of Belgium, Switzerland and the Netherlands announced their adherence to this declaration. The

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machinery for collaboration to attain the common objectives laid down in the Tripartite Declaration was provided chiefly by the Stabilization Funds of these countries.

The Stabilization Fund is, under present conditions, a potent instrument for the protection of our stake in world trade and of every American producer who competes in the American market with foreign producers. The only persons in the United States who can possibly be injured by the operations of the Stabilization Fund are speculators in foreign exchange. Whereas the business man needs stability in exchange, the speculator thrives on exchange fluctuations. Any business man who has had to deal in foreign currency knows that the dollar is the most

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stable and the soundest currency in the world today. The \$2 billion Stabilization Fund has been an important and, I believe, essential instrument in maintaining that stability.

The occasions when the Stabilization Fund has been employed for large scale operations to avoid disruption of the international monetary market have been few, yet the Fund operates regularly to minimize undesirable day-to-day fluctuations in rates. Its very existence constitutes a stabilizing factor in the exchange market. It is a major force in discouraging speculators from undertaking raids on our exchange rates. What is even more important, the presence of a \$2 billion Fund set aside to be used for exchange purposes when necessary effectively discourages the

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initiation of currency depreciation wars which would, of course, be disruptive to world trade.

One of the responsibilities of the Stabilization Fund is to assume in times of stress in the foreign exchange market the functions normally performed by private operators, who, because of the risk involved, may not be willing to act at the very time when there is the greatest need for exchange facilities. There have, for instance, been several occasions in the last year when the Fund was virtually the only source of dollar exchange.

There is still another important function which stabilization funds throughout the world perform -- namely, the protection of the domestic money and credit

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market from the impact of large gold losses or gains. Because of the large amount of gold held by our Stabilization Fund it is in an excellent position to protect our credit base against heavy withdrawals of gold from this country.

It may be expected that, with the restoration of normal conditions abroad, gold may leave the United States in large volume. In such a situation the gold in the Stabilization Fund will cushion what might otherwise constitute a severe shock to our economy.

The emergency in the international economic and monetary field still exists and unfortunately there are no grounds for believing that such emergency will end on June 30, 1939. On the contrary, the recurrence of international crises is as probable now

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as when the Stabilization Fund was created in 1934.

Regardless of the trend of international developments, the Stabilization Fund may have even greater usefulness in the future than it has had in the past.

I turn now to another aspect of the Fund.

When Congress established the Fund it provided that an annual audit should be made and that the Secretary of the Treasury should make a report to the President once a year. There was no provision for any other report. Congress evidently recognized that every precaution should be taken to prevent any one from attempting, through knowledge of its detailed operation, to gain speculative advantage. It was then known that

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the British Fund was operated with the utmost secrecy and it was realized that a certain amount of secrecy was essential if our Fund was to serve its purpose most effectively.

So far as there is secrecy in the operation of the Stabilization Fund of the United States, it relates only to the transactions and status of the \$200 million portion of the Fund. This account has never held more than a relatively unimportant portion of our monetary gold stock. It is with regard to this portion of the Fund that the exchange speculators interested in following for their own gain the day-to-day operations of the Fund would like to have more detailed information. These speculators cannot now tell whether the operating portion of the Fund at any given time consists entirely

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of gold, or entirely of cash assets, or partly of each. They, or any citizen, of course, can tell from the Daily Treasury Statement that the Stabilization Fund contains at least \$1.8 billion of gold which has never been touched.

Speculators would be the chief beneficiaries from publication of a current record of the day-to-day operations of the Fund. Failing to obtain current information, they would like the detailed data on past operations. The past record would enable them better to trace the current activities of the Fund.

One of the important ways through which the Stabilization Fund helps maintain confidence and stability of exchanges is by its psychological effect. The less the speculator knows of the day-to-day operations

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of the Fund, the smaller do those operations have to be.

II.

Alteration in the Weight of the Dollar

I now come to the second section of the legislation which the Committee is considering: extension of the authority to alter the gold content of the dollar. This power, when originally given to the President in the Thomas Amendment passed in May, 1933, was subject to no time limitation. However, it did provide that the gold content of the dollar could not be reduced more than 50 per cent. In January, 1934, when the President recommended the enactment of the Gold Reserve Act he recommended that the authority to change the gold content of the dollar be limited to fixing the dollar at a gold content of between 50 and

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60 percent of its former weight. You may recall that on January 31, 1934, the President exercised the power granted him in this Act by fixing the gold content of the dollar at 15-5/21 grains of gold 9/10 fine which was approximately 59 per cent of its former weight.

The Gold Reserve Act placed a time limitation on both the Stabilization Fund and on the dollar devaluation powers. On January 23, 1937, the dollar devaluation power was renewed by Congress at the same time the Stabilization Fund was extended.

It is my conviction that this power should be continued.

The dollar now has identically the same gold value it had five years ago when the President

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proclaimed on January 31, 1934, that the gold content of the dollar shall be 15-5/21 grains of gold 9/10 fine. The fact that we have kept the gold value of the dollar stable through the international monetary disturbances and alarms of the past five years should be adequate assurance that there is neither desire nor intent on the part of this administration to alter the gold value of the dollar except under circumstances which clearly demand such action.

This power is a weapon in reserve which is needed for the protection of American interests. In the monetary field it is as important as a powerful navy in the field of defense against armed attack.

In the last five years, as you know, the currencies of over 50 countries have changed their

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gold value. Unfortunately, the future is uncertain; the trend of international economic relationships remains subject to constant modification. There is no guaranty that other countries in their search for what is in their best interests will not undertake monetary measures which may operate to the disadvantage of the United States. In this connection, remember that virtually no foreign country has fixed the actual gold value of its currency.

For the United States to surrender any of its instruments for dealing adequately and promptly with international economic and monetary problems as they arise would tie our hands when immediate action might be crucial. The existence of this power to devalue the dollar has been a warning to the world that we

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stand ready and able to defend the position of this country in world trade and to protect American goods from intensified competition in the American market. Thus stability rather than instability is given to international exchange rates by the existence of the power in the United States to deal promptly and effectively with currency depreciation abroad.

It is my opinion that at this time when the gold content of other leading currencies is permitted to float, and when the international picture is so uncertain, the United States should not permit the power of its government to deal quickly and effectively with situations that require an alteration in the gold content of the dollar to lapse.

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III.

Newly-Mined Domestic Silver

I wish to call attention to the fact that section 2 of S. 910, in addition to extending the power of the President to alter the weight of the gold dollar, also extends the power of the President, conferred by the Act of May 12, 1933, as amended, to provide for the unlimited coinage of silver. As you know, pursuant to such power the President on December 21, 1933, issued a proclamation pursuant to which newly-mined domestic silver has been received by the mints for coinage and addition to the monetary stocks at a return to the miner of an amount considerably above the world price of silver. Since December 21, 1933, a number of proclamations have been issued

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modifying the original proclamation with regard to the amount to be returned to the miner and extending the original proclamation. The Treasury is now receiving newly-mined domestic silver under such authority at a return to the miner of approximately 64-1/2 cents per ounce. The original proclamation, as modified, expires on June 30 of this year. Under the provisions of section 2 of S. 910 the President would have authority to extend such proclamation until January 15, 1941.

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In re: MANUFACTURERS' ASSOCIATION
Depression Committee

March 2, 1939
3:00 P. M.

(Secretary's Office)

PRESENT: Secretary Morgenthau
Mr. Duffield
Mr. White
Mr. Hanes
Mr. Gaston
Mr. Howard Coonley
Mr. E. V. O'Daniel
Mr. H. Boardman Spalding
Mr. George H. Houston
Mr. George Guth
Mr. Edmond E. Lincoln
Mr. Harley L. Lutz
Mr. Willford L. King
Mr. Donald Woodward
Mr. Lewis Haney
Mr. Walter Chamblin
Mr. Noel Sargent

H. M. Jr:

Well, gentlemen, I appreciate very much your coming in.

I read with great interest your booklet on the study of the depression. We have been making a similar study here, the so-called fiscal monetary committee, and when I saw the first Press notice of your study I felt that what we are all trying to do is get this country on a better basis than it has ever been before.

For my part I am sure I can learn something. I want to explain that we are not interested as far as publicity is concerned even though the Press hangs around my door. All we are here for is to exchange information.

I asked whether you objected to a stenotype. The only purpose is I do keep a diary and I will furnish you with one copy of these proceedings if you desire it. I do want some sort of a record and will be glad to furnish you gentlemen with a copy.

What we want is to be helpful and to get the benefit of these studies. We don't think publicity puts anybody to work. So, if whoever is Acting Chairman would start in and tell Mr. Hanes and myself something about the work and how you approached it; how we could avail ourselves of some of the information you have and what you think are some of the more important questions and what comes first in importance, I would be more than pleased to listen.

C Daniel:

Mr. Secretary, we approached this problem, you might say, first, as the National Association. The first year we started this work was 1937. A committee was appointed to study the depression and the causes thereof and that work has been continued up to the present time.

The committee was made up - the active committee was made up of members of the National Association of Manufacturers and various people engaged in industry.

We had associated with us in the committee work a number of economists from the academic field and some from the business field. Of course, we have no illusions about the size of the undertaking and this report, in some respects, is merely a tentative report, particularly the latter sections of it where we set up certain objectives or, perhaps a better word would be "standards" which we thought characterized periods of prosperity, and also might be described as "objectives to be attained if we are going to continue to have prosperous conditions".

That in brief outlines the way we approached the study. I don't know how you would prefer to proceed; whether you would like to ask questions about some points that occurred to you from the report which might be particularly in mind.

H.N.Jr:

Well, of course, the thing I had in mind is this: After all, I always think of myself as an employee of the taxpayer and we are doing certain work here on this thing, and we have available the staffs of the Federal Reserve and the Department of

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Commerce, parts of it, and the Monopoly Committee and National Resources Board and ourselves. We are working on the very same thing that you people are. No doubt you people also have technicians down the line who are doing the detail work and I hoped of the possibility of getting the group that we have here and possibly your group together, and let them rub shoulders and see if out of that there would be a number of things that could be agreed upon and could be done. After all, the staff here are Government people; they are not in business and their outlook naturally is a little different. The same way with business people. We each have sources of information which, if pooled, something quite constructive would result.

O'Daniel: Your thought was that perhaps some kind of a continuing relationship could be had between the technical people engaged in the work.

E.H.Jr: That is what I was sort of looking forward to. Your report covers a great many things that we have listed. We have listed twenty-nine. I don't know just how many you have by numbers, but if you people would say: "Let us take a half dozen which we feel are the most pressing and are the most hopeful", and outline to us those you think would come under that classification, just as a start, you see.

O'Daniel: On that question of continuing relationship, I feel that Mr. Coonley, who is President of the National Association of Manufacturers, would be in better position than I to indicate what might be possible.

Coonley: Well, we would be delighted, Mr. Secretary, to work with your group on matters that both of us feel are vital to make possible recovery, and we can do that in any way you suggest. We would be glad to meet with your group on specific subjects or on the general program. Possibly there are sections of this report that interests them particularly. If so, they could be considered in detail.

E.H.Jr: Somebody said they had been at this work for eighteen months. You know our strength and our

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weaknesses and you know your own organization. Which seems to you to be the most fruitful and from what angle would you suggest this should be attached.

Coonley: I wonder whether time permits or whether it would be to your interest to run over, now, some of the sections of the report that have been discussed and possibly arrive at a basis for future consideration.

H.M.Jr: I will do it anyway that you like. I will let you take the leadership or one of the other gentlemen.

Coonley: May I ask this question: Has any study been made of this report to indicate what sections you are particularly interested in?

H.M.Jr: Very brief. I am going to be frank with you people. I was on the Hill, as you know, until a quarter of one, and attended a meeting of the Advisory Committee, and I have come directly from that meeting and I have not had an opportunity to do "my home work". Now, I am just kind of groping. If Mr. Hanes has had an opportunity to go over the report -

Hanes: I have had a chance to study part of the report and the thing which is uppermost in Mr. Coonley's mind, and in our own mind right now - I maybe should say "uppermost in my own mind right now", because I have responsibility for it, is the tax problem and it is to that which I shall selfishly direct most of my attention. I think we should take these sections somewhat in order. We can not cover the whole water front immediately, but we do have something which is pressing and which is an immediate prospect and I feel that one of the most constructive approaches we can take toward economic recovery is to get this tax bill on a sound basis. So with that end in view, I would like to present for an immediate answer, and an immediate meeting of the minds, if we can get an immediate meeting of the minds with the manufacturers, some mutually tenable approach to this tax problem, so when we got to the Congress with a tax bill, we are not going to meet the resistance, not only of the Congress

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or some members of Congress, but resistance from the manufacturers of the country. That is what I want to avoid, if possible, and I think we can avoid it because we are applying the yardstick, or the question we ask: "Does it promote recovery". If it does not, we are against it.

Coonley:

This appeals to me as an ideal way of going about these things, to discuss them in advance. Our ideas may not meet, but at the same time we will know the other's point of view and therefore we will be able to take a much more intelligent position. We want to be helpful in every way we can and so, possibly, if you are particularly interested in the sections of our report that have to do with taxes we might start with those.

H.M.Jr:

I think that is an excellent suggestion. There are two things: The tax program and as a part of the tax program the Social Security program. Those two things are as bothersome right now as to what the right approach is as any two, and I think if Mr. Hanes will start on taxes first and Social Security, which is, from our standpoint, a part of the -

Hanes:

The reason I suggest that, is because we would waste a lot of time, in my opinion, right at this particular moment - I don't mean it should not be studied over a period time, but we will waste a lot of time if we go delving into the great broad policy of Governmental administration, as one of your items sets out here.

I think if we go into those broad subjects we are going to lose a lot of time when we should take up something which we have a chance, politically, I will put it that way, something we have a chance to do right now which is going to encourage business enterprise in this country. My thought is to approach it in that way, so that we will have a concrete basis for discussion which will give us a maximum of benefit from this meeting.

We want to know what is in your mind as things to be done that will generate a recovery movement and a feeling of confidence in this country; a feeling that this Government wants to produce a tax bill which is constructive and which will

encourage business enterprises to go forward. It seems to me we have a real opportunity in that direction, (and I think thoroughly possible, politically) to do something in a constructive way.

Coonley: Well, I think we could take up that particular section that you are interested in with the realization that if this is going to be treated, it has to be treated as a whole and not in any one part or any part alone.

Hanes: Yes.

Coonley: I think Mr. O'Daniel can take up those sections that have to do with taxes.

O'Daniel: You are referring, Mr. Hanes, I assume, to those paragraphs on page 24.

Hanes: 24, yes.

O'Daniel: Well, now, as a matter of procedure in discussing this thing I am going to call on some of the other gentlemen present here to take up particular topics.

I don't know whether it is worth while to re-read these paragraphs. I think you are familiar with every one here, so it is probably a waste of time to read them again.

Hanes: I was thinking if we could get, for an immediate study, the concrete proposals which the manufacturers have in mind, that would be immediately helpful, and take those up in such order as you may desire. I don't care which order.

O'Daniel: Immediate, specific proposals or covering also the general theory of our approach to it as well.

Hanes: That is right.

O'Daniel: Well, Doctor Lutz, would you take up the discussion dealing with those first two paragraphs under Number Two on page 24, dealing with the undistributed profit tax and the capital gains and losses provisions, and also the question of the total tax burden and particularly the tax burden on individual taxpayers.

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Lutz:

Mr. O'Daniel I am glad to do that.

Mr. Secretary, I think I can correctly state the position of the Committee which drafted this report, although I was not a member of the Committee and had no connection with the writing of the report as such, by saying that these passages on taxation are intended as an expression of the viewpoint of the Committee to the effect that in many respects, the present tax policy has the result of repressing initiative and discouraging the assumption of business risk.

Of course, we all realize that we can get nowhere near permanent economic recovery unless there is a wide spread, general disposition to assume not only the normal hazards of ordinary enterprise, but more particularly the extra hazards of new and relatively venturesome enterprise. And I think it is not an unfair or extreme criticism to say, in many respects, the present policy does check, if it does not entirely destroy any incentive to assume those risks. For example, from the standpoint of the individual investor it is quite obvious, I think, that the present scale of surtax rates is one which provides very little incentive for anyone to take extreme risks or even to work very hard at producing income in normal enterprises.

Consequently, the first criticism that I would make against the present tax policy is that your tax rate is entirely too high, and that you can do nothing more constructive toward removing the brake or releasing the brake on investment and enterprise, and particularly the more risky type of enterprise, than to lower those rates. In the long run, I think, you will get as much or more revenue at a very much lower schedule of rates than you are likely to get as long as you have the brake fixed as tightly as you now have it.

In that same connection and in the same direction, of course, is the provision which permits no allowance for net losses. Now obviously, in every industry except the most stable and certain type of industry, there will be variations in the volume of profits and I, together with a great many other critics of the tax policy - students of taxation in general, have come to the conclusion

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that you can not fairly measure the profit return, or the flow of profits to enterprise on the basis of a single year's profits. In other words, if a man does take a risk successfully in one year, and makes a good profit, he pays very heavily on it, but the next two years may put him in the red and he must cut into his capital account in order to carry on. And unless you have some reasonable allowance for the long run ebb and flow of profit and loss, you have an inadequate incentive to enterprise.

Hanes: May I ask you a question there? Have you given any thought as to what suggestion you would make, concretely, for a reduction of the surtax rates? Have you given any thought to what the maximum should be?

Lutz: Well, you mean from the standpoint of the effect on revenue.

Hanes: No, I was thinking about the effect on the business mind, rather than on the revenue. I am thinking more in terms of the business mind than the revenue.

Lutz: No, I have not, Mr. Hanes, except that I would say that in general, those rates should not rise above a peak of somewhere between 25 and 40 per cent. As you know, the peak of the surtax rates during the middle 20s was 24 or 25 per cent and even in the '21 Act, as I recall, it was only 40 per cent when we thought we were taxing pretty severely and, of course, in the long run it might take a certain amount of experimenting to find out just what the peak is - what it should be - what the ideal arrangement should be, but I think if you want to clear the way very emphatically now for an aggressive flow of investment into new ventures, you could not do anything more dramatic or more effective than by bringing about a very substantial reduction of those rates.

I think you should also consider a reduction of the ordinary corporation rates also, because high surtax rates after all do not affect the large majority of taxpayers in the same sense that heavy taxes on the entire corporate net income will affect the majority of investors in corporate securities.

Those two matters should be separately considered.

In that same connection I think we have made a mistake as a long run policy, to put our state tax rates as high as they are because the effect of the two sets of rates is certainly to deplete the principal sources of the capital funds. And we can not get any large volume of investment, no matter how willing people are, if the bulk of their funds both current and accumulated, are to be sliced off by tax rates of that sort. And so I would recommend to you personally, and I say that because I assume that the state tax rates have been considered by this committee, but I am not - but I would certainly recommend some re-adjustment of that schedule of rates also.

Hanes: May I ask you another question there?

Lutz: Certainly.

Hanes: This net loss carry-over that you were talking about a moment ago, what period of time do you suggest it should be? What period of time would you say was a fair period for net loss carry-over? Would you go back to 1932 for instance?

Lutz: It was only about three years then.

Hanes: For two succeeding years?

Lutz: Yes, they entered the second succeeding year. I am not certain whether that is sufficient. You must understand that in England, as I recall it, it is either five or six years and under the conditions which English industry operates, with a probably greater stability, and a relatively smaller field for really venturesome enterprise than we have, if they regard five or six years as a reasonable basis for adjustment then I don't think in our economy, which has so many more potentialities of risk taking and odds against you, if you do go into those fields, that we ought not to consider a shorter period than that. I have never felt that three years was entirely adequate for a long time adjustment. But again, if you have to set a period it is a matter of opinion. You can always say, "Well, we will let him off until he cleans it up, if it takes ten years". That

would be one policy. You can simply let them wipe out all of the losses or you can fix a limit beyond which you cease to regard a previous loss as a charge against new income.

Now, with respect to some of these specific points which have been mentioned in the report, the undistributed earnings tax for instance. I would agree with the report that it has in the past had certain unwise and uneconomic effects. I realize that today, the tax remains only, you might say, nominally or in principle, but I think the retention of the principle of that policy is an unfortunate thing because it implies to the private economy, I think, the possibility of the threat that at some time it may be revived in full force or in greater force than in 1936, and consequently, it would be a reassuring thing if the new tax law were to eliminate entirely the reference to that particular experiment.

Hanes:

The undistributed profit tax?

Lutz:

Yes. In its present form, of course, the differential in rate is not in itself serious enough to be argued about as a consequential matter, but I think the retention of the principle would be adverse and if you can get the principle as such eliminated, it would be an advantageous thing, capital gains and losses provision, so far as corporations are concerned. I think that had better be discussed by Mr. Spalding or some of the gentlemen here who are actually in business, because they have a greater familiarity with that.

I think it is fair to raise, as a general question, the whole matter or treatment of capital gains and losses. We have always insisted upon a concept of income which regarded a capital gain as constituting income and there is a certain amount of argument that can be advanced for as well as against that concept, but I think it would make toward a much better and clearer and more satisfactory concept of income if we could bring ourselves to eliminate that, except with regard to those classes of operators or dealers for whom some kind of capital goods is a stock in trade. In other words, I lean very much toward the English concept

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of that than our own and I think, in the long run, we would not be any worse off from a revenue standpoint, and I think we should gain tremendously by opening up the capital markets to whatever additional freedom and flexibility may come from the ready movement of capital assets.

H.M.Jr: Mr. Lutz; I would like to ask you a general question.

Lutz: Certainly.

H.M.Jr: On taxes. What position do you take either for the committee or personally, in regard to the present tax basis? I mean, you made a suggestion as to possible changes. Have you any idea as to any additions or do you think we should keep the present tax basis?

Lutz: Well, by "the present tax base" do you mean simply the present types of taxes that the Federal Government is using?

H.M.Jr: Well, we talk about the present tax base is such and such and produces five and a half or six billion dollars. I am asking you if you think we should have sufficient taxes to raise about what we estimate we will need, or do you think we should make changes or substitutions? Do I make myself clear? In other words should we try to raise, if our guess for an 18-month period in advance is - I don't remember the figures - five and a half or six billion.

Hanes: Five billion six.

H.M.Jr: Now suppose we accept these suggestions and Congress accepts them, it means so much loss in revenue. Now, looking at the fiscal problem, do you think they should be substituted with other taxes or can we afford to give up so much revenue. Do you follow me?

Lutz: Yes, I do.

H.M.Jr: I wonder if you will discuss that.

Lutz: May I ask a question? Are you assuming that this change is going to take place within the present - I started to ask you, Mr. Secretary -

H.M.Jr: Ask me anything you want to. After all, you could not begin to ask as many difficult questions as Senator Glass, could you? I have had two hours of that, so anything that you say most likely will be easy.

Lutz: I am sure I could not compete with him in asking questions. What I want to be clear about before I answer your question is whether we are thinking about the present level of expenditures or the different levels of expenditures which might be affected.

H.M.Jr: Let us do it "A" and "B". Let us answer both ways: One, the present estimate of the expenditures voted by Congress and looking toward a four billion deficit or, "B" if you put the level of expenditures any place that you want. Does that answer you?

Lutz: That answers me, and I can give you my answer very simply. I should say that we ought to look for a volume of revenue that will cover the necessary expenditures, whatever they may be. I hasten to add that I hope it may be possible, materially, to reduce that level of expenditures and I think it is possible, materially, to reduce it by various changes which, if the committee has time this afternoon, will probably be mentioned. But whatever your spending is going to be, I think we ought to finance it by means of current revenue.

And now from this point on, I am speaking purely for myself and not for the Committee at all. I think there is just one way to do it and, as I have said to various people, the one thing that the general welfare crowd has on all the rest of us is their hard, cold, realistic approach to taxation. They are not kidding themselves that they can get the money that they intend to give for benefits out of income taxes. They never mentioned income taxes because they know there isn't enough there to do the job you suggest, if you want to finance a nine billion dollar budget. You can not do it out of the income tax. The only way to do it is by some kind of mass taxation, and I think that is the answer I would give you, if you need mass taxation to meet your six billion dollar budget you ought to use it and if you need it to meet

your nine billion dollar budget you certainly ought to use it. Now, have I answered your question?

H.M.Jr: I am not familiar with the term "mass taxation".

Lutz: Sales taxes - turn over taxes. I think my preference would be for a Federal sales tax; I mean a tax that will be spread at a very moderate rate over the mass of the population.

H.M.Jr: You have answered my question. Thank you.

Lutz: Now, I don't know that I shall take more time, Mr. Secretary.

O'Daniel: Mr. Secretary or Mr. Hanes, do you have any other questions?

Hanes: Well, he said he wanted somebody else to talk. I was going to ask him a question about the manufacturers. He mentioned reducing the taxes on corporations and I wanted to ask somebody - I don't know whether it is Dr. Lutz or not, who is the proper one to ask that question, but it seems to me, and this is somewhat on our side of the picture for the moment, because of the administrative difficulties in handling, at the moment, five separate and distinct income tax blanks which the manufacturers or the corporations have to make out. It seems to me it would be in the cards of maybe a wise move to consider reducing the number of taxes which the corporations have to pay, because thereby there is a hidden burden on the corporation, legal expense, accounting expense and so forth and so on, of making up five separate and distinct kinds of tax forms.

When it reaches the Bureau our yield per dollar of taxation is thereby reduced because of the necessity for examination of five and auditing and so forth, of five taxes instead of - I am thinking in terms of two.

Lutz: May I ask, Mr. Hanes, are you thinking of such things as capital stocks and excess profit taxes?

Hanes: I am thinking of eliminating excess profit and capital stock taxes.

Lutz: I certainly recommend that and approve it.

Hanes: Now, that brings the question I was going to ask you a moment ago, and we have got to think a little bit in terms of what is politically possible too. It is not possible for us to go up there and say to the Congress, "We want to take all of the taxes off corporations". I mean that just does not get by very well politically.

If we take any taxes off of corporations, the direct question I would like to ask is whether or not we could get the support of the National Association of Manufacturers. If we could take off and reduce these taxes - the Social Security taxes we have nothing to do with, that is another law, so I will leave that aside. I will speak in terms of just one tax. Is it possible to get the support of the Association on a policy of reducing the number of corporate taxes to just one flat tax and at the same time raise that tax sufficiently to offset the loss in revenue which would be caused by doing away with the capital stock and excess profits tax?

Now, that is not a big sum of money and there will be no "dollar change" to the corporations in this suggestion, but one rather of supplanting with one tax what you are now paying in five taxes or four taxes. You would still have the Social Security tax.

O'Daniel: I am going to ask Mr. Spalding, who is chairman of the Finance Committee, to answer that.

Spalding: I am no longer the chairman.

O'Daniel: You were chairman of the Public Finance Committee of the National Association, which committee has joined us today, and that committee has given more particular attention to the details of taxes than has this Depression Committee. I will ask Mr. Spalding to respond to the question, and also proceed with other suggestions that he has to offer.

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Spalding:

Mr. Secretary, answering Mr. Hanes specific question: I think the position of the Association is that we disapprove wholly of the present hybrid capital stock and excess profits taxes, which are combined together, and which in their effect is nothing more or less than an indirect tax upon income. We would unquestionably favor its repeal, even though the loss of revenue from its repeal had to be made up by an increase in the rate of normal corporate income taxes.

O'Daniel:

Does that answer your question?

Hanes:

He hasn't finished yet.

Spalding:

I finished on that. The one subject that I think bothers business men, and makes this present rate which is, roughly, around 20 per cent of net income, a deterrent to business, which is a high rate and in and of itself bad enough, but it is worse than that because it may not be a rate of 20 per cent on net income - it may be a rate of 50 or 60 or even 100 per cent or more on the real net income that an enterprise earns over its particular business cycle.

Professor Lutz talked on that and you asked him as to a period of time. Now, if we could go to theoretical perfection on that, we would set not 12 months for each industry but would set the period of tax accountability over the business cycle of the particular industry. That would lead you into administrative difficulties however which would be so difficult that you probably couldn't handle them. So you have got to set some kind of a compromise and I should think that a compromise allowing a loss carry-over, so far as business profits are concerned, for a period of five years would, as a practical matter, meet that problem, and the only way in which it practically can be met. Then another thing, the question of capital gains and capital losses with respect to corporations, stands on a somewhat different basis from the capital gains and losses - of individuals.

Capital gains or losses is just as much a part of the profits that the enterprise earns as any other of its operations may be, and I cannot see

the slightest justification either from a good business standpoint or in fairness to this technical limitation of \$2,000 of net capital losses, as it applies to corporations in the present law. And another thing, you present the most difficult administrative problems in attempting to distinguish between a depreciable asset such as a building, and a non-depreciable asset such as the land on which the building stands, where very often the cost of the two is so combined it is purely arbitrary to attempt to distinguish between them. I think I have mentioned to you on previous visits I have had, I think it was rather an unfortunate adoption of policy which I think was largely started by Mr. Jackson when he became Counsel for the Treasury Department, in which he took the position that the Treasury Department in the first instance should decide doubtful questions in favor of the Government, throwing the burden upon the taxpayer -

A.M.Jr: May I interrupt you there? We have discontinued that.

Spalding: Well, if that is the case -

H.M.Jr: We no longer send the 90-day letters and unless we feel we have a case -- if we think a man owes \$100,000 we don't send a letter asking for \$150,000 or \$200,000, and we don't send him a letter at all unless we are convinced we have a case and have a 90 per cent chance of winning it.

I think I am right when I say we have discontinued that practice. In other words, they have sometimes, in the past, tried to make a case and make the fellow feel rather than go to the Board of Tax Appeals, "I will settle for fifty cents on the dollar". That is what you are thinking about?

Spalding: That is one of the things.

H.M.Jr: We have stopped that.

Spalding: Well, I think that is a very wise thing if that change has been made. That is a very wise change

and ought to go a long way toward building up taxpayer goodwill, which is very essential if you are going to administer complicated tax laws such as we have.

W.R. Jr: Unless we really think we have a good case, we don't send a fellow a bill any more.

Worthing: Then I have a number of more or less minor items, but I think in the accumulative total they would have a real influence in the restoring of business confidence. One is with regard to corporations, returning to the consolidated return, so you can tax the net income of the real business enterprise and not on a more or less artificial basis. Second, which goes as a corollary with that, is not to tax inter-corporate dividends at all. Third: I think there should be a greater freedom in allowing corporate reorganization than is now permitted under Section 112.

I think also that there should be much greater freedom in allowing business to set its own depreciation rates, provided they have adequate accounting control so that you don't lose income through the amount of depreciation taken - Allow the corporation, if it sees fit, to perhaps pass somewhat upon its taxable net income and don't have them continually in a dispute with Treasury Department officials over the correct amount of the rates of depreciation. And incidentally that is in line with best conservative accounting principles.

Another detail in the tax laws: I don't think a borrower should be taxed on a paper profit resulting from either a purchase or satisfaction of its bona fide debts at a discount. Third: Most businesses find it very difficult to file their tax returns by the 15th day of the third month. A general extension of 30-days instead of forcing business to make application for it, would be a desirable improvement in the administration of the law. Again there ought to be, I think, somewhat more liberal treatment of inventory valuation - accept generally the rules of inventory valuation that have been adopted and approved by public accountants for the

particular trade or industry. I think the present law does permit, under certain circumstances, using the so-called "last in first out rule", but accountants consider that still too narrow in its application to give the relief that they need in that respect. Those are all more or less minor details, any one of which has very little significance but the aggregate total, I think, would be looked upon by business as being a very real help to them and a fairer distribution of the tax burden.

Hanes: Have you thought of the capital gains and tax provisions, increasing the exemption or taking it off altogether?

Spalding: The capital gains and losses?

Hanes: The maximum deduction is now \$2,000, is it not?

Spalding: As far as corporations are concerned, I would treat capital gains and losses as part of their ordinary net income by whatever method they are ascertained - whatever sound accounting method, within reasonable limits, the corporation chooses to use for that purpose. I think that stands on a different basis from individual capital gains and losses.

Hanes: That is all the questions I have. I want to say in passing, I don't expect you to go and publish this in the newspapers. I know you won't because we are only trying to get all the information we can, and we are asking questions seeking information, so I will ask you to consider it confidential.

Sargent: You said you would like to have our advance opinion on some of these tax measures. We would be glad, as Mr. Coonley said, to come down and talk with you or your associates about them at any time. I might say in this connection we are having a meeting of the Government Financing Committee of our association in about two weeks from Friday and if you have any specific question which you would like to have their opinion on, we would be very glad indeed to put them up to that committee and give you their opinion on them.

Doonley:

I just want, Mr. Secretary, to be sure you understand the questions brought up by Mr. Hanes have been discussed by the committees and the statements here this afternoon is the concensus of their opinion. I feel that that will interest you because they have been subjects of very considerable discussion. Also I think perhaps it would clarify your statement a bit, Mr. Spalding, when you suggested there be latitude given the individual corporation to establish its depreciation rates, by saying that doesn't mean that they should be given the privilege of establishing it every year, but to arrive at a sound basis for depreciation and then carry that on year after year.

Sargent:

Mr. Spalding mentions that the privilege of consolidated returns should be restored. Our committee had in mind that a corporation availing itself of the privilege should be compelled to follow the same course for three or five years or some specified period instead of changing back and forth every year.

Hanes:

Being in one year and going out the next if it suited them?

Sargent:

Yes. I think there was another provision which suggested taxation of corporate dividends to individual taxpayers should be put on a different basis, exempting the dividend from corporations from the normal rate of taxation.

Spalding:

That is a somewhat different subject. I think we have need to re-study the question of the base on which we are proposing an income tax on corporations. Now, if you go back to 1913, we will recall that we imposed the tax then under the theory that it was a withholding at the source. As we got into the war period and after we have departed from that because the normal taxes on corporations has been very much greater in rate than the normal taxes on individuals and I don't think there is any real clarity on the part of either Congress or of the business man as to what the purpose of the corporation income tax is. If we would re-study that part of the problem it would become evident that so much of the corporate income tax as is

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intended to be withheld at the source, that credit for that payment of that tax by the corporation should be allowed to the individual stockholder on his individual tax return after he has received dividends on which a tax has already been paid. Otherwise you have got double taxation and you have today, in that respect, a very unfair discrimination in favor of long term bonds of corporations as against dividends on their preferred stocks, and yet from an economic standpoint the two - they are both merely instrumentalities of capital that is employed in that one industry.

H.A.Jr: Are you through?

Hanes: Yes.

H.A.Jr: I want to ask him something about Social Security if I may.

Soalding: I was going to ask Mr. Guth, who is Vice Chairman of the Association's Committee on Economic Security, if he will deal with the subject of Social Security taxes.

H.A.Jr: There are three things which are bothering me that I would like to know whether the Association has taken any position upon. One is the increase in payroll taxes from one to one and a half per cent, and, two, on the principle of what they call the "three way" program where the Government will make a one-third contribution and then, three, the question of reserve policy. I would like your opinion on those three things which are more or less today not too far off. We will have to take a position on it. I wonder if you gentlemen have taken a position on those three questions?

Guth: Mr. Secretary and Mr. Hanes. The Committee has on behalf of the Association taken somewhat of a definite position against the increase of the tax in 1940. The Committee feels the tax should be kept at the present level of 1 per cent on both the employer and employee.

On the question of the three way contribution, the Association sees no particular objection to that, because the plan as contemplated now, in our

estimation, eventually calls for such a three way contribution. In other words, payroll taxes, employer and employee. The present plan for increasing the surplus in the so-called reserve, which, in my own estimation, the only reason for building up the reserve is for the interest that it will earn.

I fully appreciate, Mr. Secretary, that it will be some time before the three per cent interest earnings on the reserve, if it is allowed to accumulate at the present rate, will come to a point where it is an even split of one-third from the Government and one-third from the employer and one-third from the employee. It would take quite some time before it reached that point. On the question of reserve, it has been our feeling that, frankly, the only reasonable reason for the reserve is to help the financing of payment of benefits in future years by means of the interest that is returned on that reserve.

Now, if I recall correctly, when this matter was originally discussed before the Social Security Act became a law, I don't think there was any thought in anyone's mind about using any part of this reserve for deficit financing. That is something that has come along later over which nobody, perhaps, had any control. They must have had in mind that there might be some time when additional funds might be necessary, otherwise I don't see any particular reason why the provision should have gone in, that those bonds must bear three per cent interest.

Now, it would seem to us that for the time being, as long as there is deficit financing, that it might be necessary to continue to use at least a good share of this money that is going into the so-called reserve, but before a very long period, we hope that there will be an end to that and that that reserve be a nominal reserve of, we will say, to perhaps equal three years of benefits after we once swing into a period when the Social Security Board knows pretty well about what extent the benefits may run, so if we run again into a depression period where our payrolls drop off, and necessarily the payroll taxes would drop off, we would have enough in

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the kitty so to speak, to tide us over for the period. Now frankly on the three way contribution, it depends in the final wind-up both as to the method of using that three way contribution. That is, the rate to be used depends a great deal upon, it seems to me, several things, one of which is just how far the Congress as presently constituted is going to go in increasing these present benefit scales.

Now our feeling, and that is supported by some of our technical experts among the actuaries, that the present payroll tax of one and one should pretty well carry the load of the present schedule of benefits and also assuming that the earlier payment date would be put into effect January 1st, 1940 instead of 1942, that that would carry it for some 15 or 16 years. Now when we have a little more experience along about that time and, frankly, gentlemen, I must admit to you that in conversations with quite a number of outstanding actuaries, both associated with the board and outside the board, they don't seem, any of them, to be very much in agreement as to just what the eventual course of the plan is going to be.

So the Association feels somewhat that that being the case and from a tax angle - well, a half of one per cent is rather inoffensive, looking on the face of it, but nevertheless the volume is rather considerable and so we feel that it is the better part of wisdom to crawl a little bit on this whole situation until we get to the point where we can walk. In other words, to build up a nominal reserve and keep the payroll taxes at a point where, or until the benefits get to the place where they exceed the probable intake in the succeeding year, at which time the payroll tax should be revised. Now that I think, in a general way, explains our position on it.

H.M.Jr:

That is very helpful. I would like to take this opportunity to say, as far as the Treasury is concerned, there was no deep dyed plot to pile up this reserve and use it for deficit financing. It would be stupid to say now: "that money isn't available and I am not going to touch it; I am going out and borrow more money and pay additional interest on that when I have got one

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million dollars in the general fund which I am not using". I mean it would be just sterilizing a million dollars or two million dollars and from our standpoint, it is stupid to say "the money is there but you can't touch it -- It is a different kind of money", and then go out and borrow another million dollars. The thing to do is use it and if the Government obligations are any good, and I think they are, the obligations we give for the Social Security money is as good as any other kind of Government obligation.

If you remember, some of these bond experts figured that at the end of sixty, there would be no more outstanding debt. Everybody got out their pencil and paper and said by sixty the entire debt outstanding will be retired. I want to explain or take this opportunity to say that there is no deep dyed plot - no one was smart enough to say "This is the way we are going to do it, we will have 4 billion dollars deficit in 1940 and Social Security money is there and we are going to use it". I wish that we had no deficit and we could use the money to retire the debt.

Guth: Well, the Treasury, Mr. Secretary, has done just what they should do under the law.

H.M.Jr: That is what we think.

Guth: Personally I have just a little bit of a quarrel with the way the law was drawn in the first place as far as the reserve is concerned.

H.M.Jr: That is something else, but as long as you people understand we are carrying out what we think is both the letter and the spirit of the law, when we use the money and don't sterilize it. I didn't want to waste this opportunity and not make use of explaining how I felt. There are a lot of people who don't understand and don't want to understand it.

Guth: Right.

H.M.Jr: You understand that?

Guth:

Yes. I would like to say this, in passing, that those of us who have made a study of life insurance annuities feel that there is really no comparison between legal reserve life insurance company and an over-all Government plan such as our Federal Social Security Act in so far as it relates to the reserves. There is really good reason, valid reason, of course, why an insurance company should set aside adequate reserves and invest them in obligations other than its own; whereas the Government with its unlimited taxing power doesn't need to do that at all, and the Government even if it were, let's assume, for the sake of argument, that the Government should set up such a reserve it would seem to me rather beating around the bush to issue bonds and then 30 or 40 years from now or a little shorter time when I might come up for a pension, again throw that bond on the market and cash it and have that sort of vicious circle going on, when really about all, in my estimation at any rate, the reserve was created was for its interest earning capacity.

Now, if we go on the principle that in the final wind-up there is going to be some sort of a three-way contribution then it would seem to me it wouldn't be at all a mistake to amend that part of the act dealing with the interest rate on these bonds that the Treasury is now putting in the old age reserve. I see no reason for having three per cent interest there and the final wind up, if the three-way part of it is to be carried out that the third part be carried by straight general taxation to be raised in a particular year. It wouldn't seem to me that interest particularly should enter into it. There is no reason why it shouldn't be the going rate of interest.

Hanes:

The interest wouldn't be important anyway, if they carry through the scheme of reducing the reserve fund to the minimum. In other words, if you pay out in benefits what you get in in taxes, there would be no increment to the reserve account and hence the interest would be not affected.

Guth:

That is right. We still feel however, and I think you will agree, Mr. Hanes, in any final consideration of it that some sort of a nominal reserve perhaps should be kept.

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- Hanes: One billion and a half dollars I think is contemplated.
- Guth: Or at such time as the annual benefits increase. It might be the better part of wisdom to put that reserve up to say two or three times the amount of one years requirements.
- Hanes: I would like to make a suggestion we could call on these gentlemen from time to time and get some of their working papers and learn how they arrived at these conclusions. What I would like to have is a lot of good adequate proof of the background of a lot of these statements because after all, we are all searching for the same thing; we are reaching for an answer and if these things are true, there is no disposition on our part to stand up like a bunch of dummies and say they are not true. We want to know why they are true and if they are true, can we correct them.
- Guth: Mr. Hanes, with Mr. Coonley's permission I will be glad to assist in any way that I can, but I want to be very very sure that you are clear on this particular point when it comes to an estimate as to the probable cost of the plan. I am not an actuary. Even outstanding actuaries can't agree on that.
- Hanes: I was referring to the other part of the statement, as the Secretary said before, I think there are 29 questions that we have been asking ourselves. We have been working on this thing. I have a long list of them - 29, that we hear all the time. Now what we are seeking for is enlightenment on these questions and we would like to see some of your people together with some of our people working in a more or less cooperative effort to arrive at a way around these things, if they are business deterrents, the various points you have raised. How can we correct them? Let us get a constructive approach to the thing in order to get at the meat of the coconut.
- H.A.Jr: Mr. Hanes and I would like to know if there are certain items in which we are particularly interested, who could we have people on our

staff communicate with on your staff and say "we want to put our working papers side by side with yours".

O'Daniel: I would suggest you get in touch with Mr. Sargent who is Secretary of the National Association. Mr. Spalding was on the Public Finance Committee and Mr. Guth on the economic security. Some of those questions might better be dealt with through those committees than through the depression study.

H.M.Jr: Mr. Sargent is in New York?

Sargent: Yes.

Coonley: You could reach the chairman in Washington and he could give us the information so we could provide the particular talent that you want.

Sargent: I could come down to Washington most any time for a preliminary conference to see what you wanted and talk it over and then we could arrange to get together further.

Hanes: We might want to submit a question to you. Maybe you don't hear as many of these questions as we do. We get them every day.

Sargent: If we could have the privilege of exchanging questions with this group of yours it would be very fine.

Hanes: Mutually helpful.

O'Daniel: I was going to raise the question to Mr. Hanes about the questions he had - about specific paragraphs or statements in this report, that if he would care to do so, either submit a number of them or one at a time through Mr. Sargent, and we would be glad to go into them in detail.

H.M.Jr: I have gotten a lot out of this meeting. We want to have the benefit of the knowledge you have collected. We can get in touch with you through your Washington office, I suppose, if we have something specific. We have broken the ice and I think it will be very useful to me.

Coonley: Mr. Secretary, I just want to say that in setting up these committees on the important matters which

we look into, we have a committee made up of the outstanding men in that particular activity. Now, in a broad field like this study of the depression and like in Government finance and so forth, we create sub-committees as important questions come up, and if we know what questions you are interested in or a group of questions, we will be very glad to send down men who may be of some assistance to you.

H.M.Jr: That is what we want.

Coonley: Sit down together and at least it will clear the atmosphere and I think some very excellent results can come from it.

H.M.Jr: I am very much obliged.

(Meeting Concluded)

STRICTLY CONFIDENTIAL

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HRE

GRAY

LONDON

Dated March 3, 1939

Rec'd 6:20 p.m.

Secretary of State

Washington

294, March 3, 7 p.m.

STRICTLY CONFIDENTIAL.

With reference to the Embassy's 268, February 24, 7 p.m., Sir Frederick Leith-Ross states in confidence that the British Government plans to make a public announcement on Monday although the details have not been completed and cannot then be made known. Leith-Ross is concerned about the flight from the Chinese dollar which the recent Japanese measures to enforce their exchange control in North China have precipitated. The latest British telegraphic advices from China indicate that the Chinese banks lost the equivalent of £800,000 of foreign exchange last week and £2,000 on Monday and that the run is continuing. It is hoped that the announcement may stem the tide for the Hong Kong-Shanghai Banking Corporation and the Chartered Bank of India are unwilling to start operations under the scheme until the legislation guaranteeing them against loss has at least passed the House of Commons.

Leith-Ross

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2-#294 From London, March 3, 1939 6:20 p.m.

Leith-Ross hopes that the formal documents will be completed towards the end of next week. They will consist of an agreement between the British and Chinese banks, an agreement between the British Government and the British banks and a declaration by the Chinese Government affirming its desire to preserve the value of its currency. The British Government will not require of the Chinese Government an indemnity against losses. Leith-Ross stated that this course was decided upon in the hope that it would produce a good psychological reaction in the Far East; in Parliament the line will be taken that this currency measure has been undertaken to protect British interests. Leith-Ross frankly added that if Japan should achieve her purposes in China a Chinese obligation would be worthless and if Japan did not succeed the Chinese dollar which is undervalued would appreciate and the exchange fund could probably recoup losses. The exchange control committee will be constituted as set forth in the Embassy's 268, February 24, 7 p.m. and Rogers will be a member nominated by the British Government with the approval of the Chinese Government and act "as a watch dog for both sides." The amount involved has not yet been definitely fixed. The Cabinet authorized the Chancellor of the Exchequer to go up to £5,000,000. The Chinese banks

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3-#294 From London February 3, 1939 6:20 p.m.

are prepared to put up a similar amount. Sir John Simon has not yet committed himself as to whether he will authorize £3,000,000 with an increase of £2,000,000 if required or do the whole £5,000,000 at once. It is apparently due to Rogers' persuasion that the original scheme for only £3,000,000 was revised upward. Leith-Ross hopes and trusts that £5,000,000 will be the sum particularly in view of the present flight from the dollar which makes even that amount look less formidable than it did and would prove insufficient if the movement continues.

In this general connection Leith-Ross stated that the British Government's advices from Tientsin from both official and unofficial sources indicate that with two exceptions the foreign banks in that area are not facilitating the flight or disposed "to play the Japanese game." The exceptions are the Mercantile Bank of India and the National City Bank of New York. Through the Bank of England steps are being taken respecting the Mercantile Bank. Leith-Ross stated that while he had no official request to make it would be helpful if we made an approach to the National City Bank which in recent days had been the largest Tientsin seller of Chinese dollars in the Shanghai exchange market and was also according to his information inclined to cooperate with the Japanese at least in North China. While emphasizing the informal character

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character of his suggestions he equally emphasized the importance of the matter.

Leith-Ross went on to comment on the recent Japanese moves to enforce their exchange control in Northern China, indicating that he did not think their system a good one or likely to be successful. However, he feared that they might bring trade in that area to a standstill by withholding ship clearances unless shipping documents were produced indicating that goods were being exported in compliance with the Japanese regulations. He also commented on the action of the Japanese in turning the concessions into "concentration camps" and said that in his opinion if Japan continued to take such an aggressive line, he felt that the British and American Governments should reconsider whether they should not supplement their assistance to China by taking retaliatory measures directly against Japan. In his opinion the Japanese regard this as a possibility and decidedly fear it as an eventuality.

The approach to the French referred to in the Embassy's 268, February 24, 7 p.m. was made by Rogers in his capacity as an employee of the Chinese monetary authorities. Due to the difficulty between the British and French over the Czech gift and loan the British have not directly approached the French but are urging the Chinese to press strongly for action and will give their support when the

suitable

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suitable moment occurs. But it is not expected that the French would become a party to this arrangement; the mechanical arrangements would be too difficult. Furthermore the French have not been informed of Monday's announcement since the British do not wish a leak to occur.

The Department may care to apprise the Treasury of the appropriate parts of this conversation which Butterworth had with Leith-Ross.

KENNEDY

NPL:ROW

SEVENTY-SIXTH CONGRESS

ROBERT L. DORRINGTON, N. C., CHAIRMAN
 THOMAS H. GILLEN, N. Y.
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COMMITTEE ON WAYS AND MEANS
HOUSE OF REPRESENTATIVES
 WASHINGTON, D. C.

March 3, 1939.

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

Dear Mr. Secretary:

As Chairmen of the Ways and Means Committee of the House of Representatives and the Finance Committee of the Senate, we have read with gratification the statement of the President, the Des Moines speech of the Secretary of Commerce, and your very fine statement in the newspapers, relative to aiding business through the modification or elimination of any provisions of the tax law which act as a deterrent to business.

We appreciate that it is the intention of the Treasury to make no recommendation to the Congress concerning the Federal tax structure until after the March 15, 1939, tax returns are received and examined.

As Chairmen of the respective Committees having to deal with the subject of taxation in the Congress, and believing that we express the sentiments of our respective Committees, we would like to have, as soon as possible after the March 15 returns have been received and examined, the views and recommendations of the Treasury Department relating to any provisions of the tax law which, in your judgment, not as a deterrent to business and which, in your opinion, come within the scope of the statements to which we have referred.

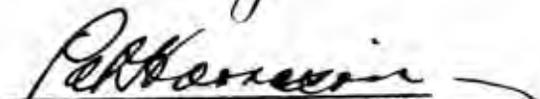
We want to express to you and others in the executive branch of the Government our earnest and sincere desire to cooperate in effectuating the purposes recently announced by those in high authority in the Administration. It is our belief that the members of the Committee on Ways

-2-

and Means and the Committee on Finance hold definite views relating to these matters which are generally consistent with the purposes recently announced; and we believe that any well-defined recommendations concerning such modifications of the present tax law as will encourage private industry to increase employment, add to the purchasing power of the people and stabilize the revenues to the Government will be most helpful. We stand ready and anxious to cooperate.

Respectfully yours,


Chairman, Ways and Means
Committee.


Chairman, Finance Committee.

March 3, 1939.

My dear Senator:

I have received the letter dated March 3, signed by yourself and Chairman Doughton of the Ways and Means Committee of the House of Representatives.

I hasten to reply that we shall be very glad to prepare the information you desire and to present it to your respective committees at your convenience.

I appreciate very much your expression of desire to cooperate in effectuating the purposes which you state so excellently in your letter.

Sincerely yours,

Secretary of the Treasury.

The Honorable Pat Harrison,
Chairman, Finance Committee,
United States Senate.

HEG/mah

by Special Messenger
4:25 P.M. March 3, 1939

Wt

COMMITTEE ON WAYS AND MEANS

House of Representatives

Washington, D. C.

C
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March 3, 1939.

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Washington, D. C.

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- 2 -

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Respectfully yours,

(Signed) B. L. Doughton
Chairman, Ways and Means
Committee.

(Signed) Pat Harrison
Chairman, Finance Committee.

COPY

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Sincerely yours,

Secretary of the Treasury.

The Honorable Pat Harrison,
Chairman, Finance Committee,
United States Senate.

HEG/mah

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March 3, 1939.

My dear Mr. Doughton:

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I hasten to reply that we shall be very glad to prepare the information you desire and to present it to your respective committees at your convenience.

I appreciate very much your expression of desire to cooperate in effectuating the purposes which you state so excellently in your letter.

Sincerely yours,

Secretary of the Treasury.

The Honorable Robert L. Doughton,
Chairman, Ways and Means Committee,
House of Representatives.

HEG/mah

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**FEDERAL RESERVE BANK
OF NEW YORK**

March 3, 1939.

Dear Mr. Secretary:

New security financing reported this week was limited to a 10 year loan of \$3,000,000 placed privately by a shoe company, and about \$10,000,000 of municipal bonds.

About \$200,000,000 of corporate issues are in prospect for the next two months. Among them are:

\$ 3,500,000	Lockheed Aircraft Corporation, common stock.
6,600,000	Community Public Service Company bonds, refunding.
22,500,000	National Distillers Products convertible debentures, 1949, half new capital.
17,500,000	Northern States Power Company, almost all refunding.
40,000,000	Texas Corporation 3 per cent debentures of 1959, new capital.
40,000,000	Northern Indiana Public Service Company, refunding.
22,500,000	West Texas Utilities Company, refunding.
50,000,000	Public Service Company of Colorado, refunding, withdrawn from registration last year and still doubtful.

Unless more issues appear, March and April will not average more than the \$155,000,000 of February. The indicated amount for new capital (\$66,000,000), however, will be an increase over the \$15,000,000 of last month, though still small. Municipal bond awards are also maintaining a low level.

Yours faithfully,


Allan Sprout,
First Vice President.

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

March 4, 1939.

Dear Mr. Spraul:

On behalf of the Secretary I am acknowledging your weekly letter dated March 3rd, listing prospective corporate issues, as well as reporting security financing for the past week. As usual, Mr. Morgenthau will be most interested in the comments you make.

Sincerely yours,

H. B. Klotz,
Private Secretary.

Mr. Allan Spraul,
First Vice President,
Federal Reserve Bank of New York,
New York, New York.

GWF/dbs

March 3, 1939.
9:13 a.m.

HMJr: Hello.

Operator: They expect Senator Adams about ten o'clock.

HMJr: Who's there, please?

O: Just a minute. (Pause) His secretary is not there;
a Mr. Cowl on the line.

HMJr: Let me talk to him.

O: Go ahead.

HMJr: Hello.

Cowl: Hello.

HMJr: Henry Morgenthau, Jr.

C: Yes, Mr. Secretary.

HMJr: Yesterday when I testified before Senator Adams --

O: Yes, sir.

HMJr: He seemed to be bothered about the legal aspects of
gold devaluation --

C: Yes, sir.

HMJr: Now, what I wanted to say is, if he has any doubt that
I'd be very glad to have our acting General Counsel,
Mr. Foley, call on Senator Adams and answer any ques-
tions that he has in mind.

C: All right, Mr. Secretary. I'll tell the Senator that
and also would it be possible for him to talk to you
later?

HMJr: Well, I'm going to be before Weights, Coins and Measures

O: Oh, the House Committee is meeting again today?

HMJr: At nine-thirty.

C: I see.

HMJr: And now -- but, if you would call my secretary, Mrs.
Klotz, K-L-O-T-Z- --

C: All right, sir.

HMJr: And -- she can get Foley out of that hearing and get him to go to see Senator Adams.

C: Well, I don't believe the Senator would ask that but I'll give your message to him.

HMJr: Well, if they were going to have any vote or anything, you see, I'd like -- I'm very anxious to have the Senator convinced, because --

C: Yes, sir. Well, I'll tell him that and --

HMJr: Tell him it isn't only his vote, but I want his reputation back of the thing if it's possible, you see?

C: All right, Mr. Secretary, I'll give him the message and thank you very much, sir.

HMJr: Thank you.

C: Yes, sir.

March 3, 1939.
9:17 a.m.

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HMJr: Hello.

Operator: Senator Wagner at the hotel.

HMJr: Thank you.

O: Go ahead.

HMJr: Hello.

Senator
Wagner: Hello.

HMJr: How are you, Bob?

W: All right, Henry, how are you?

HMJr: I'm fine.

W: Say, you took care of those fellows very well. I -- of course, the old man, I -- we've just got to wait with him. There's nothing you can do with him, and he's a kind of a nuisance there, between you and me, and -- but you can't do anything about it, you know?

HMJr: Well, Bob, I wanted to ask you if you thought I handled myself all right.

W: Oh, very well, and it was better to do it without help, you know what I mean? I came near exploding the time that Townsend used the word "unethical", but I -- I -- I'm glad I didn't because I might have emphasized the thing and your answer was complete, you know. He's just -- he didn't mean to use the word, but he's got no sense.

HMJr: Well, I think I answered it.

W: Yes, I thought was very much better than somebody exploding and -- and Taft, of course -- I tell you, he -- he's going -- you know he's started -- he came here lifted way up to the clouds and -- someone's got an awful job staying there.

HMJr: I know.

W: He's getting so partisan that he's losing ground every day.

HMJr: Well, you know what he said to me after the meeting?

W: No.

- 2 -

- HMJr: He said, "Your paper was excellent and the fact that you've given this out all in publicity as to the findings that leaves us very little ground for criticism."
- W: Yeah. Well, I -- oh, he'll fuss a little about the -- the devaluation thing. Now, I'm going to have a little fight on the -- on the -- Glass may get a subcommittee to reject it, I don't know. I'm working among the men now.
- HMJr: Well--
- W: The conservatives are lining up along that line, but I think on the full committee I'll be all right. Is it -- is it something to make a terrific fight about, Henry?
- HMJr: Well, I just feel this way, Bob, -- as I explained yesterday, I really think we need it.
- W: Yeah. I --
- HMJr: And I think that in the eyes of the world, that to take this away from the Treasury is an awful slap.
- W: Yeah.
- HMJr: And I think now, I mean, this is more important than party politics, or liberal Democrats, or conservative Democrats.
- W: Yes.
- HMJr: And I think that this is an international affair, and I don't think that we ought to let it down.
- W: Yeah. Well, I'm going to -- I'm going to fight for it, but -- and I'm going to -- I -- when the President gets back, I may want him to indirectly talk to one or two because you know these conservatives are lining up with the Democrats -- the Republicans.
- HMJr: I know.
- W: They're damn fools about the whole thing, and I've been having some meetings trying to arrange a little -- I tell you, the President has got to help a little bit. I --
- HMJr: Well, he will.
- W: No, I mean on the other thing.
- HMJr: Oh, yes.

- 3 -

- W: He's got to talk to some of these Senators. Now I -- I don't think it's -- now, he did it -- he does it to me, but I don't care.
- HMJr: Well, would you --
- W: I told him this just before he left -- I said, "I'd go along with you on anything, because I don't care anything about patronage enough to -- I go along on everything." He doesn't consult me half the time.
- HMJr: Yeah.
- W: But, he should do it with some of those other Senators, Henry. I mean --
- HMJr: How do you think --
- W: What?
- HMJr: How do you think Adams is?
- W: Well, Adams is going to vote against that provision on his constitutional grounds.
- HMJr: Well, I just called up his office and said that we'd be glad to have our acting General Counsel call on him.
- W: Yeah.
- HMJr: And he wasn't in, but I left word that as soon as he got in that Ed Foley would be glad to call on him.
- W: Yeah. You notice they all have a little -- the moment you touch you know, Adams --
- HMJr: Oh, yes.
- W: Comes right up, don't you know?
- HMJr: I know.
- W: I'll talk to Al -- I might be able to -- you know, I've got a -- I don't know whether you know my committee -- I've got a -- I've got all the conservatives on that committee.
- HMJr: I know.
- W: But so far I've gotten along pretty well with them. I got through all of Jones' stuff.
- HMJr: Yeah.

- 4 -

- W: And even -- we didn't even have any roll call on them in the -- the Export and Import Bank --
- HMJr: Well, I -- now that I know that you're going to help, it cheers me up a lot.
- W: Yeah. Well, I'm -- I'm going to -- I'll do the best I can, but it's -- it's a tough committee from the standpoint of conservatism. Now, Pat Harrison was in my little conference the other day; God damn it he explodes -- yesterday afternoon. They think it's popular, don't you know?
- HMJr: Yes.
- W: You started all that, don't you know?
- HMJr: I did?
- W: Well, by -- by showing business has nothing to fear. Now they all want to get in on that, don't you know?
- HMJr: I see.
- W: But, you know, I'll tell you what's almost getting little Henry -- this is confidentially --
- HMJr: Yes.
- W: Harry is my friend and I originally recommended him to the President, as a matter of fact.
- HMJr: Yeah.
- W: Of course, the President knew him up in New York.
- HMJr: Yeah.
- W: But he didn't think about him for this particular job of relief, and I went to see him about it because I had Harry come down and help me on that original legislation. I had it originally, you know. Of course, now the other fellows have got it -- that's all right, I go to other things. But now, you know, when you kind of make a fellow an authority on nursing babies, and building battelshipe, and everything under the sun, --
- HMJr: Yes.

W: It's so -- you -- you make the thing so obvious it becomes ridiculous.

HMJr: Uh-huh.

W: Now every damn thing that's mentioned -- well, Harry Hopkins -- he's going to amend the Labor Act -- he's going to do this, he's going to do that, he's going to do that; I'm going to talk to Harry and not to -- to go easy, to go steady. Now, you started along quietly and steadily, and you've got the country with you now.

HMJr: Yeah.

W: But it wasn't done by trying to be an authority on everything under the sun. You can't do it that way.

HMJr: No.

W: And I think that they'll -- they're not -- they're making a mistake --

HMJr: Yeah.

W: All right, if they want him for President, that's another thing, but you can't do it that way, and I'm going to talk to Harry, because it's getting almost a joke up on the Hill among some of the Senators.

HMJr: Really?

W: Yeah. I don't know, I don't want you to even answer that, but --

HMJr: No, no.

W: I see those things.

HMJr: Well, and after all --

W: And I've got nothing -- you know, I'm not -- I can't be a candidate for President, you know, I'm born in another country.

HMJr: I know.

W: So, I have no -- I haven't got that "bug".

HMJr: Well, I haven't for another reason.

W: Yes.

- 5 -

- HMJr: So I -- all I'm trying to do is, I'll give the last blood -- drop of blood I have to get work for people, and get people back on the private payrolls and get this country going again.
- W: Yes.
- HMJr: That's all I'm interested in.
- W: Yeah.
- HMJr: I have no other interests. I want to see this country prosperous.
- W: And I don't know why it isn't going faster. I mean, after all there's some of these injustices we had to correct; there's no doubt about that. Some of these things you've got to do.
- HMJr: Well, I think with the present -- without giving up a single fundamental reform -- by just being fair and meeting these fellows half-way, see?
- W: Yeah.
- HMJr: And without calling any names. I think that's all that they want.
- W: Yeah. Well, that's -- they ought to have that.
- HMJr: And I think they should have that, and I don't think we ought to give up any of our fundamental reforms.
- W: No, because I tell you, if another -- if a Republican administration should come in and try to go in the opposite direction.
- HMJr: Yeah.
- W: Deflation, and all that -- they'll wreck the country.
- HMJr: Well, Bob, this is -- this is my whole philosophy. If we can get the country going on a really -- real production, see?
- W: Yeah.
- HMJr: And have a prosperous year in '40, then we'll get a liberal President, irrespective of his politics.
- W: Yeah.

HMJr: Is that right?

W: That's it. That's what you want.

HMJr: Now, if we have a deflation in '40 we're going to get a fellow that's pretty near a Fascist.

W: Well, absolutely.

HMJr: So, what I want is prosperity in '40 so we get a liberal President.

W: Yeah. Well, I -- now, there's a little thing -- every little thing considers -- I went over the -- the alum clearance and -- Nathan Straus was there. -- He's doing pretty well, by the way. Now, I'm trying to get eight hundred million dollars more.

HMJr: Yeah.

W: Firstly, it doesn't touch the debt.

HMJr: Yeah.

W: And secondly, it's the kind -- 1940 -- by the middle of 1940, by August 1940, they would pretty near be on the down grade, very much.

HMJr: Yeah.

W: It would all be spent. Now, if we -- if we can fortify that with another eight hundred million, and it's a good investment.

HMJr: You're not going to have any trouble with the Treasury on that.

W: Fine.

HMJr: You're not going to have any trouble on that.

W: Fine. I mean, it's well spent too.

HMJr: Listen, Bob, we've done everything in the world for the farmer and nothing for the fellow in the slums.

W: Yes, that's right.

HMJr: And I'm with you a hundred percent.

W: And the fellow in the slums is still sticking to us; and the farmer is kind of getting a little jittery.

HMJr: Very jittery.

W: I don't think -- I think you could get it back, can't you?

HMJr: We've got to move awful fast, Bob,

W: Yeah.

HMJr: I mean, they're getting away from us awful fast.

W: I know they are. Well, what's the matter with Henry?

HMJr: Well, he's doing the best he can, but he's up against a tough proposition.

W: Yeah, I suppose that's it.

HMJr: But -- but we've got to do something. After all, we haven't scratched the surface of the slums.

W: No.

HMJr: Well, I'm with you a hundred percent on slum clearance and low-cost housing.

W: Well, it's just one of those segments that helps along, and I noticed in Chicago there -- did you see how the Democrats came out?

HMJr: I didn't see that.

W: Well, they -- in the primary, Kelly won by the biggest vote ever cast -- Democratic votes ever cast -- it shows there's still vitality, you know?

HMJr: Oh, yes.

W: Yeah.

HMJr: Well, Bob, if there's somebody that I should talk to on that committee --

W: I'll let you -- I tell you, I'm going to not going to meet until next week. -- we're

HMJr: Good.

- 8 -

W: I saw that -- I mean, I watch things that people don't think I watch, and I saw that that was no time to do it, you know?

HMJr: Uh-huh.

W: And give us a little chance to talk around to some of these fellows.

HMJr: Right.

W: And I'll let you know who you might talk to.

HMJr: Thank you so much.

W: All right, Henry.

HMJr: Good bye.

March 3, 1939.
12:49 p.m.

193

HMJr: Hello.

Operator: Senator Harrison.

HMJr: Hello.

Pat
Harrison: Yeah, Henry?

HMJr: Pat?

H: I called up earlier because I just wanted to let you know that I was releasing a letter that -- that Doughton and myself have written up to you.

HMJr: Well, that's a damn fine letter.

H: And I -- I didn't want to -- because I never release anything until I've delivered it, do you understand?

HMJr: Well, I think it ought to be -- have a very beneficial--

H: But I -- the boys all wanted it, so I released it. That was all I called you about.

HMJr: Well, I was just calling up to say "thank you".

H: Well, much obliged. Good luck to you.

HMJr: I need it.

H: All right. (Laughter)

March 3, 1939. 194
12:50 p.m.

HMJr: Hello.

Operator: Congressman Doughton is still in the hospital. His secretary is on the line.

HMJr: I'll talk to him.

O: All right. Go ahead.

HMJr: Hello.

Secretary: Hello, sir.

HMJr: I just called up -- Mr. Morgenthau speaking -- I wish you would tell Congressman Doughton that I appreciate very much getting that letter which he signed with Senator Harrison.

S: Yes, sir, Mr. Morgenthau.

HMJr: And I think it will be very helpful -- very constructive.

S: Yes, sir. I'll -- I'll be glad to call that to his attention, Mr. Morgenthau, today.

HMJr: Thank you so much.

S: Yes, siree. Thank you, sir.

HMJr: Good bye.

March 3, 1939.
12:51 p.m.

195

HMJr: Hello.

Operator: Mr. Sproul. Go ahead.

HMJr: Hello.

Allen
Sproul: Hello.

HMJr: Allan Sproul?

S: Yes, sir.

HMJr: How are things going today?

S: They are going all right. There's not a great deal doing. There's some professional activity trying to move the prices around to suit the market, but the underlying market is good and strong and the issue is still thought of very well, I should say.

HMJr: How much gravy are you going to give them on this?

S: Well, I've been thinking in terms of --

HMJr: Yeah.

S: About --

HMJr: Come on -- be a man -- be a little man and spit it out.

S: One and a half on the long, one and a quarter on the intermediates--

HMJr: Just a minute -- wait a minute -- On the long, how much?

S: Give them one and a half between the price and the market.

HMJr: Yeah.

S: One and a quarter on the intermediates --

HMJr: Yeah.

S: And three-quarters on the notes.

HMJr: Uh-huh. Well, I -- I haven't thought about it myself, yet. Frankly, I thought you were going to recommend more, so this is -- gives me less to argue about.

- 2 -

S: You mean, you thought I was going to recommend giving the market more?

HMJr: Yeah.

S: Yeah. Well, that's the way I see it now.

HMJr: Well, that's -- I wanted to think about it. That's -- the first -- you're the first person I've asked.

S: Yeah. O. K. We'll have another chance to look at it this afternoon and then tomorrow morning.

HMJr: That's right.

S: Yeah.

HMJr: Thank you.

S: All right then.

HMJr: Good bye.

March 3, 1939.
1:00 p.m.

197

HMJr: Hello.

Walter
Stewart: Hello, Henry?

HMJr: Yes, Walter.

S: This is Walter. How are you feeling, Henry?

HMJr: I'm fine, how are you?

S: First rate. Henry, I -- I've taken the liberty of calling you up on this new issue.

HMJr: Yes?

S: Because the -- the rumors around, or the thoughts are that -- about the amount that you may give, and they've -- they've put up these June two and an eighth to a hundred and two.

HMJr: Yeah.

S: My thought was just to register with you that the Treasury is giving away too much heretofore on some of these issues.

HMJr: Yeah.

S: The speculators and the eastern bankers are just -- well, if you and I were sitting across, I'd say they are trying to work us for suckers.

HMJr: Yeah.

S: Now, we haven't any at all, so I thought perhaps you might want to get my thought on it.

HMJr: Sure.

S: I -- I understand what you are going to do on the price. Now, on those one and an eighth, my thought is you can do anything from one-half to three-quarters under the market. On two and a half, three-quarters to one point; on the two and three-quarters, one to one and a quarter.

HMJr: Uh-huh.

S: Now this -- you see, that's two points for underwriting government stuff is getting out of hand. I think we're spoiling them.

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HMJr: Yeah, well, I never look at that --in pricing it.
S: Yeah.
HMJr: It doesn't influence me.
S: Yeah. I -- I just thought I'd give you my thought.
HMJr: Well, I'm delighted.
S: You are feeling all right, are you?
HMJr: Fine.
S: And the chief will be back soon.
HMJr: Tomorrow morning.
S: I had a touch of your ranch life. I just came back from Arizona.
HMJr: Had a touch of what?
S: Of your ranch life. I went out -- I fell --
HMJr: Oh.
S: For two weeks to get a rest, out in Arizona.
HMJr: Good for you. How long have you been back?
S: I just came back yesterday.
HMJr: How do you find things?
S: Here in Chicago?
HMJr: Yeah.
S: Oh, we're O.K. here.
HMJr: You are.
S: Yeah, we're fine here.
HMJr: Going to have a good spring?
S: Yes. I can tell that by the loans, of course, Henry.
HMJr: Yeah. The -- the loans --

- S: We're -- we're right in line here now for a good pick-up right after -- well, it's starting now. About April first we figure we'll be going pretty good.
- HMJr: Your loans up?
- S: Yeah. We -- here -- in dollars, Henry, they're not, in dollars. But in taking the list of the various borrowers --
- HMJr: Yes.
- S: There are a great many more of them.
- HMJr: Good.
- S: In other words, we are loaning to people, now, money, instead of the great big national borrowers -- they're not borrowing from us, but our own people are. The ones we give lines of credit to.
- HMJr: Good.
- S: And that's always a good sign, you know.
- HMJr: Good.
- S: For instance, a fellow will come in for a hundred, or two hundred, or things like that -- a thousand dollars, you know.
- HMJr: All right.
- S: A hundred and fifty or two hundred. Well, the big national borrowers are not borrowing from us.
- HMJr: I see.
- S: They've got plenty of money.
- HMJr: They've got plenty of money.
- S: But the ordinary -- the merchant, the butcher, and the baker, and the smaller manufacturer, are coming in and getting ready.
- HMJr: Fine.
- S: And -- and not only have they got the lines, but they are really taking the money, Henry, now.
- HMJr: Well, that's --

- S: In dollars our figures won't show up big, but you know when you spread five or ten million dollars between twenty, or thirty, or forty, or fifty people, it's a good sign.
- HMJr: You bet your life.
- S: Well, I -- I wanted to tell you about that, because --
- HMJr: Well, I appreciate it.
- S: So many of these other bankers check in with us and they are never satisfied. They always want to get a bigger profit.
- HMJr: I know.
- S: I haven't a dollar's worth of them, and I just wanted to tell you that this stuff will go over and it will go over good, and you can write your ticket on it for pretty near anything you want.
- HMJr: I am delighted, Walter.
- S: All right, Henry.
- HMJr: Thank you.
- S: Good bye.

March 3, 1939.
3:55 p.m.

HMJr: Hello.

Operator: Mr. Sproul. Go ahead.

HMJr: Hello.

Allan
Sproul: Hello.

HMJr: Morgenthau. Sproul--

S: Yeah?

HMJr: How do these new issues look to you now?

S: They look to me just about the same. The market tapered off a bit today. They are trying to tell us that prices ought to be a little lower than I mentioned this morning, but it still looks to me about the same as it did then.

HMJr: Good. Well, it's been remarkably steady, hasn't it?

S: It has been, yes, and I think it's strong underneath the switching around that's been done today.

HMJr: Right, right. Well, we'll let it go until tomorrow?

S: I think so, yes. I think that would be the best thing to do.

HMJr: All right.

S: I don't think there's anything to be lost, and if there's something to be gained -- by letting it go until tomorrow.

HMJr: O. K. Thank you.

S: I'll talk to you in the morning.

HMJr: Righto.

S: All right.

March 3, 1939.
3:57 p.m.

202

HMJr: Hello.

Operator: Secretary Hopkins.

HMJr: Hello.

Harry Hopkins: Hello, Henry.

HMJr: How are you?

H: Oh, I live.

HMJr: Yes, I thought you -- I wanted to tell you that I liked your speech.

H: Well, thank you so much, Henry.

HMJr: And --

H: I liked yours.

HMJr: Thank you. I hope soon to be able to see you.

H: Well, I'd like to see you very soon, Henry.

HMJr: And I think we're both in a position -- I know, talking for myself, we're -- I want to carry through.

H: I've -- I saw Johnny a little while last night.

HMJr: Good, he told me he saw you.

H: About his tax and stuff, and I -- we've got a little advisory committee here on taxation, and they made a lot of recommendations and I think they made up their minds to pitch some of them overboard and forget about them, and they -- they see very much eye to eye with Johnny.

HMJr: Fine.

H: And I've got a -- Johnny's convinced me for whatever that's worth.

HMJr: Well, I think it's worth a lot.

H: And I'd like to talk to you about that sometime in the next day -- here's the point, Henry, I have a feeling that if the President would take this ball up in the light of this letter before somebody down on the Hill goes -- comes out with a specific plan for taxes --

HMJr: Yeah.

H: I think it would be a good thing.

HMJr: You mean the letter we got today?

H: The letter you got. I got it on the ticker today.

HMJr: Yeah.

H: Which I think is a good letter. The tone of it was nice.

HMJr: It's all right.

H: And I think the sooner you can get a meeting of minds with the boss on this thing, the better.

HMJr: Well, Bob Doughton is still in the hospital, and he asked me -- that -- he said, as soon as he was well he and Harrison wanted to sit down with Hanes and myself, and that then as soon as we had a meeting of minds he wanted to go and see the President.

H: Yeah.

HMJr: So I think the minute Bob gets out of the hospital we ought to do it.

H: You betcha.

HMJr: But they're in a frame of mind --

H: Yeah.

HMJr: I've never seen them in a better frame of mind.

H: Yeah.

HMJr: Those two gentlemen, as far as the taxes are concerned.

H: Yeah.

HMJr: And I think we can get something very constructive. I suppose you get the same thing that I do with those -- I think it's very pretty, but now show us something.

H: That's right.

HMJr: Huh?

H: That's right. Incidentally, Henry, I think you can get the labor crowd to go along with you on your tax stuff.

HMJr: Suggest -- ah -- you were there when -- that last Cabinet meeting, the suggestion I made of getting together on Tuesday afternoon on recovery.

H: Yeah.

HMJr: Well, I'm going to follow up on that and I hope if you believe in it you will too.

H: Yeah, excellent.

HMJr: Because if he would do that every Tuesday --

H: That's right.

HMJr: And do something --

H: Yeah.

HMJr: Then you know he has his press conference at four after that --

H: Yeah.

HMJr: And -- so that -- that he can keep the thing rolling.

H: That's right. That's right.

HMJr: What?

H: He can handle something every week.

HMJr: Every week and -- and the fellow -- whatever the subject is could get it ready for him in advance.

H: That's right.

HMJr: And then he'd have something to give out.

H: Uh-huh.

HMJr: Because the country is raring to go.

H: That's right.

HMJr: If they're only convinced that the number one fellow really means it.

H: Well, I'm not worried about him.

HMJr: You're not?

H: No, I'm not.

HMJr: Well, I'm -- I'm --

H: I mean -- I mean, I don't expect him to agree on all the details you know, but as a general proposition, I think the President's all set.

HMJr: Well, I think the first two or three days, we'll all have the answer.

H: Yeah, that's right.

HMJr: He's got to have a little time.

H: Yeah. All right, Henry. Be seeing you.

HMJr: Yeah.

H: Good bye.

March 3, 1939.
4:35 p.m.

206

Operator: Go ahead.

HMJr: Hello.

Senator
Pepper: Hello, Mr. Secretary?

HMJr: Yes.

P: This is Pepper. I -- I've been out, and I apologize for not getting to make you a call.

HMJr: That's all right. Was -- was the aeroplane impressive?

P: What's that?

HMJr: I hear you went out to see --

P: I did. I went out here to this station and I thought I could get to a -- get to a telephone, and the thing was delayed so -- so this is the first time I've been able to get down to the gates, and so I apologize to you for -- for not calling you back as you requested.

HMJr: Well --

P: The Secretary, Edison, and some of them just about out here now.

HMJr: Well, now Senator, this is what I'm calling you up about --

P: Uh-huh.

HMJr: On Saturday you called me up about that man who is a banker down there.

P: That's right.

HMJr: In -- in Florida.

P: That's right.

HMJr: And I told you that I would go ahead and have his record looked up.

P: That's right.

HMJr: Well, now I've got just one thing in this town that's worth anything, and that's my word.

P: That's right.

HMJr: And I always keep it.

P: Yes.

HMJr: And I gave the order right away.

P: Yes.

HMJr: And only this morning I found out that the Internal Revenue people were -- hadn't done it, and the reason they were giving was this, that they said to do this just before income tax dates would upset the Bureau down there too much, and they were begging off that they didn't want to upset anything until after the fifteenth of March.

P: Yes?

HMJr: Now, I'm reporting that they really were very serious about it, Helvering particularly --

P: Yes.

HMJr: Now, I give you my word and I leave the decision to you. If you want us to go ahead and make the investigation, we'll make it. If you can wait until --

P: Mr. Secretary, the real question involved, it seems to me -- now, when the --

HMJr: Hello.

P: The question of when the appointment is made effective is one thing --

HMJr: Yes.

P: And the question of whether or not this is the only man in Florida that is capable of being Collector of Internal Revenue is another thing.

HMJr: Well, --

P: And in order to save time, because I knew it would take several days for that investigation to be complete -- why I merely wanted to be able to say to the President when I address myself to him about it, that the investigation has been made, and the man is a fit and qualified citizen if he cares to make the appointment.

HMJr: Well, I'm -- I'm not --

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- P: I don't -- I don't -- I don't appreciate a bit the attitude that Mr. Helvering, or anybody else, is taking in this matter which is of a constructive nature.
- HMJr: Well now --
- P: I'm going to see if I can't find out whether the President can appoint a Collector of Internal Revenue or not. Now if he wants to turn me down, he's got a perfect right to do it, but I'm certainly going to have a straight-out understanding about that question.
- HMJr: Well, I -- I'm entirely in your hands. I gave my word.
- P: Well, --
- HMJr: And you say, "Morgenthau, I want that done before the fifteenth of March", it'll be done.
- P: Well now, I don't want to embarrass you, Mr. Secretary, in any way in the world. I didn't expect -- I didn't think that there would be any harm in the information being obtained -- merely in the file, with the understanding, of course, that nothing would be done or could be done unless the President gave the order.
- HMJr: Well I'm only repeating what came to me through --
- P: And I never had the slightest idea that either a removal or a substitution would be effective before the fifteenth, at least, because I realize that that was the improper time. But -- but I did -- now, if you don't feel that -- that you'd be justified; I mean, on my -- and on the request of the two Senators-- to make that investigation -- if you think that the President would better initiate the request --
- HMJr: No.
- P: Why I wouldn't want to --
- HMJr: No.
- P: Embarrass you in the slightest.
- HMJr: No, you can't embarrass me, because all you've got to say is, "Morgenthau, I want the investigation done." I've given you my word, and as far as I'm concerned that ends it.
- P: Good. Well, now -- now -- you be sure, then, because I think too much of you to get you involved in the

matter. There's not a -- I figured -- all I wanted to do was to be able to tell the President that if he is disposed to make this appointment, that Senator Andrews and I recommend, we will swear that the man is a qualified person by the investigation of the Treasury.

HMJr: Well --

P: And then it's of course up to him as to whether he wants to do it or not. If Mr. Helvering wants to suggest to the President that the substitution not be effective until after the fifteenth of March or the twentieth of March, or any other day for that matter, and the President concurs in that recommendation, why that's entirely within his purview.

HMJr: Well --

P: And I don't see why Mr. Helvering wants to say that you can't have an investigation made and the file gathered.

HMJr: Well, he doesn't say that, but it's just that -- he simply sent word back to me that it would upset the whole office and he hoped that he wouldn't have to do it until after the fifteenth of March. He hasn't refused to do it.

P: Oh, I see.

HMJr: Oh, no.

P: Well, now I'm in hearty accord with you. It should not be done in any case until after the fifteenth of March. I never would have requested that any substitution be made effective, but you see, after the investigation is made, why then the matter will have to -- the President will have to be seen and he'll have to concur and then the matter will have to come over to the Senate and the confirmation will have to be made, and the bonds on the fellow will have to be posted and all that sort of thing -- even that, before the substitution would ever be effective.

HMJr: Yeah, well Mr. Helvering hasn't refused to do it. He simply asked whether it could be postponed -- the investigation until after the fifteenth.

P: Well, my -- my only suggestion, Mr. Secretary, would be that if you were disposed to grant our request on it, that -- if you merely said, "I do not favor and would not effectuate in any event that Senator Pepper if you want to quote me on it, has expressly said that he would not expect any change to be made before the fifteenth -- or for that matter, the twentieth. Now,

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I -- I want it to be as soon as possible, but I certainly don't want to do the service any harm.

HMJr: But you'd like this investigation made?

P: I would, Mr. Secretary, yes.

HMJr: Well, that ends it.

P: Well, that's very good of you, and I'll -- I certainly won't do anything to -- to

HMJr: Well, I mean to say, I've learned this in business and politics -- once my word is passed --

P: Well, now at the same time, if you -- if you ever tell me anything and there's any change in circumstances that will cause you any embarrassment, why I'm your real friend, and I -- I wouldn't have you embarrassed for the world.

HMJr: Well that's very kind of you.

P: Well -- thank you, Mr. Secretary.

HMJr: Good bye.

P: Good bye.

March 3, 1938.
4:40 p.m.

HMJr: Mac --
Wm. H.
McReynolds: Yes.

HMJr: F-A-H-S -- Fahs -- Fahs of --

M: Yes.

HMJr: I want the investigation made as to his character.

M: Right away.

HMJr: And I want it -- I want the orders to go out tonight.

M: I'll see that it's done.

HMJr: And Senator Pepper says as far as appointing him is concerned, he's more than willing to wait until after the fifteenth. That's up to the President, but he wants to know is the man he's recommending of honorable character or not.

M: O. K.

HMJr: Now, I did give him my word and --

M: The instructions will go out tonight.

HMJr: Aye, aye, sir.

M: Yes, sir.

HMJr: What is that Peoples always says -- bless your heart.

M: Oh, yeah. Sure to be.

HMJr: (Laughter) Good bye.

M: Good bye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France.

DATE: March 3, 1939, 11 a.m.

NO.: 402

FROM COCHRAN.

This morning I got back from my visit to Denmark, Norway, Sweden and Finland, as authorized in telegram No. 80 of February 10 from the Department.

I called at the American Legation in each capital. The visit was made at the invitation of the central bank governors of each country. Through these governors I met their respective Ministers of Finance with the exception of Norway, where the Foreign Minister was absent and I talked with the ranking Ministry officer. My central banking friends introduced me to many of their private banking and business people in each capital.

Of the four countries, Denmark has the highest unemployment, and is the only one which exercises exchange control. However, there has been improvement in the Danish balance of payments, and exchange control is retained mainly as a commercial policy measure rather than being necessary for protection of the currency. It is not very likely that Denmark will abolish exchange control as long as Germany, which is an important market for Denmark, retains its present international trading

system,

- 2 -

system, and while other countries, for example free trade Netherlands, may see fit to increase their protection by tariffs and other means. By means of taxation the budget is kept in balance.

Because of exceptional skill of Danish builders, shipbuilding industry is active, and many vessels are being built for export to such countries as Rumania. Danish engineering firms have been handling important construction contracts abroad as in Iran. There has been a rise in prices for dairy exports.

The Minister of Finance of Denmark and the Governor of the Central Bank said they regretted the impracticability of converting dollar bonds on the market in the United States, where their quotations have been low, and where there is no enthusiasm for a conversion issue. During the coming summer they expect to convert some of these dollar loans by operations on the markets in Sweden, the Netherlands and Switzerland. Through the central bank of Denmark, many of these bonds have already been repatriated. It is not likely that any one of the foregoing markets can handle the transaction alone, as is evidenced by the fact that Swiss bankers were not completely successful in the recent conversion of Danish bonds.

There does not seem to be any intention on the part of Denmark to follow the lead of Great Britain and

revalue

- 3 -

revalue their central bank gold stock, or to take currency stabilization measures; they find their present rate against sterling satisfactory. Early minting of silver coins for replacing crown pieces is favored by the Governor of the Central Bank, but the Finance Minister hesitates to do so because at the present price of silver, this would be more expensive than token coins. During my visit the bank rate was lowered from 4 to 3 1/2 percent.

No armament program is being carried out by Denmark, as this country looks to England for help in any emergency. Denmark is not studying legislation to take care of monetary and banking situation in such an emergency, as the present exchange laws are sufficient to take care of it. Since 1929 there has been constant reduction of the national debt. Taxes in this country are high, but much is done for the people by the State.

There are no callable Norwegian bonds on the market in the United States. The State will in 1939 meet a part of its budget - to the extent of 38,000,000 crowns - through a domestic loan, despite the insistence of the central bank Governor on economy. The City of Oslo is borrowing too. There is a good balance of payments situation and the state of public finances is satisfactory. There is no pressure from the public or parliament for revaluing of the gold stock, and Norway does not con-

template

- 4 -

template any change in this regard nor alteration of the present relation of its currency to sterling. Consideration is being given by the Norwegian Central Bank Governor to putting silver coins back into circulation, the one crown token piece to be replaced first.

The Norwegian shipbuilding industry is active, but vessels for the Norwegian merchant fleet which are over 10,000 tons are built abroad. The Mexican oil situation has injured the tanker trade, since the owners do not wish to incur the ill-will of the United States through engaging in expropriated oil trade. Because of the civil war in Spain, the fishing industry has lost important markets there, and because of quotas and low purchasing power important markets have been lost in Italy and Germany. Trawlers could be introduced into the Norwegian fishing fleet to make it more competitive, but Norway hesitates to do this because unemployment would be increased thereby. Large purchases of nickel and other metals are made by Germany.

Sweden continues to enjoy exceptional prosperity, since there is practically no unemployment there and Government finances are good. On a small scale, Stockholm has become the financial center for the Scandinavian countries.

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tries. Both at home and abroad much attention has been given to current discussion of prospective legislation which would take care of the Swedish exchange situation in an emergency, such as a war. There is criticism of such a measure by Swedish private bankers, because the mere suggestion by the Government of such legislation has already been the cause of some foreign capital leaving the country for Switzerland and other centers. Should Sweden eventually adopt such a measure in isolated action, the influx of foreign capital would probably be reduced even if peace continues.

Sweden at present has no really serious problems and came through the crisis in good shape. However, she is now making some uneasiness for herself through becoming more nervous about the possibility of war than any of the other northern countries, and through what would appear to be excessive planning by a plethora of public and private economists whose views differ. Negotiations have been initiated between the Government and organized industry for special tax privileges for new undertakings during their early and experimental period.

Sterling is feared by some members of the Central Bank of Sweden, and the dollar and gold by others. Therefore as a compromise measure the Bank is holding

20 percent

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20 percent of its assets in sterling, 20 percent in dollars and 60 percent in gold. The profit of the Central Bank declined in 1938 and will be lower for 1939 because of the high cost of gold shipments to the United States and the small return from dollar investments. However, the Bank is pursuing a safe rather than a money-making policy. The reason for this exceptional prudence on the part of the Swedish Riksbank is mainly because of the tremendous losses suffered by the institution during the World War because of the German marks it held. Curiosity was expressed by various officials in Sweden as to what would be done regarding gold by the United State in the event of a new war in Europe. One of them feared that for the duration of the conflict the United States might accept foreign gold only at a reduced price.

END SECTIONS ONE TO SIX, INCLUSIVE.

BULLITT.

PARAPHRASE. SECTION SEVEN. TELEGRAM NO. 402 OF MARCH 3, 1939, FROM PARIS.

Authorities in Sweden do not plan to follow the lead of Great Britain in revaluing their gold stock. However, they may shortly legislate to cut definitely the relationship between their currency and a particular gold weight. Silver coins are already used in Sweden.

The shipping industry in Sweden is active, with contracts booked ahead for two and three years. Sweden owes its success in this line to its experience, to its standardization system, as well as its system of designing and engineering costs, and to the practice of buying steel on the most favorable world market in particular. As a result, costs of shipbuilding in Sweden are 40 percent lower than costs in Great Britain, and 100 percent lower than those in the United States. I was told by one Swedish minister that the trade agreement between the United States and Sweden was really a reciprocal agreement from which both parties profited. (7)

In Finland I was impressed by the fact that it is a hard-working country, with highly developed patriotism and national pride. New armaments are being undertaken, but these are being paid for as they go by means of a specifically designated tax on their income and property taking 20 percent of such tax. The Finnish budget is in balance. Though Finnish exports declined in 1938 to a slightly

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slightly unfavorable balance, other items more than rectified the equilibrium of payments and permitted the continuance of the remarkable liquidation of the national debt of Finland which has taken place regularly since ? . Borrowing abroad is not thought of nor needed. For the 1940 Olympic games to be held in Helsinki a local loan is being issued. Some special hallmark silver pieces may be coined by the Government in commemoration of the games, but otherwise they retain token coins for the time being or until silver becomes less expensive.

END SECTION SEVEN.

BULLITT.

PARAPHRASE, SECTIONS EIGHT TO ELEVEN, INCLUSIVE. NO. 402
OF MARCH 3, 1939, FROM PARIS.

The gold stock of the Bank of Finland was revalued last November, but the bank's reserves were increased with the profits therefrom. No borrowing from the Bank is done by the Government. The people of Finland are not unhappy over their low per capita debt. The Governor of the Bank of Finland said he does not think the French situation can improve/satisfactorily until it becomes possible to reduce the French public debt carrying charge.

Finland should have a real future, with much of her water power and minerals and other resources being undeveloped now. The country has already advanced to exporting wood pulp and paper, having previously exported only wood. Chemicals and copper may come to be quite important.

The Bank of Finland Governor visited London recently. The Governor was impressed by the opinions intimated by Norman and Siepmann of the Bank of England that the price of gold is too high at the present time, and that when American accumulation of gold becomes unbearably embarrassing either in peace or in war, an adjustment of gold price will be inevitable. This feeling about an eventual lowering of the gold price has spread, because the northern central bank governors are in constant touch with each other, and their most important relations

with

- 2 -

with an outside Bank are with the Bank of England. Jacobsson, the Swedish BIS economist, is incidentally again reviving his belief in this theory, and he will probably try to incorporate some remarks thereon in the annual report of the BIS which is issued in May.

European war is not expected by any of the four central bank governors unless some unforeseen accident occurs. These governors look with contempt upon Italy, and feel that Germany so despises her artificial ally that she will not be drawn into any Italian war of aggression. My friends realize at the same time that treasuries and currencies will ultimately be ruined if armament expenditures at the present rate are continued. Important trade with Germany is carried on without any serious inconvenience/ ^{to these countries} They do not feel that the methods of commerce used are injurious to their own standards or to their facilities for dealing with other countries on other bases. These countries consider Germany a natural customer, and will do business with her on the best practicable basis. There is little sympathy with the autarchic regime of Hitler, with Socialist governments in Scandinavia and a Coalition Government in Finland, all of which are of several years standing and are functioning smoothly. They feel at the same time that the best contribution
to

- 3 -

to peace which they can make is by setting their own economies in order, and by taking such precautionary measures as seem wise to them and possible, and by keeping quiet. These countries are not prone to criticize or ostracize the German Government.

I was very cordially received by my friends. They all seemed to be most appreciative of Secretary Morgenthau's permitting me to visit their countries, and they send their warmest greetings to him. These four northern countries have a great deal in common with the United States, and they constitute a unit whose friendship and trade are surely worth cultivating. They are all anxious to have closer relations with the United States. They have an understanding of the problems of our Government, and understand the necessity for better relations between the Government and business which are now being sought.

These countries learned by hard experience, Finland particularly, where conditions are very much like those which faced the American pioneers, that real confidence and lasting prosperity can be achieved only by following good national housekeeping rules. They realize that the ideas of artificially increasing the purchasing power
of

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of consumers, of creating riches through spending, and so on, are foreign to real confidence and lasting prosperity. People in these countries do not think that it should be necessary for us to have further dollar devaluation, believing that it would not help our domestic price and other problems any more than they were helped when the dollar was first devalued. Such a step, they think, would lead to immediate retaliation abroad by countries which are not bound by any limit of 16% devaluation. In the northern countries there is a keen appreciation of the moral strength of the United States. The people of these countries would be most disillusioned about us if at any time they should feel that the United States was led by internal political motives to injure its friends through expecting from it promises which could not be fulfilled.

END MESSAGE.

BULLITT.

EA:LWW

March 4, 1958.
8:58 a.m.

Operator: Ready with New York.

HMJr: All right, hello.

O: Go ahead.

HMJr: Hello.

W. Randolph
Burgess: Hello, Henry.

HMJr: Hello., Randolph?

B: How are you?

HMJr: Oh, I'm living. I'm still --

B: -- a pretty tough time.

HMJr: I'm still kicking.

B: (Laughter) Good for you.

HMJr: Are you home?

B: Yes, I'm home.

HMJr: I -- I thought so. Randolph, if you had to price these three bonds, how would you do it? How much -- how much margin would you give these boys?

B: Well, I'd start out with the notion that I wouldn't give them too much. I'd give them less than the rights are worth, because I think it will be very wholesome to -- to cut down that margin a little.

HMJr: Yeah, well --

B: But my -- my judgment would be to put the notes about a hundred and one.

HMJr: The notes at a hundred and one.

B: Yeah. Put the fifty fifty-twos at a hundred and two and a half.

HMJr: A hundred and two and a half. Yeah.

B: And the -- the sixty sixty-five a hundred and two and a half.

HMJr: You would?

- 2 -

B: Yeah. Now that gives you three-quarters of a point margin on the notes; a point and a quarter on the fifty fifty-fives; and a point and a half on the -- on the sixty sixty-fives.

HMJr: Listen this looks like collusion or horse-shedding to me.

B: Why, is that what the other boys said?

HMJr: I haven't talked -- you're the only outside person I've talked to. I haven't talked to another living soul outside.

B: Yes. Well, I --

HMJr: Now wait a minute -- I'm sorry, that isn't true -- Walter Cummings called me.

B: I see, yeah.

HMJr: That's right.

B: Yeah. Yeah.

HMJr: I -- I --

B: Well, --

HMJr: I mean, I haven't called anybody else.

B: Yeah. The only question I have about those prices -- I haven't talked with the Federal about it. I did talk about two days ago with Dudley Mills about it.

HMJr: But you've not talked with the Fed.

B: No.

HMJr: That's very interesting.

B: No.

HMJr: How does Dudley feel?

B: Well, I think he feels about the same way. That -- that we -- that the good thing for the whole market and for the future -- to have the rights worth a little less.

HMJr: I see.

B: And I think you can safely take quite a chance this time.

HMJr: Well, I tell you, I was simply amazed when I came out with that statement announcing that we were going to open up three issues --

B: Yeah.

HMJr: That -- that those particular issues didn't fall.

B: I thought they'd fall. But there's just so much buying power around -- the people are waiting to buy -- that those who were looking for cash and were disappointed just tried to get in somewhere.-- There's one New York bank that you probably know about that sold out a year and a half -- a year ago.

HMJr: Sold out?

B: It has been buying bonds, and buying the long ones.

HMJr: You don't mean the Chase?

B: No. No, no, the other one. The Hanover

HMJr: Oh, really?

B: They've been buying lately, yes.

HMJr: Is that right?

B: Right off the top shelf.

HMJr: Heh!

B: Of course, (Laughter) maybe that's a bad sign.

HMJr: Well, I don't know.

B: But I think giving the right-holders something less than they have been expecting is a very good thing to do.

HMJr: Well, I -- frankly, you know I never look at the rights, and I don't -- so that it won't influence me.

B: No.

HMJr: I never look at the damn rights.

B: No, well, I don't think you have to, really.

HMJr: And I just want to -- have you figured this on this basis so that it works out about even on -- on all three?

B: Well, the only question I have in mind is whether this wouldn't concentrate the exchanges pretty much on the fifty fifty-twos.

HMJr: Uh-huh.

B: I don't think you'll get many notes. Of course, you won't get many notes anyway.

HMJr: No.

B: Because you can't, in any sensible way, put enough premium on the note to make them as attractive -- put enough gravy on the notes, to make them as attractive as the bonds.

HMJr: Would it bother you if you only -- if we only gave one point premium on the fifty fifty-two?

B: Well, you might consider that.

HMJr: I mean in order to --

B: Make it a hundred and two and three-quarters.

HMJr: No, a hundred and --

B: A hundred and -- wait --

HMJr: Yeah, a hundred and two and three-quarters.

B: Three-quarters, yes.

HMJr: Yeah.

B: Well, a hundred and three is a little close, perhaps.

HMJr: No, I was just thinking of the quarter, that's all. A hundred and two and three-quarters.

B: Yeah. A hundred and two and three-quarters -- you might do that.

HMJr: Because, if -- I mean, after all you are asking to go out quite a long -- lot further on the sixty sixty-fives.

B: That's right.

HMJr: Huh?

B: That's right, and most of the banks prefer the shorter bonds. I think that would keep it.

- 5 -

- HMJr: I think -- well, I think they'll take it anyway. I mean, --
- B: Yeah.
- HMJr: I mean I think they'll buy the intermediate at a hundred and two and three-quarters just as fast as they'd buy at a hundred and two and a half.
- B: Yes, I think perhaps they would.
- HMJr: Huh?
- B: There's a point and a quarter in there. I think you could do that.
- HMJr: I mean -- it's -- they'd do that wouldn't they?
- B: Yes, and that would make a difference about -- about the number going into the longer bonds.
- HMJr: Well, I think we really ought to try to put them -- and that issue is a small issue, and the fifty fifty-two is a bigger issue.
- B: That's right, yes.
- HMJr: Huh?
- B: Yeah. Yeah. Yeah.
- HMJr: Well, I just wanted to get your ideas.
- B: Yes.
- HMJr: And, how do you think my testimony is going on the state fund.
- B: I -- of course, I've just seen what's in the papers, but I think it's going pretty well.
- HMJr: Let's see, I've got to back again on Tuesday.
- B: Yes. Of course, I don't -- you and I differ a little bit about the -- about the devalue of the dollar --
- HMJr: Yeah, well, I'd like to --
- B: If I were doing it I'd let that run off, but --
- HMJr: Yeah, well I'd like to have a chance to argue you -- with you on that.

- B: There's lots of -- lots of room for a good difference of opinion on that, and I recognize that it's a very close question in my mind.
- HMJr: Close?
- B: Yeah.
- HMJr: Well, that's what that committee up there is -- as far as I can gather they are four to four right now.
- B: Yeah, yeah.
- HMJr: But I just feel this way that we've demonstrated we can have emergency powers without using them unless there is an emergency, see?
- B: That's true.
- HMJr: And that -- the fact that we have it is -- is very potent towards peace in the currency fields.
- B: That's right, yes.
- HMJr: And that's -- I mean --
- B: I think it's done a grand job in holding the dollar steady. I think it's been one of the reasons --
- HMJr: And that's --
- B: I'm amazed --
- HMJr: What?
- B: I'm amazed how many people come in and say, "Do you think they'll devalue the dollar within the next six months?" People that you wouldn't think it would make any difference to. There's --
- HMJr: Yeah. Well, it's amazing how few people understand what we've been doing anyway.
- B: They just don't understand it at all.
- HMJr: And --
- B: They just have vague feelings about it.
- HMJr: And I think this -- I think this particular House Committee -- we've had two sessions -- they're beginning to understand what it's all about.

- 7 -

- B: Yeah, yeah.
- HMJr: And they seem to have some vague idea that I can finance these planes from France, you know. That sort of thing.
- B: Yeah, yeah.
- HMJr: But I think I've disillusioned them from that. But, I don't know how you feel down there -- I think the undertone for the country on business generally is pretty good.
- B: I think it has improved in the last two or three weeks. I think that since your statement about taxes, and your very prompt response to the committee, and all that -- and since Hopkins' statement -- it has improved. I don't think anybody takes Hopkins seriously, but I do think they take you seriously.
- HMJr: Thank you, sir.
- B: I'm delighted that you put out that statement on the stabilization fund.
- HMJr: Yeah, that was good wasn't it?
- B: I think that was swell, and I think you stole the march on them there, because they were getting all set to pass the -- to change the law requiring publication.
- HMJr: Well, I'll tell you a little story. The morning I went down, -- I had already , because I had it all there, all mimeographed --
- B: Yeah.
- HMJr: But on the way down, four doors from where we were sitting, standing in his shirt sleeves like a fellow calling in customers was no less than Bruce Barton.
- B: (Laughter)
- HMJr: I said, "What do you do? When I pass take off your coat to impress me how hard you work?" He said, "Come on in a minute, I want to tell you a story." So he said -- "We wanted to find out whether there was any dynamite in this stabilization fund that we could use."
- B: Yeah.

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HMJr: He said, "We called on Jim Perkins and this fellow Burgess and they told us to lay off Morgenthau; there was nothing there and he was all right."

B: (Laughter) The son-of-a-gun, he's telling stories out of court.

HMJr: I see. Well, -- so, he said, "You've got nothing to worry about, Morgenthau. Go on down there and do your job." Which I thought was very nice.

B: Well, that's very nice for Bruce.

HMJr: Yeah. I thought it was very amusing.

B: (Laughter)

HMJr: Well, if you ever come down here, let me know so we can have lunch together.

B: That's swell. I may come down in a week or so. I want to see some people.

HMJr: Right.

B: Good bye.

HMJr: Good bye.

B: Good bye.

March 4, 1939.
9:48 a.m.

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Hello.

Allan Sproul: Hello, Mr. Secretary.

HMJr: How are you?

S: Fine, how are you?

HMJr: It must be nice to work up in the Federal Reserve -- get in about a quarter of ten --

S: (Laughter) It's pretty soft.

HMJr: What do you fellows do? Wear a cane when you come down? -- and spats?

S: A cane and spats, yes.

HMJr: I know. I bet you're good at handling a tea cup.

S: (laughter)

HMJr: Look -- I've gone all around the room here -- we've been talking for about an hour or so -- I had to get up to meet the President at eight so that's why I'm here so early. -- And there isn't much disagreement on the note. We think around a hundred and one, see?

S: I think that's right.

HMJr: Now, we figured with interest adjustment, there's a half a point in it.

S: Yeah.

HMJr: Does that check with you?

S: Yeah.

HMJr: You know we're figuring -- we're paying interest up to the fifteenth of March on the June, and then cut off, so whatever they convert into they'd get the new ones, see?

S: That's right. It would be on the regular market basis then. (Pause) Paying interest on the one they turn in up to --

HMJr: Up to the fifteenth.

S: Up to the fifteenth of March, and --

HMJr: And they get interest on whatever they converted into after the fifteenth.

S: Right.

HMJr: Now, on the long one we seem to think that a point and twenty thirty-seconds is what the market would get at a hundred and two and a half.

S: A point and twenty thirty-seconds?

HMJr: Yes. (Pause) Five of that is interest the boys say. Five thirty-seconds.

S: Yeah, that's -- that works out -- that checks with our figures.

HMJr: Which seems -- I mean, if we were pricing a new issue I wouldn't price it -- give them above a point and twenty thirty-seconds.

S: No, I don't think you would either.

HMJr: Now, we come down to the intermediate, and that's where I'm -- I think you said a hundred and two and half, didn't you?

S: Yeah.

HMJr: And most of our people said a hundred and two and a half, and I'm inclined to go a hundred and two and three-quarters -- for this reason -- I want to make the long one more attractive by comparison. I think that the banks will do the fifty fifty-two anyway. Now, what do you think if we'd make the fifty fifty-two price at a hundred and two and three-quarters?

S: Well, I figure if you make it a hundred and two and three-quarters there would be about one point in there.

HMJr: A point and ten thirty-seconds.

S: Plus, a little interest.

HMJr: No.

S: And --

HMJr: A point and two thirty-seconds.

S: Yeah.

HMJr: A point and two thirty-seconds.

S: Yes, that's a point plus two thirty-seconds interest.

HMJr: Yeah. Is that enough?

S: Well, I think you'll get the heaviest play -- is going to be for the two and a half.

HMJr: Yes.

S: So that if you want to guide them out of -- try to shove them out of the two and a halves into the two and three-quarters, that would be the way to do it. I think they'll go heavily for the two and a halves anyway.

HMJr: Well that's just the way I argued.

S: My own feeling about such an offering as this, however, is that it's trying to give the -- trying to give the market what it wants in all categories -- short banks, and insurance companies, and that now on the price to -- to try to shove them out into the one -- into the long issue may be going counter to the general idea of the financing.

HMJr: Well now, I tell you what I'd like you to do -- call up a few of the people that you trust, see?

S: Yeah.

HMJr: If you could call me back by ten-thirty, because I have to go to church with the President this morning. Could you call up three or four people?

S: Easily.

HMJr: And put this up to them?

S: Yeah.

HMJr: And call me back by say sharp ten-thirty?

S: All right I'll do that.

HMJr: Will you do that?

- 4 -

S: Yeah.

HMJr: Sharp ten-thirty call up. I -- the only person that I've talked to so that you know; Walter Cumings called me up from Chicago and he said, "For heavens sakes, don't price them too high."

S: Yeah.

HMJr: And then I called Randolph Burgess, and he was talking a hundred and one, a hundred and two and a half, a hundred and two and a half. Then I tried out this hundred and two and three-quarters and he said, "That's all right."

S: Yeah.

HMJr: But I haven't talked to anybody else.

S: Well, I'll try three or four good ones and I'll call you sharp at ten-thirty.

HMJr: Thank you so much.

S: All right.

March 4, 1939.
10:32 a.m.

Allan
Sproul: Hello, Mr. Secretary.

HMJr: Could you wait one second?

S: Yeah.

HMJr: My people aren't here yet. I don't know what's the matter. Just -- just hold on a minute.

S: Right. (Pause)

HMJr: All right shoot.

S: I've checked with three or four people. They feel that it would be possible to have a half a point spread between the price of the -- between the profit on the fifty fifty-tvos and on the sixty sixty-fives, such as you'd get by pricing the fifty fifty-tvos at two and three-quarters and the sixty sixty-fives at two and a half, but that if that is done it ought to be done rather by pricing the fifty fifty-tvos at two and a half and the sixty sixty-fives at two and a quarter, because they don't think that -- on this new kind of offering you want to knock as much of the value out of rights as the other method would do.

HMJr: I see.

S: My own view still is that it would be better to price them both at two and a half, which leaves a quarter spread between them and, adding in the interest adjustment, leaves a spread between them of about ten thirty-seconds.

HMJr: That's right.

S: I think that's about the spread the market places now and I also think that it is a reasonable spread between the two issues, and that even if you do get a much larger exchange into the fifty fifty-tvos than the sixty sixty-fives, you've gotten them into the hands of people who want them at that maturity rather than having forced --

HMJr: I see.

S: A long maturity into the hands of people who don't really want it, making your problem more difficult later perhaps.

HMJr: I see. Well, so after checking what's your recommendation?

S: My recommendation is two and a half on both the fifty fifty twos and the sixty sixty-fives.

HMJr: I see. Do you mind telling me who you talked to?

S: No. I talked to the Discount Corporation, Solomon Brothers, Mr. Love at Quincy and Company, and my own people here.

HMJr: I see. Now, would you hold the wire a minute please?

S: Yeah.

HMJr: Will you hold on please?

S: Yeah.

(Pause)

HMJr: Just stay on a minute please.

S: Yes.

(Pause)

HMJr: If you keep your wire open, I'll call you back in three or four minutes.

S: All right, I'll tell them to keep it open.

HMJr: Keep your extension open and I'll call you back.

S: Yeah.

HMJr: Thank you. (Long Pause)

Operator: Operator.

HMJr: Allan Sproul, please.

O: Right.

(Pause)

HMJr: Hello.

O: Mr. Sproul.

HMJr: Hello.

Sproul: Hello, Mr. Secretary.

HMJr: Allan Sproul, look, if we did it - - - - - if we did it the way you originally suggested it, see? That is a hundred and one, a hundred and two and a half, a hundred and two and a half, will everybody be perfectly happy?

S: Yes, I should say so.

HMJr: And if I, say, either add a quarter on the fifty fifty-two or subtract a quarter on the sixty sixty-five, I think they'd -- wouldn't they be inclined to think I was trying to force them?

S: I think -- I think they would. That you were trying to force them out into the sixty sixty-fives.

HMJr: Well, the trouble is, if I subtract -- if I give them additional profit on the long one, it's just too much profit.

S: Yeah.

HMJr: Don't you think so?

S: I do, yes, but I think if you put it up on the short -- on the fifty fifty-two -- it's too little; not actually but compared with what they have been getting and what they're expecting, and it may mean several.

HMJr: Well, the market's figured that the long is worth ten thirty-seconds more. Isn't that -- Isn't that about right?

S: Yes, that's right.

HMJr: Well, I think this -- that subject to a check when I come back from the Capitol at one o'clock -- I'll call you back again, see? And if any of my boys want to talk to you they can call you up, see?

S: Right.

HMJr: We'll begin to write the circular on this basis, and then I -- when I come back from the Capitol I'll call you again and we'll have a r e-check.

S: Right.

HMJr: But I think we'll do it a hundred and one, a hundred and two and a half, a hundred and two and a half.

- 4 -

- S: Well, I'll be on the job here and if I get any new ideas I'll have them ready then.
- HMJr: What percentage on that basis will go into the fifty fifty-two?
- S: Well, I should say seventy-five percent anyway.
- HMJr: Huh!
- S: Well, I don't think there's anything wrong with that myself.
- HMJr: You don't?
- S: No, I think they'll -- it'll go into good hands, they'll have something they want and we'll have a good market.
- HMJr: Well you -- oh, yes, Dan Bell asked -- always some good pointed questions -- what is the Federal Reserve System going to do?
- S: I don't know yet. I think we probably -- we have eighty-five million. I think we'd probably do something, about one-third of each.
- HMJr: I see. One-third of each, huh?
- S: Yeah. Something like that.
- HMJr: Uh-huh. Well, I think that, lacking somebody else; I mean doing this thing -- certainly the thing will go well on the way we're talking.
- S: I have no doubt of that.
- HMJr: And I -- I don't want to make the longer one any sweeter, and if I make the intermediate one less sweet, you don't like that so much.
- S: No, I don't like that so much.
- HMJr: Well, I think we'll write up the circular then on that basis and we'll come back, and if any of these men in the room here want to talk to you in the meantime, they'll do so.
- S: All right, fine.
- HMJr: And I'm going to church -- and -- with the President, and I don't want to be sacrilegious, but I'll say a little prayer.

- 5 -

S: I think it's a good idea in any case.

HMJr: All right. Good bye, Sproul.

S: Good bye.

HMJr: Good bye.



DEPARTMENT OF STATE
WASHINGTON

March 4, 1939.

My dear Mr. Secretary:

I am enclosing a copy of a strictly confidential telegram sent to you by Ambassador Kennedy, giving a report on a conversation which he had with Lord Dudley.

Sincerely yours,

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosure:

Paraphrase, No. 296 of
March 4 from London.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, London, England

DATE: March 4, 1939, 11 a.m.

NO.: 396

STRICTLY CONFIDENTIAL FOR THE SECRETARY OF THE
TREASURY.

Last evening I had dinner with the head of British heavy industries, Lord Dudley.

During the course of our conversation Lord Dudley told me that considerable trouble was being experienced by the foreign steel group getting together with the United States Steel groups on price and selling quota agreements in foreign countries. He said that this inability to get together would, within the next few months, probably result in the foreign group refusing to deal with the American group because, according to Lord Dudley, the American group was constantly breaking its agreement. The final result would be, he said, that the foreigners would come into the American market and prices in the United States would consequently be unsettled.

KENNEDY.

EA:LWW

RE MARCH 15 FINANCING

March 4, 1939.
9:15 a.m.

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

H.M.Jr: Hello. See my new sign: "Does it contribute to recovery?"

Haas: That's the test.

H.M.Jr: Before I forget it, I want one chart from you, and I want it through January, if possible - this net deficit, Government contribution thing, see? I mean how much the net

Haas: Oh, oh.

H.M.Jr: How much the net contribution is; you know, the six months' moving average.

Haas: You mean our figures, not Currie's. You used Currie's terminology. That confused me.

H.M.Jr: I apologize. I want yours. And I want with that the New York Times index.

Haas: All right.

H.M.Jr: In other words, with that in my vest pocket, I want to ask these boys how some of them - how, with the biggest net contribution we have ever had - how they account for a continual drop in the New York Times business index.

Haas: Want it cumulative or by months?

H.M.Jr: Which way do you always run it? The way in the Bulletin?

Haas: We run it by months; then we have a moving average.

H.M.Jr: I want the moving average.

Seltzer: We've been having the moving average.

-2-

H.M.Jr: I want the moving average. I want it today. I want that and the New York Times business index. Just those two, you see. I mean now the hell are these fellows, advocates of the compensated budget - is that Currie's term, etc. - going to account for this?

(Bell comes in)

Good morning, Mr. Bell, now are you?

Mass: Want me to go out and get it now?

S.M.Jr: No, no, no, no.

Mass: All right.

S.M.Jr: Now, has everybody

Docabee: I think the other ones have - Dan, the Secretary wanted some figuring

H.M.Jr: Well, before we do this, we'll do this unscientifically. We'll call them short, intermediate, and long, and I want to know how many points profit we should allow them.

(H.M.Jr. passes out slips)

Put your initials on them. Short, intermediate, and long.

(Each of the group writes his recommendations on slip of paper)

This is not mine. This happened to be Randolph Burgess's. We'll let him vote too.

(H.M.Jr collects ballots)

Where's Murphy?

Mass: Oh

H.M.Jr: Well, I wouldn't bother. He can come in on the next one.

-3-

Let's see, Seltzer has 101 on the note. Seltzer, do you mind - well, that's all right, that's all right. Yes, I agree. 102½ on the '50-'52 and 102½ on the long.

Haas has short 101, 102½ and 102½. It's collusion.

Haas: We talked about it a bit.

H.M.Jr: whose handwriting is this?

Lochhead: That's mine. *his is what I think should be done. I mean to try to fix it to a price isn't

H.M.Jr: Why not? Well, that's the way

Lochhead: We'll have to do it. We have this thing suggested, but I think it's a little bit rich.

H.M.Jr: Well, I mean you got to do it that way in the Bulletin. Is this yours?

Lochhead: That's mine.

H.M.Jr: Reconvert.

(Murphy comes in)

Come in, Henry; we're playing.

Write on a piece of paper: short, intermediate, and long, how you'd price them.

Why didn't you (Lochhead) sign them? You afraid to?

Lochhead: I thought you could recognize the writing anyhow.

H.M.Jr: I could. He's got 101, 102½, 102½.

D. W. Bell, 101, 102½, 102½.

Hadley: Mine is the same. I had it in terms of profits.

Lochhead: It's a natural figure.

H.M.Jr: Now, don't go scientific on us, Henry. (Murphy studies list of issues)

-4-

Bell: Of course, everything is as of March 15.

H.M.Jr: You mean stop paying the old and begin to pay the new.

Bell: Yes, everything is adjusted.

H.M.Jr: This is going to be fun. I'll tell you why in a minute.

Haas: I think I could guess it.

H.M.Jr: No. And I tried it out on Randolph, and he's with all of you fellows. Have you voted, Seltzer?

Haas: Yes.

H.M.Jr: Come on, Henry, you don't have to be so scientific; you'll be wrong if you are.

(Murphy hands ballot to H.M.Jr)

Yes, he arrives at the same. You're all the same, including Randolph Burgess. Now, I want to argue with you; I don't agree with you.

I won't argue with you on the note, although I think at 101 it's a little bit rich.

Bell: You mean the one is rich - 1 4/32.

Lochhead: Wait a minute, you take off - going to take off interest; so they'll only really get net half a point premium on this. That's not too rich.

H.M.Jr: Why don't they get the interest?

Hadley: They're turning in the 2 1/8, they get a 1 1/8; they're losing one-quarter for three months.

H.M.Jr: I see. So it runs to how much?

Lochhead: To a half.

H.M.Jr: Well, that's all right.

Now, on the intermediate is the only place I differ.

-5-

I think these fellows are going to buy anyway. I'd make the intermediate 102 3/4. I tried that out on Randolph, and he said he agreed with me, said they're going to buy it anyway.

Bell: That was running through my mind. I thought that was just a little too much. If I could get some place between that, it would be all right, but I couldn't quite go the 2 3/4 on it.

H.M.Jr: How can you split it?

Bell: You can't very well.

H.M.Jr: That's the only place.

Bell: Could make it 2 5/8.

Lochhead: I was figuring on a 1 5/8 premium too, which would raise the price up. I put that down; I put down 1 5/8 premium instead of 1 1/2. I don't know how you're going to price it.

H.M.Jr: I didn't want to enrich the long one any, but I just want to cut down on the '50-'52 a little bit, because that's where it's going to go.

I tried him on that, said, "How about enriching..." He said, "You wouldn't go 103, would you?"

I said, "No, 102 3/4."

He said, "It's all right."

Well, it's just Randolph ...

Bell: I'd agree with that. I thought it was just a little - if I could get 102 5/8 in there

H.M.Jr: Well, you can't.

Bell: No, I don't think you can either.

H.M.Jr: I'm not in these days for shaving too close. But I think that's where it's going to go.

Lochhead: What does O'proul figure?

-6-

- H.M.Jr: I haven't asked. Yesterday he figured what you fellows are figuring.
- Lochhead: The only thing is, Sproul brought up in a meeting the question of bearing down on the rights.
- H.M.Jr: I think he's in accord with you fellows.
- Bell: I think they're expecting the Treasury to bear down a little, too - I mean the market is expecting it.
- H.M.Jr: No, that was all - I just thought bear down a little bit on the '50-'52 and make the other, the long, a little bit more attractive.
- Haas: I think that's true. We've got figures that bear you out on that.
- H.M.Jr: What?
- Haas: We've got some figures - just got them together, sent them in to you; probably haven't had a chance to look at them - on the holdings by maturities of banks; and that shows that of these long bonds - only 28 percent of the total volume of bonds of that length are held by banks. Very interesting figures.
- H.M.Jr: Where is that?
- Haas: Miss Chauncey had it. It's very interesting. You'd be interested in looking at it now.
- H.M.Jr: (On phone) Ask Miss Chauncey to come in, please.
- Lochhead: Wouldn't mind if they did go into the 2 3/4; but from our viewpoint that's a smaller issue. But it may be the deciding factor because it is a small issue.
- H.M.Jr: I'd like to see them go into the 2 3/4; it's the smallest issue and I'd like to build it up a little bit. And I think every time we can get stuff out to '60-'65, it's good.
- Lochhead: That's just the point. Maybe they're all going into

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the 2 $\frac{3}{4}$; it will be the deciding factor if they go into 2 $\frac{3}{4}$.

H.M.Jr: Is this the thing?

Haas: Yes, these are new figures; never been compiled before.

H.M.Jr: (On phone) Hello. - Well, the minute he comes in, I want him. And leave word in Hanes's office too. - Isn't Chauncey in? -

Haas: These are, Mr. Secretary, total market supply of all Treasury issues, excluding the ones in trust funds.

(Miss Chauncey comes in)

H.M.Jr: I got what I wanted, Miss Chauncey. Thanks. Good morning.

(Miss Chauncey goes out)

Haas: And of the different bonds even less.

H.M.Jr: This is percent?

Haas: This is the percent figure over here.

H.M.Jr: You mean the total?

Haas: Total amount in the market. 65 of all the bills.

H.M.Jr: You mean 65 million?

Haas: 65 percent of all the bills are held in the banks. Here's the breakdown: New York banks, Chicago banks, all member banks, and the Reserve Bank itself. 65 percent that's held of the total amount out in the market.

Treasury notes, 53. And we have bonds less than five years, between five and ten, ten and twenty, and over twenty.

H.M.Jr: I see.

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Haas: And here you see now it runs down. Here's the stuff we talk about now - 28 percent of all the bonds. The banks only hold 35 percent of these. That's very significant. The banks sort of perform an underwriting function. They buy them and sell them again; ought to have a little more to handle the long-term bonds.

H.M.Jr: How do you get the figures?

Haas: Seltzer is responsible for it. He persuaded the Comptroller and Reserve Board to put it in their call sheet.

H.M.Jr: Will it go in the Treasury Bulletin?

Seltzer: We can't. These aren't our figures. These are the Comptroller's figures.

H.M.Jr: Well, the Comptroller works for me.

Seltzer: They don't belong to us; got them on a confidential basis.

Bell: Why couldn't we get Crowley to put that in his next call June 30?

H.M.Jr: The Comptroller's figures are mine.

Haas: The Comptroller's figures are the Secretary's figures. I think you could work it out.

H.M.Jr: F.B.I.C. - can't you get him to do it?

Seltzer: Haven't got it ready.

Haas: Got it in the report, but haven't compiled the figures.

H.M.Jr: Anyway, the indication is that in maturities of '59 or later it's only 28½ percent.

Bell: Out of about what?

H.M.Jr: 40 some

Haas: Show him the other figures. He wants the amounts.

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Seltzer: There are the actual amounts.

(Hanes comes in)

H.M.Jr: Good morning.

Hanes: Good morning.

H.M.Jr: How are you?

Hanes: Fine.

H.M.Jr: Johnny, to sum up what we're talking about, it's this: I asked these boys to write out how they'd price these issues, you see.

Hanes: Yes.

H.M.Jr: And the only person outside I've called up is Randolph Burgess. And all of these fellows agree, except myself, that they'd price the note at 101, the '50-'52 at 102½, and the long fellow at 102¾. Now I'm arguing with them to price the '50-'52 bond at 102¼ instead of 102½, because I think the banks will go into it anyway and I'd like to make the long one a little bit more attractive if we can. I mean our figures show that of the bonds maturing after '59 the national banks only hold 28 percent. And that's the smallest issue anyway, it's a very small issue, and I'd like it to look a little bit sweeter.

And so I tried it out on Randolph Burgess after he had given me just what these fellows did, and he said he thought it was all right.

Hanes: How does that compare with the market? What's the discount from the present market?

H.M.Jr: It would be a point and a quarter in the intermediate - it would be one point profit; and on the long one it would be a point and a half, and on the short fellow three-quarters.

Lochhead: One-half.

H.M.Jr: One-half?

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- Lochhead: With the adjustment.
- Hanes: Did the 2 $\frac{1}{4}$ stay at 104, just where it was, since the announcement?
- Lochhead: Yes. Of course, it rolled up a little, but the market as a whole ...
- H.M.Jr: The long ones are 104, and the intermediate fellow....
- Lochhead: ... 103-23.
- H.M.Jr: How would we price it, 102 $\frac{1}{2}$?
- Hanes: The idea is to drive as many as you can into the long-term?
- H.M.Jr: Yes, and I don't - and another way to do it would be to make the long one a little bit more attractive and add on to it another quarter. But no one seems to think that's necessary. I mean to add another quarter of a point profit on the long one and therefore to make it ... If we offer the two at practically the same thing, I think that - I mean the predominance of the subscriptions will go into what I call the intermediate. I think it's going to go there anyway, and to offset the drag on it I'd make the long one a little bit more attractive.
- Hanes: Is that the biggest premium they've ever gotten on it?
- H.M.Jr: Oh no.
- Hadley: You got up around a point and three-quarters last time, up that high.
- Hanes: Two and a half points.
- Bell: Johnny means, is that the biggest premium which the Government has ever gotten on the sale of securities? I expect it is. 101 is about
- Murphy: Bigger than the auction tares under Coolidge?
- Bell: Only about 101, 101 $\frac{1}{2}$.

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- Hanes: I'm just wondering if we might be criticized for being a little bit hoggish on this thing.
- H.M.Jr: Well, here's the funny thing. Walter Cummings calls me up from Chicago, says, "For Christ's sake, Henry, don't give them too much." Randolph Burgess calls - "Don't give them too much." Allan Sproul, in the Street - "Don't give them too much." They all want to kill these fellows....
- Bell: Philus, too. Went all around.
- Hanes: I heard that the other day. But I'm just thinking now in terms of driving a little bit harder for that long-term bond. I don't agree with his theory that we shouldn't finance with long-term stuff. I think we ought to have more long-term stuff. Lower premium on your long-term bond even to make it more attractive. I'm thinking now about the after-effects, if this market should weaken off after you'd sold this at a heavy premium of two and a half points. If the market should weaken, just wondering what the country would feel about it.
- H.M.Jr: On the long one, we've got 75 million dollars we want to invest in long ones.
- Hanes: How many long ones are you hoping to get out of this?
- H.M.Jr: I'd like to sell 75 to 80 million dollars of short stuff that the Postal has and put it into the long fellows. If there's the slightest break, I'm going to go in and buy 75 million dollars of the long ones. So we're just waiting for a break - I mean not too much of a break, but if there is any indication of a break we're right there with 75 million dollars for orders.
- Hanes: That's the only thing that struck me as - with the Government taking that much of a premium on this ...
- Lochhead: They're going to get more than one and a half points on their long bonds.
- H.M.Jr: With the interest adjustment.
- Lochhead: About one and 15/32 without the interest adjustment.

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and we're giving them a $5/32$ interest adjustment, so $1\ 20/32$ they're getting.

- Hanes: Have you got any indication - have you figured what percentage of the total is going to be in long-term bonds?
- Lochhead: The market will probably try to go into the intermediate. That's what they want.
- Bell: Insurance companies may take a little.
- Lochhead: The only thing that could keep them from going into the intermediate is the fact that that issue is a little large and they might feel it would be better to get into a smaller issue.
- Bell: This has a little advantage. On the '50-'52 the Government is going to be paying out money, whereas on the other two the subscriber is going to be paying cash to the Treasury.
- H.M.Jr: What do you mean?
- Bell: Well, the coupon on the '50-'52 for six months is due on March 15, so they just clip that thing; there isn't any interest adjustment. But we pay them interest for a quarter of a period on the '60-'65.
- H.M.Jr: Well, that's bookkeeping.
- Bell: Take out the \$2.75 premium.
- H.M.Jr: Well, that's bookkeeping. I mean they draw interest from the 15th of March in any case.
- Bell: Yes, but it has some psychological effect in paying cash out of their till.
- H.M.Jr: On which one will they pay?
- Bell: We pay them cash on the '50-'52, and they pay us on the note, and just about split even on the - no, they pay us on the '60-'65 and we'll pay them a little cash on the note.
- H.M.Jr: How about on the intermediate?

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Hadley: You wouldn't pay them cash on the big one?

Lochhead: Don't you have to give them interest to March 15?

Bell: You'll get a credit against the premium. The circular will provide a credit.

Lochhead: I mean we still have to pay them interest for the time they're holding

Bell: The debits and credits will wash out. In one case we'll have to pay them about two and a half. Might have some little effect on some of the bankers.

H.M.Jr: We're kidding Wall Street, Johnny.
Is this last night's prices?

Hadley: Yes, these are last night's closing.

Bell: Any change this morning?

Hadley: Hadn't opened yet.

Bell: That's right.

Hanes: Dan, the market doesn't seem to figure that there is going to be any dilution here at all of the present price of this market; figure it's going to hold right at 104.

Bell: The market's holding up pretty well.

Hadley: That's the general feeling, that this market is on a pretty firm basis.

H.M.Jr: Randolph Burgess said the undertone is terrifically strong. He said there's a very strong undertone and a great demand for buying.

Bell: Seems to be a lot of money that wants to go into bonds, waiting for this to get over with.

H.M.Jr: I tell you, gentlemen, this is what I want. I want to make the long one a little bit more attractive. I don't think you've made it enough more attractive.

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Lochhead: You have to add - oh, no interest adjustment on that.

Hanes: That's my first reaction about that. Haven't got that long one attractive enough.

H.M.Jr: Well now, look, this thing - whatever way you figure it - I mean it's uniform, isn't it?

Hadley: Yes, it's all on the same basis.

Lochhead: Your interest isn't.

Hadley: That premium is just the difference between the market price and what we'd offer.

H.M.Jr: But I mean interest is not adjusted.

Hadley: No.

Lochhead: No, have to mark down on the $1\frac{1}{2}$; they'd lose $8/32$.

H.M.Jr: Let's get it adjusted to interest; let's get it accurate.

Hadley: I can give you those figures on that.

H.M.Jr: Give it to me on that.

(Hadley writes down figures
and explain them to H.M.Jr)

H.M.Jr: This is with interest adjusted. Then there is a $10/32$ advantage in the $2\frac{1}{4}$.

Hadley: Yes.

H.M.Jr: Is it enough, $10/32$?

(On phone) Hello. - I'll take it in the
washroom.

(H.M.Jr goes into washroom,
returns in few minutes)

H.M.Jr: Have you got it all settled?

Hanes: No. I was thinking we should change the long one to make it more attractive.

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- H.M.Jr: You mean offer it at less than 2 $\frac{1}{2}$?
- Hanes: I was thinking of 2 $\frac{1}{4}$.
- H.M.Jr: And leave the intermediate where it is?
- Just a second, Henry. Henry, just a moment, please. I mean let's talk together.
- Murphy: Pardon me.
- H.M.Jr: That's all right. I just want to - Mr. Hanes made the suggestion that the '60-'65 should be 102 $\frac{1}{4}$. Now, what would that figure, plus interest adjustment?
- Hadley: Be 1 28/32.
- H.M.Jr: How much?
- Hadley: 1 28/32. That's awfully rich.
- H.M.Jr: Too rich.
- Bell: You wouldn't give that on a cash offering.
- Hadley: If you did that, the next time the rights came around they'd be selling at a two-point premium; and the idea is that they've been building the price of these rights up steadily because we've been meeting it, and if you hit them right on the line or just under they won't be so enthusiastic next time.
- Bell: Your rights went off yesterday about what - which indicates they're expecting a little tightening.
- Seltzer: We're letting the market coerce us each time.
- H.M.Jr: I frankly never look at the rights. I mean they don't influence me. I know what they sell at, but it does not influence me. I'm very careful.
- What I'm trying to do is to get down as close as I can so you (Bell) can write this thing up; then when I come back from the Capitol and drop in, we can settle it.
- He (Bell) said it's five pages to write up, you see.

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Damn it, I wonder where Allan Sproul is. It must be nice to work for the Federal Reserve.

(On phone) Allan Sproul, please.

With this interest adjustment thing, the way you fellows all price it, it doesn't look so bad. I think this: I think on a '60-'65 that 1 20/32 is enough.

Hanes: Two and a half.

H.M.Jr: I think it's enough, unless something happens this morning.

Bell: What does that mean, the 2.75 on intermediate?

H.M.Jr: Reason?

Bell: 2 1/2 on the intermediate?

H.M.Jr: I want to talk about that next.

Lochness: Mr. Morgenthau, I would say we're all pricing the intermediate bond the way you do because you're fitting something for the market; if the banks up in New York would be satisfied with a higher pricing - that's the point - I mean if they're trying to convince us you ought to go higher. I think we're all right. We're mostly afraid that the ones up there would back away from the 2 1/2 for the intermediate if you

H.M.Jr: Well, what I want to try out on Sproul, let him try it around - if we price the '50-'52 at 2 1/2, will they take it? If they will, I'd say yes.

Now, Burgess says, offhand, O.K. Well, he represents a large group ...

Lochness: He represents a group that probably would go in there. The banks would probably want the intermediate; if they're going to be satisfied with the 2 1/2, that answers it.

note - 10/

50-52 - 102 $\frac{1}{2}$

50-65 - 102 $\frac{1}{2}$

Seltzer

102 $\frac{1}{2}$
102 $\frac{1}{2}$

Lathur

$\frac{1}{2}$

 $\frac{1}{4}$

 $\frac{3}{8}$

101

102 $\frac{1}{2}$

102 $\frac{1}{2}$

Short - 101

Intermediate 102½

Long 102½

SWB

Short 3/4 pt (less 1/4 pt interest)

Intermediate 1 1/4 pt (

Long 1 1/2 pt

WASH

Burys

Long $102\frac{1}{2} = 1\frac{1}{2}$

Int $102\frac{1}{2} = 1\frac{1}{4}$

Short 101 $= \frac{3}{4}$

RE MARCH 15 FINANCING

March 4, 1939.
10:30 a.m.

Present: Mr. Bell
Mr. Lochhead
Mr. Haas
Mr. Murphy
Mr. Seltzer

(H.M. Jr talking on phone to Allan Sprout as group enters)

H.M. Jr: (On phone) Would you hold the wire a minute, please? Will you hold on please? -

What do you think, Dan?

Bell: I certainly don't like to see you go down to $2\frac{1}{4}$; think you ought to stick to $2\frac{3}{4}$ as a minimum. If the 2.75 is a little thin I'd make them both $2\frac{3}{4}$.

Hadley: I think $2\frac{3}{4}$ for both.

H.M. Jr: $2\frac{3}{4}$. Archie?

Lochhead: I think I'd like to have spoken to a couple banks on that. We're getting dealers' reactions.

Bell: That's where your speculation is going to be: through the dealers.

Lochhead: Speculation - that's why I don't like that so well. At the $2\frac{3}{4}$ on that, of course, we're safe; we're sitting on safe ground there. I'm just wondering, if we're going to accomplish the purpose that you stated, if we shouldn't follow it through

Seltzer: I'd rather you charged $2\frac{1}{4}$ for the long bond and $2\frac{3}{4}$ for the intermediate. I think that's safer, for this reason.

H.M. Jr: That's too rich.

Seltzer: Charge $2\frac{3}{4}$ for the intermediate, $2\frac{1}{4}$ for the long; instead of $102\frac{3}{4}$ for the long, $102\frac{1}{4}$; charge $102\frac{3}{4}$ instead of $102\frac{1}{4}$ for the intermediate, for this reason: This isn't like a cash offering.

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- H.M.Jr: (On phone) Keep your extension open and I'll call you back. - Thank you.
- Seltzer: On a cash offering a fellow who is thinking of subscribing can't get anything if he does nothing; a noteholder can get $17/32$ if he does nothing, because he can get $2\frac{1}{8}$ percent interest for three months, and three months money is worth nothing. Therefore, your real margin of safety is not your gross premium that you allow this fellow, but that thing less $17/32$.
- Hadley: No.
- Lochhead: I don't believe that.
- H.M.Jr: What's this?
- Murphy: This is a computation of what purports to show the real margin of safety on the bonds. Starting out with the prices of last night, subtracting the premiums of 1, 2 $\frac{1}{2}$, 2 $\frac{1}{2}$, we arrive at this; then subtracting $17/32$, which is presumptive with a noteholder who turned down this change that he could get; that is, the three months money is worth nothing, but he would have an interest payment for three months at $2\frac{1}{8}$ which he could sell for $17/32$ - so this is the amount of additional advantage that he could secure, which he secures for subscribing to respective issues of these premiums; that is, only $7/32$ for the note, 22 for the long bond - I mean 22 for the intermediate bond, and one six for the long bond, which, considering the premiums and despite the strength
- H.M.Jr: After he's paid the premiums
- Murphy: Yes, this is his real net after he's paid for the premium, considering that he could have gotten $17/32$ anyway.
- Lochhead: That's one way of figuring, but I don't agree with it.
- Hadley: That's not the way the market thinks.
- Seltzer: The thing that compares with the cash offering is this column. These are the premiums that are

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comparable to those which you offer on a cash subscription basis.

- Murphy: This wouldn't be true if we weren't anticipating a maturity in three months.
- H.M.Jr: I subscribe, pay the premium, sell it. That's what I could get.
- Hadley: But when June comes along you've got your money and haven't got it invested.
- H.M.Jr: I pay my premium. After I pay it, if I want to sell it, that's all I get.
- Seltzer: You also get 17/32 besides that.
- Murphy: Subtracting the 17/32, you could have gotten that anyway. That's what you could get in addition.
- H.M.Jr: That goes off, but with the 17/32
- Lochhead: On the 1 1/8 still they're getting a half.
- H.M.Jr: On the 1 1/8 it's all right; on the intermediate - I don't think that's too rich.
- Seltzer: I don't.
- Lochhead: You mean 2%. The way we always figure: you can put it down there, but you're handing out a big premium, still handing out more than
- Haas: Means getting a longer-term bond. Why shouldn't he get higher?
- Lochhead: I don't think that much.
- Bell: That's as much or more than you'd give for a cash offering.
- Hadley: You'd spoil the market if you did that.
- H.M.Jr: (On phone) Allan Sproul, please.
- Haas: Of course, if the market thinks one way, irrespective of these other considerations, that's the important thing.

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Lochhead: The market doesn't

Murphy: If the thing should turn for the worse - if the thing turns, how would they figure.

H.M.Jr: (On phone) Hello, Allan Sproul. (Holds conversation with Sproul)

RE MARCH 15 FINANCING

March 4, 1939.
2:00 p.m.

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

H.M.Jr: Hello. I'm getting a final check on Europe. I arranged that with Moffatt. I'll get that first.

(On phone) Ask Mr. Hanes to come in.

How does it look?

Haas: There's the close there.

H.M.Jr: Where's the stock market?

Haas: It's up. I don't have it.

Lochhead: It's up three-quarters of a point.

H.M.Jr: Get it, please.

The 2 $\frac{1}{2}$ s went up today, huh?

Bell: Went up 3/32.

H.A.Jr: That gives us a little bit more - and on the

Bell: The others went up five, so it's about offset.

H.M.Jr: 102 $\frac{1}{2}$ is 13/32 and the other is 22. I think it's plenty, don't you?

Bell: Too much.

H.M.Jr: (On phone) Hello. (Conversation with Mr. Moffatt, of State Department, follows:)

March 4, 1939.
2:05 p.m.

HMJr: Hello.

Operator: Mr. Moffat. Go ahead.

HMJr: Hello.

J. Pierrepont

Moffat: Hello, Mr. Secretary.

HMJr: Can you give me a worm's eye-view of the European situation?

M: Well, I'll try and give you a little idea of what you have in mind.

HMJr: Please.

M: As you know, we've been having a good deal of variance in the reports we are getting from London and Paris.

HMJr: Yes.

M: London, you can almost describe as optimistic at the moment; and Paris still seems to fear that she is going to be confronted at any moment with impossible demands that are going to start off a big European crisis.

HMJr: Uh-huh.

M: Now, I think you've got to divide the thing into a very short-term outlook and a more middle-term outlook.

HMJr: Well, I want one week.

M: Well, I think the one week is about as follows. We -- we feel that the crisis is coming; that the squeeze play is coming.

HMJr: Uh-huh.

M: But I'm not inclined to think it's going to come in the next four or five days or a week, for the following reasons. Of course, one -- one may be wrong, but the weight of evidence I think is against it.

HMJr: I see.

M: It would have to be started from either the Italians or the Germans.

HMJr: Yes.

- M: Now take the Italians first -- in the first place I think they're interested in seeing what their relations with the Vatican are going to be.
- HMJr: Yes.
- M: Second place, the Italian public will really be thinking of very, very little until the new Pope is crowned, which is not until the end of the week.
- HMJr: I see.
- M: Third place, I think there would probably be a wish on their part finally to clean up the Spanish situation, before they started on anything else. After all, it's -- from their point of view the thing is moving but there has not been the surrender of Madrid, and that situation, you couldn't write finis to yet.
- HMJr: Uh-huh.
- M: A fourth reason is that I think there are some indications, and I'll explain this later, that Italy is going to make her first move through diplomatic channels.
- HMJr: I see.
- M: To try and force England into a position of mediating between England and France if she can. And when that fall falls, then to try her campaign of moral terrorism which will bring on the crisis.
- HMJr: I see.
- M: Now, from the German point of view, and I'm not inclined to expect the thing in the next few days, partly because spring isn't quite far enough advanced, but perhaps more because I think Germany wants to see when Hudson comes over.
- HMJr: When who?
- M: Hudson, you know, the British man's going over on the trade thing.
- HMJr: The trade thing.
- M: Whether she can get something out of England on either trade or finance.
- HMJr: I see.

- M: So that all of that, I think the weight of evidence is that you've got -- well, I was thinking four or five days. You asked for a week but I think that would apply, before the squeeze play starts.
- HMJr: I see.
- M: It's beginning -- the Italians, confidentially, have already complained to the British that the French are sending so many reinforcements down to -- to Tunisia and are sending so many planes and heavy artillery that they wonder if the French don't want to attack Libya. Of course, the British aren't taking any important stock in that, but they've already used it as a chance to remind the French that although they promised they wouldn't mediate, nonetheless, perhaps the French would like them to try and compromise the situation. Of course, the Frenchmen said "No" very -- very firmly and definitely. So that the -- the thing is coming, but I don't think it's coming quite as quickly as some of the people in our shop do.
- HMJr: Well, that's very helpful. As I say, I -- I don't need -- I need four or five days, or a week.
- M: Yes.
- HMJr: To clean this thing up, and I think we've got -- the things are priced now and if we -- we ought to take a chance of --
- M: Well, one has to, because after all, in the last analysis the decision is made by two men and it's a perfectly arbitrary decision, and the best you can do is to balance the weight of evidence as to when they're going to move.
- HMJr: That's right. Well, I'm ever so much obliged and sometime next week I'll call you again.
- M: All right fine.
- HMJr: But this is very helpful.
- M: Well, you're more than welcome, sir.
- HMJr: You got my message -- because I didn't want to hold you --
- M: Oh, that was quite all right. I told them where the -- where my telephone would be.

HMJr: Thank you so much.
M: Good. All right, Mr. Secretary.
HMJr: Good bye.

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H.A.Jr: Needless to say, that's all very confidential. But I wanted you fellows to get the idea.

Now, before I call up, Dan, have you changed your mind any?

Bell: well, I'm drifting toward the 2 $\frac{3}{4}$ for the '50-'52. Yes, I think the bonds are going up. I think we've had a situation in this financing a little different than what we've had for a long time. One thing is that prior to your announcement the market was strong and it didn't go off as it usually does. The other is that on Saturday the day before you announce it's usually stayed pretty steady or dropped off; this time it's up five or six thirty-seconds. There is every indication of a strong market and a lot of money. I'm afraid you're going to get a big upsurge in the market Monday, throw these prices all out.

H.A.Jr: Oh, you mean?

Bell: No, to give them more cushion. And I'd like to see the '50-'52, as you suggested, go to 2 $\frac{3}{4}$. Allan Sprout is arguing that they both ought to be the same, whatever you do.

H.A.Jr: Where is Hanes?

(On phone) Did you tell Mr. Hanes I wanted him?

Operator: I'm sorry. I didn't tell him.

H.A.Jr: I told you. All right.

You (Bell) say what, you lean toward the 102?

Bell: For the '50-'52, but I say Allan Sprout says if you're going to give one of those bonds the premium of 2g you ought to give the other that. He says that, going around the market, they haven't found any that wouldn't give the same premium to both bonds. And they're writing the premium, I think, from 102 to 100g. Solomon Brothers, I think, wrote them down to 1 $\frac{1}{2}$. But the First of Boston is the only bank they found that went to 2 $\frac{3}{4}$, and they did - suggested a 2 $\frac{3}{4}$ premium.

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H.M.Jr: Any ideas?

Hadley: I'm sticking to $2\frac{1}{2}$ for both; if any change, to go to $2\frac{3}{4}$ on the '50-'52. But I don't think that's advisable.

H.M.Jr: Have you (Hanes) been here or you been up on the hill?

Hanes: No, I didn't get to go.

H.M.Jr: Have you any

Hanes: I haven't any further suggestion to make, other than what I said this morning.

H.M.Jr: Henry?

Murphy: I'd prefer the $102\frac{1}{2}$ and $102\frac{3}{4}$.

H.M.Jr: $102\frac{1}{2}$ and $102\frac{3}{4}$. Oh yes.

Murphy: I believe we're perfectly justified in giving some preference to the long bonds. The idea that we should allow the market to make the choice - its choice - don't think it holds water logically. We don't do that on the notes. If you push that argument to its conclusion, we ought to make the notes, the intermediates, and the long bonds equally attractive from a premium point of view. If you say we have the right to make the bonds more attractive than the notes, it seems to me we're on perfectly firm ground in also making some differentiation between the long bonds and the intermediate bonds.

And while I am in no way an alarmist - I think it's going to go over wonderfully at anything - I don't think that the real premium is what we think it is, and that it is safer to make the differentiation by making the long bond cheaper rather than the intermediate bond more expensive.

Seltzer: I feel very much the same way. What bothers me mostly, though, is this. You've got a fine market; everybody agrees that almost anything will go over well. Here you've got a 13-year bond and a 26-year bond, and Sprout tells you that as you have it priced now everybody is going to take the 13-year

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bond. Four or five thirty-seconds will put a large part of them into the 26-year bond. Why haggle for that five or six thirty-seconds? I'd rather give it to them and get them into the long bonds.

H.M.Jr: So you're in favor of what?

Seltzer: I'm in favor of offering the long bonds at, say, 102 3/8. That would give them 1 21/32 premium. I don't think that's too much.

H.M.Jr: One and what?

Seltzer: 1 21/32.

Lochnead: No, it would give them more than that.

Seltzer: They're (Lochnead and Hadley) counting in some interest I don't believe should be in there.

Murphy: The three of us are agreed that that is an improper adjustment.

Lochnead: But the market takes it into consideration.

H.M.Jr: How does the market figure it?

Hadley: The market would figure it your (Lochnead) way.

Heas: They get smart when things force them to be smart.

H.M.Jr: Well, we'll ask anyway.

Heas: I feel rather strongly that you should make a differentiation in favor of the long, as you have done it on the real short. And if Sproul is correct, which no doubt is, that under the equal pricing a great portion will go into intermediate bonds - that has been the weak part of the market when a break comes, and the market would be in better shape if they got out into the longs, I'd put a differential. I'd just as soon take 102 3/4, your suggestion this morning, and 102 1/2; but if you want to be as conservative as you usually have been, I'd take the 102 1/2 and 102 1/4 on the long. That's Murphy's and Seltzer's opinion.

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H.A.Jr: and Haas's?

Haas: Yes.

Murphy: Well, Larry split to three-eighths. I personally feel the eighths are a little messy.

Haas: it's just playing safe, Mr. Secretary, if you want to be real safe.

H.A.Jr: Archie?

Lochhead: I agree in part with the three gentlemen here, that I like to see a differential between the longs and the intermediates. First of all, even at 100 $\frac{1}{2}$ we have a differential. Secondly,

Weltzer: Seven thirty-seconds.

Lochhead: There is a differential. You say make it equal. ~~There~~ is a differential even now. Secondly, if we want to spread that differential, I'd do it at the expense of the intermediate bonds and make it 2 $\frac{1}{2}$; I wouldn't vote for cutting down the others from 2 $\frac{1}{2}$. My only feeling is, I'm just wondering whether up in New York - whether you've had enough reaction to back you up in raising to 2 $\frac{1}{2}$.

H.A.Jr: You (Haas) weren't here when I spoke to Mr. Moffatt, Chief of the Western Division, and he says there is a crisis in the making in Europe, definitely; that our London Embassy is more optimistic, our Paris Embassy more pessimistic. He doesn't think it will break before March 12, when the new Pope is crowned. But he says it is definitely in the making. Large troop movements from France to Tunisia. Italy says, "What's it for? You going to attack Libya?" etc. There is a crisis definitely in the making.

Of course, if there is one in the making, a smart general doesn't wait to pull it the day everybody expects. So there is that in the offing, you see.

And after all, we're not really giving anything away. We're - the way I figure is, we're getting \$25,000,000. And I've always - nobody can criticize me. What the hell? I mean I'd rather if I did

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anything - before I talk to this fellow - I'd rather charge 102½, drop the long down to 102¼, see, and play safe.

Hanes: That was my feeling.

H.M.Jr: I'd rather take the little criticism of being too generous than to make a complete wash-out.

Hanes: If something happened and it went down below the price, why, you'd feel badly.

H.M.Jr: On a complete wash-out, and we've never done that. And after all, we're not giving anything, to speak of, and if these fellows make some money, the thing snaps back. And the thing I don't forget is that they've had a terrific rise in this market. I've never sold on a basis like that.

You fellows (Haas and Murphy) both are for 102¼ on the long, aren't you?

Haas: That's right.

H.M.Jr: Let's see what Sproul has to say.

(On phone) Allan Sproul, please.

Do I have to sign about fifty thousand documents?

Bell: Have to sign several, they're all ready, on one basis.

H.M.Jr: I know.

Hanes: I could sign them for you if you don't want ...

H.M.Jr: I always sign them.

Hanes: You got to sign them?

H.M.Jr: I think so.

Lochhead: If there is any crisis over in Europe, the first effect is going to be an awful lot more money over here.

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Murphy: But not in long bonds.

Lochhead: I don't - when you say about long bonds, I'm just going to say, what are the banks going to do if they

Haas: For a while they'll do nothing.

Lochhead: For a while they'll do nothing. I'm saying you can't protect this market against the European crisis on a difference of a quarter of one point.

Murphy: There is some particular quarter point that makes the difference; as you know, there has to be a breaking point in all things.

H.M.Jr: You three are together on the long at 102½?
(Haas, Seltzer, and Murphy nod yes)

H.M.Jr: Did Sproul stay?

Lochhead: Yes, he's waiting.

Bell: He understands that you were going to call him around one.

H.M.Jr: I listened to some thrilling speeches.
(On phone) Hello. (Conversation with Sproul is attached)
(H.M.Jr interrupts conversation with Sproul to confer with group)

H.M.Jr: (On phone) Just let me - can you hold on a moment, please? -
Do you have any strong feelings, Ben, one way or the other?

Bell: Well, I feel you shouldn't go below 102½. Not strong. After all, it's your responsibility.

H.M.Jr: I know, but I'm asking your advice.

Bell: I think 102½ is ample.

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H.M.Jr: You do?

Bell: Yes, sir, I do.

H.M.Jr: John?

Hanes: I still incline to the view I expressed this morning, that I'd make that long-term more attractive, and a quarter of a point is not giving away very much, especially in view of the premium we're getting on it.

H.M.Jr: Of course, Sproul on the question reflects somewhat the Federal Reserve Board, who don't want the long ones.

Come on, Scotchie.

Lochhead: I still agree with Dan Bell.

H.M.Jr: You fellows unanimous?

Haas: Uh-huh.

H.M.Jr: Three for one and one for three.

Haas: Sproul said 75 percent would go into that intermediate.

Seltzer: Does Sproul think 102 3/8 would be messy?

H.M.Jr: Hello. (On phone) (Conversation with Sproul continues)

(On phone) Hold the wire a minute again.

How about three-eighths?

Hanes: Sure.

Seltzer: That's the neatest thing, on the figures.

Murphy: I think it implies a precision that isn't there. I prefer the quarters; maybe I'm prejudiced. If we've really got the right answers, that's cutting it awfully fine.

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- H.M.Jr: I'd like to indicate that I want the fellows to go into the longs. All I do is to give them an eighth hint that way.
- Bell: You also would like to get away from some of this rights business, which you're not getting away from.
- H.M.Jr: That doesn't worry me.
- Murphy: I don't see why an indication as presented by a hint should motivate anyone into going into longs. You're not saying the longs would go up. I don't like the straight mechanical effect of the eighth, which is something, however,
- H.M.Jr: I think the eighth is all right, don't you (Hanes)?
- Hanes: Three-eighths.
- H.M.Jr: Yes, three-eighths.
- Hanes: Yes, it's all right with me. Be a good way to meet all sides.
- Haas: The right direction; a compromise.
- Seltzer: It's the right amount.
- H.M.Jr: What do you mean, it's the right amount?
- Seltzer: A three-eighths, by my figuring, gives a premium of $1 \frac{21}{32}$, which is just right for the long bond.
- Murphy: I feel about it - sort of like estimating two figures.
- Seltzer: It's less than the rights value, so you're proceeding in the right direction anyhow.
- H.M.Jr: (On phone) Sproul, I'm making up my mind but I'm doing it with less certainty than I have ever done it before. But I think we'll make it 101 on the note, 102 $\frac{1}{2}$ on the '50-'52, and 102 $\frac{3}{8}$ on the '60-'65.
(Conversation continues)
- (On phone) Just a minute.

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Bell: Do you want to express that in your circulars
\$2.37½ - that's the way we've expressed our
premiums - or do you want to express it \$2.40 or

Haas: Nobody sees it. I don't think much about it.

H.M.Jr: How did you do it before? Now did you do it on the
seven-eighths?

Bell: We've been making it in cents - two dollars and a
half, two dollars and a quarter. This would be
two dollars and thirty-seven and a half cents.

H.M.Jr: Make it two thirty-eight.

Gaston: Thirty-seven and a half.

Seltzer: What's the matter with two thirty-seven and a
half?

H.M.Jr: (On phone) Dan raises the question, would it
read two thirty-seven and a half, two forty, or
two thirty-five? - (Conversation continues)

H.M.Jr: We'll do the best we can.

March 4, 1939.
3:18 p.m.

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Operator: Operator.

HMJr: Allan Sproul, please.

O: All right.

(Pause)

HMJr: Hello.

Operator: Mr. Sproul.

HMJr: Hello.

Allan
Sproul: Hello.

HMJr: Sorry to tie everybody up but if these people will celebrate every hundred and fifty years, I've got to wait.

S: Well, it only happens once in a while.

HMJr: Only every hundred and fifty.

S: Yeah.

HMJr: Tell me, where are we at now? How do you feel after -- at this time of day?

S: Well, I still feel the same way. I'd do them both at a hundred and two and a half.

HMJr: Well, I tell you, I'm leaning a little towards, on the sixty sixty-five, a hundred and two and a quarter.

S: Well, my feeling on that is that the difference between the two of them both at a hundred and two and a half is enough sweetening to put on that one, but on an issue -- on a three-way issue of this sort you are trying to fit the market and not to drive anybody into any particular issue with too much sweetening.

HMJr: No.

S: And that while it looks as if there would be a strong demand for the fifty fifty-twos, nevertheless there's some evidence of demand for the sixty sixty-fives and that a quarter of a point is -- is fairly good difference, especially when the whole offering will be below the rights values as they have been recently. In other

words, anybody who has the rights at a hundred and two or thereabouts will be shoved pretty hard towards the sixty sixty-five because that's the only way -- place he could come anywhere near coming out even.

HMJr: Yeah, but he would throw more into the sixty sixty-fives.

S: It would throw more into the sixty sixty-fives if you priced that lower than the fifty fifty-twos. I don't think there's any question about that, but our feeling is that there's enough sweetening on that at the even price to give it some advantage. All the advantage that you really want to give it in an offering of this sort.

HMJr: Well, the worst that they can say is what? If I make it a hundred and two and a quarter on the sixty sixty-fives.

S: Well, it's -- the worst they can say is that you are trying to push them into the longer issue.

HMJr: Well, that would be the truth. If the worst they say about me is the truth -- of course, the other thing is this -- very confidentially, I just checked with the State Department and they say there is a crisis in the making in Europe. Now, they don't think it will break for a week, but hell, you never can -- time those things, but it's definitely in the making.

S: Well, I should think on that basis there would be some question about your shoving people on into the longer issue, which would take most of the pressure if the crisis developed.

HMJr: That doesn't show up. We find that the middle group seems to be the sloppiest during the time of a crisis and not the long ones.

S: Well, I think if a considerable amount went into the longer ones on account of the difference in profit, that you would find that in this case that there'd be more sloppiness there.

HMJr: Uh-huh. Well, we've got division here. Just let me -- can you hold on a moment please?

S: Yeah.

(Pause)

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HMJr: Hello.

S: Hello.

HMJr: They're doing a little trading here with me --

S: Huh?

HMJr: What about a hundred and two and three-eighths?

S: Well, that would be better, but I still think the even would be best.

HMJr: Well I mean --

S: At a hundred and two and a quarter you'd be giving them about two points from the present market. That's pretty fat.

HMJr: Well, did anybody mind on the three-eighths? They've got to pay cash anyway, don't they?

S: Well, they have to pay -- they have to pay some cash anyway. On the three-eighths you'd be giving them one and three-quarters approximately, and that -- even that I think is fairly rich. On the other side of it, if something does break out abroad, you not only may be so -- taking advantage of your market, but also I think then you would have sloppiness in the longs if you shoved a lot of people out into them.

HMJr: Well, hold the wire a minute again.

(Pause)

HMJr: Sproul --

S: Yeah.

HMJr: I'm making up my mind, but I'm -- I'm doing it with less certainty than I've ever done it before, but I think we'll make it a hundred and one on the note, a hundred and two and a half on the fifty fifty-two, and a hundred and two and three-eighths on the sixty sixty-five.

S: One two and three-eighths on the sixty sixty-five.

HMJr: Now, do you think three-eighths looks silly?

S: Well, I think it gives them too much if the market is -- goes along all right, but if you have trouble abroad it looks as if you might have tried to take a little advantage of the market by shoving them out there and also that you will have some sloppiness out there. I think it would look better if you priced them both a hundred and two and a half.

HMJr: I know, but -- but it's between a hundred -- it's -- I don't want to do a hundred and two and a half. It's between three-eighths and a quarter.

S: Well, I think three-eighths would be better than a quarter.

HMJr: Sold.

S: And I don't think it would look silly.

HMJr: All right, just a minute.

(Pause)

HMJr: Dan raises the question, would it read two thirty-seven and a half or two forty or two thirty-five?

S: Would what?

HMJr: How would -- Dan raises the question on the circular -- would it be two thirty-seven and a half? I should think it would be just what it is, that's two thirty-seven and a half.

S: Yes, a hundred and two and three-eighths, two thirty-seven and a half.

HMJr: All right, well, Sproul, I'm -- just as I've been testifying, one of these days when we have a simpler world and people have got a little sanity, why then I'll cut the thing down to the bone, but until we have a little sanity in the world I'm going to -- if things are well, then the fellow gets a little extra fat. If things go bad why the country -- the Treasury is safe, and that's the way I figure it.

S: Well --

HMJr: I'm willing, knowingly with my eyes open to hand them an x-ray.

S: Well, if things go well I think at a hundred and two and a half you'll be doing pretty well by them.

HMJr: If things go well it would be, but I'd like to give a little hint that I'd like it to go a little bit more to the long one besides.

S: You want to keep more to the long than just the difference between two prices evenly -- which would --

HMJr: Yeah. I mean, I'd like it to read -- I mean the fellow who can't figure, I'd like him to read the intermediate a hundred and two and a half and the long one a hundred and two and three-eighths.

S: Uh-huh.

HMJr: I may be wrong, but -- well, they can't be. I'm oaring on the safe side.

S: Yeah. Well, as I say, I prefer it both priced a hundred and two and a half, but if you don't want to do that then I think a hundred and two and three-eighths is the better one.

HMJr: Well, the only pleasure I get out of this is to see New York more hopeful than I am.

S: Well, I think on the market you could do -- you could do it a hundred and two and a half on both spots a very well, and the difference between the two, at that figure, which would be about seven thirty-seconds to -- and adding the interest would be about nine thirty-seconds -- would be enough sugar on the sixty sixty-five to give that some play.

HMJr: And of course this is a billion three.

S: Yes, you're putting out a billion three more bonds --

HMJr: Which is a --

S: That will be on the market if anything goes wrong.

HMJr: Which is a tidy sum of anybody's money.

S: That's right.

HMJr: Well, let's pray for the best. We'll leave it that way.

S: All right.

HMJr: Thank you very much for all your trouble and your advice.

S: All right.

HMJr: I appreciate it very much and if it's -- if it's too rich I'll take it and smile.

S: (Laughter) We'll get a wire from down there.

HMJr: What?

S: We'll get a wire from you.

HMJr: Yeah, Bell's here and he'll go to work. He's going to write all the circulators -- circulars.

S: Yeah.

HMJr: They go on a strike on me. I can't --

S: Forty-four hour week.

HMJr: For whom?

S: For everybody.

HMJr: Except for the Treasury.

S: I see.

HMJr: All right.

S: All right.

HMJr: Thank you.

S: Good bye.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy Rio de Janeiro

DATE March 4, 11 a.m.

NO.: 57

Reference my 55, February 18, 10 a.m.

I am informed by the Director of Exchange that the Bank of Brazil will close exchange from February 1 to February 7 inclusive, during the week of March 6 for maturities and daily quotas.

Please inform Commerce.

SCOTTEN

EA:DJW

March 4, 1939.

Mr. Philip Levy,
Clerk, Committee on Banking and Currency,
United States Senate.

Dear Mr. Levy:

I am returning, with our corrections, proofs of the transcript of the hearing of March 2nd, before the sub-committee, which you sent to us yesterday.

Very truly yours,

Herbert E. Gaston
Assistant to the Secretary.

Enclosures.
HEG/mah

Sent by Special Messenger
9.45 am 3-4-39