

DIARY

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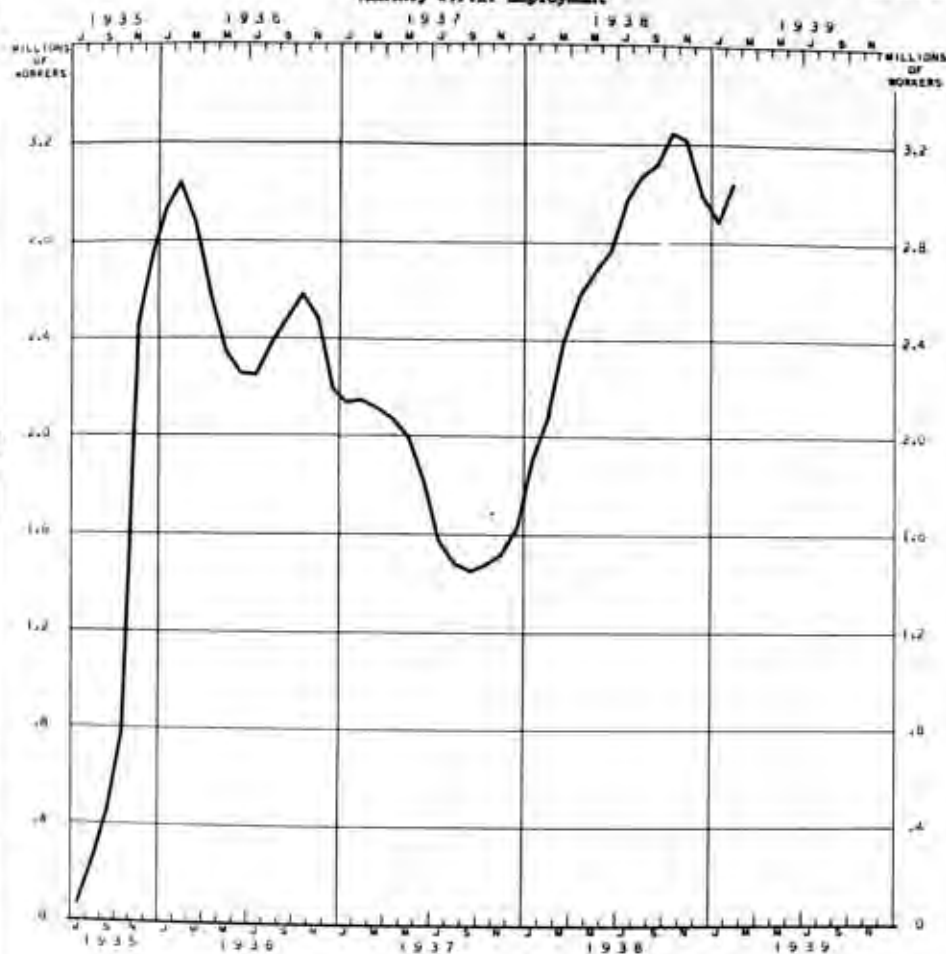
To: The Secretary
From: Miss Lonigan *EL*

GA The total number of WPA workers
on March 4, 1939 is 3,034,245.

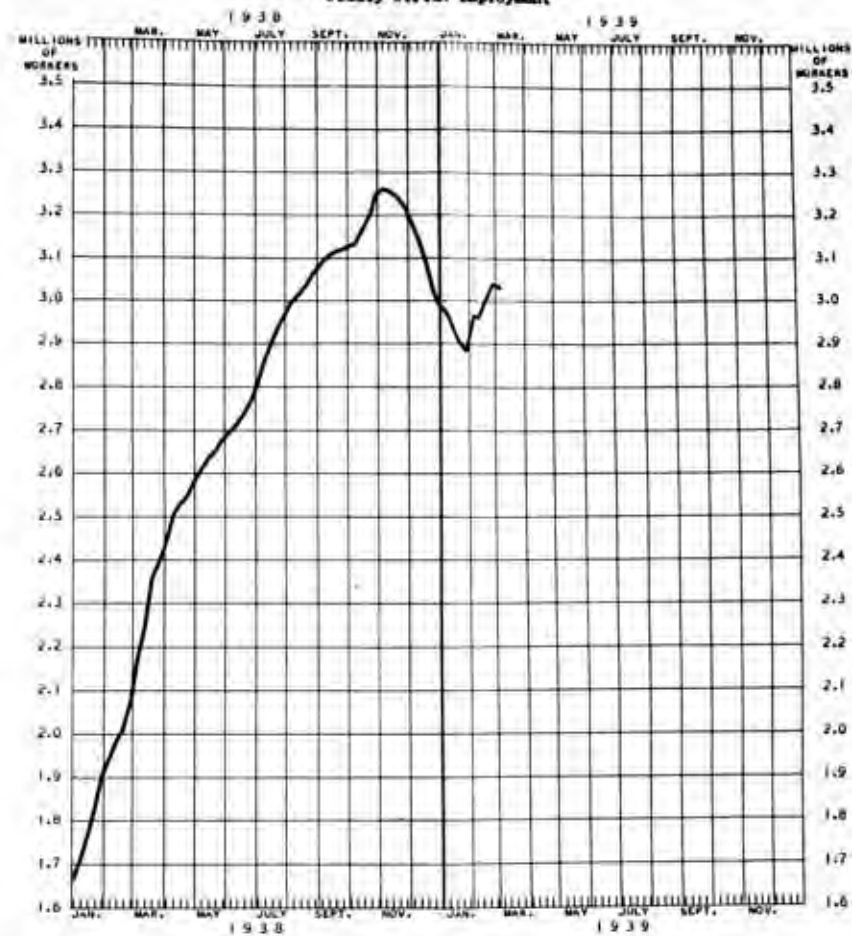
The decrease during the week
from February 25 to March 4 was
8,980 workers.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed
United States

Monthly W.P.A. Employment



Weekly W.P.A. Employment



SOURCE: WORKS PROGRESS ADMINISTRATION

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

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WORKS PROGRESS ADMINISTRATION

Number of Workers Employed - Weekly
United States

3

Week ending 1938	Number of Workers (In thousands)
May 7	2,607
May 14	2,626
May 21	2,650
May 28	2,678
June 4	2,693
June 11	2,712
June 18	2,736
June 25	2,767
July 2	2,807
July 9	2,853
July 16	2,899
July 23	2,938
July 30	2,967
August 6	2,993
August 13	3,017
August 20	3,039
August 27	3,067
September 3	3,086
September 10	3,102
September 17	3,114
September 24	3,120
October 1	3,129
October 8	3,137
October 15	3,167
October 22	3,201
October 29	3,245
November 5	3,263
November 12	3,258
November 19	3,244
November 26	3,216
December 3	3,185
December 10	3,139
December 17	3,083
December 24	3,021
December 31	2,986
1939	
January 7	2,967
January 14	2,927
January 21	2,898
January 28	2,883
February 4	2,966
February 11	2,964
February 18	3,010
February 25	3,043
March 4	3,034 a/

Source: Works Progress Administration
a/ Confidential

Regraded Unclassified

WORKS PROGRESS ADMINISTRATION

Number of Workers Employed - Monthly United States

4

	Number of Workers (In thousands)
1936	
January	2,926
February	3,036
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	2,967
August	3,067
September	3,120
October	3,245
November	3,216
December	2,986
1939	
January	2,883
February	3,043 a/

Source: Works Progress Administration
a/ Confidential

Monthly figures are weekly figures for the
latest week of the month.

They include certified and non-certified
workers.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: March 13, 1939, 2 p.m.

NO.: 70

Reference is made to my telegram No. 66 of March 11.

I am told by the Director of Exchange that the Bank of Brazil will not make any announcements about exchange allocation for the time being, and pending the formation of a new exchange policy based upon the agreements arrived at in Washington. The Bank will close exchange daily in accordance with the practice which it has been following. According to the Director, the Bank of Brazil has resumed the purchase of export bills.

SCOTTEN.

March 13, 1939

6

The President asked me to hold up the Skidmore case until after the election which takes place the first week in April. I did not comment - I just smiled.

House 7
M

PARAPHRASE OF TELEGRAM SENT

TO: American Embassy, Santiago, Chile

NO.: 41

DATE: March 11, 1939, 3 p.m.

Reference is made to Department's telegram no. 40 of March 9, 7 p.m., and to Embassy's telegrams no. 49 of March 10, 3 p.m., and no. 50 of March 10, 7 p.m.

The development of events in Chile continues to be of great interest to the Department, especially as this development bears upon American trade and investment. At the moment the position in Washington appears to be as follows:

(1) It is believed essential that there be kept before the Chilean Government the fact that it is necessary to avoid all action with reference to American interests of a discriminatory or confiscatory nature. It is expected that the established rules of international law will prevail in dealings of the Chilean Government with those interests. Of course it is necessary for American enterprise to make a fair contribution to the needs of the Government and country.

It is our hope, of course, that payments on the dollar external loans will not be suspended by the
Chilean

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Chilean Government. Any action by this Government would be easier to carry through if such payments were maintained, and assistance by the American Government would be made difficult by complete suspension. The Department, however, is not ready to take a rigid stand with reference to this matter and it is possible that we would not assume a critical attitude if the Chilean Government should reduce debt payments for a limited period as a part of its general program.

2. It appears that the Chilean economy is in real difficulty. It cannot be expected by either the Chilean Government or the American enterprises which are operating within the economy of Chile, that securing large-scale financial assistance from the American Government would obviate the necessity for adjustments or sacrifices. Moreover, such a policy would not be mutually beneficial in the long run, involving as it might the creation of a substantial new debt without a proper adjustment of the underlying conditions having been made.

3. In the circumstances the American Government, keeping these observations clearly in mind, would like to be helpful. It is fully prepared, therefore, to consider any proposals for cooperation or financial assistance which

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which the Government of Chile cares to present. This Government, particularly the Treasury and the Export-Import Bank, before any action could be taken on such proposals, would have to be convinced that the whole program contemplated by the Chilean Government promised to establish a sound working basis for that country. It would have to feel sure that the assistance requested of it would be a fair contribution to the general adjustment which the Chilean authorities and the private economic interests concerned have undertaken. In addition, the consent of the Congress/^{or other congressional authority}would probably have to be secured for the carrying out of such a program, as it would likely involve the necessity of raising the present limit upon the operations of the Export-Import Bank.

The Department will see the Treasury and the Export-Import Bank promptly if the Chilean authorities formulate any requests or if you wish to formulate any.

The following is transmitted for your own guidance -

First. It would seem that the Chilean Government is over-ambitious in its plans for expenditures amounting to twenty-five hundred million pesos if foreign loans are necessary for four-fifths of the amount; we doubt whether they could raise abroad an appreciable amount, if any. It appears to us that they should begin their program on a scale small enough to give reasonable assurance

that

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that it can be financed internally and externally and that within a reasonable period of time they will be able to repay any credits granted.

Second. It might be possible to defer the housing project, except perhaps in that area which suffered from the earthquake.

Third. Chile itself should raise all funds necessary for domestic labor and materials. It would seem from your despatch no. 537 of March 1 that this is feasible, particularly if Chile should divert/for the time being, the funds to this purpose for the cruiser purchase plan. The United States Government cannot, of course, undertake to advise the Chilean Government with regard to such diversion of funds.

Fourth. Consideration might be given by the Export-Import Bank to the extension of short-term acceptance credits to permit Chile to liquidate the present exchange arrears for imports of products from the United States.

In this connection it would be desirable to have information showing the composition of exchange arrears by type and by country - i.e., imports, earnings' remittances, and so on.

Fifth. Consideration might be given by the Export-Import Bank to specific proposals for the longer term financing of exports of products from the United States

necessary

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necessary in the furtherance of the program of the Chilean Government.

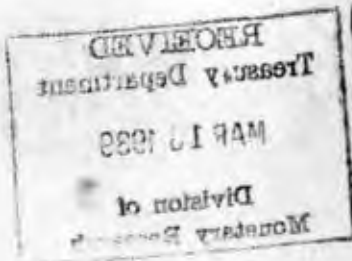
It is the belief of the Department that it would serve no useful purpose for a representative of the Chilean Government to come to Washington at the moment to discuss solely the exchange situation. It is thought that decision on this matter should be deferred until the complete plan has been discussed by the Department and other Government agencies.

WELLES Acting.

RECEIVED

MAR 18 1933

TREASURY DEPARTMENT
Office of the Secretary
(General Inquiries to the Secretary)



March 13, 1939.
11:43 a.m.

Operator: Go ahead.

HMJr: Hello.

Allen T.

Treadway: Good morning, Mr. Secretary.

HMJr: How are you?

T: Nicely. Do you feel well?

HMJr: I'm all right, Mr. Treadway. The reason I'm calling you is this: I've got your letter of March 8th on the countervailing duties.

T: Yes, sir.

HMJr: And I'm going to ask you if you would be just a little patient with us for the rest of this month, and I think that between now and the first of April we'll have this matter cleared up.

T: Well, that's fine, Secretary. I thought your answer was very satisfactory.

HMJr: Well, we've been going in it much further and, frankly, the reason I'm phoning rather than writing, I want to -- I don't want any leaks.

T: No.

HMJr: And if -- I thought if I called you personally and said that the Treasury is working very hard on this, and I think between now and the first of April, they will make up their mind what to do.

T: That's fine. I appreciate the thoroughness with which you answered my first communication. Of course --

HMJr: I -- the reason I --

T: It came through from Massachusetts; you understood the source of it.

HMJr: But last week, for your own personal confidential information, we sent three men on a boat last week over to Germany.

T: I'm glad to hear it.

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HMJr: And we don't -- if it gets out that they're there, they won't be permitted to see anything.

T: No, of course not; just the way we found that same difficulty in investigating tariff rates, you know.

HMJr: Well, they sailed -- two men from my office and one from the United States Attorney's office; and they sailed last week.

T: Yes.

HMJr: And --

T: Well, I'll be very glad to --

HMJr: But I don't --

T: To make no reference to it of any kind.

HMJr: Thank you so much.

T: Of course, I have no desire to in any way intrude on administrative matters, but it seems to be a question that is well worth inquiring into. That's why I wrote you originally as I did.

HMJr: I was glad to get it from you, but I -- I wanted to explain that these men did sail last --

T: Yes.

HMJr: Thursday.

T: Yes.

HMJr: And --

T: Well, I'll regard it as strictly confidential and hope that their work will be fairly satisfactory and overcome the criticism that was made.

HMJr: Well they're after facts.

T: Yes. Yes. Thank you for calling, Mr. Secretary.

HMJr: Thank you.

T: I don't see you on the street these mornings. You don't get your morning exercise like you used to.

HMJr: Well, I'm getting fat and old.

T: (Laughter) Well, you've got a good ways to go to catch me on the age part at least.

HMJr: Well --

T: How old is your father?

HMJr: Eighty-two.

T: You don't say!

HMJr: Yeah.

T: And still hale and hearty?

HMJr: Very.

T: Isn't that fine.

HMJr: Yeah. I haven't caught up with him yet.

T: No. Thank you very much for calling.

HMJr: Thank you.

March 13, 1939.
12:31 p.m.

HMJr: Hello.

Operator: Go ahead.

HMJr: Hello.

Marriner
Eccles: Hello.

HMJr: Hello, Marriner.

E: Hello, Henry. Ronald reported a conversation that he had with you on Friday afternoon.

HMJr: That's right.

E: And I called a meeting of the executive committee because it was impossible to get the full committee in here, down this morning.

HMJr: Yeah.

E: Now, Ransom is home sick and so I -- all I could do was to report to them the conversation, as I understood it, which he had with you.

HMJr: Yeah.

E: The -- we find that the executive committee hasn't got authority to let any bonds run off. We'd have to call the full committee in to consider the whole question. Before doing that it was felt advisable that I -- that I talk with you to ascertain whether or not you thought it was -- we should do that and also just what -- what was back of this idea of us selling our bonds.

HMJr: Well, I can't do it on the phone, Marriner.

E: Well, would you like me to come over?

HMJr: Well, not now. There's not -- I mean, this isn't -- it isn't -- I mean -- I'd be glad to see you this afternoon.

E: Well, anytime. But we're just in a position here that we'd have to send out a call to get the full committee in, because the -- the executive committee -- we have authority to make shifts.

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HMJr: Well, how about --

E: And authority to let bills run -- run off rather than buy them at par or better.

HMJr: Well, how about three fifteen?

E: That's all right.

HMJr: Will that be O. K.?

E: Yeah.

HMJr: Fine.

E: Would you like me to come over alone or would you like me to bring someone?

HMJr: Anybody you feel like.

E: Yeah.

HMJr: Anybody.

E: Yeah. All right then. Three fifteen.

HMJr: Yeah.

E: I'll be over.

HMJr: O. K.

OFFICE OF
THE SECRETARY OF AGRICULTURE

17

Dear Henry -

See page 4.

Haw

UNITED STATES DEPARTMENT OF AGRICULTURE
WASHINGTON, D. C.

Release - Immediate

March 13, 1939

Remarks by Secretary Henry A. Wallace before
a meeting of the Food and Grocery Conference
Committee in Washington, D.C., March 13, 1939.

For nearly four years the Secretary of Agriculture has been authorized to use what is known as Section 32 money from the Customs receipts to bring about the purchase of surplus foods and their distribution to people on relief. During the past three and a half years about 3 billion pounds of food have been purchased and distributed through State relief agencies. In most cases, we have delayed purchasing these surplus foods from farmers until prices fell to 75 percent of parity and often we have delayed until the price fell to less than 50 percent of parity. Ordinarily we have shipped in car load lots to the states wanting the food.

As might be expected the efficiency of distribution by the state relief agencies has varied greatly. In some cases we have had complaints of waste because families suddenly received more food than could be kept without spoiling. In other cases there have been complaints that the people receiving food either sold it to neighbors or gave it to them and thus interfered with the regular flow of trade. There has also been the question as to whether the surplus food distributed did not replace in some measure the food already being purchased by the family.

1512-39

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On the whole, however, I have thought that the work of the FSOC has been very efficient and that these complaints were the exception rather than the rule. But it seemed to me that there was enough justification of some of these criticisms to warrant us in at least trying another approach as an experiment.

We propose therefore, under the authority already granted and with a part of the funds already available to conduct an experiment in cooperation with the food trades. Together, we would distribute the surpluses to the needy through the normal wholesale and retail food channels.

The conscience of the American people has long been shocked by the paradox of farmers impoverished by abundance while at the same time millions of consumers were hungry for food which was rotting because the price for it would not pay the cost of harvesting and transportation. During the past six months representatives of the food trades have concerned themselves more about solving this problem than ever before in history. They want to do something tangible to show their full hearted sympathy both for the farmer and the under-privileged consumer. Certain plans have been worked out as a result of conferences between representatives of business and government. At first we had little more to go on than the desire to accomplish something constructive. I remember well last December meeting with some of the members of the trade who are in this room. We reached the joint conclusion that it was certain a way could be found to use the services of business in cooperation with government, farmers, and consumers to serve the general welfare more effectively. At that time we knew the nature of the problem but we had no very definite suggestions as to a solution. Today we are talking over one particular type of approach.

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The proposed plans aim directly at increasing the domestic consumption of surplus food commodities. Issuance of the stamps will create purchasing power for commodities which are surplus now not because the need for them does not exist, but because the persons who need them most cannot buy them. Records of Public Health services and studies by the Bureau of Home Economics indicate widespread malnutrition and undernourishment, particularly on the part of children, in the homes of needy families in every state in the Union. Estimates have been made that many millions of people in the United States spend an average of \$1.00 or less a week for food. Think of it; less than 15 cents a day per person for food! Such wholly inadequate expenditures mean price depressing surpluses for farmers and diets for low-income families that are less than the minimum necessary to maintain adequate standards of health. The proposed plan is designed to raise this average to \$1.50 a week per person for those eligible to participate in the program. It is our sincere hope that this plan in operation will prove the most simple and practical method developed so far for getting an increased flow of surplus agricultural commodities into the hands of those who need them.

This is very definitely a cooperative program. For some months, in the Department of Agriculture, we have been considering ways of increasing the domestic consumption of surplus agricultural products. Your own Committee also has been giving serious thought to this same problem for some time. We appreciate the many practical and helpful suggestions which have been made by members of your group.

The Department of Agriculture has been given excellent cooperation by officials of the Department of Commerce, the Works

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Progress Administration, and the Public Health Service. Secretary Morgenthau has been deeply interested in this matter for a long time. During the past month he has taken an especially active personal part in helping us work out the details of this program as it was taking shape. Not only has he concerned himself with such mechanical matters as the printing and redemption of the stamps by the Treasury Department, but has also pledged us the full support of the United States Public Health Service which is under his jurisdiction.

All of us in Government appreciate the way in which the members of the trade groups have worked with us on this important problem. We rely upon your cooperation, including increasingly effective methods of merchandizing, to make this plan successful. In turn you can rely upon the necessary cooperation of government agencies. It is only through united effort that we can find the way to plenty.

It should be understood that the plan here proposed will not take the place of the present FSOC methods of purchases and distribution, except in those cities where the stamps are used.

I have been continually delighted with the reports of the mutually fine attitude displayed by the representatives of the different groups. Having confidence in each other, they have got down to work on the mechanical details in a very effective way. The food trades, I am confident, are going to do their very best to do a real job of moving the surplus in the selected cities in such a manner as to demonstrate real efficiency to the public.

We all know that the greatest possibility of expanding consumption is with those people who are buying less than 15 cents worth of food

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per day per person. We hope these people will some day get jobs but until they do we have a job in public health which we cannot shirk, especially in view of the fact that the farmers have such great surpluses. And so we are proposing to make a joint frontal attack. If this plan is fully successful, it means that the day is not far distant when all of the people of the U. S. will be adequately nourished. Our goal might well be to use surplus foods to end vitamin deficiency in the United States. To have surplus butter with its abundance of Vitamin A and D, surplus eggs with their abundance of Vitamin B, and surplus citrus fruits which are such excellent sources of vitamin C. Shortage of vitamin-rich food is in my opinion responsible for more sickness and lack of abounding, joyous energy in the United States than the various kinds of preventable diseases. Most people who eat right and behave themselves with ordinary common sense are going to be overflowing with abounding health. Gentlemen, it may well be that you are pioneers in one of the most significant public health movements of our time.

It seems to me that the members of this conference sense the fundamental significance to health of properly used surplus foods. Every grocerymen can increase his public health service to under-nourished consumers. Every grocerymen can increase his economic service to the farmers.

You have before you a plan for consideration to be tried out in half a dozen cities. The proposal is the product of long hours of consultation. It embodies many helpful suggestions which have come from the trade groups.

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Those representatives of the United States Department of Agriculture who have worked with the trade groups can remain here this afternoon if you wish to answer any questions which may occur to you.

After you have discussed the plan we should like to have the decision of the group as to whether it has enough merit to warrant going ahead with your cooperation.

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INFORMATION FOR THE PRESS

United States Department of Agriculture

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Release - Immediate

Washington, D. C., March 13, 1939

PLANS FOR EXPERIMENTAL PROGRAM OF SURPLUS DISTRIBUTION ANNOUNCED

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Following a meeting today of the National Food and Grocery Conference Committee which was attended by Henry A. Wallace, Secretary of Agriculture, and representatives of the Treasury Department, the Works Progress Administration, and the Department of Commerce, Secretary Wallace announced that the Department of Agriculture plans to distribute surplus agricultural commodities through normal trade channels in a limited number of cities upon an experimental basis.

This will be done through the issuance of food stamps to needy persons receiving public aid, as outlined in the plan which was considered and unanimously approved by the Food and Grocery Conference Committee today. The Committee represents all branches of the food industry, including manufacturers, wholesalers and retailers, and is composed of Chairman J. Frank Grimes, Blair Willison, G. Ungaro, and Asa Strause of Voluntary Groups Institute; Paul Willis and Clarence Francis for the Associated Grocery Manufacturers of America; Fred Massmann and John Logan for the Food Chains of America; John Pohlhaus and Mrs. R. M. Kiefer for the National Association of Retail Grocers; M. L. Toulme and Capt. John Tyler for the National American Wholesale Grocers; and William M. D'Miller and Hector Lazo for the Cooperative Food Distributors of America.

The cities in which the new plan for distribution through normal trade channels will be tried will be announced in the near future. It was emphasized that participation by eligible families will be upon a voluntary basis.

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SUMMARY OF THE FOOD STAMP PLAN

The proposal would give low-income families now eligible for public assistance additional purchasing power that could be used to obtain only surplus agricultural commodities in addition to their usual food purchases. This purchasing power would be provided in the form of stamps, redeemable by the Government and acceptable in grocery stores and similar regular retail food outlets, in exchange for certain food products officially designated as surplus commodities. The stamps would be issued only to persons receiving or certified for public assistance -- Federal, State, or local. Part of the funds already available to the Federal Surplus Commodities Corporation for surplus removal operations would be used to finance redemption of the surplus commodity stamps.

When details are completely worked out with food industry groups and the State and Federal agencies concerned, the experiment will be tried in a few representative cities. According to present plans, the cities will be of varying size, from 50,000 up, and will be in widely separated areas.

In these cities the usual direct distribution by the FSCC probably will be discontinued during the course of the experiment. The FSCC would not take a hand in either purchase or distribution of surpluses, but would confine itself to putting added purchasing power into the hands of properly certified families and to designating commodities as surplus. The surplus products sold by food stores would move in regular wholesale and retail trade channels, in the same way as other commodities. There would be no effort on the part of the Government to fix sales prices or margins for the designated surplus commodities. Increased volume of retail sales would be counted upon to bring about a reduction of margins. Officials said the greatest potential value of the plans will be realized if all consumers are thereby enabled to increase their purchases of surplus commodities. Under such

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circumstances, they pointed out, expenditure of a dollar of Government money would bring about more surplus distribution than it does under the present program.

Officials emphasized that, except in the experimental areas, FSCO surplus removal and distribution will continue as in the past.

There are three variations of the plan. Each is expected to be given a trial in one or more cities. All of the variants, however, are based on the same fundamental principle--issuance by the FSCO of stamps that are good for the purchase of surplus farm products. The chief differences lie in the method of getting stamps into the hands of eligible low-income families. According to present plans the stamps for purchasing surplus products would be blue.

Two of the three methods proposed provide for issuing the blue stamps only to eligible persons who buy orange stamps which are good for the purchase of any food, whether surplus or not. The purpose of issuing orange stamps would be to make sure that families receiving blue stamps did not use them to replace customary food purchases. Under one of the plans, eligible persons who made application would receive orange stamps, dollar-for-dollar, in lieu of a portion of their WPA wage or persons would buy orange stamps for cash. In both these cases, blue direct relief payment. Under the other, the eligible/stamps good for purchase of surplus foods would be issued to persons buying orange stamps in a ratio of one blue stamp for every two orange stamps bought. The third method provides for issuance of blue stamps only. Studies of the operation of the latter method are expected to show whether the use of the orange stamps is necessary to prevent the surplus purchases from displacing regular food purchases.

Using the first of the three methods as an example, the experimental program would operate about as follows:

Any person certified as eligible for public assistance could apply for orange stamps in place of an equivalent amount of his cash wage or payment. Each of the stamps would have a face value of 25 cents and would be accepted in exchange for food at retail food stores. With each two orange stamps, an applicant would receive one blue stamp, which also would have a face value of 25 cents. The blue stamps, which would be redeemable from FSCO funds, would give the recipient extra purchasing power that could be used only to buy designated surplus farm products.

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Regraded Unclassified

The stamps would be issued in books, and each book would contain both orange and blue stamps. According to present plans, the books will be issued in six denominations:

- \$4 worth of orange stamps (16 stamps) and \$2 worth of blue stamps (8 stamps)
- \$6 worth of orange stamps and \$3 worth of blue stamps
- \$8 worth of orange stamps and \$4 worth of blue stamps
- \$10 worth of orange stamps and \$5 worth of blue stamps
- \$12 worth of orange stamps and \$6 worth of blue stamps
- \$15 worth of orange stamps and \$7.50 worth of blue stamps

The value of orange stamps issued to any applicant would depend on the number of people in his family. Studies have indicated that the average family on relief spends \$1.00 or less per week per person for food. The minimum value of orange stamps that can be issued will be on the basis of \$1 per week per person. For example, a WPA worker with a wife and two children would be eligible to purchase \$4 worth of orange stamps each week. He could not buy smaller amounts, for that might make possible a reduction of his present cash expenditures for food. He could, however, buy larger amounts. Assuming he was paid twice a month, received \$20 each pay day and elected to receive stamps, he could, according to the minimum requirement, get \$12 in cash and a book with \$8 worth of orange stamps plus \$4 worth of blue stamps. Under this system, families receiving stamps would be spending at least \$1 per person per week for food and, through use of the blue stamps, would be getting at least an additional 50 cents worth of surplus commodities for each person.

Regulations for using the stamps will be designed to dovetail as closely as possible with normal operations of the food trade and to prevent any possible misuse of the stamps. Methods tentatively agreed upon include the following:

Government accounts will be set up through which stamps can be redeemed. It is hoped that plans can be worked out locally for merchants to cash stamps through banks. Efforts are being made to work out arrangements for redemption of small amounts through local post offices to supplement that method.

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The orange stamps will be good for the purchase of any kind of food at retail stores, except food to be consumed on the premises, as in a restaurant. Household necessities usually purchased in grocery stores, such as starch and soap, may be purchased with the orange stamps, but not beer, wine, liquor and tobacco. The blue stamps will be good only for the purchase of commodities designated as surplus.

An official list of surplus commodities will be issued by the Secretary of Agriculture, and will be amended from time to time as necessary.

No book of stamps may be sold by the holder or transferred in any other way.

To be accepted, a stamp must be detached from the book at the time the purchase is made.

In order to continue receiving books of stamps, the applicant must turn in to the issuing agency an empty book for each new book, with the exception that the book for the period immediately preceding need not be turned in. Officials said this would guard against interference with regular food purchases at some later date.

Under the other two variations of the plan, the same general outline and most of the details would be followed. In cities where orange stamps are sold directly for cash, the books will be offered for sale to certified eligibles at headquarters of the various relief agencies. In cities where no orange stamps are issued, the blue surplus stamps will be issued to eligible families who agree to use the stamps to supplement usual purchases.

In all cities, an important part of the experiment will be studies of detailed operations and results, from the standpoint both of nutrition and of increases in markets for surplus farm products.

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1513-39-5

United States Department of Agriculture
Federal Surplus Commodities Corporation

March 13, 1939

PROPOSED PLAN FOR DISTRIBUTING
SURPLUS AGRICULTURAL COMMODITIES TO NEEDY PERSONS
THROUGH NORMAL WHOLESALE AND RETAIL CHANNELS OF TRADE

The Federal Surplus Commodities Corporation, under authority granted to the Secretary of Agriculture by Section 32 of Public Law No. 320 of the 74th Congress, as amended, and with funds transferred by him, is now purchasing certain surplus agricultural commodities and donating them to the several States for distribution for relief purposes. Under this authority and in a limited number of cities it is now proposed to try various experimental plans for the distribution of surplus commodities to needy and under-nourished persons through the normal wholesale and retail channels of trade. The aggressive help of business is needed to increase the domestic consumption of surplus agricultural products.

One such plan would involve the issuance of a book of commodity stamps to persons now receiving various forms of public assistance. Part of the stamps in the book would be colored orange and would be good for the purchase of any food being sold at grocery stores. Any person receiving public aid could buy for any one pay-period orange stamps of a total value equal to \$1.00 per week for each member of the family. This formula would be used to determine the minimum amount which the person receiving public aid would be eligible to purchase but would not necessarily represent the maximum. As a practical matter it is probable that few persons in this income status would, or could afford to purchase more. However, since some families do expend a greater proportion of their income on food than others, all families could purchase orange stamps equal in value to \$1.00 for each member of the family for each week or

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could purchase approximately half again as many orange stamps if the need actually existed. The remainder of the stamps in the book would be colored blue and would be good only in exchange for domestically produced agricultural commodities declared to be surplus by the Secretary of Agriculture and having definite nutritive and health-protective values. All stamps would have a value of twenty-five cents (25¢). With each purchase of orange stamps the purchaser would receive blue stamps, good only for surplus commodities, in an amount equal to fifty percent of the orange stamps purchased. Thus, a family of four which received \$20 twice a month could purchase a minimum of \$8.00 worth of orange stamps for that period, and in that case would be given an additional \$4.00 worth of blue stamps which would be good for the purchase of surplus agricultural products. A relatively simple plan to enable retailers to receive payment on the stamps is proposed and the nature of the whole plan is such that it would be economical to administer. All grocery stores desiring to do so could participate. This plan would have the advantage, through the use of the two kinds of stamps, of not only maintaining at least approximately the present rate of expenditure for all foods, but of providing an opportunity to purchase and use surplus commodities that will supply valuable additions to the diets of low-income people. Farmers producing commodities which are now surplus would feel the results of such a plan promptly because of the expanded market demand for their products. The health of needy and undernourished families would be considerably improved at the same time.

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The following steps and mechanics are proposed for putting the plan into operation:

A. Trade and producer reactions to, and suggestions concerning the plan set forth below will be sought and advice solicited as to the areas in which the plan should be put into effect on an experimental basis. If it is felt that such a program merits a trial, interested governmental agencies outside the Department of Agriculture will be consulted with reference to the mechanics of this proposal as it affects their operations.

B. It is proposed that a limited number of cities be selected as experimental areas, ranging in population upward from 50,000, at least one or two of which should have as one of its primary sources of income agricultural back country, to get the greatest experimental value from the farmers' standpoint. Such elements as the probable degree of cooperation which could be counted upon from wholesale and retail food men, bankers, local civic bodies, and the local and State welfare officials should be given careful consideration.

C. If the support of the trade association and producer groups is assured and if a decision is made to try to put the plan into operation, the experimental cities will be selected and the following steps will be taken in each area.

D. A meeting of representatives of the wholesale and retail food business, Chamber of Commerce officials, local newspaper editors, bankers, a local nutritionist or home economist, a representative of the public health service, and a representative of the Red Cross, will be scheduled, at which time the surplus problem and inadequate diet of low-income

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people will be discussed and the following proposal outlined.

1. That local food retailers will handle the distribution of all surplus commodities as distinguished from any plan that would not include them.

2. That no effort at fixing sales prices or margins will be made by the Administration. It would count, however, upon the natural working of economic law to bring about a decrease in margins because of the increased volume of business passing through retail stores. The greatest potential value of the plans will be realized if, because of aggressive merchandising, all consumers are enabled to increase their purchases and consumption of surplus commodities. Under such circumstances a dollar of government money would produce a greater result than that which takes place under the present program.

3. That all food retailers, wholesalers, and local newspapers will be furnished with a bulletin in which commodities designated as surplus by the Secretary of Agriculture will be listed. These lists will be revised from time to time but at no more frequent intervals than necessary. Where such changes are made, reasonable notice will be given so that the trades may govern themselves accordingly.

4. Persons on work or direct relief (either Federal, State, or local); needy persons certified as eligible for work or direct relief but not actually receiving aid; and persons receiving Social Security benefits who are in need of additional aid, will be eligible for the benefits of this proposed plan.

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5. Stamps approximately .84 of an inch by 1.44 inches will be printed which will contain the following wording:

"For use in accordance with regulations of the Secretary of Agriculture of the United States."

Two corners of the stamps will be decorated with the letters U. S. and two corners will contain the figure 25¢. An appropriate design will be made up and the words "Food Commodity Stamp" will appear as will the words "United Effort - The Way to Plenty". Regulations in connection with the use of the stamps will be printed on the inside and outside back cover of each book. The stamps which will be good for all commodities will have an orange background and will be printed in black. The stamps which will be good for surplus commodities only will contain the same wording as the orange stamps and will be decorated in the same manner except that there will be a blue background.

6. An appropriate design, showing the figures of a farmer, a consumer and a storekeeper, will be printed on the cover of each stamp book. This will serve to distinguish and identify the books.

7. Both types of stamps will be issued in perforated sheets of eight with a perforated margin on the left side of the sheet which can be

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bound with staples to a front and back cover. Between the sheets of stamps, which will contain mucilage, will be transparent glue resisting sheets.

8. Books of stamps containing \$4.00 worth of orange colored stamps and \$2.00 worth of blue stamps (16 and 8 stamps or two sheets and one sheet, respectively) will be made up, as will books of \$6.00 worth of orange stamps and \$3.00 worth of blue (24 and 12 stamps or three sheets and one and one-half sheets, respectively) and books of \$8.00 worth of orange stamps and \$4.00 worth of blue (32 and 16 stamps or four sheets and two sheets, respectively), books of \$10.00 worth of orange stamps and \$5.00 worth of blue (40 and 20 stamps or five sheets and two and one-half sheets, respectively), books of \$12.00 worth of orange stamps and \$6.00 worth of blue (48 and 24 stamps or six sheets and three sheets, respectively), and of \$15.00 worth of orange stamps and \$7.50 worth of blue (60 and 30 stamps or 7-1/2 and 3-3/4 sheets, respectively).

9. Appropriate government accounts will be set up from which redemption payments for used stamps can be made.

10. Since the best available figures indicate that the average family receiving public assistance expends for food approximately \$1.00 per week per person, or less, and since research indicates that an expenditure of approximately \$1.50 is required for each urban person in order to get the minimum diet necessary for adequate health, it is proposed to make available to persons eligible for the benefits of this plan, as a minimum, only those books which contain orange stamps in an amount approximately equal to the total of \$1.00 per week for each

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member of the family. As set forth above, with each such purchase of orange stamps there will be included in the book blue stamps totaling 50 percent of the value of the orange stamps. (W. P. A. workers, who are paid twice a month will be eligible on each pay day to buy a supply of orange stamps sufficient for the half-month period. Each such purchase must be at the rate of at least \$1.00 per week for each member of the family.) As an example, a W. P. A. worker whose family is made up of four persons including himself, who makes \$40 a month, will receive \$20 in wages on each pay day. In the past his expenditures for food have probably been at the rate of approximately \$4.00 a week (\$1.00 per week for each member of the family) and he would under this plan be eligible to purchase an \$8.00 book of orange stamps with which there would be given him without charge, in lieu of surplus commodities he is now eligible to receive outside the normal channels of trade, \$4.00 worth of blue stamps. The expenditure of the \$12.00 in stamps for food would result in bringing to \$1.50 a week the expenditure for each member of the family, or the minimum necessary to maintain adequately the health of an urban person.

A simple form for execution by W. P. A. workers will be printed in substantially the following form:

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"I hereby certify that I am supporting a family of _____, including myself. I am therefore entitled to buy one book of Commodity Stamps containing:

- () \$ 4.00 worth of orange colored Commodity Stamps
 () \$ 6.00 " " " " " "
 () \$ 8.00 " " " " " "
 () \$10.00 " " " " " "
 () \$12.00 " " " " " "
 () \$15.00 " " " " " "

(Check the value of the book to which you are entitled.)

"Please deduct \$_____ from my wages and use this sum to purchase for me a book of Commodity Stamps good in exchange for food in the amount checked above. It is understood that there will be added to the orange stamps purchased, blue stamps good for surplus commodities donated by the Secretary of Agriculture of the value equal to one-half of the price paid for the orange stamps.

- () I will make signed requests for stamps before each pay day.
 () Please make the same deduction from my pay each pay day and purchase the same amount of Commodity Stamps for me until I notify you otherwise.

(Check 1 or 2)

 Name of Worker

 Address "

11. Timekeepers or Foremen on W.P.A projects will be instructed to advise W.P.A. workers of their opportunity to get such commodity stamps if request is made in writing. They will accept and transmit with time sheets all such written requests which they receive prior to the time the work records are sent to the District office or the Treasury Accounts office for payroll purposes. Notation will be made on the payroll of all

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workers who have made the request and the amounts indicated will be deducted from the wages to be paid. In the envelope in which the Treasury check in the reduced amount will be sent to the worker, there will also be included the commodity stamp book.

12. After the plan goes into effect similar deductions can be made each pay day if the worker so elects or a blank printed request form could be sent in his pay envelope with instructions to fill it out and give it to his foreman as soon as possible so that requests could be received in the payroll office and the necessary action taken during all of the interim between pay periods rather than on the last few days.

13. With recipients of State and local direct relief, and beneficiaries of old age, aid to the blind and aid to dependent children programs of the Social Security Board, the mechanics might prove more difficult from a governmental point of view. It is believed, however, that satisfactory fiscal and accounting arrangements can be made between the various agencies involved.

14. The Federal Surplus Commodities Corporation will ask the local welfare agencies to agree not to reduce the amount of assistance being rendered in individual cases unless in a particular individual case circumstances existed which would have warranted reduction of the amount if the Surplus Commodity Stamps were not being given. The agreement would also provide that stamp books will be given only to eligible persons and that the regulations of the Secretary of Agriculture will be observed.

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15. On the front cover of the book would appear in heavy lettering the words "Commodity Stamps" and the design described above.

Directly below would appear the following language:

"The orange stamps contained in this book are issued to the person whose name appears on the inside cover for use by him in exchange for food and will be evidence of a claim against the United States in accordance with the warranty set forth on the face thereof when used for that purpose. The blue stamps contained in this book have been issued by the United States of America against funds appropriated under Section 32 of Public Law No. 320 of the 74th Congress, as amended, and as supplemented by Public Law No. 165, 75th Congress, as amended, and as authorized by the Secretary of Agriculture and will also evidence a claim against the United States when used in exchange for food."

16. Purchasers of the books will be required to sign their names on a line provided on the inside cover of each book, over which the following statement will appear:

"I hereby certify that I am entitled to this book of stamps; that I will use the stamps in this book in exchange for food; that I will not attempt to dispose of them in any other way; that I will use the blue stamps exclusively in exchange for food commodities declared to be surplus by the Secretary of Agriculture; and that I will detach the stamps only at the time the exchange is made and in the presence of the merchant making the exchange. I understand that if these rules are not followed, I shall not be able to receive Commodity Stamps in the future.

17. Food merchants will require that stamps be detached in their presence at the time purchases are made and will not honor stamps already detached. Each such food store will be supplied with cards

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by the Federal Surplus Commodities Corporation sufficiently large to permit 20 stamps to be pasted thereon. Different cards will be used for blue stamps and orange stamps. Stamps of one type will be pasted on one card in the blocks provided. An attempt will be made to arrange with local banks so that cards, when filled out with stamps can be deposited in the normal business way and the banks in that event could effect collection from the Treasury in much the same manner that checks on out-of-town banks or drafts are now handled. Banks could forward the cards in lots, together with signed vouchers to the Federal Reserve Bank or United States Treasury for the issuance of a check. The whole-hearted cooperation of local banks will be most helpful to merchants in this connection.

18. The cards on which the orange stamps will be affixed would contain a statement substantially as follows at the bottom, which each such card merchant would be required to sign:

"I hereby certify that the stamps affixed to this card were used in exchange for food in the store located at the address shown below; or from the merchant (milkman, baker, etc.) whose principal place of business is at the address shown below; that the stamps were detached at the time the exchange was made; and that said stamps were not used for any other purpose or as a means of effecting any other arrangement. I also understand that any grocery store or business firm which violates these rules will be unable to participate in this plan in the future."

Owner or Representative.

Address of Store

City

State

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19. The cards on which blue stamps will be affixed will contain a statement substantially as follows at the bottom, which each such food merchant will be required to sign:

"I hereby certify that the stamps affixed to this card were used in exchange for food in the store located at the address shown below; that the stamps were detached at the time the exchange was made; that these stamps were used exclusively in exchange for food commodities declared to be surplus and purchased by the Secretary of Agriculture; and that said stamps were not used for any other purpose or as a means of effecting any other arrangement. I also understand that any grocery store which violates these rules will be unable to participate in this plan in the future.

Owner or representative

Address of Store

City

State "

20. If a merchant does not have a bank account or has a card containing less than twenty (20) stamps on which he must realize his money, it is hoped that arrangements can be made by which he may redeem that card at the nearest Post Office upon proper identification by executing a prescribed voucher form.

21. "Retail food stores", as used herein, shall mean any store, shop, and so forth, where a food and grocery retailer carries on the business of selling food or grocery products to consumers and not for the purpose of resale in any form. No stamps shall be good for food in restaurants, delicatessens, and so forth, for consumption on the premises.

22. "Food", as used herein, shall mean any commodity sold in

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such retail stores for internal human consumption, which is not to be consumed on the premises (such as in restaurants, delicatessens or drugstores) and also shall be construed to mean household necessities usually purchased in grocery stores such as soap, starch, and so forth, but shall not include wines, liquors, beer, or other alcoholic beverages, or tobacco in any form.

23. Since W.P.A. workers are paid twice a month; and since persons on State or local relief receive their payments in some cases at intervals of a week, in some cases twice a month, and in other cases once a month; and since payments to the persons in the different groups vary considerably; it appears to be desirable to issue the books of stamps in the denominations set forth above. Every effort will be made, however, to have persons in the various groups purchase orange stamps on each pay day totaling a minimum of \$1.00 per week for each member of the family. It may be necessary to wait until the operation of the plan gets under way to devise definite means of assuring the purchase of that amount of orange stamps on each successive pay day, in order to be certain that the distribution of the blue stamps is effecting a net increase in consumption and that they are not being used during the subsequent pay period for food purchases which would normally have been paid for out of money subsequently received.

24. No change will be given by merchants in connection with the exchange of food for either orange or blue stamps. In any instance

in which the total exchange of commodities to be made with orange or blue stamps is more than twenty-five cents (25¢) but less than fifty cents (50¢), or more than fifty cents (50¢) but less than seventy-five cents (75¢), and so forth, the amount in excess of a multiple of twenty-five cents will be paid for with money. Exchanges of commodities will not be made for orange or blue stamps when the total is less than twenty-five cents (25¢) unless the merchant is willing to take the stamp and give the purchaser a credit for the balance remaining.

25. Purchasers of commodity stamp books, after the second book or series of books have been purchased, will be required to turn in the covers of the initial book or series of books purchased before additional purchases of a book or books are permitted. Thereafter, before additional purchases of books will be authorized, the purchaser will be required to turn in the covers of all those he has previously received except the ones purchased the time immediately before.

26. During the time the plan is in operation in the experimental areas practical research will be carried on to determine its merits. It is hoped that the trade will lend its full support to this work. The Federal Surplus Commodities Corporation will need to know the economic significance of this approach to guide it in its future policies. Efforts will also be made to have local groups, the Bureau of Home Economics, and the United States and State Public Health Services carry an educational work and disseminate diet lists and recipes that will emphasize nutritive

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surplus commodities. The retail and wholesale trades can render an enormous service to farmers by cooperating in this plan and by pushing the sale of surplus agricultural commodities to persons other than those receiving public assistance.

The following variation to the plan suggested above is proposed for adoption in part of the experimental areas:

1. Instead of requesting deductions from his W. P. A. wages or from his relief payment, the person receiving aid will continue to get his assistance in the form of cash.

2. Arrangements may be made for space in the local welfare office for a federal officer who will be stationed there and will sell Commodity Stamp books to persons certified as eligible for public assistance.

3. The books will include both orange and blue stamps in the ratio of 2 orange stamps for 1 blue stamp and will be made up in books containing \$4.00 in orange stamps and \$2.00 in blue, \$6.00 in orange stamps and \$3.00 in blue, \$8.00 in orange stamps and \$4.00 in blue, \$10.00 in orange stamps and \$5.00 in blue, \$12.00 in orange and \$6.00 in blue, and \$15.00 in orange stamps and \$7.50 in blue.

4. Each person receiving public assistance will be required to get from the agency which certified him as eligible for aid a card listing the name of the eligible person, his address, the type of aid he is receiving, and the number of persons in his family or dependent

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upon him for support. The person will be required to sign the card and on the reverse side space will be provided for entries to show the date and amount of purchase. The card would be of standard size -- approximately 2-1/4 inches wide and 3-3/4 inches long. This would permit six columns across the back of the card which would be divided into 13 squares in each column of approximately 1/4 inch square. In the first column would be printed the date of purchase by weeks such as "Week of 4/16", etc. In the second column the federal disbursing officer would insert in ink the value of the orange stamps purchased and in the third column he would insert his initials. The last three columns would be a repetition of the first three.

5. The federal disbursing officer would be supplied a list of persons certified as eligible by the certifying agency. The list would be on a form which would show the names and addresses of the persons on the left side and the number of persons in the family. The remainder of the form would be divided into blocks opposite each name, into which the amount of each purchase would be inserted. Each column would represent a week and would be headed with the date.

6. The card and list form would eliminate almost completely the possibility of exchange of credentials or overpurchases for resale purposes and the plan should work expeditiously to get the books of stamps into the hands of persons who need them.

7. Any person receiving public aid who produced his card and whose name was on the federal disbursing officer's list could purchase a book of orange stamps equal in value to at least \$1.00 for each

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member of his family for each of the weeks between the time of the purchase date and the date of the next pay period or relief payment. This formula would be used to determine the minimum amount which the person receiving public aid would be permitted to purchase but would not necessarily represent the maximum. As a practical matter it is probable that few persons in that status would, or could afford to purchase more. However, since some families do expend a greater proportion of their income on food than others, all families would be eligible to purchase orange stamps equal in value to \$1.00 for each member of the family for each week or could purchase up to approximately 50 percent more if the need actually existed and would receive blue surplus commodity stamps equal in value to 50 percent of the amount of orange stamps purchased.

8. The cards could be used for a period of 26 weeks or a half year, at the end of which time new cards would have to be secured. Any person whose status changes during the half-year period and who is to be dropped from the relief rolls as a result thereof would also have his name dropped from the list which the disbursing officer would have and would not therefore be able to purchase books of commodity stamps from that time on unless again certified as eligible. It might be good public policy in some cases, however, to permit W. P. A. workers to continue to receive stamps for a period after termination by W. P. A. This would apply in those cases in which W. P. A. workers were cut off from Federal employment and were not able at once to get private jobs.

9. The same entry would be made by the disbursing office on both the card and the eligible list form and the card if altered could

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be taken up for investigation.

10. Purchasers of commodity stamp books, after the second book or series of books have been purchased, will be required to turn in the covers of the initial book or series of books purchased before additional purchases of a book or books are permitted. Thereafter, before additional purchases of books will be authorized, the purchaser will be required to turn in the covers of all those he has previously received except the ones purchased the time immediately before.

The following variation to the plan first suggested is proposed for adoption in part of the experimental areas:

1. Persons on W. P. A. or persons receiving relief payments will continue to get their assistance in the form of cash.

2. Books containing only blue commodity stamps and no orange stamps will be printed. They will be made up in lots of \$2.00 or 8 stamps, \$3.00 or 12 stamps, \$4.00 or 16 stamps, \$5.00 or 20 stamps, and \$6.00 or 24 stamps and will be good only to exchange for surplus commodities.

3. As in the variation of the plan immediately preceding this, each person receiving public assistance will be required to get a card of the type described there showing his name, address, and the number of persons in his family.

4. An official will be stationed in the local relief office and when a person receiving aid presents his card and has his name

- 19 -

checked on a list of the kind described in the variation of the plan immediately preceding this, he will be given a book of blue commodity stamps good for the exchange of commodities declared to be surplus by the Secretary of Agriculture. The blue stamps in the book given each such person will be in an amount equal to fifty cents (50¢) (or two stamps) for each member of the family for each week between the date the book is given and the date of the next pay period or relief payment. Thus, a family of two would receive a book with \$2.00 worth of blue stamps for a two weeks' period; a family of three would receive a \$3.00 book for that period, and so forth.

5. Recipients of blue commodity stamp books, after the second book or series of books have been received, will be required to turn in the covers of the initial book or series of books received before an additional book or series of books may be issued to him. Thereafter, before additional distribution of books will be authorized, the person receiving such books will be required to turn in the covers of all those he has previously received except the ones issued to him the time immediately before.

This plan is the simplest of all from administrative and accounting points of view. An experimental period is undoubtedly necessary to determine the effectiveness of this approach as a means of bringing about a more adequate diet on the part of the families involved. Wherever it is tried, a careful check will be made during its operation to determine the net increase in the local consumption of surplus foods.

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This will be compared with the amount of blue stamps issued to determine the extent to which this approach results in a greater movement of surplus agricultural products.

oOo

White
House

11:30

March 13, 1939.

42

MEMORANDUM

Re: Exportation of Surplus Cotton under Government Loan.

It is believed that action along the lines outlined below would facilitate the movement of Government loan stocks of cotton into trade channels and increase exports of American cotton. The principal steps are:

- (a) Transferring cotton from Government loan stocks to normal channels of trade;
- (b) Financing the loss to be incurred upon the exporting of cotton at prices below loan values;
- (c) Preventing the domestic price of cotton from reflecting the anticipated decline in the world price;
- (d) Regulating the quantity of exports and the payments with respect thereto; and
- (e) Making payment on cotton manufactures exported.

A brief description of each of these steps follows:

A. Transferring cotton from Government loan stocks to the normal channels of trade:

Cotton dealers would arrange with individual producers for the release of particular lots of cotton. The release would be sent by the buyer to the Commodity Credit Corporation's regional office. The cotton loan papers would then be sent to the buyer's bank to be released against payment. Payment to the Commodity Credit Corporation would be $1/4$ cent per pound less than the average price for middling $7/8$ " on the 10 spot markets on the day preceding the day of release adjusted for locations. Provided, no cotton would be released for less than 8.30 cents per pound, plus or minus the differential applicable at the storage point. It is expected that at least the $1/4$ cent per pound would be paid to the grower at the time of the release.

The buyer would receive a certificate covering the number of pounds released and stating the amount of refund that could be obtained upon a showing of proof of export of such quantity of cotton prior to August 1, 1939, which is sold after the date the program is announced. The value of the certificates issued under the first offer would be 1 cent per pound. The value of later certificates might be changed as is suggested in paragraph "D" of this outline.

The warehouseman would sample the cotton and the buyer would sell it or an equal quantity of cotton for export through normal trade channels. The sample would be forwarded to the board of cotton classifiers. The buyer would send the certificate of grade and class, the certified weight sheet of the original warehouse, and the certificate of export to the Commodity Credit Corporation. The Corporation would adjust for grade, class, weight, and export refund, and make final settlement with the buyer.

B. Financing the loss to be incurred upon exporting the cotton at prices below loan values:

The loss to be incurred upon exporting cotton at prices less than Government loan rates would be absorbed by the Commodity Credit Corporation. This plan would terminate on July 1, 1939. Although the cost would depend upon conditions in the world market, the expense is estimated at approximately \$15,000,000. The Department of Agriculture with such participation by the Commodity Credit Corporation as is agreed upon would finance a plan effective July 1, either to keep cotton from the 1939 crop out of the loan or to facilitate its movement into trade channels if a loan is obtained on it.

C. Preventing the domestic price of cotton from reflecting the anticipated decline in the world price:

In order to maintain the domestic price it would be necessary not only to continue the present loan provisions, but also to impose a restriction on imports that would prevent the lower-priced world cotton from flowing into this market and breaking domestic prices.

In order to establish restrictions on imports, action would be necessary under the provisions of Section 22 of the Agricultural Adjustment Act of 1933, as amended, which empowers the President, upon investigation and recommendation of the United States Tariff Commission and after public hearing and due notice, to impose quotas to restrict such imports as tend to render ineffective or materially interfere with any program under Title I of said Act or under the Soil Conservation and Domestic Allotment Act. Although there may be some question as to whether the Tariff Commission would find that present conditions alone would be an ample basis for the imposition of such quotas, there is no question that the conditions which would develop almost immediately upon the inauguration of the program would make such action clearly necessary.

D. Regulating the quantity of exports and the payments with respect thereto:

It is believed that a goal should be determined for the quantity of cotton to be exported from April to July 1. A goal of 2 million bales is suggested. This figure exceeds the exports for the comparable period of any recent year and is almost double the average of the past 10 years. To date our exports this season are about 2,275,000 bales less than the average for the past 10 years.

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In order to achieve approximately this goal in an orderly manner and under varying conditions in the world market it would be necessary to make provision for changing the export rates of payment as conditions might require.

E. Making payment on cotton manufactures exported.

To prevent discrimination against domestic manufactured cotton products in world export trade a payment would be made by the Department of Agriculture from Section 12 (a) (Public No. 320, 74th Congress) funds equivalent to the export refund made by Commodity Credit Corporation on sales of raw cotton. It is estimated that such payments would approximate \$500,000. for the remainder of the current fiscal year.

March 13, 1939.

(For the Secretary's Record)

The Secretary stated that he thought it would be a good idea if the French Government were to withdraw, as soon as the Czechoslovakian affair was off the front pages, with adequate publicity, \$5 million worth of gold from its earmarked holdings in the United States, in installments of one to two million dollars.

Such a move would help inform the world that the economic situation in France is improving and her monetary position becoming stronger.

It would be of some assistance here in that it would constitute evidence that gold is leaving the United States and that other countries want and are getting gold.

He decided to have the French Financial Attaché call and in the conversation suggest that it might be a good thing for the Bank of France to withdraw some of the gold it was placing on earmark in the United States.

ESTIMATED PUBLIC DEBT ISSUES BY MONTH

March, 1939 - December, 1939

(in millions of dollars)

(Limitation - \$45,000,000,000)

	1939 March	April	May	June	July	August	September	October	November	December	Total
Balances at beginning of month	5,283	5,198	5,108	4,943	4,038	3,868	3,698	2,873	2,788	2,618	5,283
Issues -											
U. S. Savings Bonds	60	55	45	45	55	50	45	50	50	65	520
Special Issues (Trust, etc.) ...	50	50	135	150	130	135	50	50	135	73	958
New cash	-	-	-	750	-	-	750	-	-	500	2,000
Total	110	105	180	945	185	185	845	100	185	638	3,478
Less debt retirement	25	15	15	40	15	15	20	15	15	20	195
Net increase	85	90	165	905	170	170	825	85	170	618	3,283
Balances at end of month	5,198	5,108	4,943	4,038	3,868	3,698	2,873	2,788	2,618	2,000	2,000

ESTIMATED BOND ISSUES BY MONTH

March, 1939 - December, 1939

(in millions of dollars)

(Limitation - \$30,000,000,000)

	1939 March	April	May	June	July	August	September	October	November	December	Total
Balances at beginning of month	3,044	1,784	1,729	1,684	889	834	784	-	-	-	3,044
Issues -											
U. S. Savings Bonds	60	55	45	45	55	50	45	-	-	-	355
New cash (Approx. 2/3 of issue) ..	-	-	-	500	-	-	500	-	-	-	1,000
Refunding (Approx. 2/3 of maturity)	1,200	-	-	250 Sep.	-	-	300 Dec.	-	-	-	1,750
Total increase	1,260	55	45	795	55	50	845	-	-	-	3,105
Balances at end of month	1,784	1,729	1,684	889	834	784	- 61	-	-	-	- 61

ACCOUNTS AND DEPOSITS

March 13, 1939

ESTIMATED PUBLIC DEBT ISSUES BY MONTHS

March, 1939 - December, 1939

(Limitation - \$45,000,000,000)

(In millions of dollars)

	1939 March	April	May	June	July	August	September	October	November	December	Total
Balances at beginning of month	5,283	5,198	5,108	4,943	4,038	3,858	3,698	2,873	2,788	2,618	5,283
Issues -											
U. S. Savings Bonds	60	55	45	45	55	50	45	50	50	65	520
Special Issues (Trust, etc.) ...	50	50	135	150	130	135	50	50	135	73	998
New cash	-	-	-	750	-	-	750	-	-	500	2,000
Total	110	105	180	945	185	185	845	100	185	638	3,478
Less debt retirement	25	15	15	40	15	15	20	15	15	20	195
Net increase	85	90	165	905	170	170	825	85	170	618	3,283
Balances at end of month	5,198	5,108	4,943	4,038	3,868	3,698	2,873	2,788	2,618	2,000	2,000

ESTIMATED BOND ISSUES BY MONTHS

March, 1939 - December, 1939

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(In millions of dollars)


	1939 March	April	May	June	July	August	September	October	November	December	Total
Balances at beginning of month	3,044	1,784	1,729	1,684	889	834	784	-	-	-	3,044
Issues -											
U. S. Savings Bonds	60	55	45	45	55	50	45	-	-	-	355
New cash (Approx. 2/3 of issue) ..	-	-	-	500	-	-	500	-	-	-	1,000
Refunding (Approx. 2/3 of maturity)	1,200	-	-	250 Sep.	-	-	300 Dec.	-	-	-	1,750
Total increase	1,260	55	45	795	55	50	845	-	-	-	3,105
Balances at end of month	1,784	1,729	1,684	889	834	784	- 61	-	-	-	- 61

ACCOUNTS AND DEPOSITS

March 13, 1939

JWB

TREASURY DEPARTMENT
INTER OFFICE COMMUNICATION

DATE  March 13, 1939

TO Secretary Morgenthau
FROM W. H. Hadley

Summary of Government Security Market
during two weeks February 27 through March 11, 1939

After passing through a relatively quiet period awaiting preliminary announcements regarding the March financing, the government security market sprung to life on the announcement Monday, February 27, that Treasury financing would be limited to refunding operations. The market became strong and active and prices moved quickly to new highs as banks and other investors began to buy. By the time the final details of the refunding operations were announced on Monday, March 5, the long and intermediate bonds had steadied at levels $5/8$ ths to $3/4$ s of a point above previous levels, while the longer Treasury notes were up $1/4$ to $1/2$ point.

Market reception to the refunding operations was favorable. This factor, coupled with concrete evidence of a changed viewpoint by banks toward the amount of long term government bonds they might safely hold in portfolio, resulted in a further rapid rise in prices of Treasury bonds. A recent survey embracing personal opinion of 500 investment executives of leading life insurance companies, banks and other financial institutions showed that they believe it is impossible, from a viewpoint of safety, for a financial institution to have too large a percentage of its portfolio in government bonds. This statement appears to have had a marked effect in causing banks to alter their investment policy in relation to government bonds.

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Demand for both medium and long term bonds was heavy and continued throughout last week. New York City banks alone showed an increase in Treasury bond holdings of some \$125 million from March 1 to March 8 (this is exclusive of bonds these banks will receive as a result of their exchange subscriptions.) Banks outside New York immediately followed the lead set by the New York banks and by the end of the week this new and invigorated bank demand for bonds, both intermediate and long, had forced prices to extremely high levels.

For the two weeks as a whole, gains in Treasury bonds ranged from $3/4$ s of a point on the shorter issues to $1-1/4$ points on longer issues. Scattered intermediate issues were up as high as $1-1/2$ points. Longer Treasury notes were up from $1/4$ point to $3/4$ s of a point on the longest issue. Guaranteed bonds showed gains in the neighborhood of $3/4$ s of a point, while guaranteed note issues were up about $1/4$ point. Treasury bonds and notes are now at record all-time high price levels. Bonds maturing or callable over 12 years are now $2-1/2$ points above the levels at the time of the December financing, while yield on Treasury notes maturing within 3 to 5 years is now 0.50% compared with 0.75% in December. Indications are that the entire list will hold steady somewhere near these levels although there may be slight technical reactions.

Refunding Operations

Reoffering of outstanding issues at a price was favorably received by the market. When prices on the issues were announced there were considerable adjustments in the market to bring the premium of the "rights" and the two bond issues to the same value. However, the market, having

been prepared by preliminary announcements, was entirely orderly. There was, nevertheless, a substantial amount of switching operations by those who believed they could do their own "refunding" more profitably in the market. There was some selling of the 1960-65's for future delivery (those that would be received on exchange subscription) and buying of 1950-52's in the market, as well as some selling of "rights" and buying of December, 1943 notes.

The amount of exchanges going into the long bonds was far greater than any preliminary estimates. This reflected in part the additional inducement in price given by the Treasury, but mainly decision by banks to take and hold the long bonds rather than sell out for the immediate profit to be made. Insurance companies subscribed mostly for the long bonds. Details of the exchange are shown below and price movements of the issues reoffered.

<u>Issue reoffered</u>	<u>Amount Subscribed (in millions)</u>	<u>Per- cent</u>	<u>Opening Price Feb. 27</u>	<u>Closing Price March 11</u>	<u>Net Change</u>
1-1/8 T/B 12/15/43	53	4 %	101.8	101.31	+ 23/32
2-1/2 T/B 1950-52	319	25 %	103.7	104.20	+ 1 pt. 13/32
3-3/4 T/B 1960-65	<u>894</u>	71 %	103.16	104.17	+ 1 pt. 1/32
Total	1266				
(98% turn-in)					

Dealers' Portfolios

The principal net change in dealers' holdings over the two-week period was an increase of \$64 million in Treasury bonds together with a \$12 million decline in Treasury notes maturing within 1 year. These changes reflect the results of the dealers' exchange subscription operations. Just prior to the closing of the subscription books, dealers' total holdings had risen

to a maximum of \$163 million but subsequently declined to \$131million as the dealers began the process of secondary distribution.

(in millions)

	Holdings Feb. 26	Holdings Mar. 11	Net Change
Treasury bonds	- 1.3	63.0	+ 64.3
Treasury notes (1 year)	32.6	20.0	- 12.6
Treasury notes (1-5 yrs.)	16.8	20.7	+ 3.9
Treasury bills	13.7	8.4	- 5.3
H. O. L. C. bonds	5.1	18.2	+ 13.1
F. F. M. C. bonds	- 1.9	1.0	+ 2.9
	65.0	131.3	+ 66.3

The volume of business handled by dealers was unusually high during the two-week period. Daily volume for the first week was about \$200 million compared with less than \$100 million the previous week. In the week just completed, daily volume ranged from \$200 to \$600 million on individual days. This was a reflection of exchange subscription operations and in addition the sudden increased demand for bonds by all types of investors.

New Security Issues

New corporate bond financing for the two-week period amounted to only \$9,900,000, \$3,000,000 of which was a private sale. The balance of \$6,600,000 was a first mortgage issue of Community Public Service Company which went well in the market and rose to a premium of 1-1/4 to 1-3/4 points. There are no issues expected in the immediate future.

Corporate Bond Market

The corporate bond market has shown a steady advance for the last two weeks. Although all groups have moved upward, railroad bonds showed the greatest advances as a result of the favorable January earning reports.

In foreign bonds the outstanding movement for the past week was that of Brazilian issues, which moved up substantially when the announcement was made concerning the Export-Import Bank's arrangement for credit to Brazil and the promise of resumption of debt service on Brazilian dollar bonds.

The average for AAA bonds is now 1-7/8 points above January 26, the point at which the current advance began. BAA bonds advanced about 3-1/4 points during the period and are now 5-1/2 points above the January 26 level and at the highest point since May, 1937. The spread in yield between high grade and second grade corporate bonds has been declining steadily since January 26 and especially during the last two weeks. This decline in spread is a definite indication of improving business conditions.

Treasury Investment Accounts

There were no transactions in the market for Treasury Investment account during the two-week period ending March 11. However, there was a \$400,000 investment in special 2% notes for account of Government Life Insurance Fund. This brings total of these notes in Government Life account to \$10,600,000. Orders now in the hands of the Reserve Bank for Treasury account include authorization to sell \$10 million medium term bonds and purchase a like amount of long term bonds for account of Postal Savings. In addition to this, Federal Reserve Bank has an order to sell \$10 million 3-1/4% Treasury bonds of 1941 for Postal Savings. (\$7-1/2 million of this order was executed today, Monday.)

Federal Reserve System Account

The only market operations by the Reserve Bank during the two-week period was the replacement of two maturing Treasury bill issues totaling

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\$103,383,000 by a like amount of Treasury bills, of which \$94,848,000 were new issues.

On their subscription for the recent Treasury offering, the Reserve system exchanged its holdings of \$85,197,000 "rights" for \$15,000,000 1-1/8% notes, \$30,000,000 1950-52's, and \$40,197,000 1960-65's.

TREASURY DEPARTMENT

81

INTER OFFICE COMMUNICATION

CONFIDENTIAL

DATE March 13, 1939

TO Secretary Morgenthau
FROM Mr. Haas
Subject: The Business Situation,
Week ending March 11, 1939.

Recent business developments

1. An increase in business confidence has been a significant development of the past few weeks. This is indicated by reports of business observers as well as by an "index of confidence" derived from bond price comparisons.
2. A marked improvement in railroad earnings, accompanied by a strong recovery in railroad securities, has done much to strengthen the business foundation by improving confidence in this section of the national economy.
3. A continued upward trend in British industry during February, following a marked upturn in January, is indicated by a sharp February rise in the weekly index of the Financial Times of London, and by a greater than seasonal increase in employment.
4. The FRB index declined to about 99 in February from 101 the previous month, a more moderate setback than had generally been looked for. An upturn of 1.5 points in the New York Times index for the week ended March 4 tends to confirm other indications of a nearby business upturn.

Business confidence improving

A noticeable improvement in business confidence has resulted from several recent developments: (1) the belief among businessmen that the Administration has adopted a policy of cooperation with business to promote recovery has been effective

in creating a general feeling of optimism; (2) an improving trend of business abroad, with relative freedom from war scares, has made the business skies seem clearer; (3) the Supreme Court's decision against sit-down strikes has removed a domestic business uncertainty that might have become of major importance; (4) rising security prices here and abroad, and a firming of commodity prices in recent weeks, have further stimulated business confidence.

Index of confidence

Various methods have been used for actually measuring business confidence. The trend of stock prices provides one such measure. A more effective measure is provided by a comparison of the spread or ratio between high grade bond prices and prices of second-grade bonds. When the outlook for profits is uncertain, the positions of second-grade bonds become dubious, and their prices weaken in relation to high grades. A widening of the price margin therefore indicates a decline in business confidence. A narrowing of the margin, on the other hand, indicates a feeling of confidence on the part of investors toward the outlook for profits.

We have developed an index of confidence from the ratio of the average yield on Moody's Aaa bonds to the average yield on the Baa group. This index is shown monthly in Chart 1 in comparison with the FRB index, and weekly (lower section) in comparison with the New York Times index. The weekly index is of particular interest at this time. It has shown a substantial upturn recently, following a prolonged sidewise movement over the last 5 months.

The past performance of the index shows it to be strongly influenced, of course, by the prevailing level of business, but it has at times shown significant departures from the business trend. In the spring of 1937, for example, the index of confidence began to turn down about the time of the second increase in reserve requirements, when a decline in stock prices likewise reflected decreased confidence, although business activity continued on the upgrade. In August of that year, when the weekly business index reached a new high level and industrial stock prices rose almost to their March peak, the index of confidence showed no evidence of improvement. The business recession set in shortly after.

The confidence index rose to a relatively favorable level last summer, and except for a dip at the time of the September war crisis, has held at that level until recent weeks. The renewed upturn tends to confirm other indications that business, as the Wall Street Journal says, is showing a disposition to take its foot off first base.

Continued improvement abroad

Business activity abroad had continued to improve, as shown by statistics now becoming available. The preliminary January index of the London Economist, released this week, which measures business activity in the United Kingdom, showed the largest gain of any month since January 1927. The index rose to 104, against 100½ in December. While special conditions brought unusual upturns in the steel and exports components, other components indicated a rather general improvement.

British business gains have apparently been maintained through February. The weekly adjusted business index of the London Financial Times has continued to rise through the week ended February 23. (See Chart 2.) The Times monthly index, shown on the chart, which had flattened out during the latter months of 1938, will apparently show a rising trend through January and February.

Continued business gains in February also seem confirmed by a greater than seasonal increase in employment during the month, as indicated by provisional estimates for registered unemployment. Employment increased from January 16 to February 13 in all but a few industries, marked gains being made in building, iron and steel, cotton manufacturing, and a number of other lines.

In France, the index of general production rose to 87 in January, which compares with 81 in October, according to a recent statement by Finance Minister Reynaud.

Improvement in railroad earnings

Since a steady rise in railroad earnings has carried net operating incomes of Class 1 railroads in January nearly to the relatively high levels of the corresponding months of 1936 and 1937, railroad securities seem to be rapidly regaining investor confidence. Between February 20 and March 9, the Standard Statistics indexes of railroad stock prices and bond prices have risen 13.5 per cent and 8.4 per cent, respectively, while the composite stock and bond indexes of industrial, railroad and utility groups have shown comparable gains of only 6.9 per cent and 2.9 per cent. Railroad securities remain at low levels, however, in comparison with earlier years.

As shown in the upper section of Chart 3, railroad gross and net earnings have improved steadily since February 1938, with the exception of a seasonal setback during the recent winter months. In comparison with the previous year, (lower section of the chart), gains have continued steadily through January.

A striking feature of the recent earnings improvement is the increased proportion of gross revenues that is being translated into net. The light bars in the lower section of the chart, representing net operating income, showed much less decline in 1938 from the previous year than did the black bars, representing gross revenue. This contrasts with the situation in 1937, when, despite strong improvement in gross earnings, net operating income made a sorry showing due to high operating costs. This brought on a period of acute weakness in railroad securities. The recent decline in operating costs has not been due entirely to increased operating efficiency, but is partly the result of deferred maintenance expenditures.

The improvement in railroad earnings and railroad securities, with the implication that the railroad crisis is passing, should have a decidedly strengthening effect on business confidence. Further than this, it is already resulting in increased business for the steel and railroad equipment industries. In this connection, a fairly substantial amount of deferred maintenance requirements will add to the volume of orders. Expenditures in 1938 for maintenance of way and maintenance of equipment, for example, were cut 15 per cent and 18 per cent, respectively, in an aggregate amount of \$226,000,000. Freight cars awaiting repair on January 1, 1939, increased to 14.0 per cent from 10.8 per cent a year earlier, while locomotives awaiting repair increased to 18.6 per cent from 14.5.

Installment buying increasing

The volume of new installment financing in the automobile industry is rising rapidly with the expansion of automobile sales, and is expected this month to exceed repayments for the first time since August 1937. This constitutes a recovery influence of some importance, particularly if installment sales of other products follow the same trend, since it means that buyers are able to take an increasing amount of goods off the market beyond the limitations of their cash purchasing power.

During the latter half of 1937, a sharp reduction in installment financing of automobiles below the level of repayments constituted a significant deflationary factor, the importance of which may be judged by the fact that retail accounts receivable of automobile financing companies fell \$560,000,000 from August 1937 to the end of 1938. This compares with a total decline of slightly over \$900,000,000 in commercial loans of reporting banks in 101 cities.

If current expectations of automobile sales in 1938 are fulfilled, the volume of installment financing in this industry should average about \$110,000,000 to \$120,000,000 a month during the current year. Automobiles account for perhaps one-half of the total volume of goods sold on installments.

Commodity and security prices

Commodity prices have sagged slightly this week, following several weeks' advance, though Reuter's index of British prices has made further gains. Of especial significance in the business outlook is the improvement recently in prices of industrial materials, which have tended somewhat in recent months to anticipate business movements. As shown in Chart 4, these prices have been slowly advancing since early December, and have risen more steeply in recent weeks. Prices of farm products, on the other hand, have remained depressed. Moody's price index and the Dow-Jones futures index, which were lower this week, are heavily weighted with farm products.

Encouraging in the price outlook is the fact that security prices this week have made further gains, higher levels being established on the stock exchanges of this country, Great Britain and France. Government issues in all three countries have also extended their advance.

The current trend

The New York Times index for the week ended March 4 rose 1.5 points to 89.5, the first upturn in 5 weeks, with noteworthy improvement in the seasonally-adjusted indexes of electric power production, "all other" carloadings, and cotton mill activity.

The rise of 3.2 points in cotton mill activity, taken in connection with the recent increase in mill sales, seems especially encouraging. During the past week, according to the New York Cotton Exchange Service, mills probably sold two to three times their current output of unfinished goods, and somewhat more than their output of finished goods, with prices advancing. Many of the forward orders run well into the spring and some into the summer.

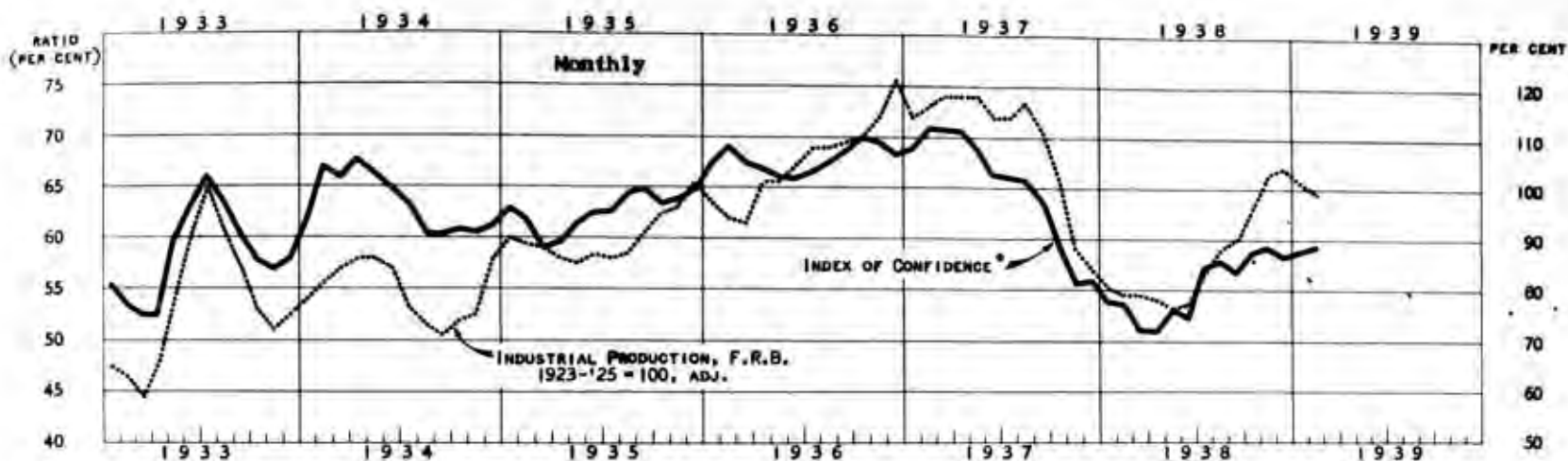
The rate of steel operations was reduced fractionally this week, apparently due in part to a slowing up of new orders pending announcement of second quarter prices, which were re-established this week at prevailing levels. Trade reports say that the uncertainty over new price quotations had undoubtedly caused some orders to be held up. The U. S. Steel Corporation reports new orders for last week at the equivalent of 41 per cent of capacity, comparing with 38 per cent for the previous week.

Department store sales increased sharply last week over the previous year's level, the Federal Reserve Board figures showing a gain of 7 per cent, which contrasts with a decrease of 5 per cent the previous week.

Our weekly index of new orders (See Chart 5) rose this week, following its previous decline. Steel orders and orders for products other than textiles were somewhat higher, while textile orders turned down slightly from last week's peak.

Home construction appears likely to continue this spring the strong forward movement of last year. FHA mortgages selected for appraisal last week exceeded all previous records. The F. W. Dodge daily average of residential contract awards increased during February to \$3,592,000 from \$3,207,000 in January, while total contract awards decreased slightly to a daily average of \$10,009,000, which compares with \$10,067,000 in January.

INDEX OF CONFIDENCE* AND BUSINESS ACTIVITY



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INDICES OF UNITED KINGDOM BUSINESS ACTIVITY, LONDON TIMES

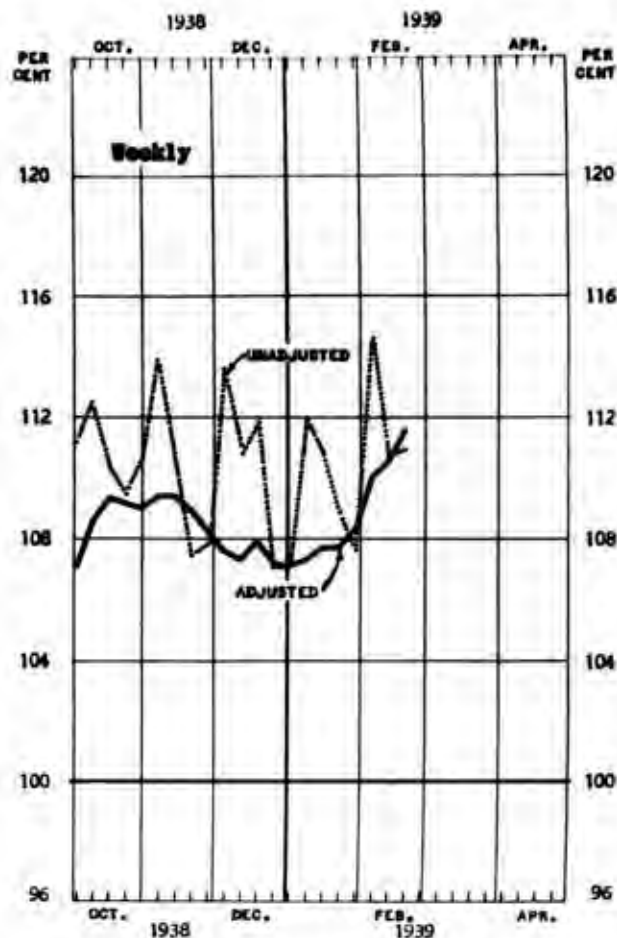
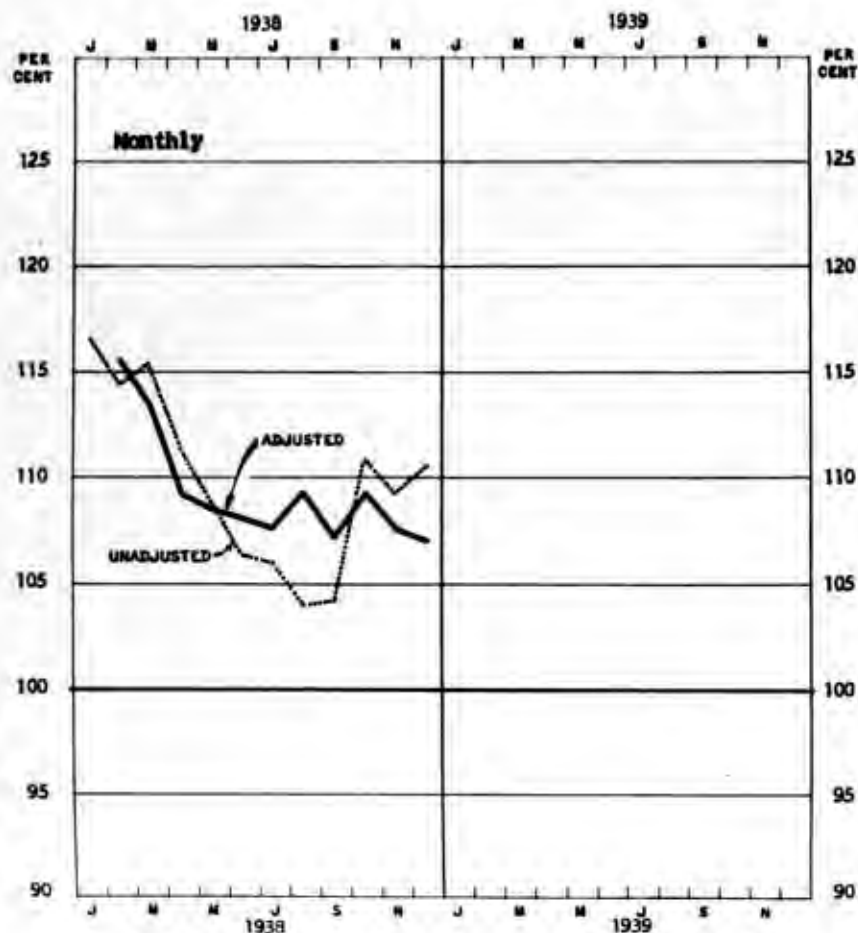
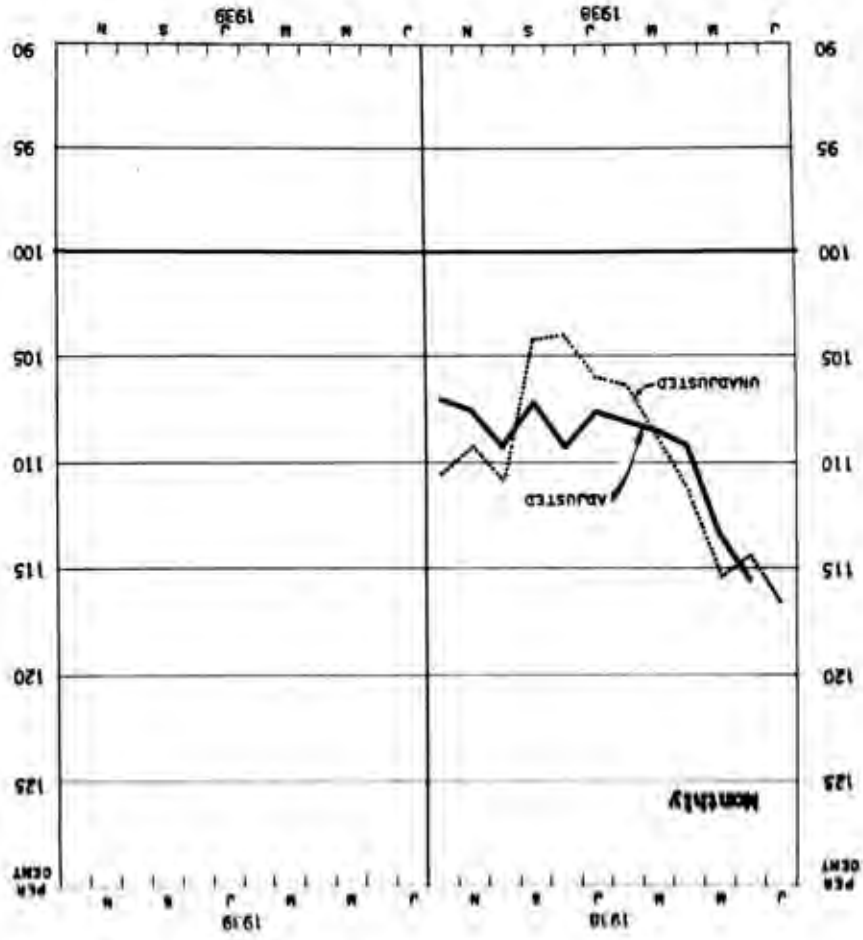
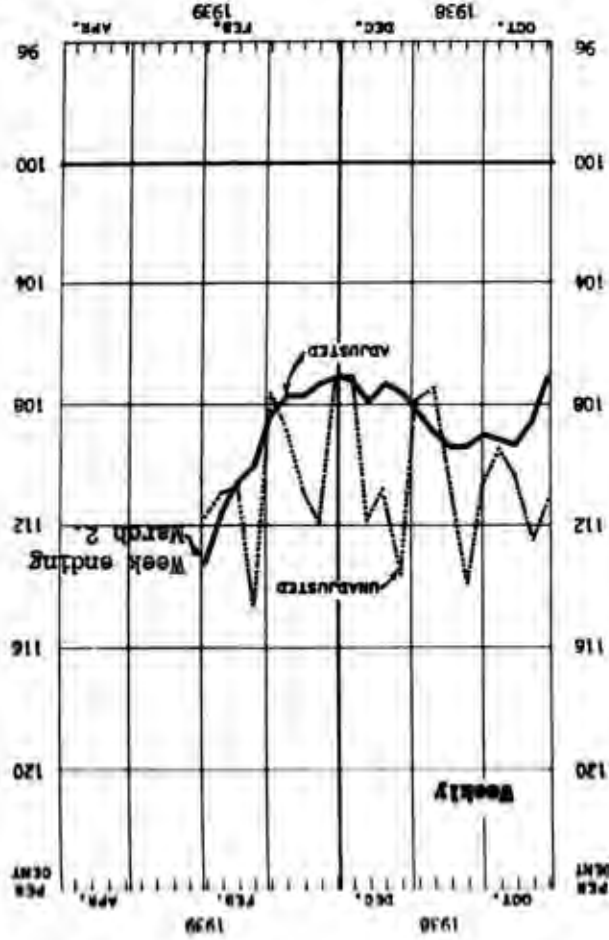


Chart 2

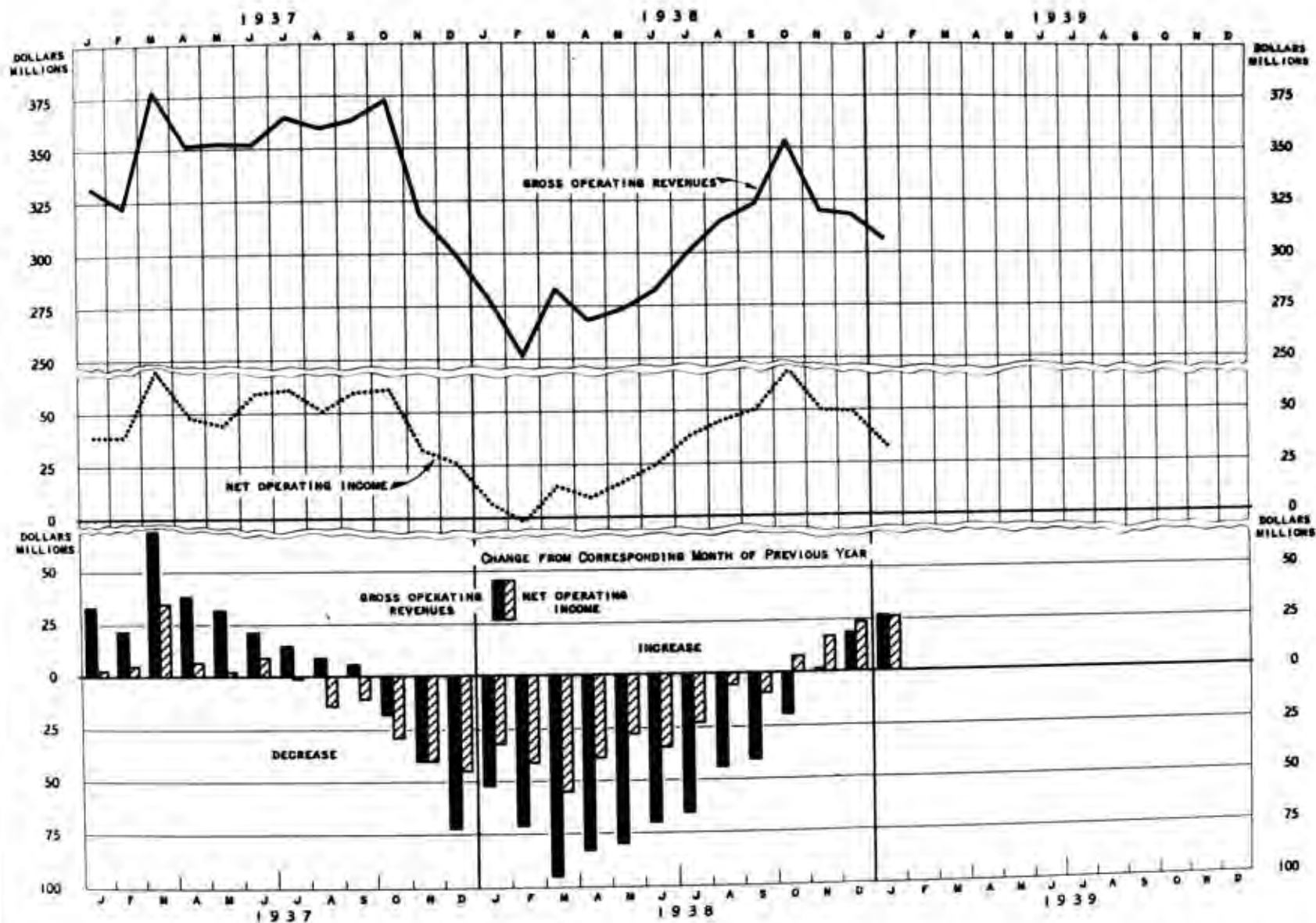
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INDICES OF UNITED KINGDOM BUSINESS ACTIVITY, LONDON TIMES

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MONTHLY RAILROAD EARNINGS*

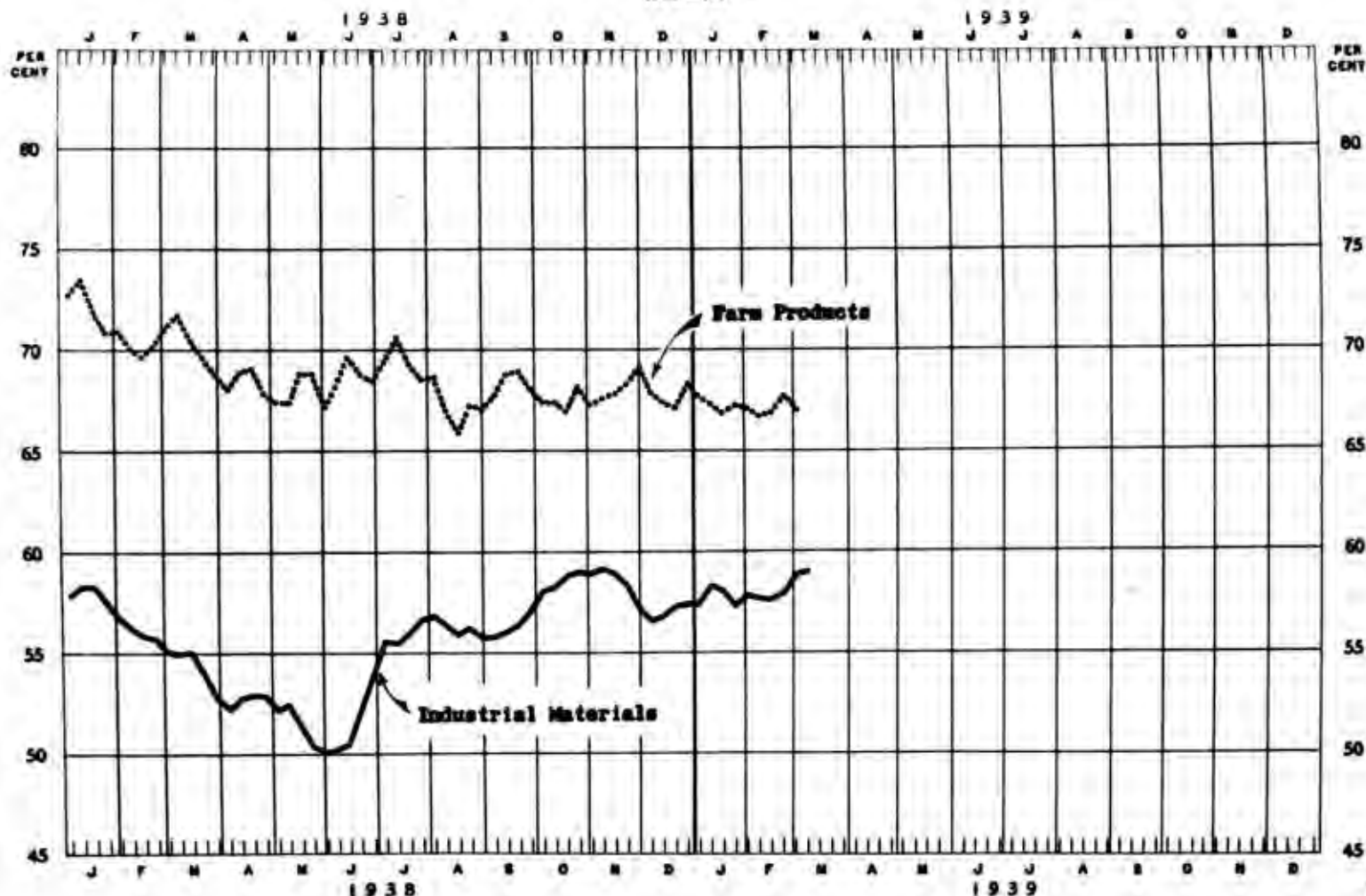


*141 CLASS I STEAM RAILROADS

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

C - 262

PRICES OF INDUSTRIAL MATERIALS AND FARM PRODUCTS 1926 = 100



SOURCE: BUREAU OF LABOR STATISTICS

INDICES OF NEW ORDERS Combined Index of New Orders and Selected Components

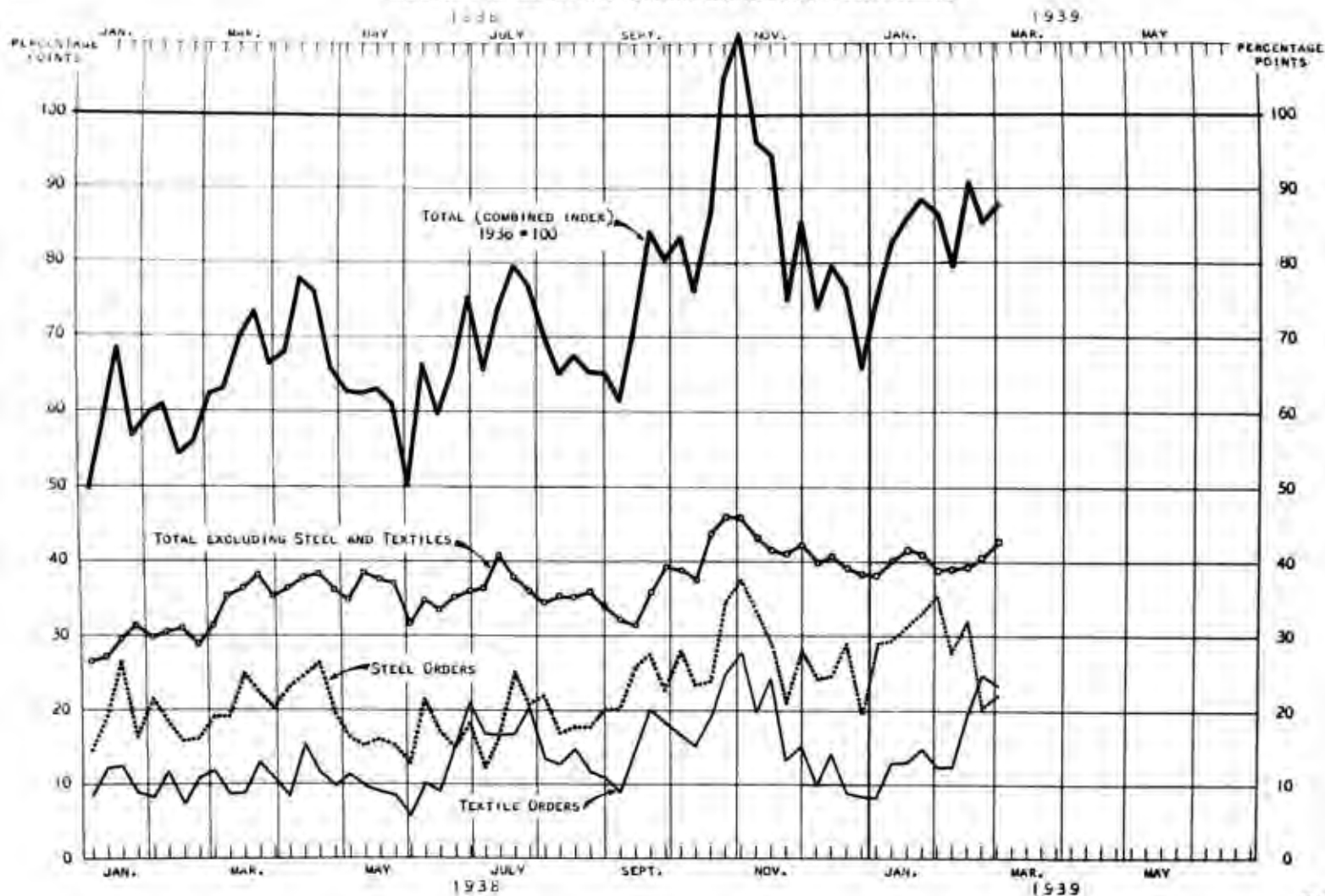
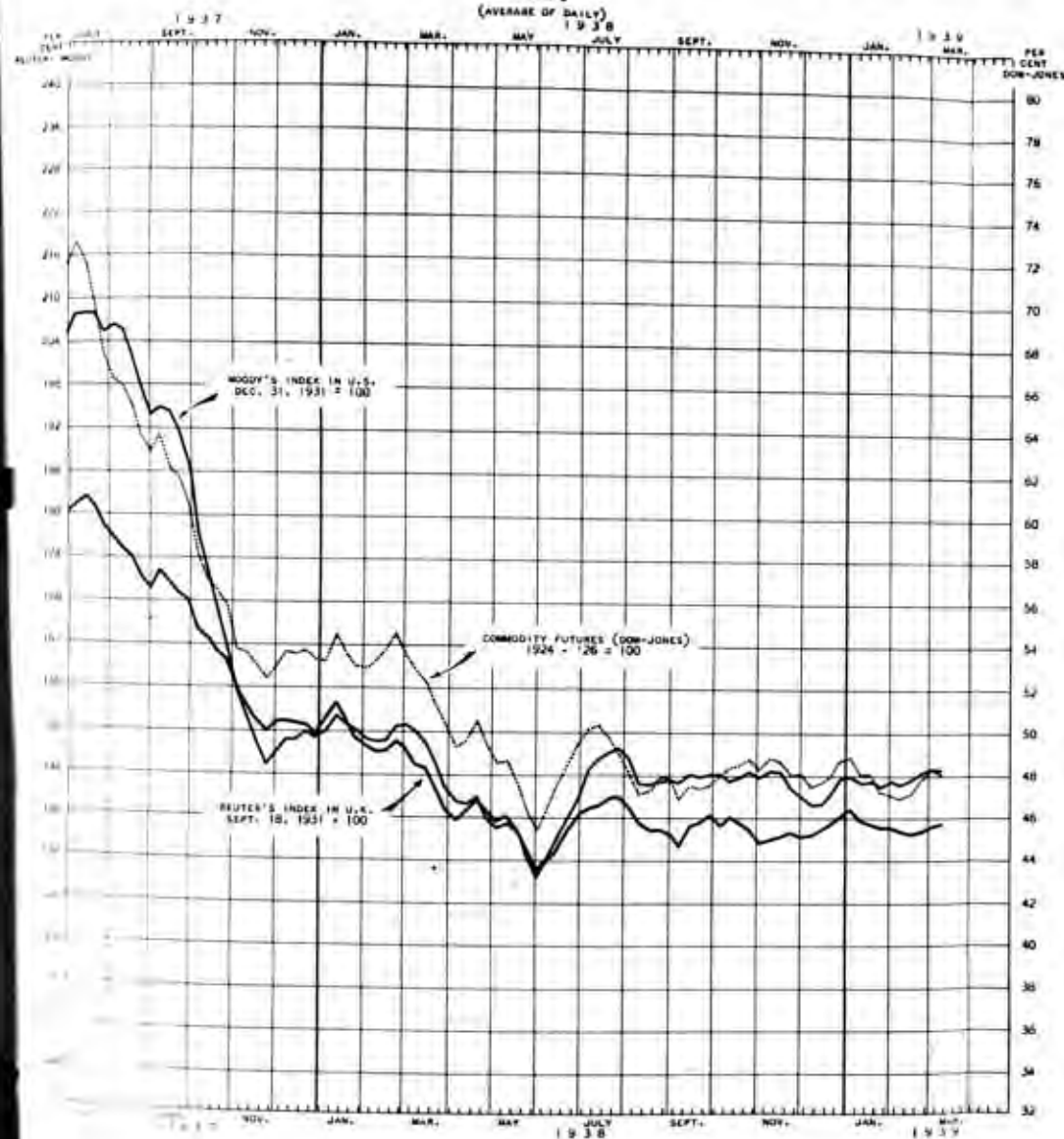


Chart 5
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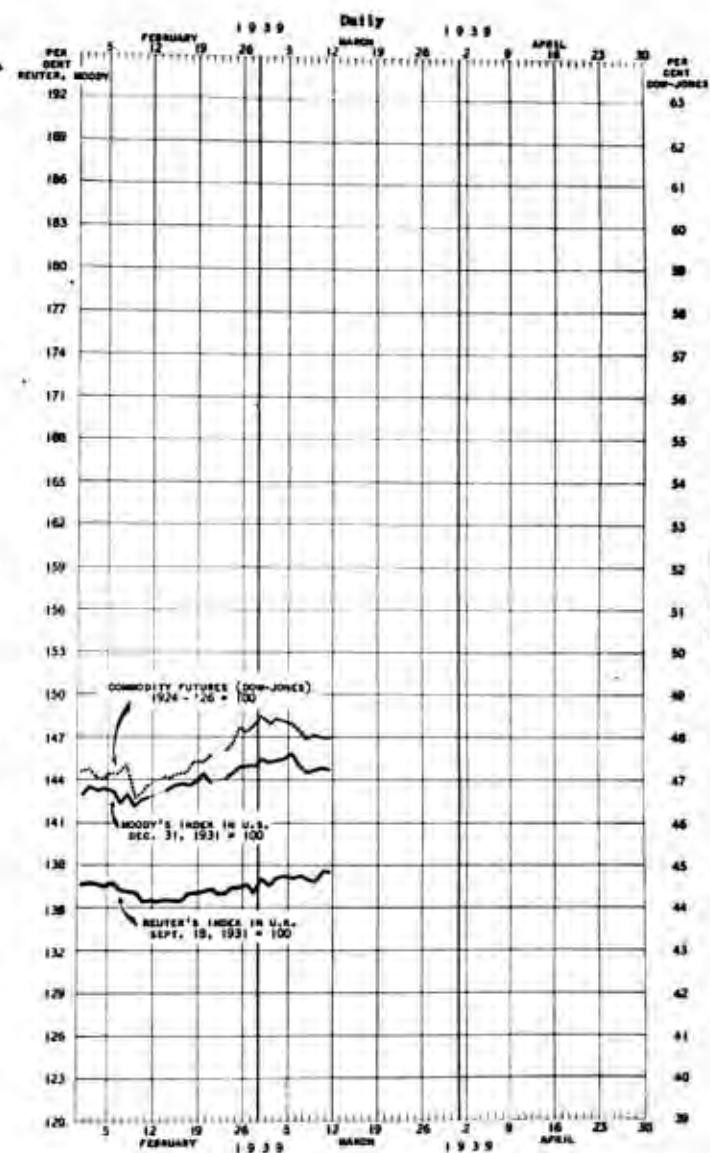
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COMMODITY PRICE INDEXES IN U.S. AND U.K.

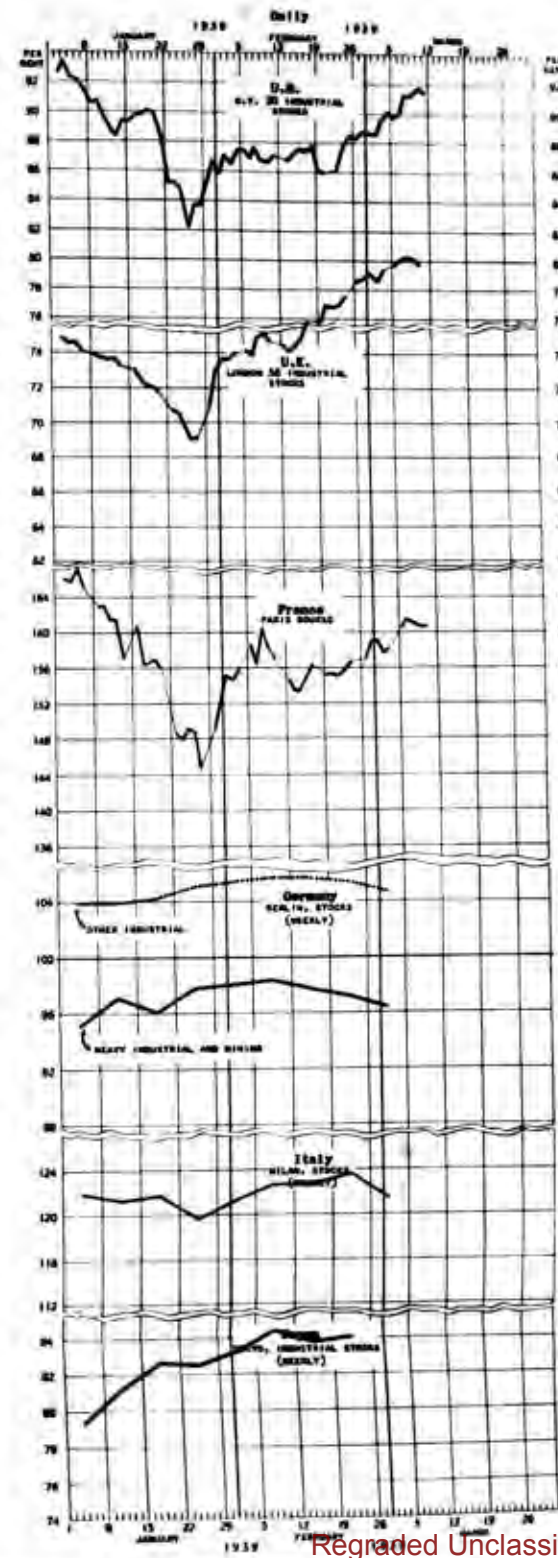
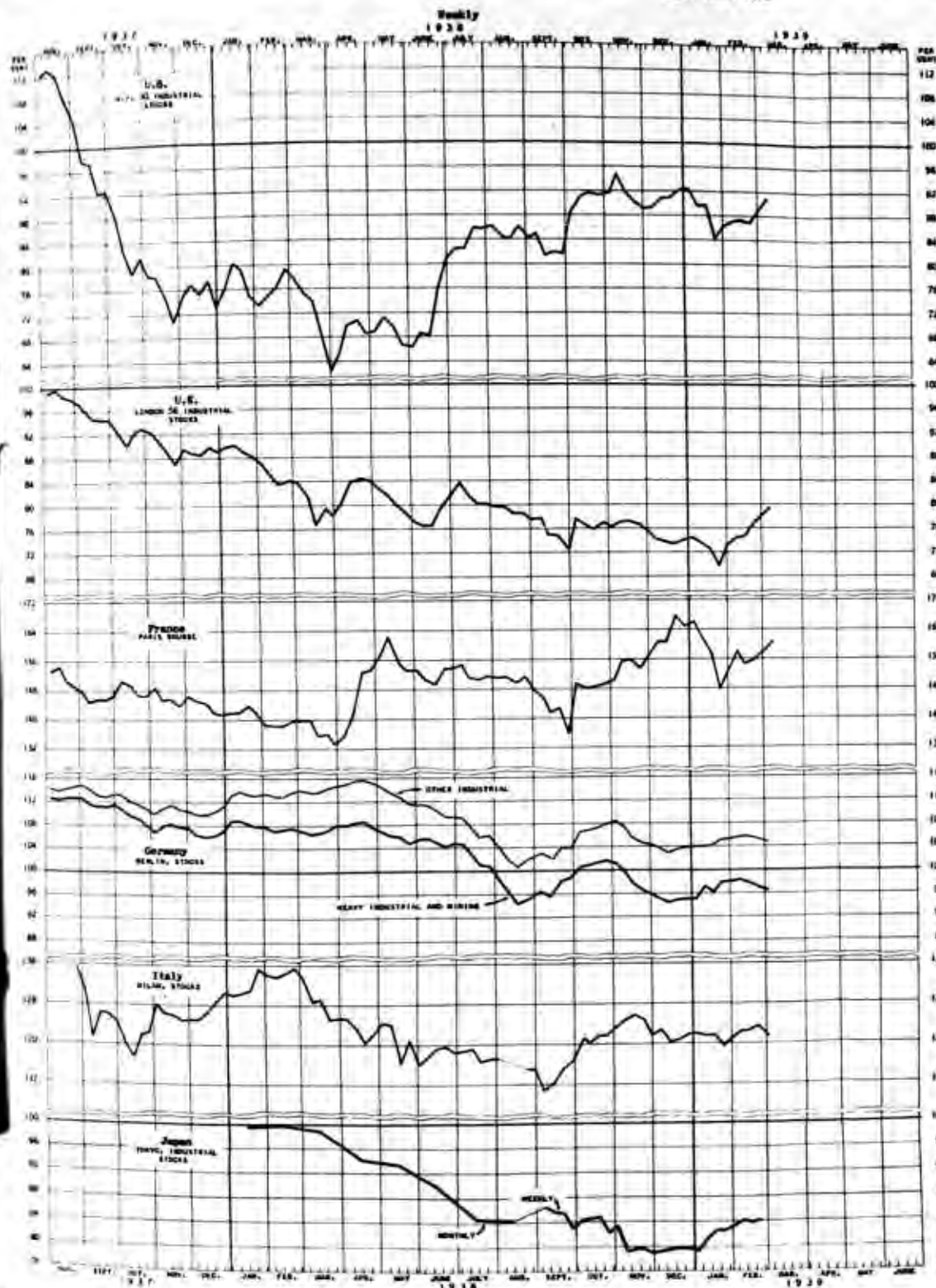
Weekly
(AVERAGE OF DAILY)
1938



Daily



INDICES OF FOREIGN AND DOMESTIC SECURITY PRICES August 1938 = 100



Regraded Unclassified

GROUP MEETING

March 13, 1939.
9:30 A. M.

(Secretary's Office)

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

H.M.Jr: Mack?

McReynolds: They are going to have a meeting of the Farm Credit, and Dan decided he will have to attend as your representative.

Bell: I have decided?

McReynolds: Are you familiar with this matter? They offered him a job. He never came down nor answered the letter.

H.M.Jr: You wrote just one letter.

McReynolds: They wrote him and told him to come in and report; there was a job for him and he has not even answered the letter.

H.M.Jr: Send him a copy of the letter and say we have had no response.

Let me unburden myself this morning before we start.

I have here a report from McReynolds about a man by the name of Rand, who, Senator Reynolds wanted. We never would employ a fellow like that and he has a job anyway. Do you mind taking charge of that?

Hanes: No, not a bit.

H.M.Jr: It will help me if you would.

Hanes: I will be delighted.

McReynolds: He wrote the letter directly to the Boss, and the Boss told me to hire him. I merely sent a man down there to interview him and get his application and that is the report we get - the result of it.

H.M.Jr: When I was in Chicago I had three different meetings out there on law enforcement, and I met Campbell, United States District Attorney, and Riley Campbell, our man, and Madden. That was in connection with the two cases; the Ananberg case and the Skidmore case.

Now, both Campbell, the District Attorney and Riley Campbell - I never saw two fellows more confident than they are. They are so over-confident they just don't seem to understand the size of the case. Campbell, the District Attorney, has never tried a criminal case in his life and our man is out there with one college graduate as his assistant.

When I talked to the District Attorney he said, "Oh, I am just counting on Riley Campbell and Madden, they are doing all the work for me and everything is lovely". When you compare that with New York, where Dewey gets the best brains available, has a couple of thousand applicants and out of that number picks a dozen assistants and has everything tied up beautifully before he shoots, I just think - well, I just think if that is their attitude, and they are going to try this case - it is the biggest case there is. They both sit back absolutely complacent and I just think it is amateurish.

McReynolds: Madden knows better, doesn't he?

H.M.Jr: Well, now, I am good and sore at somebody around here. In the first place something is wrong. I was sent out there with the understanding, and I was given a written memorandum, which I read carefully that everything is lovely; that we are only waiting for the United States District Attorney, and when I get there, in front of Madden he says: "I can not move because Madden is not ready". There is nothing in the report about that. "And they are waiting for Mr. Green, who is the lawyer

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to come in and talk this thing over", and there is nothing in the report about that, and the United States District Attorney, when I started to put the heat on him says, "Well, Mr. Morgenthau, I hope you did not tell Mr. Murphy that", because he says, "Your people are not even ready".

Will you get word to Elmer, I want to see him at ten-thirty, will you Mack?

McReynolds: I will.

H.M.Jr: He gives me a written memorandum and when I begin to put the heat on those fellows because Elmer has been putting the heat on me, and I go out there and he says, "Well, when your fellows are ready and through dealing with the taxpayer, why, I will be ready, but they are not ready". He never mentioned Mr. Green, the attorney for Mr. Ananberg; he never said they wanted another week to get the Canadian papers, and he gave me the written report on Friday and there is not a word of it - not a word. That is the thing he sent me out with, and I don't like it. If he had said, "Now, we need more time or we have got to give the attorney for Ananberg another chance to come in and then put the heat on", but nothing like that. I want you to -

McReynolds: I did not get any idea that he had to wait either. I am very much surprised.

H.M.Jr: Well, I have been told since December that the case was finished and all tied up and that we were just sitting back and waiting for Campbell, and when I reminded Campbell of that he said, "Oh, no, your people are not ready and are not ready now". You better be here at ten-thirty. I don't know whether you want to get in on this or not.

Kanes: I will if you want me.

H.M.Jr: It is not necessary. District Attorney Campbell had to leave it up to Riley Campbell and one college graduate to prepare the Ananberg and Skidmore cases. Somebody down here I think is childish. I mean, the whole thing - I mean you compare the way they are handling this case with the way cases are handled up in New York - there is no competition for a fellow like - what is his name, in New York, because he

does a decent job. He is on the job. He has prepared his cases, but in this case we are depending on one lawyer and a college graduate. It is sickening.

Do you know anything about the case out there?

Foley: No, I don't know very much about it, Mr. Secretary. I have not been in on it.

H.M.Jr: Well, who is the fellow over there that is responsible.

Foley: Well, these cases are prepared by investigators and turned over to Justice for presentation to the grand jury. We don't present them.

H.M.Jr: Riley Campbell is doing the whole work.

Foley: And as I understand it from Elmer Irey, that is the way he wanted it.

H.M.Jr: I am not a lawyer but the Ananberg case - forget the Skidmore case, the Ananberg case is the biggest criminal case this Administration has ever had and it was initiated by the President of the United States and I have been told and led to believe - Mack, how long have you thought that the case was finished, as far as the Treasury was concerned - am I wrong?

McReynolds: Well, for the last couple of months, at least. May be more.

H.M.Jr: You thought what?

McReynolds: That the case was ready and waiting to go to Justice.

H.M.Jr: That is right. Well, it is not. We have not even finished it. We are not prepared. I don't like to be made a monkey of; I don't mind being made a monkey of when it is in a good cause, but when it is on us I don't enjoy it.

Bell: I have this statement. It has not been checked yet. I will take it back and photostat it. I notice one mistake there. It should be -

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H.M.Jr: Now, would Harold come in on this.

Graves: The Ananberg case?

H.M.Jr: Yes. You better sit in on this as my first coordinator.

Graves: At ten-thirty.

H.M.Jr: Yes. You better get in on this. You better sit in on it.

Graves: Yes, sir.

H.M.Jr: And one other thing. There are fifteen thousand pool rooms that are served by the Ananberg organization. In Chicago they went around to the different pool rooms and they have gone into a man and said, "Let us see your books". "We haven't got any books". Well, how much do you collect?" "One million dollars". "What are your expenses?" "\$900,000". "What are your profits?" "\$100,000". Then they go through his books and they picked up several hundred thousand dollars in that way. But as far as I know Chicago is the only place we have done that, and there are fifteen thousand pool rooms in the country, and there are thousands in other communities where this is going on, and we sit right back here and knowing this thing is going on, do nothing about it.

Gibbons: What about New York?

H.M.Jr: What about the United States? I know what the matter is. We are just asleep at the switch. There are fifteen thousand pool rooms, and nothing happens except in Chicago. You better sit in too, John, at ten-thirty. And I am going to want Mr. Helvering, and what is the attorney's name?

Foley: Wenchel.

H.M.Jr: Here at ten-thirty. It is disgusting. They have got the evidence. They know how it works, they know they could go into every city and I will bet you that in the United States they could pick up as much as they did in Chicago, and if that can be used as a basis, they could pick up, oh, from two to five million dollars. It is just

lying there and our boys know it. Ireys organization knows it but nobody does anything about it. I am not very proud of the Treasury on its law enforcement or on the tax end of it. In fact I am ashamed of it. I mean somebody is just sitting back and waiting. The opportunity is all over the United States for the people to do it but nobody has the initiative; nobody has the moral force to go after it. It is just lying there on the doorstep and nobody picks it up. I used to do this thing but I haven't got time to be a policeman now. When I had Harold doing this thing I did not have to push him. I gave him one push and he kept on, but certainly somebody is asleep at the switch and the Treasury people know this is going on. They know they are evading their income taxes and the underlying reason for the racket is the graft - the payoff in all municipalities, but nobody is doing a thing about it.

This fellow Cooney, who had four places. His take, this one man, was over two million dollars, and he is the man that has this night club and when they wanted entertainment - Mike Igoe wanted entertainment, he furnished it. They just go to this fellow and he shows everything when they get down. He keeps no books, I mean, he shows expenses and his whole business and you get the whole story how the graft is made and how it is paid, and it all right there - what are you going to do, Mack?

McReynolds: I am going to get Helvering.

H.M.Jr: Let him come over cold. Let him come cold, will you Mack?

McReynolds: Yes, absolutely. Just want to get the call in.

H.M.Jr: Now what did you have, coming back to financing?

Bell: This stop statement is the overall limitation of forty-five billion dollars. The last line shows the balances that you can yet issue at the end of each month.

H.M.Jr: Do you want to look over my shoulder, John?

Hanes: Yes.

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Bell: You go into January with approximately two billion dollars of the forty-five billion dollar limitation, so you can go to the next Congress before you get the forty-five billion -

H.M.Jr: You mean I would have a margin of two billion?

Bell: Yes, until July 1. These are all based on budget estimates. Now, our bond issue -

H.M.Jr: And how much would my balance be?

Bell: Your cash balance?

H.M.Jr: Yes.

Bell: It would be two billion three, as I recall.

H.M.Jr: And how much would it be on the first of January.

Bell: That is not shown here. This is strictly debt.

H.M.Jr: I want to know what the balance would be.

Bell: Two billion, three hundred and ninety eight. You could even have financing in March.

H.M.Jr: Would you mind doing this over again and run me through until the 15th of March, next year, and run me through on a basis of five hundred million dollar balance.

Bell: In March or June.

H.M.Jr: Well, let's say to the first of March. Wouldn't that be a good time to break it off - get two months of Congress - would not run into receipts then.

Bell: Yes, I think you can get by there and have a substantial balance going into March.

H.M.Jr: If you would run it off again for me, 1st of March five hundred million dollar balance, first of March next year.

Bell: Then that cuts down on these bonds in here.

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H.M.Jr: Yes.

Bell: Your Social Security taxes are going to increase January 1, and some of your debt increase is going to come in there.

H.M.Jr: Well, let us run it to the first of March; run the balance down to five hundred million and see where we will be.

Bell: You might look at this for a moment.

H.M.Jr: What I want to know is where I would be on the first of March and not leave everything just as it is - just let our balance run down to five hundred million and then show where we would be on the first of March. Wouldn't you say that is a good thing - that does not get into big receipts or into the 15th of March financing.

Hanes: That shows you comfortable on the first of January.

Bell: That is on the overall forty-five million. You are not comfortable on the bonds on that basis. You have a deficiency at the end of September of sixty million dollars of bond limitation.

H.M.Jr: This September?

Bell: Yes. I have assumed that you want to refund the Septembers in June and the Decembers, and I have assumed that two-thirds of the cash will go into bonds, so that in September you would have a sixty-one million dollar deficit.

H.M.Jr: Well, this is enough to show the President.

Bell: I think so, but I would like to check it. It is just off of the typewriter.

H.M.Jr: Will you have it for me this morning?

Bell: Yes.

H.M.Jr: Now, how about the orange and blue food tickets. how is it going?

Graves: We had, what I consider to be a very satisfactory conference with the General Accounting Office,

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after you and Secretary Wallace left, and I think that there is no likelihood they will interpose the slightest objection to our doing exactly what is planned.

H.M.Jr: Have you got a pencil?

Graves: Yes.

Sen.Jr: In talking with these people in Chicago - not law enforcement, they made an excellent suggestion, and that was that there should be an educational campaign in the cities where this is to be tried.

Graves: As a matter of fact, I think that question was answered at our discussion. I understand that they have definitely planned to do that.

H.M.Jr: Will you ask Milo Perkins about it, and what the nature of it is and suggest that it should precede this thing.

Foley: There was an article in Time magazine about the plan, and that said something about the conclave of the grocery men in Washington some time this week.

H.M.Jr: But what I am talking about is for the consumer - the consumer. The University people felt very definitely this should not be in cities over one hundred thousand and also possibly, it should be tried in one city of ten thousand. Will you contact Milo Perkins?

Graves: Yes.

Bell: It seems to me, something will have to be worked out to take care of these farmers markets. There is no association of those people. They don't belong to any trade group. Most of these WPA people go down to the wharves and buy their vegetables from the Virginia farmers, who bring the vegetables up to this market. They can not buy there with these tickets. I think you are going to get a terrible howl.

H.M.Jr: Harold, will you find out about that?

Graves: Yes.

H.M.Jr: You be back at ten-thirty.

Graves: Yes.

H.M.Jr: Harry.

White: Last week reported the capital in-flow one of the largest - forty-two million. I have a letter here that I would like to bring up. We are getting so many requests for questions on gold and there is so much coming up on the Hill that if we could get a letter like this from Wagner or Sumners, and answer it, it would be very helpful to us and very helpful, I think, for some educational work on the Hill.

H.M.Jr: I will tell you what you do. You get a hold of Bernard and have him fix up for Harry to see Wagner's secretary and his secretary of the Committee, and talk it over with them and it is all right to shoot the works.

White: That is exclusive of anything with reference to Stabilization - just gold.

H.M.Jr: I think the Stabilization Fund and the devaluation is the thing we need first.

White: You would like to include that.

H.M.Jr: Go up and see, through Bernard, the two people, his own secretary and the secretary for the Banking and Currency Committee and ask Wagner's people what they think they need the most to get through this legislation. Then let us get that thing through first. Talk the whole thing over. The sky is the limit. Then when you come back, after seeing those fellows, and maybe they will let you talk to Wagner, and then recommend something, but have it ready for me and I will go up and see those two men.

Foley: It is the same fellow - Wills is his name. He acts as Wagner's secretary and the clerk of the Committee. Wills is his name. He acts as both Wagner's secretary and the clerk of the Committee, and he is a nice fellow and you will have no trouble arranging it, I think, Mr. Secretary.

H.M.Jr: It is like the question that Charlie McCarthy asked this woman, what is her name, Beatrice Fairfax: "What is the right kind of a girl for a man to marry?" she said, "One is a good housekeeper and companion". And he said, "Wouldn't that be bigamy".

White: A story no man can tell to his wife.

H.M.Jr: When you talk about these two secretaries being the same person it sounds like bigamy.

Gaston: I think our record up there is seriously defective before both Committees. We have got all of these fifty-five alleged economists against the devaluation power and all of the expert testimony that they have called in is against the devaluation power, and we have nothing on the record except Treasury testimony to support that. I think we need, very badly, some reputable economist to testify that it is a good thing.

Foley: That is what I was going to bring up. We have to put rebuttal testimony in.

H.M.Jr: You fellows work it up and give me a concrete suggestion and you will get a yes or no answer from me in thirty seconds. It is up to you fellows to carry it. That is all. Are you willing to accept that responsibility?

White: Right.

H.M.Jr: O.K. Work it out with Foley and Gaston.

Gaston: Dr. Rummley called me up at home yesterday representing the Committee for the Nation. He wants to help and I told him quite bluntly that if we were to bring in anybody in favor of devaluation on his side of the camp that would be the surest way to kill it.

H.M.Jr: Well, if you and White and what is his name, will go up and see this one man.

Foley: The bigamist.

H.M.Jr: Yes, you will get an answer quickly enough out of me. Anything else, Harry?

White: That is all.

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Gibbons: I would like to tell you something right after the meeting - just take a minute.

G.M.Jr: All right.

Foley: I went down and saw Senator Adams Friday afternoon, and talked about the constitutionality of the power to revalue and left a ten page memorandum and I think he is satisfied now. Feis called up Saturday morning and said they were going to talk with the German Embassy early this week about the scheme, the barter scheme and tell them unless they stopped it that countervailing duties were going to be imposed.

G.M.Jr: That is right. What happened in Cabinet was this: The President himself brought it up and used the memorandum which I gave him last Monday. Using that, he brought it up and he took the entire blame for holding it up, on himself and said that the State Department had asked him to hold it up for various reasons, and that he had concurred. But that now, he was going to ask the Attorney General to give him a ruling. The Attorney General said, "I can give you one tomorrow that will be favorable", and he said, "No, I don't want it until two weeks from Monday". I said, "And suppose the State Department continues to object". He said, "We will give them two weeks from Monday". And I said, "I think I am entitled to an Attorney General's opinion", and Frank Murphy said, "You will get it". So the President said, "No, I don't want it until two weeks from Monday". Then the President said, "You can tell the young man up at the German Embassy this is coming; if they want to change their ways it is all right, but it is in the hands of the Attorney General", and he said "Henry has been worrying about going to jail, and now we will let Frank Murphy worry", and Frank said, "I will give it to you tomorrow", and he said, "No, not tomorrow."

I did not say a word about our boys being on the water. I thought it better to let it ride.

Foley: I think that is right. I did not tell Feis when I talked to him.

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H.M.Jr:

Well, I have not said anything. So everything broke but the President took the initiative. He took the entire blame on himself that the thing was held up and also told us that Homer Cummings had it, and had it, he thought, since last fall. But I corrected that. So he said, "Tell the German Embassy it is now in the hands of the Attorney General".

Foley:

Well, the conversation took a funny turn. Feis said he wanted a memorandum from us giving all the details so that they could be fortified when he talked to the German Embassy, and I said, "What more do you want than the four-page memorandum we gave you last fall".

H.M.Jr:

October 31st.

Foley:

Yes. He said, "Just a minute", and he turned to his associate and came back and he said, "Well, we want something nasty"- he wants something that will distinguish the facts that you gave us last fall from the explanation the German Embassy gave us two years ago, but he said, "I don't think that is necessary because the decision has been made that we are going to go ahead and all we need to do is tell them that". So he said, "I don't think that background is necessary". And I said, "Well, we want to give you all we have so you will be fortified when you talk to these fellows". And he said, "Well, let me have so and so - get in touch with your men". So I suggested that he come over and talk with Bill Johnson today or tomorrow.

H.M.Jr:

I would let it be between the State Department and Johnson. They have got all of the facts.

Gibbons:

Hasn't the State Department put you on the spot? Connery says he has this letter on the State Department.

H.M.Jr:

I know. That is all right. I told the State Department please not to write any more letters. The President told eleven people there it was his responsibility. But this is all right - we are all right now.

Easton:

They have been throwing it back in our lap.

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H.M.Jr: I told them that at the Cabinet. It is all right. The President has decided we go ahead. He said, "Two weeks from today we will get the ruling", and he used my memorandum which I gave him last week. He just started the Cabinet right off with this thing. That is what he started Cabinet off with, George.

Haas: I have nothing but the regular thing. (handing portfolio to the Secretary). The business statement will come in about twelve or twelve-thirty. There will be one or two interesting charts you might want to use.

H.M.Jr: If everything is all right, I hope to leave with my family on the 24th of March to go to Sea Island for two weeks, and I thought that during the two weeks I am gone, that you might personally call on these various twenty-seven or twenty-eight businesses that have been giving us this information. I thought you might arrange that and I thought it would be good for you to call on these people - these twenty-seven or twenty-eight businesses.

Haas: That would be fine.

H.M.Jr: You have not had a trip in the field for a long time.

Haas: Fine. I would love to do that.

H.M.Jr: I see by the papers, where a blue sign has been made. Aren't you the fellow that had the blue sign printed?

Hanes: Where did you see that?

H.M.Jr: The New York Times, twice, Friday and Sunday.

Gaston: And I noticed there is no union label on it.

Hanes: Isn't there?

Gaston: No, I am just kidding.

Hanes: I guess it is on there somewhere. If it is not, we will put one on there.

Haas: CIO or the other?

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H.M.Jr: Have you got anything, John?

Hanes: I have nothing.

H.M.Jr: We will do a little law enforcement at ten-thirty. Put this fellow Harold Graves after them and they will know something happened after I get him started. He needs a little field work too - a little law enforcement. Herbert, did you see what the Chicago Tribune said about you Sunday?

Gaston: No, I did not.

H.M.Jr: They have a full column; "Herbert Gaston has a dictaphone in six different offices", seriously, "in order that he can keep tabs on them so they would not give out Press statements without first calling on him". Honest. (laughter)

Duffield: You know what that thing is for?

Gaston: That is good advertising.

McReynolds: Well, you asked for it, Herb.

H.M.Jr: Why didn't you tell me? Where is mine?

Gaston: I could not get one in your office.

H.M.Jr: Seriously, "Herbert Gaston has six dictaphones in different places to make sure they don't give any Press interviews". (laughter)

That is a kind of hollow laugh.

Gaston: I will be glad to demonstrate it.

H.M.Jr: You better call him up, the man of the Chicago Tribune office, and show him what it is.

Gaston: That boy knows what it is. They don't care about the truth of any story. I wonder if we could not go to Congress and ask for a little simple resolution permitting us to charge for these Treasury bulletins. If we don't do it I am afraid it is going to become burdensome. If we could charge for it we could keep it down to people that really need it. It would not matter if it went into miscellaneous receipts.

Bell: Do you need legislation?

Duffield: I think we do.

Gaston: I think we do.

Duffield: Commerce has special legislation to permit it to charge for their stuff.

H.M.Jr: Get an amendment through on the War Department bill; they are friendly. (facetiously).

Bell: Does the Superintendent of Public Documents have a special law?

Gaston: Other Departments are permitted to sell literature. Commerce, I think has that, but it is by provision of law or resolution that they are permitted to do it.

Haas: Are their mimeographed documents ever sold?

Duffield: Commerce does it.

H.M.Jr: O. K.

(Meeting concluded)

March 13, 1939.
10:05 a.m.

HMJr: How are you?

Key

Pittman: Fine.

HMJr: You know you said something about wanting to see me, and I tried to get you for lunch. I just want to let you know I'm available any time.

P: All right, Henry.

HMJr: So any time you want me, I'll run up there.

P: Yes. Well, there were some of these other things were crowding me. I couldn't get away.

HMJr: Well, either I'll run up, or if you come by here-

P: Well --

HMJr: You tell me what you want, and I'm at your service.

P: I'll chat with you tomorrow, I think. Today I've got three hearings on.

HMJr: Well, do you want to come down for lunch tomorrow?

P: Well now, let's make it only tentative, Henry.

HMJr: I'll give you an option.

P: I'll give you a call though.

HMJr: I'll give you an option on it.

P: All right, thank you very much.

HMJr: You're welcome.

IN RE: ANANBERG CASE

March 13, 1939.
10:30 A. M.

(Secretary's Office)

PRESENT: Secretary Morgenthau
Mr. McReynolds
Mr. Foley
Mr. Graves
Mr. Helvering
Mr. Irey
Mr. Wenchel

H.M.Jr: I was in Chicago Saturday and Sunday, and I saw Mr. Campbell, United States District Attorney, and Mr. Riley Campbell, our man and Madden.

McReynolds: Madden is out in the other room now.

H.M.Jr: Let him stay there.

When I started to go after the United States District Attorney for not beginning to do something on the Ananberg case, I started to put the pressure on him, why, he came right back at me and said the Treasury was not ready, and said that you, (indicating Mr. Irey) had been out there the week before and Mr. Madden has asked for additional time to get these Canadian reports and give Mr. Green, Ananberg's attorney, time to talk the matter over and that he was waiting on us. Well, you could have thrown a cold glass of water in my face and I would have been just as pleased, because I have been under the impression, since last December, and I have checked this with Mack, and we have been sitting here waiting and waiting for the United States District Attorney to be confirmed and everything was up to him, and we have just been sitting back waiting, and Madden said, "Yes, that is right". And he said they had to have these Canadian records and they owed a courtesy to Mr. Green, the attorney out there, to talk to him and that he needed at least another week.

Now, there is nothing in your memorandum telling me, and nothing as far as I know that you had told

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me about those matters. I have been under the distinct impression that the case was closed and we were waiting for a District Attorney to pick it up.

Ivey: You are asking me, Mr. Secretary?

H.W.Jr: Yes.

Ivey: Well, Mr. Secretary, to my mind the case has never been closed. The case could go on for years for investigation and still develop evidence, but I do feel and have felt right along the case is ready for the United States Attorney to take it to the Grand Jury at any moment. Now, with respect to the Canadian records. In the first place we were told not to contact the United States Attorney until after his confirmation and he was only confirmed within the past month or maybe five weeks. So, only since that time have we discussed it with him. It is since that time that these people did come in with the Canadian records, but they are not necessary to finish consideration of those to go before the Grand Jury.

With respect to the other phases of the thing, I told you that, or rather, you mentioned this man Green of the law firm out there and our promises to him. We have simply told him right along that we would give him an opportunity to explain items in the case. When I was out there the other day there were dozens of obstacles which must be cleared up before the 1st of April and that was one of them that was to be cleared up this month. We are still ready to go before the Grand Jury the 1st of April and that was the date that the United States Attorney fixed.

H.W.Jr:

There is nothing in your memorandum telling me that the Treasury was not ready and that the case was not finished as far as we are concerned; and you have been after me to get after these people - you have been after me to get after them, and when I start to put the pressure on them they said they haven't even seen the records - they have not been turned over to them for study. And here you are. You say you are not ready because you want to see this fellow Green. You gave the memorandum to me Friday. There is nothing in that statement

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saying that we needed additional time.

Irey: Well, Mr. Secretary, he told me he would not be ready to go before the Grand Jury until April. We don't need any additional time.

H.M.Jr: Here it is the 13th of March. Our men say they need another seven days, that will be the 21st. How can a man prepare a case like this. I will ask Mack. Mack, what do you think - am I wrong? Here is your friend Mack. Am I wrong, Mack, in being under the impression that this thing was finished and we were waiting for the District Attorney. I go out there and there is nothing in your memorandum that says our attorneys and your own man needs additional time.

Irey: We must have certain matters passed on by the man that is going to prosecute the case. We have had to try to find out who the man is, who is going to prosecute the case in order that we might have him pass on these points.

H.M.Jr: If you don't mind my saying so, I think you put me in a very difficult spot. I did not have all of the information when I went out there. We are not ready and we are not ready today. Madden is not ready and has not turned over a single paper to the District Attorney.

Irey: Riley Campbell has every record there is.

H.M.Jr: Riley Campbell is not going to present the case.

Irey: That is what he told me on the 1st of March.

H.M.Jr: He is not going to present the case. Campbell said he is going to present the case himself. He said he asked Riley Campbell and Riley Campbell is going to sit at his elbow.

Irey: That is a decision they have reached since I was out there March 1st.

H.M.Jr: I still say that when you let me go there under the impression that this thing was signed, sealed and delivered and that we were sitting back waiting on the United States District Attorney, I say you put me in a wrong light, as far as this fellow is concerned. Now I will let Mack tell what he knows about it. Am I right or wrong, Mack?

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- McReynolds: Well, so far as I knew, from the information that you had, the case was ready to go.
- H.M.Jr: Well, you have talked to Irely. You talked to him when he came back from Chicago; you have talked to him more than I have. Don't hesitate - be fair.
- McReynolds: Elmer told me that - of course, I don't know - I never presented one of these cases to a Grand Jury. I have never presented a case like this to a United States Attorney and I don't know what the difficulties were, but I certainly had the impression that the thing was ready for the United States Attorney to handle. I had exactly the same impression that you have.
- H.M.Jr: Well, that is the impression I had, Elmer. I don't know what your impression was. (addressing Mr. Helvering)
- Helvering: Well, I understood for some time, that the case was kind of held up on account of this fellow not being confirmed, and as quick as that was done, we would be ready to go ahead. I did not understand that all of these phases of the question had been thoroughly rooted down to the bottom, but I understood that it was ready to go to the Grand Jury to secure an indictment.
- Irely: Mr. Secretary, may I repeat that we are ready; we have been ready to present it to the prosecuting officer, but there are certain things that he must determine before it can be presented to the Grand Jury, and just as soon as Mr. Campbell - I told him the other day, out there, we were ready to give it to him tomorrow and he indicated to me that Riley Campbell was going to present it. He has had all of the files and has had for two years.
- H.M.Jr: He is going to present it himself?
- Irely: Now, he did not tell me that, Mr. Secretary.
- H.M.Jr: But that is neither here nor there. The whole thing is you have been egging me on to get this fellow confirmed, and get this fellow started, and left me under the impression that we were ready. I have asked you whether we were ready before election and you said "No". Then I asked you for a memorandum

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and there was nothing in your memorandum saying that we need another week or two to prepare this case. There is nothing in this statement - I did not prepare these statements; you prepared it. There is nothing in there -

Irey: Well, maybe - maybe I can not make myself clear to you, but the point I am trying to make is, we have been ready and are ready today to present everything to the prosecuting officer, and just as soon as he is ready to go before the Grand Jury, we will do so.

M.H.Jr: But that is where you are wrong. Madden says he is not ready and will not be ready until he has had a conference with Ananberg's attorney.

Foley: Green.

H.M.Jr: Now, may be when he has this thing, may be they are going to pay the tax.

Irey: They are not going to have an opportunity to pay the tax.

M.H.Jr: What is the sense of conferring with him then?

Irey: Because it is the practice of the Department to confer with these people.

M.H.Jr: Well, he is not ready. He has waited for the Canadian stuff. He has now brought in the Canadian stuff, but even with that, Mr. Campbell, the District Attorney, said to me: "Now, Mr. Morgenthau, there is no use putting any pressure on me because I haven't the records; your people are not ready, and they need additional time, and when they are ready I will be ready", and then he said, "I will need time to study the records but the records have not even been turned over".

I don't want Madden sitting in on this, but I went all through this thing and then Madden started to argue and I said, "I have given you Irey's records". I did not want to leave them lying in the hotel room. And I said, "Have you read it", and he said, "Yes".

Now, that is enough of that. Now, I want to know where do we go from here? I mean, I hated to go out there and put the pressure on this fellow Campbell and then have him sit back and say, "Well, now, I hope you did not say anything like that in Washington, because we are just waiting on you boys". Madden was there and heard the whole conversation. Now, where do we go from here?

Irey: I would like to just ask the lawyers one question - just to support me, because of their experience in such cases: Isn't it your understanding that when you present a case to a United States Attorney he must review it and then decide what he wants done from his own knowledge and judgment before he goes to the Grand Jury.

Wenschel: Yes, we have been waiting until a prosecutor was chosen in order to sit down with him, the prosecutor, and explain just what the case was. No one can go in there, Mr. Secretary, before a Grand Jury and attempt to present a case of this size until he has sat down with the man, the attorney, who has studied it and -

H.W.Jr: Now, wait a minute. At some place in your investigation, you turn a case over, don't you?

Wenschel: Right.

H.W.Jr: Well, we haven't even turned it over and we are not ready to turn it over today. We have not even turned any records over.

Wenschel: Of course, I don't know anything about the turning of records over to the District Attorney.

H.W.Jr: There must be some place where you say to the District Attorney, "The case is ready, we are ready to turn it over to you for prosecution". There must be cut off, I mean there must be some time when the Treasury says: "We have completed our investigation; we are ready to turn it over to the Attorney General's office for prosecution".

Irey: Mr. Secretary, there isn't such a place in such a case. And there wasn't such a place in the Capone case; there wasn't in the Maxie Gordon case and

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Dutch Schultz case. There was no such place. And there isn't such a place in this case. This case is being handled in a different manner. In other cases, we complete the investigation and make our report and present it to the General Counsel, who sends it to the Department of Justice and says, "We are through; here is the case". In this case, our men are instructed to confer with the United States Attorney and give him what they have and go along with him in the prosecution of the case.

Q. Jr: Who instructed you to do that?

A: That has been our understanding.

Q. Jr: It is your understanding, but you never told me, and never told anybody else. You came back from Chicago and had a complete conference with McReynolds, didn't you?

A: I told McReynolds what went on out in Chicago, yes sir.

Q. Jr: But aside from everything else, the thing that bothers me about this thing is, that this fellow, the District Attorney, can take the position: This is the Treasury case; the Treasury hasn't completed its investigation. He, the District Attorney, is going to try it and if anything goes wrong it is because the Treasury did not prepare the case properly. I think it is a silly position to be in. I think it is a silly position. We have got Riley Campbell. I don't know who the hell Riley Campbell is. He has one man, a recent graduate from a law school. Now, I asked him, "Are you all right", and he said, "Yes". Now, how the hell can one man and one recent graduate prepare not one case but two cases?

A: That is the reason we tried to get an experienced lawyer to handle this case; that is the reason I recommended this fellow Pouste out there.

Q. Jr: He doesn't want him; he says he has a taint.

A: What we had was ready for Campbell at any time, but it was distinctly my understanding that he was going to have Riley Campbell present the case to the Grand Jury and then promised me other attorneys

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would be appointed from time to time to prosecute the case.

H.M.Jr: He is going to do it himself.

Irey: He told me he was going to be General, by the way.

Wenchel: Riley Campbell, Mr. Secretary, is fully capable of turning this over to the United States Attorney tomorrow. He has everything. He has worked with the case. Now, I don't know anything about this proposed conference with Green, but I do know that Campbell has sufficient, right now, to turn it over to United States Attorney and then it is up to the United States Attorney to say whether he wants to go this way or that way.

H.M.Jr: He is not ready because they have not yet turned these Canadian reports over to him.

Wenchel: They don't have to have the Canadian reports.

H.M.Jr: Well, he says he does. He says he does. Now look, - let us - we have been talking about this thing for two years; I don't want this thing ditched.

Irey: It is not going to be ditched, Mr. Secretary, it is a very good case.

H.M.Jr: I never was more shaky about the whole business than when I sat out there, and there those two young fellows were talking and asking, as though they had it in the bag, and then when you compare this with the way Mr. Dewey presents and prepares a case and handles it, we are like a lot of children, and for me to go out there and take the attitude that Mr. Campbell and Mr. District Attorney took, why, I don't like it, when they snap back: "How can I, when the evidence is not turned over and your own man says he is not ready".

Now, I don't like it, and I am saying that to try two cases, as important as these cases are, and depending upon Riley Campbell and one law student, I think it is just childish.

Irey: Well, so far as the prosecutors are concerned, Mr. Morgenthau, I agree with you, but we have not

been able to get this United States Attorney to appoint anybody more experienced.

H.M.Jr:

Why should we, as the client, I mean, the obvious thing is whenever the Treasury says the case is finished, "We are ready", then the thing to do is for somebody to go over to the Attorney General and say, "Here is the most important criminal tax case we have had, a case which the President of the United States started. Now, Mr. Attorney General, will you please take hold of this thing".

Now, it is not for you or for me to find attorneys and to be fussing about what clerks and all the rest of that stuff. It is up to the Attorney General to try this case and I want a cut off date so when the case goes wrong and goes sour, he can not say, "This was wrong and that was wrong". If they are not ready for the April Grand Jury I would ten times rather let them go over to the October jury, but I want, at some hearing, somebody to say to me, "The Treasury has prepared the Ananberg case and it is ready - we are finished". At that time, I shall walk across the street to the Attorney General and say, "Mr. Frank Murphy, the case is ready. Will you please handle it". And I don't want Mr. Elmer Irey or anybody else to be looking for lawyers.

Irey:

Mr. Secretary, I was directed to look for the lawyers.

H.M.Jr:

All right, now, we have not been able to do it.

Irey:

But I submitted several names.

H.M.Jr:

He does not want your lawyer.

Irey:

It was all done under instructions. I was not voluntarily doing that.

H.M.Jr:

That is all right, I will share that with you, but I will not share the responsibility with you of going out there and then being told that they are waiting on us. Now, there is plenty of time. You have done a beautiful job, up to now, and I don't want to see it spoiled.

Irey:

It is not going to be spoiled.

H.M.Jr:

I don't want to see it spoiled.

Now, Guy, this is Internal Revenue. Now, Irey has done a beautiful job up to this point. Now, what I want is some place, at some time, for you to tell Hanes and myself that the case is ready for the United States Attorney.

Silvering: Yes.

W.G.Jr: And when that point is reached and when you are satisfied and when Foley is satisfied that we are finished, then you say to me: "Morgenthau, the case is ready; will you please tell Frank Murphy". Now, at that time, I will walk across with you and Elmer or anybody else and say, "Now, we have prepared the case". But I do not want any slip-ups in this, but the way it is now, the first thing that goes wrong, Elmer is going to be the goat. It is much better for him to come in here and have me give him hell in this room, than to have it out in Chicago, and in the papers, and so forth and so on. It is much better he take it from me, a damned sight better than taking it from the Attorney General, because he knows I am his friend.

Silvering: Let me ask you: Do you approve of the procedure that we sit down with those attorneys representing the taxpayers and checking with them.

W.G.Jr: Whatever is customary. I don't know what the custom is. If you tell me that is the custom why, that is the custom.

Irey: That has been done in our cases.

W.G.Jr: All I am saying to you is that at some point I want you to say, the Treasury is ready, so that I can go to Frank Murphy and say, "We are ready, the rest is up to you", and then let him assume full responsibility for not having these two Campbells, one with no staff and the United States Campbell saying he can not move until eight people are kicked out of the office, and he can not get them kicked out.

He said he can't do it, but with the situation as it is out there, where he says he can not move until he gets eight people removed from his office, I want Mr. Frank Murphy to take full responsibility

after the Treasury says the case is ready.

Belvering: All right, we will have a conference -

E.W.Jr: Will you check on that, John?

Hanes: Yes.

H.W.Jr: I mean have a cut off date at some place. I would much rather have it go over until next fall, than to rush it through in April. Just how these two men can prepare the Ananberg case and the Skidmore case and be ready is just beyond me, when the United States Campbell's office is not organized. You can not object to that.

Irey: Not at all. I am delighted to have you lay out the plans.

E.W.Jr: Do you check?

Foley: Yes.

E.W.Jr: Now, the other thing that I want to bring to your attention is that Madden tells me that he has gone after these houses in Chicago that receive this wire service, and he has been able to collect - I don't know how much - several hundred thousand dollars of additional taxes. But as far as I know, the same procedure has not been followed any place else and we know that Ananberg is serving fifteen thousand pool rooms. If they can pick up a couple of hundred thousand dollars by going around to pool rooms in Chicago, why can not we put on a similar drive all over the United States. We know where the fifteen thousand pool rooms are. I take it you have the names, haven't you?

Irey: Yes.

E.W.Jr: And just fix up a Unit and go after the other fourteen thousand.

Belvering: I shall be glad to do that.

E.W.Jr: Again, if you don't mind, I don't think that the driving force should come from here. I mean it has been successful in Chicago - how many pool rooms are there in Chicago?

Irey: Five hundred.

H.M.Jr: That leaves fourteen thousand other pool rooms. Well, I think somebody should realize there may be several million dollars we could pick up and I think some place, somewhere, somebody should have done it. Check?

Helvering: Yes. This is the first time I have heard about that.

Irey: That would have been done in regular course. I mean these fellows that are working on this case could, during breathing spells, make reports of these things and give us enough detail to furnish men in the various States. That would have been done - that would not have been overlooked. It is fraud and there is no statutory limit and we would not suffer by a delay.

H.M.Jr: The way you would suffer, Elmer, is this: This case will bring out the fact there are fifteen thousand pool rooms receiving this wire service. The question would be: "What has the Treasury Department done about it", and what would be our answer?

Irey: And there is one other thing, the excise tax on the use of telephone messages. That tax would be about two million dollars. We have been spending a lot of time trying to work that point out. There are innumerable angles to the case, but I have been trying to keep the fellows headed up the straight and narrow path to get this case to a head and try to keep from going off on to side issues too much.

H.M.Jr: Your men in New York, they are not working on the Ananberg case.

Irey: No, except -

H.M.Jr: The pool rooms in New York and Boston and the pool rooms in the District, which are getting the service. We have the names of all of them. How long have we had the names?

Irey: Well, of course, we have had the names for a long time, but have not had any evidence for such a long time. We have known what pool rooms were

operating and receiving this wire service but the evidence to tie them in has not been available very long. It is only in the last few months. We have had revenue agents who were not engaged in the Ananberg case working on that.

H.M.Jr: You fellows don't let me get out of this office very often, but I do get out once in a while and on this particular trip I am not very pleased. It seems to me that if we can pick up \$200,000 in Chicago on five hundred pool rooms, how much more can we pick up from the other fourteen thousand pool rooms. I wish you would set the wheels in motion.

Helvering: Yes, that is all right with me. How does this tax come up in the pool rooms - profit they make off of the operation -

Ivey: The profit they make off of selling race track news which comes into the pool rooms over Ananberg's wires from the race tracks.

H.M.Jr: And the way I feel, another reason, one of the important reasons why I want to put the pressure on is, that when I asked Campbell, District Attorney Campbell -

Foley: Bill Campbell.

H.M.Jr: Bill Campbell, the question, if we began to put the pressure on these fellows that they began to see we mean business, will it help to get witnesses. Of course it will, and he needs witnesses desperately. When you begin to bring in pressure on these people they are going to get frightened and come in and squeal, but if they think they can get away with this thing indefinitely, they are not going to get any help and Bill Campbell said he needs that sort of thing very badly. When the papers get it, they will see we mean business and we will get the public back of us.

Helvering: I will have an analysis made of that and get some men - we will have an analysis made of that and get the names from the various places and get some men on that.

Ivey: This had never been called to Mr. Helvering's attention before.

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H.M.Jr: You better not let me go out in the field again.

Irey: And there may have been other things in the case that have not been called to his attention; I will go into that with him.

H.M.Jr: I think we should get going and I say, if we begin breaking this all over - and by the way, it will get away from the persecution talk - persecuting Ananberg and so forth. I mean it will eliminate the proposition of Joe Guffey trying to get Ananberg or the Administration trying to get Ananberg. It will be the system over the whole country. And of course, it is the basis for graft from more municipalities than any other thing.

Helvering: I suppose it is connected with all large cities.

Irey: Every city of any size in the United States.

H.M.Jr: And it would not exist were they not to pay graft.

Irey: That goes without saying.

H.M.Jr: Elmer, up to this point, swell. Now, we will all share this responsibility with you.

Irey: I appreciate that.

H.M.Jr: Mr. Helvering and you too. (pointing to Mr. Wenchel)
You get in on this thing now and it is a big thing. Now, about the Skidmore case. I don't know, that is something else.

Irey: That is more of a local case.

H.M.Jr: This (Ananberg case) is something that the President of the United States asked us to do. How much money have you spent on it, up to this time?

Irey: I don't know. There have been thirty-five agents working on it for two years and a half.

H.M.Jr: It is the biggest case we have had.

Irey: I think it is the biggest criminal case ever presented in a Federal court, and that is the reason I have been trying to stick to it - the one

objective was the Ananberg case and his associate groups and I did not want to spread over on these other things, but I can see we should, of course, do that.

Holwering: I think it is a good idea, now that the Secretary has suggested that. We will bring in all of the tentacles at the same time.

W.H.Jr: I think we are very vulnerable. Ananberg can go into court and undoubtedly can afford to have the best talent in the world and he will, and for us to go in there with Bill Campbell saying that he is relying on another Campbell and one law student, it is unbelievable. The minute the case goes wrong, they will say we did not prepare the case properly. I want this responsibility of the trying of the case on one Frank Murphy and that is where it belongs.

Foley: That is where it belongs. I think this is all to the good, Mr. Secretary, the fact that you went out there, and the fact we have all been brought together here. I think that Bill Campbell, coming in cold, not knowing anything about this mass of evidence that has been gathered during the last two years, with a staff under him in which he has no confidence, is not ready to go before the Grand Jury. I think perhaps he was looking for some justification when he threw it back on us. It is true that there isn't any out off date, and the thing has not been put up to him squarely, and I think in order to avoid a kick back again if something should go wrong, that we ought to get that over on his doorstep as fast as we can and I think the sooner we do that the sooner that you can go to Frank Murphy and tell him that it is his now, and that we are willing to cooperate to the fullest, but it is up to the Department of Justice. The sooner we do that the better off we are and there is going to be a good deal of back and fill on this, because nobody can go in the way Bill has gone in, without a staff, cold, and acquaint himself with the evidence and put it before a Grand Jury without a great deal of work. He has had a big administrative job to get his staff organized and get his office running and he has not had much chance to look at the case.

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- H.M.Jr: Could you imagine when you have not even seen the papers that you would be ready on the 1st of April to go before a Grand Jury on a thing like this.
- Irey: You see, Mr. Secretary, you told me - it was the thought that Bill Campbell was going to handle the case himself. When I was out there March 1st, I told Campbell the files were available and to begin studying, and in my memorandum to you, I told you that he could go ahead and get the indictment. But I hoped when he learned enough about the case that we could impress on him the need for additional help because all along I thought we were going to recommend to him assistants to handle the case.
- Of course, now, you have changed my views on that entirely.
- H.M.Jr: Well, I changed my own.
- Irey: I was working as you had indicated to me that you planned to have us work.
- H.M.Jr: But he throws it back in my face, Elmer, that we have not given him the records and that we are not ready to give him the records and that we are holding back on him.
- Irey: Well, he is all wrong, Mr. Secretary, because we can give him records that he could study twenty-four hours a day for weeks.
- H.M.Jr: The fact is though, we have not given him the records.
- Irey: Yet on the 1st of March I told him we had the records for him.
- Foley: He found a way out and he took advantage of it.
- H.M.Jr: When I was out there and put the pressure on him he said we had not even given him the records.
- Foley: The man himself, as far as I can learn, never tried a criminal case in his life.
- H.M.Jr: But the fact remains we have not turned the records over and the fact is, Mr. Madden says he is not ready to turn them over until he sees Attorney Green.

He will go in in April, and he will fumble the case and it is our fault. Now, all I want is that the Treasury prepare the case as well as we can, in view of the present attitude, and then when the case is ready, Mr. Hanes and I and Helvering will go over and see the Attorney General and say, "This is the most important case we have had; the President of the United States started the case and we are now turning it over to you prepared as well as the Treasury knows how to prepare a case".

(The following telephone conversation was had between Secretary Morgenthau and the Attorney General)

How are you, Frank? Frank, I was in Chicago Saturday and Sunday and as I told you I took the opportunity of seeing Bill Campbell. Now, when we have finally turned the Ananberg case to him, see, which we have not yet done, but when we have finally turned it over in such shape that Mr. Helvering and the lawyers - Foley and the rest of them are satisfied, then I am going to call on you and say, "Mr. Attorney General, the Treasury has completed the case and we are now putting it in your lap, see? The reason I am taking this attitude is because Bill Campbell tells me, for instance, that he has written down here that he wants to get rid of eight men in his office and he says he has been unable to get rid of them. And then I think his office is not ready to go yet and I think he is leaning too heavily on our people and I feel, and I cannot say to you today that I can tie it up in pink ribbons and bring it over, but when our people are satisfied that it is ready, I am going to come over and say, "The case is completed from the Treasury and will you, Mr. Attorney General, pick it up". See?

But I am afraid the way it is now they are talking about presenting both the Ananberg case and the Skidmore case to the Grand Jury in April. The Skidmore case is important, but it is not nearly as important as the Ananberg case. I want to be sure that we have done our work as well as we know how to do it, and there will be a cut-off place that the Treasury is finished and that you pick it up. Now, is that fair? (Pause)

Well, Bill Campbell says he is, and I think he is a little over-confident. I don't see how he can be when his own office has not been reorganized yet. I am impressed with him. Well, you know it is the biggest criminal case we have ever worked on. The President of the United States himself started me on this. It is the biggest case that we have had in the Treasury since the President has been here, and I just don't think we can fumble it. Yes.

Well, our people, Elmer Irey and all of them have done a grand job and we are tying it up in pink ribbon and sewing up the last loose ends. I can not say this morning to you that the case, at our end, is completed, but the moment it is I will give you a ring. Right?

Well, you see, I think Bill Campbell is a grand fellow. I think his heart is in the right place but he has never tried a criminal case. He has never tried a tax case, and you can be sure that Mr. Ananberg with millions at his disposal, is going to have a couple dozen lawyers of the best in the country and we are faced with a young District Attorney who is honest and wants to go, but has no experience. And also he says he has eight people in his office that he wants to get rid of, and so I think that between the two of us we certainly can deliver and we will deliver to you, but I cannot say this morning that the Treasury is ready. Thank you so much.

Foley: That is all right.

H.M.Jr: He says he is going to put the best man, in his office, on it and if he hasn't got a man good enough he is going to get one.

Irey: That is the best news I have heard yet.

H.M.Jr: And he also tells me that the pressure is on him already. He told me that Friday. That is what I am excited about this thing. And he said - I don't know what he meant, but he said, "The pressure is on me from some very high places". So it is worth spending an hour on now. I am going to wait for one Guy Helvering to tell Henry Morgenthau that, "She is finally sewed up right".

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Helvering: Well, I will do that just as quickly as I can.

H.M.Jr: O. K. I don't know whether you want to use Harold Graves or not. That is what he is sitting here for. He is here to help if you need him, but when you are ready you tell Hanes and me and then we will walk over and, of course, we will first satisfy ourselves, as well as we can, that the thing is ready and if we are satisfied, we will go over and see him. But this is not any child's play. I mean this is a hell of a case.

(Speaking into telephone) Hello. Put him on. This is Bill Campbell calling me now.

Foley: Well, I think if he has Riley Campbell, who developed this evidence, and an experienced trial man from the A.G.'s office, sitting along with him when he appears before the Grand Jury and presents his case, he will be all right.

H.M.Jr: I think, Ed, you should send somebody from your office to sit next to Riley Campbell.

Foley: There can not be too much legal assistance in this case, Mr. Secretary.

H.M.Jr: I think one of your own fellows, somebody who knows this kind of work and who is absolutely unimpeachable. I think he should be out there and I think he should go out as soon as possible.

Foley: All right, I will do it, sir.

H.M.Jr: I think somebody from the General Counsel's office should go out there just to sit back and say, "I am here to help you". Now, for these fellows to say, "I am ready and I can do this thing". Why, they always tell me any actor that goes on the stage at an opening performance, if he is confident of himself, he always makes a poor showing, but if he is nervous and bothered and says that he hopes to do the best he can, why everything is fine - he will make a good impression. I will bet you, every criminal lawyer in the United States will be employed on this case.

Foley: If I send somebody out he will have to be designated by Bill Campbell as a special assistant in order to go before the Grand Jury, but I think I can arrange that.

H.S.Jr: Well, Riley Campbell is your man. I don't want to get my wires crossed. I don't want to get them crossed with Helvering. I don't want to divide the responsibilities so let us get right back to Helvering. I am pinning it on Helvering. It is his case as far as I am concerned. Is that right, John?

Hanes: Yes.

Helvering: If this case is as big as it has been represented to me it would be well, if you put the responsibility on me, for me to spend some time on it.

H.S.Jr: I, Henry Morgenthau, Secretary of the Treasury, place the full responsibility on the Commissioner of Internal Revenue.

Helvering: Do I have to buy the pink ribbon too?

H.S.Jr: I will buy that. Don't get anything mixed up with the General Counsel's office or anything else - no wires crossed. The full responsibility is on you and when you are ready or if there is anything you want from Hanes or me, we will stop anything and listen, but the full responsibility is on you.

Helvering: Well, well.

H.S.Jr: That goes for both cases, both the Ananberg and the Skidmore cases.

Irey: The Skidmore case is more of a local matter. It is not of any national importance.

(Secretary Morgenthau speaking into the telephone with Bill Campbell, the conversation of Mr. Campbell being reproduced through the loud speaker.)

H.S.Jr: Hello.

Campbell: Secretary Morgenthau?

H.S.Jr: Talking.

Campbell: This is Campbell, Mr. Secretary.

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H.W.Jr: Good morning.

Campbell: How are you this morning?

H.W.Jr: Fine.

Campbell: That is good. Say, the thought occurred to me that with reference to the matter we mentioned Saturday -

H.W.Jr: Yes.

Campbell: Possibly - have you called Frank yet?

H.W.Jr: Yes, I did. I just talked to him.

Campbell: Oh, I see. Well, I thought I might get you before you talked to him. I thought if you could wait until I got this file from Madden. Now, you said a week from Monday - a week from today. Well, I would be able to discuss things a little more intelligently. You see, as yet, I don't have anything to report, see?

H.W.Jr: Well, that is what - we had a meeting in our office this morning, and after talking it over I have pinned the responsibility of both of these cases on Commissioner Helvering.

Campbell: I see.

H.W.Jr: And when he tells us that all of the work is finished and the case is buttoned up, see?

Campbell: Yes.

H.W.Jr: Then my arrangement with Frank Murphy is, and I am going to tell him, that the Treasury has completed its work.

Campbell: Yes.

H.W.Jr: And that I, as Secretary of the Treasury, place it in the lap of the Attorney General.

Campbell: That is good.

H.W.Jr: Then he, I think, said he would send for you.

Campbell: Well, now, that is fine, because - then that should be how soon? That should be sometime next week, shouldn't it?

H.A.Jr: Well, I don't know. Mr. Helvering - I am going to give him all the time that he wants. I would say sometime next week.

Campbell: Yes, because as I remember our discussion with Madden, when you pinned him down he thought that he could have it ready a week from today.

H.A.Jr: Well, that is what I told him.

Campbell: Yes, and so that if he gets the file in here - you see, we don't have the file in either of those cases and as soon as they get in here we will be in a position to discuss it, and I think your plan is a very good one and I would like to see it done next week.

H.A.Jr: Now, let me clear up one thing. When I came back, I told Irey -

Campbell: Yes.

H.A.Jr: That it was my impression that you said that you personally were going to try the case?

Campbell: That is right.

H.A.Jr: And he was under the impression that you were going to let Riley Campbell try it.

Campbell: No, no, Riley Campbell will sit in with us, but I personally, will try both cases.

H.A.Jr: Right.

Campbell: That is the correct understanding. Mr. Riley Campbell - did you meet him yesterday?

H.A.Jr: Oh, yes. I met him there yesterday morning.

Campbell: He is a fine fellow and he really knows this branch of the law, but he has not done an awful lot of trial work around Chicago here. So he will sit in with me, but I will try them.

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H.M.Jr: Now, just so you will know, I told Mr. Murphy that when Mr. Helvering is satisfied that our end of the investigation is completed -

Campbell: Yes.

H.M.Jr: And only when Mr. Helvering is satisfied, then I am going to personally take the case over to the Attorney General.

Campbell: Fine. And then he can send the file out here to me.

H.M.Jr: And I also told him that it would accelerate matters if he would let you go through with your reorganization.

Campbell: That is grand. Well, you have been a tremendous help to me and I deeply appreciate it.

H.M.Jr: And I said that you wanted to get rid of eight men and that until your office was in shape I did not see how you could go ahead with two such important cases.

Campbell: I think you are - well, that is grand. That is grand. You have been a tremendous help and I greatly appreciate it, Mr. Secretary. It is very kind of you.

H.M.Jr: Well, we want to help each other.

Campbell: Well, that is wonderful and as soon as they are sent here why, I will be all ready.

H.M.Jr: All right. Well, then, the next move is up to us.

Campbell: That is fine. And as soon as you have finished, why, we are all ready and we have cleared the decks here so that we can go right through.

H.M.Jr: Thank you.

Campbell: Thank you, Mr. Secretary.

H.M.Jr: Goodbye.

Campbell: Goodbye, sir.
(end of telephone conversation)

Irey: Mr. Secretary, the records in this case would half fill this room, when he talks about turning the file over. What we have got to do is have each of the thirty-five agents present his portion of the picture to the prosecuting officers. It is not possible to turn a file over to the prosecutor.

H.M.Jr: Well, anyway, Guy, go to town on this will you please?

Helvering: Yes.

H.M.Jr: All right. I think this has been a very good meeting.

Helvering: Fine.

(Meeting concluded) ..

March 13, 1939.
11:05 a.m.

HMJr: Hello.

Operator: The Attorney General.

HMJr: Hello.

Frank
Murphy: Hello, Henry.

HMJr: How are you, Frank?

M: Fine, thank you.

HMJr: Frank, I was in Chicago Saturday and Sunday --

M: Yes.

HMJr: And as I told you, I took the opportunity of seeing Bill Campbell.

M: Yes.

HMJr: Now, when we have finally turned over the Annenberg case to him, which we have not yet done.

M: Yeah.

HMJr: When we have finally turned it over in such shape as Mr. Helvering, the lawyers, Mr. Foley, and the rest of them are satisfied, then I'm going to call on you and say, "Mr. Attorney General, the Treasury has completed the case and we're now putting it in your lap." See?

M: Yes.

HMJr: And the reason I'm taking that attitude is because Bill Campbell tells me that he has written down here that he wants to get rid of eight men in his office.

M: Yes, --

HMJr: He said he's been unable to get rid of them, see?

M: Yes.

HMJr: And then I think -- his office isn't ready to go yet.

M: Yeah.

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HQJr: And I think he's leaning too heavily on our people.
See?

H: I see.

HQJr: And I feel -- and I can't say to you today that I can tie it up in pink ribbons and bring it over, but when our people are satisfied that it's ready, I'm going to come over and say, "The case is completed from the Treasury, and will you, Mr. Attorney General, pick it up?" See?

H: Yes.

HQJr: But I'm afraid, the way it is now; they're talking about presenting both the Annenberg case and the Skidmore case to the Grand Jury in April.

H: Yes.

HQJr: The Skidmore case is important, but is not nearly as important as the Annenberg case. I want to be sure that we've done our work as well as we know how to do it.

H: Yes.

HQJr: And that -- there'll be a cutoff place; that the Treasury is finished and that you pick it up. Now, is that fair?

H: Yes, but I -- I want to know that they're in condition and prepared there to handle it.

HQJr: Well, Bill Campbell said he is, and I think he's a little over confident.

H: Yeah.

HQJr: I -- I don't see how he can be when his own office hasn't been reorganized yet.

H: No, I -- personally, I'm very impressed with him.

HQJr: I'm impressed with him.

H: But it might be necessary to have someone special from this office sit in on the whole thing.

HQJr: Well, I -- you know, it's the biggest criminal case we've ever worked on.

M: Yeah.

HMJr: The President of the United States, himself, started me on this.

M: Yes.

HMJr: And it's the biggest/^{case}that we've had in the Treasury since the President has been here.

M: Yeah.

HMJr: And I just don't think we can fumble it.

M: No, we can't, and they're trying everything now in the highest places, I can tell you.

HMJr: Yes.

M: They -- and there isn't anything that they will stop at, and this -- from what I can learn thus far, is one of the cases that's just about a hundred per cent bullet-proof if -- if it's presented with integrity.

HMJr: Well, our people -- Elmer Irey and all of them, have done a grand job.

M: Yeah.

HMJr: And we're tying it up with pink ribbons and sewing up the last loose ends.

M: Yeah.

HMJr: I can't say this morning to you the case at our end is completed.

M: Yeah.

HMJr: The moment it is, I'll give you a ring.

M: Well, and when it is, this is what I'll do: I send for him and bring him in here.

HMJr: Right.

M: And then I will either see that someone from this office of the finest quality sits along with him, or that a special assistant, entirely without the department, but who has the capacity, goes into the case.

HMAJr: Well, you see, I think Bill Campbell is a grand fellow; I think his heart is in the right place, but he's never tried a criminal case.

M: Uh-huh.

HMAJr: And he's never tried a tax case.

M: Well, you'll have to have the very top man in this.

HMAJr: And you can be sure that Mr. Annenberg with millions at his disposal is going to have a couple dozen lawyers.

M: Of the best in the country.

HMAJr: Of the best in the country.

M: Yeah.

HMAJr: And we're faced with a young District Attorney, honest, wants to go, but with no experience.

M: Well, I'll -- I'll take care of that --

HMAJr: See?

M: Henry.

HMAJr: And also he says he's got eight people in his office he wants to get rid of.

M: Yeah.

HMAJr: And so, I think that between the two of us, we certainly can deliver, and we'll deliver to you, but I can't say this morning that -- that the Treasury is ready.

M: Yeah, all right. All right, Henry, I'll take good care of it.

HMAJr: Thank you so much.

M: Good Bye.

March 13, 1939.
11:15 a.m.

HMJr: Hello.

Operator: Mr. Campbell.
Bill
Campbell: Secretary Morgenthau?

HMJr: Talking.

C: Campbell, Mr. Secretary.

HMJr: Good morning.

C: How are you this morning?

HMJr: Fine.

C: That's good. Say, the thought occurred to me that, with reference to coming down to discussing the matter that we mentioned Saturday --

HMJr: Yes.

C: Possibly -- have you called Frank yet?

HMJr: Yes, I did. I just talked to him.

C: Oh, I see. Well, I thought I might get you before. I thought if we could wait until I got this file from Madden; now, you said a week from Monday, a week from today. Well, I'd be able to discuss things a little more intelligently. You see, as yet I don't have any reports even.

HMJr: Uh-huh. Well, this is what -- we had a meeting in our office this morning and after talking it over I've pinned the responsibility of both of these cases on Commissioner Helvering.

C: I see.

HMJr: And when he tells us that all of the work is finished and the case is buttoned up, see?

C: Yeah.

HMJr: Then my arrangements with Frank Murphy -- and I'm going to tell him, that Treasury has completed it's work --

C: Yeah.

- WMr: And I as Secretary of the Treasury, place it in the lap of the Attorney General.
- C: Well, that's good.
- WMr: Then he, I think, said he would send for you.
- C: Well now, that's -- that's smart, because then that should be how soon? That should be sometime next week, shouldn't it?
- WMr: Well, I don't know. Mr. Helvering -- I'm going to give him all the time that he wants. I would say sometime next week.
- C: Yeah, because as I remember our discussion with Madden, when you pinned him down he thought that he could have it ready a week from today.
- WMr: Well, that's what I told him.
- C: Yeah. And so that when he gets the file in here -- you see, we don't have the file in either -- either of those cases, and as soon as they get in here why we'll be in a position to discuss it, and I think your plan is a very good one and I'd like to see it done next week.
- WMr: Now let me clear up one thing. When I came back I told Irey --
- C: Yes.
- WMr: That it was my impression that you said that you personally were going to try the case.
- C: That's right.
- WMr: And he was under the impression that you were going to let Riley Campbell try it.
- C: No, no, Riley Campbell will sit in with us, but I, personally, will try both cases.
- WMr: Right.
- C: That's the correct understanding. Mr. Riley Campbell is a -- did you meet him yesterday?
- WMr: Oh, yes. I had him there yesterday morning.

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- C: He's a fine fellow and he really knows this branch of the law, but he hasn't done an awful lot of trial work around Chicago here. So he'll sit in with me, but I'll try them.
- HMJr: Well now, just so you know, I told Mr. Murphy that when Mr. Helvering is satisfied that our end of the investigation is completed, --
- C: Yes.
- HMJr: And only when Mr. Helvering is satisfied, then I'm going to, personally, take the case over to the Attorney General.
- C: Fine, and then he can send the file out here to me.
- HMJr: And I also told him that it would accelerate matters if he would let you go through with your reorganization.
- C: That's grand. Well, you've been a tremendous help to me and I deeply appreciate it.
- HMJr: And I said that you wanted to get rid of eight men and that until your office was in shape I didn't see that -- how you could go ahead with two such important cases.
- C: I think you're -- well, that's grand.
- HMJr: So --
- C: That's grand. You've been a tremendous help and I greatly appreciate it, Mr. Secretary. It's very kind of you.
- HMJr: Well, we want to help each other.
- C: Well, that's wonderful and as soon as they're sent here why I'm all ready.
- HMJr: All right. Well then, the next move is up to us.
- C: That's fine, and as soon as you have finished, why we're all ready and we've cleared the decks here so that we can go right through.
- HMJr: Thank you.
- C: Thank you, Mr. Secretary.
- HMJr: Good bye.
- C: Good bye, sir.

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE March 18, 1938.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

Mr. Bolton called me at 11:00 a.m. He had one particular subject, he said, which he wanted to discuss with me and that was shipment of gold by parcel post. I had asked him from time to time what was going on in this respect and whether they could do anything to prevent gold shipments through the mail. Unfortunately the amount thus dispatched had increased considerably in recent months. Early in 1938, according to information available to them, the monthly total had not exceeded £1,000,000. In January of this year it had increased to £3,000,000 and in February it had exceeded £4,000,000, with an increasing number of banks and bullion brokers endeavoring to arbitrage gold in this way. Efforts of British authorities to forestall such parcel post shipments by urging British insurance companies to raise the insurance premium on such shipments had obviously not been effective as the arbitrageurs seemed to do their underwriting abroad in Switzerland or elsewhere. The British authorities had taken this matter up much more actively in recent weeks - as a matter of fact Bolton's recent trip to Brussels, Amsterdam and Paris had, at least in part, been taken for this purpose - and they had been endeavoring to get the French to take some action since it was the French postal service which was being used and it would be up to the French to take the initiative if this were to be stopped.

~~xxxxxxxx~~ There was going to be an International Postal Union meeting in Buenos Aires next April and they at the bank had asked the Treasury to have this matter taken up at this meeting but unfortunately had struck the following serious snag: apparently the reason why the

OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

DATE March 13, 1939.SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

L. W. Knoke

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French postal service is used for gold shipments by parcel post is the existence of an arrangement between the French and the American post offices under which any kind of goods can be sent through the mail at an under-declared valuation. Negotiations to this end had been conducted for many years, the purpose being that to increase trade. It had finally gone into operation in 1935. However it had only begun to assume larger proportions in 1937 and 1938 when under this French-American Convention of December 30, 1935 the sender of merchandise was authorized to declare only a part of the value of the goods. In other words a bar of gold worth \$15,000 could be declared at, say, \$250 or \$500 with a resulting considerable saving in postage. Consequently there were now really two gold points between European centers on the one hand and New York on the other: when things are quiet gold is being sent by parcel post and the sender as a result of the saving in postage can afford to pay as high as \$34.82 per fine ounce. When the market is under pressure gold is shipped by freight and the sender can afford to pay only \$34.76 1/4 per fine ounce. The British had long ago refused to receive or send gold through the mail, the obvious result of which had been to conduct such parcel post shipments through Paris. Samuel Montague and Lazard were the principal actors but in addition there was the Banque Belge, the Swiss Bank, one American bank, he thought, two smaller fry and two Dutch banks. For anybody outside of France to conduct these operations it was, of course, necessary to have someone on the French side to pack the gold and put it into the French post

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

DATE March 13, 1939.

CONFIDENTIAL FILES

SUBJECT: TELEPHONE CONVERSATION WITH

L. W. Knoke

BANK OF ENGLAND.

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office. The British Treasury was approaching the French Treasury in this matter. If the British efforts in Paris and in Buenos Aires should fail because of the above Franco-American postal arrangement, Bolton wondered if something could be done at our end. They had advised the British Treasury fully and it was possible that the latter might cable to Washington direct.

In my reply I stated that I would study this matter and see what I could learn.

I asked Bolton what the latest political news were from Europe and he replied there were none. In London they were of the strong belief that Hitler's present objective was to get complete control over the Czechs and the Slovaks but there was no sense of anxiety either in London or in Paris. All markets were practically at a standstill.

LWK:KW

RE GOVERNMENT BOND MARKET AND EXCESS
RESERVES

March 13, 1939.

3:20 p.m.

Present:

Mr. Bell
Mr. Baas
Mr. Eccles
Mr. Harrison
Mr. Goldenweiser
Mr. Sproul
Mr. Leach
Mr. White

Eccles:

Well, as I told you over the phone, the people were down here, and it seemed desirable to find out more fully than we were informed with reference to just what the problems were and whether or not there was anything we could do about it.

If it was a question of selling bonds, that would mean a reduction in the total portfolio and we would have to call the full Committee, because no one has authority to sell bonds and reduce the portfolio, and before doing that, why, I thought it would be advisable to have this meeting.

H.M.Jr:

Well, I can say what I said to Hanson very quickly. I mean it's a thing that's been bothering me for a long time to see these Government bonds go up a quarter, half a point at a time; and everything that goes up has to come down. And in the five years that I've been here there are always times where it's advisable to have some purchasing power to soften the drop of the bonds when they go down. We can't influence them on the long-time trend, up or down, but we can soften them as they go up, I think, and we can soften them up as they go down.

And in talking, raising this with Hanson, he said, "Well, we're in this position ..." - I think I'm quoting him correctly; I don't know whether you (Bell) could hear or not - "... the trouble is that it will make us look as though - if we let our portfolio run off and the excess reserves drop, as though we were going against the Administration policy."

So I said, "If that's the only thing that's bothering you, I think between Bell and myself we can phenagle the excess reserves by rearranging our deposits; so that if you should sell some bonds, why, we can arrange

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our deposits so we could increase the reserves by the amount that you decrease them." Is that about what I said?

1904: Yes, sir.

1905: He reported that.

1906: And Yes, and we put in an order Friday to sell 10 million?

1907: Yes, sir. It went up Saturday, but not to sell any before today.

1908: 10 million of '41s. And I thought it was good business to begin to sell some both because what was intermediate bonds for us are short bonds now, and, of course, to give you the whole picture, when we sell Postal Savings '41 bonds at 108 we give them a special piece of paper that bears two percent interest, so from their standpoint it's all right. So we give about one and a quarter to them on 108 - '41s?

1909: Don't know whether we go down that far. They're going to lose that 108 if they hold it anyhow. They're down to par now as far as their books are concerned, carrying them around par.

1910: As an outsider, I've always thought that - for years, ever since I've been here, the Federal Reserve portfolio has been frozen, and I've always thought that it should be flexible; and I raised the point whether you fellows wanted to make this thing a joint proposition or not. Now, that's the whole story.

Now, if you did it and you wanted us to do a little something to make up the difference, rearrange our deposits to make up the difference in the excess reserves, we could do that, couldn't we?

1911: We could. It's a little difficult. We also could sell Treasury bills for credit. Just how much we'd get out of that all depends on the bank that buys the bills.

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As I figure, our contribution to the excess reserves for the next three months will be in the neighborhood of 750 to 900 million dollars, so that

H.M.Jr: You mean up?

Well: Yes, sir.

Eccles: Of course, that

Well: That will be - we'll do as much in the next three months probably as we do in the next six or seven months.

Eccles: That's the problem: the excess reserves. If it was a question of having a flexible portfolio with the purpose of maintaining a uniform reserve situation, then there would be some justification in having a flexible portfolio. After all, it's the excess reserve situation that makes - the excess reserves and the increased deposits - that makes for this present situation. In other words, it's the supply of funds in the hands of investors, as well as the bank excess reserves, that are way in excess of the supply of securities available.

(White comes in)

H.M.Jr: Excuse me. George, tell Harry what I said, will you please, so he knows.

Eccles: And it seemed to us that just this problem is one that's going to continue until we face the more fundamental problem of excess reserves. And as long as we've got a silver program, as long as we continue to get gold to the extent we do, and as long as - until business uses far more credit than they are now willing to use, it seems to me that this is a problem that we'll have.

H.M.Jr: Well, I didn't raise the excess reserve question. Donald Ransom did.

Eccles: Well, for psychological - I think Donald feels this way about it: that it would look like, on the face of it, a reversal of policy, rather than, I think,

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anything as to the actual effect on excess reserves. I think it's largely the psychological effect of making it appear that the system is reversing policy; I think that's what he had in mind more than the fact that there wasn't adequate reserves.

Bell: I just wondered if we had misunderstood him, because he said this would reduce excess reserves, and I thought that's what you wanted all along: the power to reduce it.

McCles: Well, I know, but I've talked to him enough to know that it wouldn't be that. He knows the excess reserves are more than enough and they'll continue to increase, but that the fact that you show a reduction in the portfolio would be considered a reversal of policy. I mean that's pretty largely his - I'm sorry he isn't here.

McCles: Well, I don't want to be in any position to sell it, but I'm raising it; if you people would, I would like an expression from the system if they dislike our selling some bonds, see? I mean if the system dislikes our selling them this time, why, I'd be glad to hear from them. And if they want to join us. They are two different things. I'd like to know whether they dislike our selling government bonds at this time.

McCles: I can speak for myself. Personally I certainly wouldn't. I think that your selling of Government bonds may be desirable from the standpoint of the market. As to how it may influence your funds, that's another question. But so far as the general market is concerned, I think the selling of bonds, certainly from my point of view, would be desirable in that you can do that without it showing up as in the case with us, that we've got to show a reduction in the portfolio, got to give a statement of some kind with reference to why, and it raises a problem.

Bell: I thought you gave a statement, didn't you?

McCles: With reference to bills, letting bills run off, which is very different from actually selling bonds.

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Sell: I see, it only covered bills.

H.A.Jr: How do you feel, George, about our selling some bonds?

Harrison: I see no particular objection to your doing it. I don't know how much good it will do. It is relatively small as contrasted with the demand. Market's leveled out a little today and I understand they've only sold about half your order.

H.A.Jr: I don't know.

Harrison: That was the last I'd heard.

H.A.Jr: Have you (Leach) anything?

Leach: I see no objection to the Treasury doing it. If we were to sell bonds, why, it would be - I think it would be considered as a reversal of policy, unless we made a statement. I don't know what statement we can make other than perhaps that Government bonds were too high.

H.A.Jr: How do you feel, Sproul?

Sproul: I not only

H.A.Jr: As far as the Treasury is concerned.

Sproul: I not only see no objection to it, I think that it's a good idea to operate on the other side when securities are going down, and I think it's a good idea for you to operate when they're going up rapidly. But I don't think you want to say what is the level to which securities ought to go, and certainly we don't want to try to say that.

H.A.Jr: No, I just would like to, as I say - to kind of take the edge off this rise if I can. It's just, I think, going too fast.

Sproul: The market situation you've had, I think, is some fairly insistent demand on the part of some fairly large buyers, with relatively few small offerings, scattered small selling, and that brings about

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steady and rather substantial price increases.

H.M.Jr: Did you ever stop to figure that in the Treasury here we own, not including the guaranties, I think five billion Governments?

Woroul: No.

H.M.Jr: Yes. And you fellows have got

Woroul: Two and a half.

H.M.Jr: ... two and a half. There's seven and a half out of forty.

Scules: Don't you own more than five billion if you include the total public debt?

H.M.Jr: No, but we own five billion of the regular Treasury Governments. Am I right?

Bell: About that.

H.M.Jr: I think that's

Scules: I think of the total public debt you own close to seven.

H.M.Jr: I'm just talking of the regular.

Scules: The regular bonds rather than the public debt.

H.M.Jr: I mean of the supply in the market.

Scules: The social security wouldn't be considered; that's part of the total debt, but isn't available for the market. You've got five billion of bonds which have been issued which you bought in the market.

H.M.Jr: Yes. Five billion in our trust funds. Did you (Harrison) know the figures?

Harrison: I saw some reference to it in your testimony the other day, which I read carefully.

H.M.Jr: Good. Which do you prefer, that or "Life"?

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Well, anyway, that statement you gave me - total, I think, came to five billion dollars.

Harrison: From the point of view of the Treasury - that's the question I understand you ask - I should think that as a matter of general policy, your objective as a rule would be to invest your spare funds when the market is weak, not necessarily to peg the market or not necessarily to bolster it up or rig it, but because that's the prudent time for anybody who is investing in obligations to buy them. Having bought them, I should think that there would be some question whether you want to sell them except as they are coming within a period of maturity, which would warrant your planning ahead for reinvestment.

Seale: In a longer issue.

H.L.Jr: Well, we're selling the '41s from Postal savings, which are at 108, and we invest them for them as a special two percent certificate; that is, it's good for the Postal savings.

Harrison: It's a gain for them.

Seale: We've got one order up there of ten million dollars which they can switch from the intermediates into the long.

Seiboul: That conforms to what Mr. Harrison says, of selling things that are approaching maturity and buying things which show a better yield and are out longer, for your investment funds.

H.L.Jr: I didn't know about that.

Seale: Oh yes, you signed that letter. That was an exchange. But I doubt if they've done anything on that, because there's been a terrific demand for the long bonds.

Seiboul: Yes, we haven't done anything with that.

H.L.Jr: Would you mind withdrawing that?

Seale: Surely.

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H.M.Jr: Will you withdraw it?

Bell: Just hold it in abeyance.

H.M.Jr: Kill it. I'd rather give them a new one.

Bell: Had it done Wednesday. You signed it.

H.M.Jr: It so happens I sign things you put on my desk; didn't even read it.

Bell: It came through the regular channels.

H.M.Jr: Well, anyway, if you would withdraw it - would you?

Bell: All right.

H.M.Jr: What about you, Goldenweiser? The Treasury first.

Golden.: On the Treasury, I feel definitely the way everyone seems to feel, that it's a very good plan for the Treasury to sell some of its bonds now, if it has bonds that are available for the purpose. I think from the market point of view it is a desirable thing to do.

Harrison: Is that a matter of public knowledge, Mr. Secretary?

H.M.Jr: Well, it shows up - that's Postal Savings and it will show up

Bell: It will show up whenever we make the announcement of Treasury operations.

H.M.Jr: We announce it once a month, don't we?

Bell: Yes.

H.M.Jr: And how often do we show the increase to two percent?

Bell: That will show up pretty rapidly on the daily statement. They don't know where we got the funds.

H.M.Jr: We do announce once a month what we bought and sold.

Harrison: Well, the increase in the two percents - it might be

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Social Security, something else.

bell: No, it will show up as Postal Savings. The public will not know, they might think that money came from depositaries. But we would announce at the end of the month that we purchased or sold and then at the end of six months we'd announce the entire portfolio in the Bulletin.

Gulley: That doesn't have any great psychological effect, does it?

bell: They don't watch it as closely. Ours hasn't been frozen. They get a difference picture every six months.

A.S.Jr: When Allan Spraul is beginning to offer five and ten million blocks of certain securities down there, it doesn't take long, does it?

Spraul: No, they get the idea that there is some official selling of one sort or another in the market. We do it as quietly as possible, unless we want to make a splash.

A.S.Jr: Of course, while I've got you gentlemen here, as I say, all I want to - if you people want to decide to do something and you want it offset, we're here to talk. That's up to you people. But as Bell says, the thing will go up what, 900 million in the next few months?

Bell: I take it from Mr. Eccles you're not worried about the excess reserves.

Eccles: Oh my God, if you could decrease them - that's the whole problem; if you didn't have excess reserves, you wouldn't have this other problem.

A.S.Jr: Let me just see; while I have this chance, I want to make the most of it. Don't get it very often. At my four o'clock press conference, on the advice of the President, I'm going to say that as far as the Treasury is concerned, we don't give a God-damn whether the Congress increases the limit from 45 to 50 billion; we haven't asked for it, we're not going

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to ask for it, we don't need it; but if Congress wishes us to continue to do some long-term financing, we'll run out of our authority about Labor Day.

I think that may be one of the reasons why the bonds are going up. After all, these fellows are smart. They may figure out that after the first of September we'll have no more authority to issue long-term Governments. Had you thought of that?

Sproul: No, I haven't heard any mention of that in the market.

H.H.Jr: I just wondered if some fellow hasn't figured it out.

So what we're going to ask Congress for is to lift this partition, just have no partition.

Sproul: I think the market's idea has been that one way or another you'd get the authority you needed to do the financing, that you weren't going to be hung up on a technicality there.

H.H.Jr: Well, I'm going to tell them anyway. I mean if Congress wants to give us an increase, all right - from 45 to 50 - but we're not going to initiate it at this end of the avenue. We are going to ask them to raise this partition.

The other thing I'd like to tell you people, just to make you feel thoroughly happy

McCles: You think you can do that, do you?

H.H.Jr: I'm sure this won't do it. From the questions I've been asked on the Hill, I'm not sure that there may not be some kind of a drive or resolution to force the Treasury to issue silver certificates up to \$1.29.

McCles: Wouldn't make me unhappy.

H.H.Jr: Wouldn't it?

McCles: Wouldn't make me unhappy because the thing now is

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so cock-eyed and so far out of hand, I think if you could make it more ridiculous we'll really get - we'll get down to the question of facing issues here. I think the whole silver program when you get right down to it - I mean so that

H.M.Jr: Well, I - if

Harrison: It would make me very unhappy.

H.M.Jr: Well, Mr. Harrison is reading my testimony. I don't know if anybody else is boring himself by doing it, but if you have you'll see in no way am I stimulating this; in fact, on the silver thing I'm being as near neutral as anybody can be.

Ladies: By the way, I'm going to be a visitor up there in the morning, an unwilling one.

H.M.Jr: Before?

Ladies: Mr. Pittman.

H.M.Jr: On silver?

Ladies: On silver.

H.M.Jr: Well, that's funny.

Ladies: Huh?

H.M.Jr: The reason I say it's funny - because I spoke to him today and asked him - he said he wanted to see me.

Ladies: He called me last week. His secretary called my office and said they'd like me up here this week. And I said, "Well, didn't he ask you to talk with the Senator?" Said, "No, just the secretary."

So I got Pittman on the phone personally to find out what it was all about, to see if it wasn't a mistake. He said no, it wasn't any mistake.

Well, I said, "Gosh, I don't want to come up there on this thing."

"Well," he said, "I don't blame you, but there isn't

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anything I can do about it." He said, "There's nine people on this committee, and they've got about that many different viewpoint, and they've insisted that I ask you to come up here."

H.M., Jr.: This is the famous silver committee?

W.C.: That's right. He said, "You're supposed to know something about money and currency and a lot of questions have been raised about silver and they want your opinion."

And I said, "Well, don't you think you could talk them out of it, and get me out of it some way?"

and he said, "No, I don't think so."

So I said, "Well, I want you to understand that I'd like to get out of this thing."

he said, "I'd like to help you, but I don't know what I can do about it."

so there you are.

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

W.C.: And ...

H.M., Jr.: I hope they treat you as well as they have treated me. When I went up there, they treated me as though I was a precious piece of glass two thousand years old. So afraid I'd open my mouth, they never gave me a chance.

W.C.: Since that time, however, there's been some statements made by quite a number of people - this fellow White, for instance - about the Federal Reserve System and the way - the interest that the Federal Reserve gets out of the use of silver certificates - a lot of crazy statements. And I suppose that has tended to raise some of these questions. So I don't know whether I'll get off as easy as you did or not.

H.M., Jr.: Well, as I say, I don't know, but I sense there's a feeling that we're not doing what they want us to

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do by not issuing silver up to \$1.29. As I say, I'm not giving them any encouragement.

Harrison: How much would that amount to, if you issued all the way up to \$1.29.

M.M.Jr: A billion four, roughly.

Harrison: Is that all?

M.M.Jr: Additional.

Wheeler: Well, I don't want you to think when I say you don't disturb me on it - I don't want you to think I'm in favor of it in that sense. The principle of it. I think it's just a perfectly ridiculous thing to do. You might just as well issue the three billion of currency under the Thomas amendment.

But it all goes to the same problem of increased reserves and increased deposits, and it creates a situation that sooner or later will cause plenty of trouble. And that's why I think that this Government bond market now - not only the Government, but the gilt-edge market; the market for other securities really went up last week more than Governments.

M.M.Jr: I wasn't conscious of that.

Wheeler: They did. So it isn't a question

M.M.Jr: I just didn't see it.

Harrison: But prior to that, I think it's fair to say that the Governments had gone up much faster than the triple-A's.

M.M.Jr: They did when we looked it up at - before our financing. I mean the Governments went up faster than the triple-A's.

Wheeler: Well, they've got no reason to expect that they may not go up considerably further too.

Harrison: Mr. Secretary, may I ask whether in addition to what you have already placed - what you have on order - you have other blocks in mind?

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H.M.Jr: I hope to sell 75, 100 million dollars worth of

Harrison: Of short maturities?

H.M.Jr: Of stuff up to '43.

Bell: Might even go up to '48. No yield on that for our trust funds.

H.M.Jr: Well, if we're going to start selling the nearest first

Eccles: That is, it's less than the two percent, so you're really losing money, aren't you?

Bell: Would be.

Eccles: Yes.

Bell: Well, we're getting a better yield on it....

Byrnes: On present market yields, you would be, but not what you're getting.

Bell: We're getting a better yield than that because we've got them almost down to par. But we're going to lose that premium if we hold them, and we're not going to hold them for exchange purposes like a lot of others, or hold them for liquidity. We want the long coupon.

H.M.Jr: We've got about 75 to 100 million easy, haven't we?

Bell: Yes.

Eccles: You're in a position where you can do that and get a bond that yields two percent or better and carry it through to maturity.

The difficulty with the system is, it isn't a question of investing trust funds; we've got to use our portfolio for another purpose.

H.M.Jr: You don't say that out loud.

Eccles: A different situation. No, we do. In other words,

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it isn't a question of operating it as an investment fund - I mean as a trust fund with the purpose of operating it like you would a - like a bank or another private institution would its funds.

H.M.Jr: Well, what I would like to feel is this: that in this operation we have the blessing of the Federal Reserve System.

Loebl: Well, speaking for myself, I certainly see no objection to it, and as a matter of fact I think I'd be in favor of it so far as the market is concerned. Now, as a matter of an internal policy, that's a question for the Treasury to determine. As market policy, I certainly see no objection to it at all; in fact, would favor it.

H.M.Jr: Does anybody not favor it?

Harrison: I would agree with that statement.

Wesch: I feel the same way.

Harrison: It seems to me, Mr. Secretary, we've got two problems here. I share in your concern about the rapidity with which the bond market has gone up, and it raises two questions. One is the broad fundamental question to which the Chairman has referred. The other one is one of temporary expediency in handling the market situation such as you are now dealing with, or trying to deal with, in offering these bonds for sale.

On the broad question I'm sort of hopeless unless the problem is attacked pretty fundamentally, because we've got over three billion and a half excess reserves today. You just said we're going to get now much, 900 million more in the next few weeks?

Sell: 750 to 900 up to June 1.

Harrison: That will be the largest amount of excess reserves we will ever have had.

Loebl: Five billion dollars.

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Harrison: And I don't know what it's really going to do. Now, the question is whether there is any function of the Government or the System that is considering or should consider or whether it is possible to consider the broad question of the future of excess reserves, which is going to magnify rather than reduce the problem we are now facing.

And if that is a fair analysis of the situation, then what you are proposing to do is purely a palliative, a temporary measure.

H.M.Jr: Oh, it is. I'm not even attempting to say - I just don't like the rapidity with which the Government bond market is going up. Now, as a market operation, without trying to attempt to influence anything other than take a little bit - soften this thing - that's all I'm trying to do; and if the thing should take the turn, why, we're there with a hundred million dollars to buy, which would be useful.

Wooler: Of course, it does seem, with this long-range thing, that - the long-range picture George has mentioned, and he hasn't mentioned a few: further purchase of silver or a thing that you just mentioned, using the silver seigniorage.

H.M.Jr: Well, I'm raising it on account - I've been on the Hill four times on the stabilization fund and gold devaluation, and once on silver. That's five times. Now, out of that you get a sort of a sense of what is running through these people's minds, and I'm not

Wooler: Of course, it's out of the question to sterilize gold imports. That would mean increasing the debt, which would mean increasing the debt limits. I mean it's out of the question to use that mechanism to prevent reserves from accumulating, and therefore you're likely to have a further increase in deposits and reserves through the gold imports that can't be dealt with.

H.M.Jr: Well

Wooler: That does raise the long-range problem that

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H.A.Jr: And shouldn't an initiation at least come from you fellows on that? I mean if that's going to be raised

Eccles: Well, we did raise it. The Board raised that question in its annual report.

H.A.Jr: But not with me, was it? No one's even - this is the first time I've talked excess reserves to anybody that I can remember - certainly not in this calendar year. It's the first time we've ever mentioned it.

Eccles: That's right.

H.A.Jr: I mean so far as this calendar year. And I can't remember when we did discuss it last.

Harrison: It's been taboo for a long while.

Eccles: Last spring.

H.A.Jr: I mean, with all due respect to your Bulletin, I don't think that that's an official notice to me.

Eccles: Well, the Bulletin didn't say anything about it.

H.A.Jr: I mean if it's going to be raised, oughtn't you gentlemen of the system to raise the question - I mean with us - if you want it raised?

Harrison: What question is that, Mr. Secretary?

H.A.Jr: The question of excess reserves. I mean I don't think it's up to me to raise it.

Eccles: Well, excess reserves is only the effect. We have a silver policy. Now, the question is, should we raise with you the question of the silver program?

H.A.Jr: Why not?

Eccles: Well - I mean that's - I don't know.

H.A.Jr: Now let's get it. "Senator, I'm only acting as Congress directs on the silver program." I take - I made that perfectly clear, that Congress

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authorizes and directs, and just as long as they authorize and direct, I have no choice in the matter. And I was very careful when they asked. I mean I'm not advocating - merely bringing to their attention that that portion of the Act which has to do with the domestic silver program expires June 30, and in bringing it to their attention in my formal statement we were very careful not to make any recommendation. There was no recommendation that accompanied that.

McNees: No, I know that. But

A.A.Jr: Well, look, we've got a fiscal and monetary committee, and that would be a good place to bring it up, wouldn't it? If this isn't fiscal and monetary, what the hell is it?

McNees: It certainly is. It's certainly monetary and it has a tremendous effect on fiscal - it's the heart of it when you get right down to it.

A.A.Jr: And I'm sure the National Resources Board will be glad to take a position.

McNees: It seems to me, though, that we may need, possibly, a joint committee of the Treasury and the Federal Reserve; that we might ask somebody like Harry and George and Goldenweiser and some others to study this.

A.A.Jr: This (Bell) is my fiscal officer now. I mean these gentlemen are mere economists, but this is my fiscal officer. He's sitting right here.

McNees: Well, I was thinking of the excess reserve end of it.

A.A.Jr: I mean anything that's fiscal. I mean Bell's going to carry it. Bell and White and Haas are here to advise and study and help us. But as to anything that's fiscal now, why, Bell is going to carry it. Right, Dan?

Bell: So I understand.

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Eccles: I do think, however, the situation is fraught with a good deal of danger from a long-range point of view, and that the Treasury and Federal Reserve are both going to be involved, and that it might - and that we might well begin to consider this problem from its longer range standpoint and see whether or not there is something that we might do, or at least something that we might suggest. At least we ought to know what the problem is and what the dangers inherent in the problem, looking to the future, may be.

H.M.Jr: Well, any time you people are ready, we'll be ready to talk about it.

Eccles: All right.

H.M.Jr: I appreciate your coming over. And I want to thank Allan Sproul and the Fed of New York for the way they handled this refunding.

Harrison: We made only one bull

H.M.Jr: Only one?

Harrison: ... that I know of.

H.M.Jr: What was that?

Harrison: We ran short of the maturing notes on wire exchanges.

H.M.Jr: Oh, really?

Bell: Stock wasn't big enough.

Sproul: Just a printing problem.

Harrison: We had to issue due bills. Didn't make much difference, but they poked a little fun at us.

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

I can't believe that the one-eighth did it, but I was awfully pleased to see the 70 percent go into the long ones rather than the intermediate.

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Spreul: I wouldn't say that the eighth did it all, but it did some of it.

H.M.Jr: I didn't say the one-eighth did it, but I'm pleased with the result. I didn't say the one-eighth did it. They did have a little story in the Tribune saying, "Morgenthau evidently wants them to go into the longs," which I did.

Spreul: well, you said before you did it that that's the worst and the only thing they could say about it, which they did.

H.M.Jr: well, I wanted them to know.

Bell: You know, we got them all but 27 million.

H.M.Jr: No.

Bell: 27 million outstanding.

H.M.Jr: What does that make it? 27 out of how many?

Bell: A billion 294.

H.M.Jr: A billion 294 - all but 27.

Goles: is that the largest percentage of conversion that you've had?

Bell: No, we've had 98 and 99 percent. But this was quite a lot of securities and they were pretty well scattered, because they were ...

H.M.Jr: And they only had three days.

Bell: ... given an exchange for the old three-fourths liberties.

H.M.Jr: That must be pretty near ...

Harrison: Most of those fellows were savings in the West Indies.

Bell: We had a few telegrams coming in after the closing date, saying they completely forgot and had to submit them late.

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H.M.Jr: What do you do in that case?

Bell: We had to turn them down.

Sprout: Well, in a previous issue we could trace about 80 percent to insurance companies and banks, know what we were doing; in this we could only trace about 50 percent, so they were in the country in small lots.

Accles: One other thing I'd like to mention while we're here which I think might at least help the situation temporarily. Instead of doing any financing for the R.F.C. between now and June, since it's been - I don't know whether you contemplate that or not... -

H.M.Jr: (Nods no)

Accles: - ... sell some more bills, three or four hundred million of them. It would do two things. It would make it - it would make it possible for us to switch them, which would help on a market of this sort, without having to explain why we reduced the portfolio by selling bonds. I mean the switching operation is something we have usually done. Another thing it would do - it would, of course, tend to take out of the market three or four hundred million dollars of funds; at least, it would avoid this building up of reserves temporarily and would stabilize it.

Bell: Have to do it later on - just what we've got now.

Accles: Even if we sell bonds or you sell bonds, it's only temporary - I mean later on up goes your reserves again. Still got the problem.

H.M.Jr: Now, here's the thing - I want you to know I got a press at four o'clock - it isn't going out, Marriner. My balances - I mean here I've got a working balance of two and a half billion dollars.

Accles: Yes, I know.

Bell: Got about a billion seven in the Federal Reserve Banks, which means this increase in your reserves as they go out.

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H.M.Jr: Now I borrow more.

Welles: You're not justified in it. I was only thinking of it in lieu of doing other financing. There's been some talk of doing this R.F.C. If you're not going to do that, that's another matter.

H.M.Jr: The first thing we got is a 900 million dollar home owners loan refunding.

Welles: That's a refunding.

H.M.Jr: Which we ought to do in June.

Bell: May.

H.M.Jr: What?

Bell: May will get it away from our stuff.

H.M.Jr: We've got a 2% coupon callable ...

Bell: August 1.

H.M.Jr: ... August 1.

Welles: How long would that be refunded for?

Bell: Probably be ten years.

H.M.Jr: 2% coupon - refund it at about two?

Bell: About two.

H.M.Jr: That's a big piece of business. So we wouldn't do Jesse now, and I'm thinking as a - as I say, from the straight Treasury proposition, I don't see now I can justify a working balance of two and a half billion dollars, even though the bills don't cost me anything.

Welles: Well

H.M.Jr: I mean somebody on the Hill is going to ask why in the hell do we carry two and a half billion dollars, and I don't know what the answer is.

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Leedes: well, I didn't suggest this except in lieu of possible R.F.C. financing, that's all.

H.M.Jr: well, certainly right now there is no justification to borrow any more money for Jones; and there is a question whether there is any justification for borrowing any new money for the Treasury in June. And the thing which is staring us immediately in the face is the Home Owners Loan, 900 million, on which we save for them about seven million dollars. And that we ought to do. We do that in May.

Golden.: Could you, Mr. Secretary, carry all the balances with the Fed for a while and have none in the market?

H.M.Jr: How about it, Mr. "Fiscal Officer"?

Bell: You say would we or could we? We could, of course.

Golden.: I mean the question there is, that would diminish excess reserves by 700 million dollars or so.

Bell: Yes, about 700 million.

Leedes: Stabilize your long market temporarily.

H.M.Jr: There is a constructive suggestion. Why don't you, Goldenweiser, stay behind with Bell and White and Haas and talk a little bit? Can you do that?

Golden.: Yes, very glad to.

H.M.Jr: Got a few minutes?

Bell: Yes.

H.M.Jr: You (apron) want to stay? I don't know whether you've got a train at four o'clock. Anybody that wants to stay - there's a constructive suggestion. You can go upstairs with Bell and talk about it. That sounds good. Maybe we can do it.

Leedes: It's temporary, though; I mean it goes right back out again.

H.M.Jr: I know. But talk about it.

Well, thanks very much.

REB

GRAY

London

Dated March 13, 1939

Rec'd 3:25 p. m.

Secretary of State,
Washington.

324, March 13, 6 p. m.

FOR TREASURY FROM BUTTERWORTH.

Since my 310, March 8, 7 p. m. there have occurred no immediate financial or monetary developments worth reporting by telegraph.

The city has been recreating its impaired confidence as regards the near future which has reflected itself in the recent rise in both British equities and British Government securities; even the Slovak difficulties have produced little selling and few price declines coming as they did just after Chamberlain's off the record talk to the parliamentary correspondents of the British press.

In the foreign exchange market the trend of the past few days continues: the dollar inclined to be offered but the amount of trading small and the rate movements

narrow;

REB

2-#324, From London, Mar. 13, 6p.m.

narrow; the franc consistently bid but the movement of funds in recent days from London to Paris has not been large.

JOHNSON

CSB

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1961 MAR 14 10 11 AM

RECEIVED

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 14, 1939, 9 a.m.

NO.: 472

FROM COCHRAN.

This morning I returned from Basel where on Sunday and Monday the BIS directors held their meetings.

President Beyen submitted his resignation, to take effect not later than May 1940, but preferably on the first of January, 1940, if by that time a successor can be arranged for. He is to become one of the general managers of the London firm, Unilever.

Weber is to succeed Bachmann as the President of the Board of Managers of the Swiss National Bank, and will also be chosen to replace Bachmann on the Board of the BIS, therefore Bachmann will shortly leave. The vacancy on the managerial board of the Swiss National Bank will be filled by Schnorf, the exchange expert of the Bank.

At the March meeting a feature was the presence for the first time of the ex-officio BIS director, Reichsbank President Funk. Schmitz of the Industrie Farben came with him. Schmitz has been named to succeed Reusch as German Industrialist Director. Also with Funk were Puhl, the foreign business official of the Reichsbank who is now acting

- 2 -

acting as general manager, by Walther and the press officer of the Ministry of Economics, and by Reinhardt of the Reichsbank.

Funk told the Central Bank governors at the Sunday meeting that he intended that the relations between the Reichsbank and the BIS should remain unchanged. Funk asked that the BIS give him the same cooperation enjoyed by his friend Schacht, and he promised to show that he himself was ready to cooperate. Part of the meetings of the BIS he said he would attend himself; the others would be attended by Puhl as his alternate. Funk denied that Brinkmann, the Vice President of the Reichsbank, had been overworked. However, he admitted that because of mental trouble Brinkmann was incapacitated indefinitely. For the present the idea apparently is to use Puhl as main assistant. Subsequently he will probably be left in charge of the foreign business and for domestic business another general manager will be named.

Some remarks were made by Funk to his colleagues about the policy of his country. He spoke very nicely of Schacht, and said that in the Reichsbank he intended to follow Schacht's policies, although shortly it might be found desirable to change the Reichsbank's legal form to make it more definitely a constituent part of the

totalitarian

- 3 -

totalitarian state. Inflation he said was inconsistent with the idea of an authoritative government, and there would be no inflation in Germany. Funk admitted that there was not enough money from current national income to meet the Reich Treasury needs, and that they would use the system of "steuergutscheins" - which amounts to mortgaging future tax returns. He was not very convincing in his explanation of how this would save money for the Government, especially on interest charges. He did not speak of prospective economies in Germany, but some of my friends who have visited that country the past few days are aware that instructions have been given the various Departments to reduce their operating expenses and to save in every way possible.

Funk on the whole made a favorable impression by his attitude toward the Bank for International Settlements and its officials, and by his professed disadvantages for working with the BIS. The people in the BIS are aware of the enormity of the problems of the German Reich, economic financial and monetary, and they cannot but see that Schacht's job is being taken over by a man of lesser technical qualifications and strength of character. They realize at the same time that as a party man, Funk should

- 4 -

should have better Government support than Schacht could command, and that Funk may be more flexible in international debt and other negotiations than Schacht, who is such a positive character and who has taken position on so many matters that it would be difficult to change his attitude. I have known Puhl for several years, and he is a veteran and highly efficient officer. He said that for a while, after the departure of his former colleagues, the Reichsbank situation seemed hopeless, but they are beginning to see their way clear to keep the organization going now.

I met Funk for the first time, and had two conversations with him. I found him entirely cordial and apparently desirous of good relations. He has bright young men for his three assistants, in addition to directors Schroeder and Schmitz and alternate Puhl.

The Bank of England Governor, Norman, and his assistant Gunston who follows affairs in Central Europe, had a long talk with Funk. Funk talked a great deal of Nazism, Norman said, but he did not give any intimation that the question of international appeasement should be undertaken along with trade negotiations which are under way through visits to Germany of British officials and businessmen.

Norman said that he is sure that Schacht's talent will be sadly missed in Germany just at the time when Schacht would

- 5 -

would by his training and experience be most helpful in effecting transition from a totalitarian state which is devoting its resources to armament to a more liberal nation making peaceful export industries out of its war industries. There was no inconvenience, Norman said, from the rate to which sterling had recently improved. In his country he said there was some seasonal pick-up in business.

The Bank of France Governor, Fournier, had his deputy Governor de Boisanger go directly to Berlin from Basel, and then on to Warsaw. Officials of the Bank of France told me, in regard to commercial negotiations at present going on between France and Germany, that unless the armaments race could be stopped, cooperation in the business field could only go so far between the two countries. No war is expected by Fournier, but he insists that the currencies of Europe will inevitably be wrecked unless a halt is called. A more specific statement was made by de Boisanger, that France might be willing to cooperate financially with Germany in colonial developments, but while France had to carry out her present armament schedule she could not put up an unlimited amount of money.

Governor Fournier told me of what he considers as interesting monetary replacing (sic.). The recent rise
in

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in Bank of France note circulation, he said, was repatriation and not inflation. Since the first of February, he said that the circulation of five thousand franc notes had increased more than four billion francs, while there had been a slight decline in the circulation of fifty and one hundred franc notes. He found upon investigation that important shipments out of the country are being made of the large bank notes. These large bank notes are then used to repatriate the capital of French citizens who have been holding gold or foreign exchange or securities abroad and dispose of such holdings on the foreign markets. Some flight from the belga into these notes has also taken place. The use of cheques is avoided by this system, as the cheques might enable banks to give to the French tax authorities evidence as to expatriated capital. For the present the notes which are being brought back into the country are being mostly hoarded. The French public is still nervous about making long-term investments because diplomats, journalists and astrologers have been predicting a major crisis for Europe in March. The people are prone to keep their capital liquid in the circumstances. Fournier expects that after another few weeks much of this capital which is now inactive will be used for more productive purposes.

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The Belgian representatives, Governor Janssen and his colleagues, admitted that some monetary upset had of course been caused by the disturbed political situation in their country. The situation was not yet serious, said Governor Janssen, and the past few days had actually improved. He said his gold losses are currently only about half of what they were ten days ago. These representatives told me that they do not think there is imminent a decisive struggle between the Flemish and the Walloons (?). Although the Mertens affair has created an unpleasant political incident, they are of the opinion that the fundamental cause of lack of a consolidated government has been the difference between underpaid Socialists and Conservatives over some 300,000,000 Belgian francs budget deficit. Taxation is favored by the underpaid Socialists for wiping out this deficit, while lowering the pay of civil servants and reducing unwarrantable benefits is favored by the Conservatives. Not one of the Belgian representatives would admit that a further depreciation in the belga is required by the Belgian economic situation. The position their King has taken is gratifying to them. It is their feeling that the elections may bring back a Parliament which will permit the setting up of a stable government which can function properly.

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However, there is as yet no outstanding leader in sight for the new combination. Before there is a new Government to make decisions, there will certainly be no change in the belga's legal status. I am convinced that the Central Bank of Belgium will not, before that time, change from its present policy of defending the belga at its legal parity unless there arises some entirely unforeseen situation.

The Netherlands Bank President, Trip, was of the opinion that the Belgian Government's defeat on the ground that it was going to pursue a slightly deflationary policy reflected seriously upon democratic countries' weaknesses at present. He said it was lamentable that nations should think it excusable and necessary to keep on spending indefinitely beyond their means and never show that they are willing to retrench. He did not mean that he was criticizing Belgium alone; in his own country he said a somewhat similar situation exists. The Catholics in the Netherland Government, he said, were so completely representing the ideas of their Socialist friends outside the Government that it was difficult to effect economies in his country. He said that if strong steps could not be taken before long to check the present spending tendencies, Colijn's position as Prime Minister would be inevitably

- 9 -

inevitably imperiled. He expressed regret that the Netherland Government had found it advisable to raise customs tariffs at the very time negotiations are under way for a new clearing agreement with Germany. Without any pressure or demand from his Government, Trip said, he had permitted depreciation of the florin to a point 22% below the parity of September 1936, during the movement out of the florin resulting from rumors of German aggression. It had been decided to stop it at this level, and they could easily maintain such a parity.

Incidentally, during my conversation with Trip he let me know that French officials and Dutch and Swiss bankers are carrying on discussions with the view to a six-year loan which would consolidate the French floating debt on the Dutch and Swiss markets. This amounts, respectively, to about 120,000,000 florins and 235,000,000 Swiss francs. He said that he did not know that France might be looking for any fresh money on the market in the Netherlands. He made the definite statement that the Netherlands would not follow the lead of the British and the Americans in giving out periodic statements about stabilization fund operations. Such a practice, he insisted, gives the speculators an opportunity for anticipating the operations of the fund and largely destroys the advantages which a stabilization fund, through its

- 10 -

its secrecy, possesses.

I was also told by President Bachmann of the Swiss National Bank that they did not intend to publish data regarding the fund which his bank holds for purposes of currency stabilization. Switzerland had a good winter tourist season, he said. The Swiss manufacturing industries are furthermore having a particularly good export trade with England and other countries which need armament materials, or which must seek manufactured goods from abroad because they are devoting so much of their own manufacturing equipment to armaments.

While I was in Basel the General Manager of the Bank of Poland, Baranski, was visiting there. He said he does not expect any war to start with or around Poland. The picture of the economic situation in Poland which he painted was not encouraging, and as to economic conditions in Russia he was decidedly pessimistic.

I talked with Yanagita of the Bank of Japan, who thought that there would be no serious difficulties with Japan through the move of the British toward stabilizing Chinese currency. He said he is increasingly optimistic that affairs in the Far East will before many months be straightened out, and without much more fighting taking place.

I had a talk with Sir Otto Niemeyer of the Bank

of

- 11 -

of England - he is the main defender of British loans abroad and has had a great deal of experience with Brazil. He told me frankly but in good spirit that from what he had heard, he did not think the Brazilians would be greatly assisted by the terms of the arrangement for American credits. He is of the opinion that a country which has already defaulted on its foreign indebtedness cannot be helped in strengthening its position by being given new credits for imports.

The circumstances which mar relations between Italy and the United States are a cause of unhappiness to Beneduce, who has always been an admirer of the United States.

At Basel many of my friends spoke of Italy's serious financial situation. However, they do not think that Italy will start any war, and they seriously doubt whether, if Italy should take aggressive measures leading to war, the Germans would support the Italians. Practically all of my central banking contacts are convinced that there will be no European war, although they expect this year to be marked by incidents of an unpleasant and perhaps upsetting character. It is very encouraging to them to see the liquidation of the Spanish civil war which is now under way. International wars, they think, are more likely to follow a period of prosperity than of depression.

They

- 12 -

They do not think there is much likelihood of desperation driving the totalitarian States to war, even though they may be hard pressed because of economic difficulties. The statements which Hitler and Funk have made already this year with respect to the need of their country for foreign trade have encouraged my friends. They expressed pleasure at seeing the British, French and others make approaches to Germany with respect to trade. My friends think that the German Government will come around to realizing that if they want to increase their export trade, they will have to remedy their production system by means of relieving industry of war orders, and likewise by permitting labor which is now employed for military purposes to go back to industry. They believe that, even though negotiations are starting on a purely commercial basis, Germany will inevitably realize that extensive trading and arming are not simultaneously compatible.

April 3 has been set as the next date for the BIS meeting. This meeting will not be attended by Funk. At that time Governor Norman will be on a Mediterranean cruise. However, both will be present at the meeting on May 8, which is the annual meeting.

END OF MESSAGE.

BULLITT.

EA:LWW

REB

GRAY

London

Dated March 14, 1939

Rec'd 4:20 p. m.

Secretary of State,
Washington.

326, March 14, 6 p. m.

FOR TREASURY FROM BUTTERWORTH:

The city assumes that any Slovak conflict would remain localized in Central Europe and would not lead to acute tension between Germany and Great Britain and therefore the London stock exchange has remained steady today with equities merely a fraction off. But the exchange market has proved more sensitive and the dollar has been somewhat in demand all day. When the rate reached 4.53-7/8 the British authorities intervened and gave dollars freely to all buyers which had a steadying effect.

Gold fixing was large, 234 bars being dealt in of which 149 were married and the British fund supplied the remaining 85. The movement of funds from London to Paris decidedly increased today.

JOHNSON

NPL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 14, 1939, 6 p.m.

NO.: 478

FROM COCHRAN.

The news concerning the Slovak political question has caused the dollar to be more bid and sterling to weaken. The dollar buying order was held by Guaranty yesterday, and it turned over to the French control 3,800,000 dollars. Today there was improvement in the belga in sympathy with the dollar. The above-mentioned ~~same~~ event caused depression in the French rente and share market.

The French control had gained almost one million pounds but no dollars by half-past five. There is a report in the British press today of a prospective French consolidation loan on the markets in Switzerland and the Netherlands. My friend confirmed this report, but details are not yet available. (See my telegram No. 472 of March 14, in which I reported Trip's reference to this.)

BULLITT.

March 14, 1939

3:30 p.m.

Present:

Mr. Leroy-Beaulieu
Dr. White
Mr. Lochhead

HM, Jr.: We have Spring in Washington when we have snow in New York.

I did not know when I asked you to come down that Mr. Hitler was going to take the rest of Czechoslovakia.

Mr. Beaulieu: Yes.

HM, Jr.: But it seems to have passed off without anybody hearing about it except the poor Czechs.

Mr. Beaulieu: That's very important.

HM, Jr.: But I did not ask you to come down about that.

I thought that it might be very helpful for public opinion for France, if your Government would make a shipment of gold from New York to Paris.

Mr. Beaulieu: Yes. Well, I know that we have been more or less building a gold balance here in the last three months. Now it must be, I think, \$178,000,000. Something like that?

HM, Jr.: \$150,000,000. What is it?

Dr. White: \$159,000,000.

Mr. Lochhead: Been an increase since then.

Mr. Leroy-Beaulieu: But I must say that my Government was not perhaps completely confident of what the further outlook would be and that it is in view of that

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we have built this balance here, in order that if an emergency arose we should not have to ship gold with very high insurance rates. I think it was a protective measure. I don't mean to say that we have any different reason to suspect anything, but that it was really a question of the possibility of an emergency as, we will say, the one that happened in September. So I wonder, Mr. Secretary, that even with this situation in Czechoslovakia, if the psychological effect of a shipment of gold, which cannot be very large now because I do not suspect, after all, we shall ship more than \$10,000,000 or \$20,000,000

HM,Jr: I am thinking of \$5,000,000.

Mr. Beaulieu: Five? Well, I wonder whether public opinion in France wouldn't perhaps think, 'Why do we do that? Must we instill confidence? Is it something to instill confidence in France?' You see what I mean.

HM,Jr: What I was thinking of, every time I get a chance I tell people how wonderful recovery is in France and people in this country don't appreciate it. They don't really realize. We know what the gold figure is here. We know gold is going back, but the people of the United States don't know.

Mr. Beaulieu: Yes. Well, I appreciate greatly the spirit

HM,Jr: They just don't know it.

Mr. Beaulieu: I know that this

HM,Jr: They still think of France in terms of six months ago.

Mr. Beaulieu: Yes.

HM,Jr: And while the French people may realize it

Mr. Beaulieu: Yes.

HM,Jr: ... you very seldom see much outside of

-3-

our financial columns.

Mr. Beaulieu: Yes; that's true.

HM, Jr: But, for instance, a shipment, a token shipment -- it will be in every paper in the United States. Now, I don't expect to have them do it tomorrow or the next day, but if this Czechoslovakian thing should quiet down

Mr. Beaulieu: Yes.

HM, Jr: ... and Mr. Mussolini did not rattle his saber ...

Mr. Beaulieu: Yes.

HM, Jr: ... and I don't know anything which could advertise to the American people the progress that has been made in France since November

Mr. Beaulieu: Yes.

HM, Jr: than a token shipment of gold going from the United States back to France. It's

Mr. Beaulieu: I shall transmit this.

HM, Jr: ... It's the public opinion in this country ...

Mr. Beaulieu: Yes, I see.

HM, Jr: .. and I suppose if this was done, there is not a newspaper in an important city in the world that would not carry it.

Mr. Beaulieu: Yes; I see your point.

HM, Jr: I don't know how much you had to spend for tourists and for publicity, and looking forward to tourists next summer

Mr. Beaulieu: Yes.

HM, Jr: and the stability which has returned to France, it would be awfully cheap publicity.

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Mr. Beaulieu: Yes. And you think, really, a token shipment, as you say, would have a very great effect here.

HM, Jr.: I think so. Archie, what do you think?

Mr. Lochhead: Whatever amount you want. I would rather split it into a couple instead of just one shipment.

HM, Jr.: All right.

Mr. Lochhead: Looks too obviously a token.

HM, Jr.: All right. Then put on $1\frac{1}{2}$ million. Do it two or three times.

Mr. Beaulieu: But I greatly appreciate, Mr. Secretary, the way in which you tell me that and what you have in mind.

HM, Jr.: You would be surprised the number of people I talk to

Mr. Beaulieu: Who don't know.

HM, Jr.: who haven't the faintest idea, and who ought to know.

Mr. Beaulieu: Yes.

HM, Jr.: I keep saying, "You know the statement that Mr. Paul Reynaud made, that he has taken back enough gold to pay for 6,000 airplanes, in gold."

"Oh, did he make that statement? That's remarkable!"

"You saw it?"

"No, I did not see it."

Outside of our people and the bankers in New York and a few others, this country does not appreciate the come-back that your country has made.

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Mr. Beaulieu: Yes, that's true. But there is no other means? Of course, it's less suggestive, appeals less to the mind of the man in the street, but if there were means of publishing what gold we have here, earmarked here, that, you don't think

HM, Jr: No. Then the question immediately comes up, they are scared and they are piling gold up here against an emergency.

Mr. Beaulieu: I see that. I think it's very interesting.

HM, Jr: I mean, at the rate you are going you will have \$200,000,000 here in no time. How much more do you want? That is not the point anyway. The fact that you are piling it up here says to me that you are nervous about conditions abroad.

Mr. Beaulieu: Yes.

HM, Jr: I am thinking of taking a trip to France.

"Oh, I don't think I had better go. Conditions don't look so hot."

"But they are taking gold back and the French have confidence to bring some of their own gold back. I guess conditions are a little bit better in France."

Mr. Beaulieu: I see your point, very well, from the American point of view. My first reaction was French point of view. We have made one of these token shipments, I think in last May or something like that. It was a little too rash, but things had not improved as they have since then.

HM, Jr: It was unjustified. Mr. Bonnet went too fast.

Mr. Beaulieu: Now it is completely. Recovery is complete, which no one in France, even the most optimistic, would think it would be. But people are so suspicious sometimes. You might say why? I don't know.

It's only my first feeling, because I must think

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the matter over, because I have not thought of it at all, but people may think, 'Why do they do it? Why do they boast?', because in France we have a lot of propaganda carried out by the Government to show the country what recovery has been, so they are quite aware of those things, which your public know or, if they are not aware of it it is because they don't want to know. So they may think 'Why do they do that?'

HM,Jr: Well, look! I can't interpret your public opinion. All I am trying to do is interpret public opinion in this country and I think -- I think Mr. Lockhead is right -- I would rather 2 or 3 millions, or 1½ millions at a time and have it sort of trickle back and I can assure you that public opinion in this country -- it would be helpful and it would help your tourist trade.

Mr. Beaulieu: Yes. Well, I will transmit that and I will see how

HM,Jr: You spend, undoubtedly, hundreds of thousands of dollars to attract tourists.

Mr. Beaulieu: I see your point very well.

HM,Jr: And this thing would be very inexpensive and it would be great publicity for France in this country, but the effect in your country I don't know.

Mr. Beaulieu: That, we will have to judge, but I think it is very interesting. I am also struck by the fact that people often don't know here.

HM,Jr: You meet people. Do they know about the recovery in France?

Mr. Beaulieu: Well, we had thought -- I try, but I don't want to make propaganda about it, but it's a fact that they don't; they don't read the newspapers. I don't know whether you noticed in the Journal of Commerce, three articles came out on France, about recovery in France.

HM,Jr: Did you write them for him?

Mr. Beaulieu: No. No. We can give them some figures.

(At this point, the Secretary had a good laugh.)

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Mr. Beaulieu: And Mr. Reynaud made a very good speech in the Senate on December 20th. I made a brochure, a little booklet of it.

HM,Jr: You take this suggestion and think about it.

Mr. Beaulieu: I think it's very interesting and I think it will be much less costly than advertising on Fifth Avenue for the tourist trade.

HM,Jr: Thank you very much for coming down.

Mr. Beaulieu: Good-bye, Mr. Secretary.

oOo-oOo

France - Funds in United States
(in millions of dollars)

: Bank of France funds at : New York Federal Reserve Bank : Deposits	: Earmarked gold : in U. S. banks	: Total French deposits : U. S. banks to France : (including deposits)
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1939

Jan. 4	2.6	97.4	177.6	187.4
11	6.6	99.4	186.5	197.1
18	6.2	100.4	187.1	197.6
25	6.2	108.3	189.9	199.9
Feb. 1	6.2	112.5	185.4	195.0
8	8.6	118.8	184.1	201.2
15	24.8	118.8	200.1	209.4
22	13.5	127.6	205.7	216.5
Mar. 1	13.6	155.7	196.5 <u>1/</u>	210.1 <u>1/</u>
8	17.3	159.0		

1/ New York district only.

March 14, 1939

Mr. Pierpont Moffat, Chief, European Division, State Department, called today and stated that the quarterly allowance for Donald Heath in Berlin, referred to in the Secretary's telephone conversation of March 10, was entirely satisfactory to the State Department and met with their full approval.

Mr. Moffat also stated that he was writing to Poland, Hungary, and Rumania regarding Heath's proposed visit to those countries and copies of his letters are attached.

A.L.

DEPARTMENT OF STATE
DIVISION OF EUROPEAN AFFAIRS

March 15, 1939

Memorandum for Mr. Lochhead

Copy of personal letter sent,
Mutatis Mutandis, to Mr. Biddle at
Warsaw, Mr. Gunther at Bucharest, and
Mr. Montgomery at Budapest, regarding
the forthcoming visit of Mr. Donald
Heath.



Pierrepont Moffat

Eu:PM:ASD

March 13, 1939.

Dear Tony:

Donald Heath, who is First Secretary of the Embassy in Berlin, will probably be calling to see you sometime in the course of the next few months. As you probably know, Cochran in Paris and Butterworth in London have specialized, to a certain extent, in a type of financial reporting that is of particular interest to the Secretary of the Treasury. Heath is being trained along the same lines and has been spending a large part of his leave in this country at the Treasury. Mr. Morgenthau has now suggested that he visit two or three neighboring countries, not with a view to taking over the financial reporting in those countries, but with a view to meeting informally, through your good offices, some of the financial leaders (both Governmental and private) to pick up in a casual way what financial gossip they have, to indicate to you what type of specialized information could

The Honorable

Anthony J. Drexel Biddle, Jr.,

American Ambassador,

Warsaw.

would be of use to the Treasury, and in general to coordinate this type of knowledge.

I am writing you this letter in the hopes that you will give Heath a helping hand. At the same time I venture to suggest that, insofar as is possible, you keep the fact that he has special Treasury connections in the background; it might carry wrong implications both in Berlin and in other countries. You will find him quiet, intelligent and cooperative.

With every good wish,

As ever yours,

(SIGNED) PIERREPONT MOFFAT

Mutatis Mutandis to: Mr. Biddle at Warsaw,
Mr. Gunther at Bucharest,
Mr. Montgomery at Budapest.

RECEIVED

MAR 18 1950

TREASURY DEPARTMENT
Office of the Secretary
EUPHROS

GROUP MEETING

March 14, 1939.
9:30 A. M.

(Secretary's Office)

PRESENT: Secretary Morgenthau
Mr. Hanes
Mr. Gibbons
Mr. McReynolds
Mr. Graves
Mr. Lochhead
Mr. Haas
Mr. Bell
Mr. Duffield
Mr. Foley
Mr. Gaston
Mr. White

E.M.Jr: Good morning everybody. Where is Johnny Hanes? Oh, here you are. A personal matter after this meeting. And you and I, ten-thirty at the White House. So right after this meeting just bring in that stuff and I will go to school again. Just to refresh my memory I will read this out loud. I am just curious as to what I did say in November 1937 on taxes. Would it bore you if I read it out loud? I have not looked at it. I would like to read it again. There is no ulterior motive about it. I would like to know what I said.

Hello, Archie, how is the big city?

Lochhead: All right.

E.M.Jr: "Although we are not contemplating any increase in the total tax burden, the character of our tax structure is being given earnest consideration.

"The Federal tax system affects everyone in the country. We in the Treasury in studying the tax problems have two objectives always before us: First, that the tax burden shall be distributed as fairly as possible, and second, that the collection of taxes shall be as little burdensome to the taxpayer as possible.

"It is with these aims that, by direction of the President, we have been reviewing the whole tax structure in the last few months and are just now in the process of presenting to a committee of Congress the information we have collected. The study has not been directed toward raising additional revenue. Instead, we have sought to determine whether there are inequalities and injustices in the distribution of the tax burden and whether there are some taxes whose cost of collection and whose burdensome effect outweigh the revenue gain. In addition, we want to simplify collection and make the taxpayer's record-keeping less difficult.

"We realize that our tax laws are too complicated; we want to make them less so. We realize that there are inequities; we want to eliminate as many of them as we can.

"In making this study, we have invited the assistance and the advice of groups of taxpayers and of individuals. We want to hear the taxpayer's side of the story. We want all the facts we can get and we have obtained both facts and opinions.

"Our tax revenue come largely from individual earnings and business profits. We do not wish to impose levies which tend to dry up the sources of tax revenue. The laws should be so written and administered that the taxpayer can continue to make a reasonable profit with a minimum of interference from his own Federal Government; provided that the taxpayer cooperates with his Government in carrying out the purpose and the spirit of the tax laws. Of course, tax policy cannot properly be determined from exceptional cases. We must look at the whole picture. We base our decisions on extensive information and upon analysis of actual tax records.

"The amount of our income-tax revenue is only about half our total internal revenue. Less than three million people out of our total population pay individual Federal income taxes. We would be applying the principle of capacity to pay more justly if we were to reduce the number of consumer taxes and at the same time to increase the number of income taxpayers. Taxpayers who are squarely confronted with their own tax burdens are bound to

be keenly alive to the way the money is being spent by their Government.

"The budget now nearing completion is predicated on a definite estimate of receipts, based on the existing tax structure. It is a cardinal point of our policy that the tax system, as revised, must not yield a smaller return for 1939 than the present system would yield.

"Let me repeat: We want to adjust inequalities and remedy defects in the tax laws. In doing this, we have sought the help of the taxpayer and have given him a sympathetic hearing. If we find that the operation of any particular tax is unfair, we stand ready to say so publicly.

"My object this evening has been to present, as clearly and as frankly as I know how, a comprehensive picture of the Federal expenditures and the budgetary outlook. I have tried to make plain the underlying economic reasons, as well as the humanitarian ones, for the past deficits; and I have tried to bring out clearly the considerations that now demand further definite steps toward a balanced Federal budget. I have shown why, in my opinion, this balance should be sought by a reduction in expenditures without an increase in the total of the tax burden. But I have also shown that there is a limit to reductions; and that balancing of budgets needs the help of industry to keep up total tax receipts unless we are again to resort to deficit financing.

"The principal aims of our budgetary policy have been, and I hope will continue to be, to promote a high level and healthy character of business activity, a maximum volume of employment at good wages in private industry, a reasonable return to capital and enterprise, fair treatment for our agricultural population, and adequate revenues to meet the services now demanded of the Federal Government.

"The attainment of these ends rests very greatly on private initiative and on the cooperation of private enterprise. This is a necessary supplement to any efforts which the Government can put

forth. This Administration is going to do everything possible to promote a continuation of recovery and to balance the budget through cutting expenditures. But I wish to emphasize that in no event will this Administration allow anyone to starve, nor will it abandon its broad purpose to protect the weak, to give human security and to seek a wider distribution of our national income. We are confident that, with the full cooperation of the business world, our present difficulties will be overcome; and that the aims that I have set forth above, which are properly those of private business as well as those of the National Government, will be achieved."

Is this a good spring board?

Hanes: Sound like you just wrote it.

H.H.Jr: Now, have I said anything, Herbert, since then?

Gaston: I have not run it down but I am sure you have not said anything inconsistent with that. And you did not appear before the Committees on the 1938 Bill, as I recall it. You made some incidental references -

H.H.Jr: Isn't that perfect as a spring board from there?

Hanes: Sure.

Gibbons: And that was made a year ago.

H.H.Jr: November, 1937. "We stand ready to say so publicly".

Gibbons: Very good.

H.H.Jr: All I have to do when I go on the Hill is read that.

Gibbons: Your position has not changed.

H.H.Jr: Well, they have asked me again and again if I have changed since November 1937 and I said "No, I have not". Of course, the one in there about the "driving force" and "private capital" is perfect, Mack.

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McReynolds: Nothing.

H.M.Jr: Are you going to look after my friend Marlene Deitrich?

McReynolds: Well, I am having a little difficulty.

White: If he does not know what to do we do.

Bell: It goes this way so I am ahead of you. (laughter)

White: You are boasting, Bell.

Bell: No I am not, I don't know what she wants. (laughter)

McReynolds: I am not going to pass her on; the boss passed her to me.

H.M.Jr: I don't want to dash your hopes, but what she asked for is that I look after Mr. Remarque after he comes in. I told Mrs. Morgenthau about this letter and she said, "I wondered why I got those flowers at Christmastime; now I know." She sent beautiful flowers at Christmas. Well, anyway, you have got your job.

McReynolds: I am getting the information from the State Department some time this morning.

Foley: I have a telegram to sign cancelling that order which was done by telephone last night.

H.M.Jr: All right. I see, Mr. Bell, that these are selling on a decimal twenty-seven basis.

Bell: That is right.

H.M.Jr: Do you remember I said one and a quarter - decimal twenty-seven.

Bell: But that does not give us one and a quarter yield.

H.M.Jr: What I would do is, not for today, but effective tomorrow, give an order for another ten million, will you please, on the 41s.

Bell: 40s.

H.M.Jr: These are 41s, I thought you said.

Bell: No, they are selling on a much higher basis. There is more profit in the 41s than the 40-43s.

H.M.Jr: I thought we would clean up the 41s first. They sold seven and a half yesterday. I would not give them any more today but effective tomorrow. Do you agree?

Bell: I think that is all right.

H.M.Jr: Have you got anything else?

Bell: No, I have not.

H.M.Jr: Did you see about the bond matter?

Bell: Yes.

H.M.Jr: Will you draw a letter for the President to write to the two leaders on this?

Bell: Yes. You want him to do it?

H.M.Jr: Wouldn't you?

Bell: Well, you can.

H.M.Jr: All right, why not wait until I go up on the Hill. I will tell you what you do: Have Larry Bernard ask Pat Harrison how they would like to do it, if at all.

Foley: That is knocking out the thirty billion dollar limit on bonds.

H.M.Jr: Yes, how would they like us to do it; maybe they don't want it at all.

Bell: It might be better to keep the President out of it and let the Treasury do it. It is a Treasury problem.

H.M.Jr: O.K. Anything else?

Bell: No, nothing else. I did not see any of the other stories. I thought the Cotton story was a fairly good story.

H.M.Jr: All of the papers had it.

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Aiston: The Tribune had a good story, I thought.

B. W. JF: I thought all of them were fine. They asked me if this was "appeasement" and I said no. Did you see my - not my horse and buggy story, but the horse and barn story?

Jones: Yes, I saw that.

Bill: The boys began to figure how much cash was involved.

Easton: Did not any of them get that figured out?

Bill: Cotton had a figure of one billion eight in cash. He called me late last night and I told him I thought he was a little off on his figures and so forth.

W. JF: Come on, you wholesale grocer.

Graves: I talked to Mr. Perkins yesterday as you asked. He said that they were planning a wide publicity campaign in connection with this project and that that would, of course, be emphasized in the cities chosen for the initial experiment. As to the proposition to select a town of less than ten thousand population, he said they had thought of that but considered that there were too few clients in communities so small to give any significance to the experiment. So they were not planning to go below in their first experimental operation, below a population of thirty thousand.

He said that they were thinking of Hagerstown as one of the cities to be included in their first experiment.

W. JF: That is particularly good because Dr. Farran has run a county survey there on the food and health of the children. He has statistics on every person in the county.

Bill: That suggestion came from Dr. Farran in Hagerstown. You remember you asked them to use a city close to Washington. They considered Baltimore, Richmond, but they thought they were not particularly good, but that Hagerstown was excellent.

W. JF: That is fine. Has the Comptroller come through?

Graves: Mr. Bartelt is meeting with people in the Comptroller General's office, yes sir, and he asked me to confer with him today.

H.M.Jr: That is fine. Will you see it through?

Graves: Yes, sir.

H.M.Jr: Anything on your mind other than that?

Graves: No.

Lockhead: Foreign exchange is not showing any activity due to the Czechoslovak condition. I thought they might be a little upset this morning on account of the Czechoslovak condition, but there is no weakness there. Belgium is the one that is a little weak.

H.M.Jr: Is Leroy Bealieu coming in?

Lockhead: He is coming in about noon.

H.M.Jr: Tell Harry to give you what my suggestion was.

White: I just told him as we came in.

H.M.Jr: My thought was that I worked out yesterday, I am going to ask the French, if they want to get some favorable publicity, if they put five million dollars worth of gold on the first boat that sails and take it home - if they wanted to make the front page of the papers, that is the way they can do it. I don't know of anything that would reassure the people more than if the French took home five million dollars worth of gold. I am going to put it up to them on the basis of -

White: You would have to crowd the Czechoslovakian thing off of the front page.

H.M.Jr: That will be settled in a day or two if it is not settled now. If you really want to read a sad and somewhat dramatic story, read the one in the Times, I think it is, on Czechoslovakia - if I can paraphrase it - I don't want to paraphrase it.

"The impression here tonight is that Mr. Chamberlain's confidence has not been shaken and that the sudden

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developments in Slovakia are regarded as an annoyance rather than as a source of worry. In the British view there is no need for events in Central Europe to impair anyone's confidence, except perhaps in the intentions of the German Government toward non-German peoples beyond the Reich's frontiers".

White: Is Chamberlain annoyed?

W.A.Jr: He is annoyed. It is not a source of worry but a source of annoyance. And down here, at the end: "But Great Britain will do nothing, even if unpleasantness occurs. British apathy over Czecho-Slovakia's future is overpowering, the public is bored with the whole question, and even Mr. Chamberlain's critics on the Left are averting their eyes from the spectacle of what Germany does with his Central European colonies as Czecho-Slovakia is sometimes called here. Of course there was a British guarantee to Czecho-Slovakia involved in the Munich settlement last September. The British and French Governments announced they would be prepared to join in an international guarantee of the new boundaries of the Czecho-Slovak state against unprovoked aggression", and so forth and so on. Terrible, isn't it?

Well, when Roy Bealieu comes in I will see him.

Lockhead: Right. His plane should be here about quarter to twelve and he will be here about twelve, I imagine.

W.A.Jr: Three-thirty.

White: Here is a list of the franc activities that you might have on your desk.

W.A.Jr: Well, you and Archie will be here so will you keep this until then. Is there anything else, Archie?

Lockhead: Nothing. As I say, the exchanges are keeping very quiet despite this situation. This would rather bear out the remark in the papers, "That it is somebody else's umbrella that is being blown inside out".

W.A.Jr: That is a good line. Harry?

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- White: The State Department, when informed that we had somebody for Paraguay said that Venezuela is more important to them and they would prefer to send him to Venezuela. Now, we have somebody else that we could send to Venezuela.
- H.M.Jr: You and Archie fix it up between you.
- White: Senator Wagner, I take it, felt that we should close the testimony up there.
- H.M.Jr: Well, I have this memorandum from Foley which I am going to take over, if you don't mind, and show it to the President. Do you mind?
- Foley: No.
- H.M.Jr: The way it was written before. I can say to Senator Wagner that we don't want three billion dollars of Thomas currency and, "you might be interested to know that in my November speech, I recommended that they drop the three billion dollars worth of Thomas currency and the President struck it out.
- White: I think you are foregoing an important power if you could still have it without raising any issues.
- H.M.Jr: I am just going to show it to the President.
- White: Is it a question of recommending abandonment of that power?
- H.M.Jr: No, but Wagner is.
- Foley: Wagner said he thought they could pick up some strength for the Bill if they could add another section to repeal the three billion dollar green-back provision in the Thomas amendment.
- White: I would like to say something about that if you are going to take any stand.
- H.M.Jr: Personally, I think that I am not recommending it, but Wagner is raising it. I think it is silly to bring it up at this time because I don't think that the gold devaluation is - I don't want to pass on it.
- White: By transmitting it indicates that you are not taking any position of commitment.

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H.M.Jr: No, I am not. I had hoped they would not raise it at this time because when they start to dig they are going to dig and find we can lower and raise the price of gold by other things too.

White: I understand that somebody, in a recent meeting, asked about that - about raising the price of gold and said that should be repealed.

H.M.Jr: Who did that?

White: Sparr.

H.M.Jr: Who is that?

White: Sparr is the leader of the group of sixty-five or fifty-six economists.

H.M.Jr: Who pays for their expenses?

White: Oh, any number of people could.

H.M.Jr: Well, who does? Are they incorporated?

White: I can't find out.

H.M.Jr: And I asked you to find out, under the lobbyist law, about that fellow - I wish you would. I am not taking any position on this, but I have got to answer Wagner.

Foley: The Senator thought that some economist from the Treasury ought to clean up after these other outside economists have finished. He did not think it would be necessary for us to get outside economists to refute some of this testimony, but he wanted to talk to us again after this morning's session.

H.M.Jr: I got your message about Jeff Coolidge. I would not raise my finger to influence Jeff Coolidge one way or the other. I could not. I know him. You can not influence him. It is a principle with him. You just can not influence him.

Foley: Do you think we should put a couple of questions to him and ask him how he voted in 1936?

H.M.Jr: No, Jeff has been extremely decent to me in the Treasury.

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Foley: If he is so decent I don't see why he is coming down and testify.

W.H.Jr: He believes it.

White: Just conscience.

Foley: I don't think Dean Acheson would do it.

W.H.Jr: Well, all that Dean Acheson did was to get out an opinion of what we did here, what is illegal or what the President did.

Foley: But I think they tried to get him to go down.

W.H.Jr: All Dean Acheson did was get out an opinion which was permitted to be stolen by Mr. Eliot Thurston, who got it in the New York Tribune in that way. I don't think it is such an honorable procedure.

Foley: I am not holding any brief for that; I think they tried to get him too.

W.H.Jr: Well, we all, in five or six years could change. Evidently Dean Acheson has changed. But certainly, when you go back to the gold thing, what he did when he was Under Secretary, or what he assisted in doing and then get out an opinion like that, well, it just wasn't cricket, that is all, and that is why he was asked to get out and I was asked to come here - one of the reasons.

White: Mr. Secretary, do you think there is any possibility that if they are successful in defeating that power with respect to devaluation, that they will then take the position that Congress apparently did not wish the Administration to have the power to devalue and that, therefore, it now becomes essential to repeal Section 89.

W.H.Jr: What is that?

White: Which gives you the power to alter the price of gold.

W.H.Jr: Harry, this is all I can do; I went up and certainly out everything that I had into my testimony four times.

Foley: Three times in the House and once in the Senate.

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- H.M.Jr: I did everything that I could. The reason I want to show this memorandum to the President is, I asked the President to see Wagner. I don't know whether he has seen him or not, but nobody could do more than I have done. You can not go around telling citizens in the United States they can or can not testify. You just can not do that.
- Foley: I did not say that.
- H.M.Jr: No, but that is the inference.
- Foley: Well, I am sorry.
- H.M.Jr: That is all right. I mean, we can not - I know Jeff Coolidge, I guess, better than anybody in this room and I would not insult him by trying to influence him.
- Now, I want to show this to the President because I want to ask him what he does want me to do
- White: In speaking to the President might it not be of some significance that although the present power is not as important as the other, once they gain a victory on the other then they may turn around and say, "What good is this move by Congress". May not that be an additional argument why it is desirable to win on this issue.
- H.M.Jr: If the President asks me to recommend to him what I think he should do, I would say, "One hundred per cent enthusiastically, do everything that you can and do all you can to get the extension without change; don't let the bars down". Now, that is my position. Once you let the bars down on this thing I don't know how far it will go. Is that all right?
- White: Yes.
- Foley: I don't think Senator Wagner feels awfully strong about this but he would like to have your reaction.
- H.M.Jr: Hanes and I are seeing the President at ten-thirty and I will ask him.
- White: Senator Wagner apparently did not feel very strong about the other thing because his secretary reflected his views in stating, "Well, what difference

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does it make if this does fail, you will have the power under Section 89", and he said that Senator Wagner knew that.

H.M.Jr: Anything else, Harry?

White: That is all.

H.M.Jr: Ed?

Foley: Stinebower, from the State Department, came over yesterday and talked to Johnson. Johnson gave him a one page memorandum showing the difference between the position we took in 1936, in our letter to the State Department, and the way we look at the situation today. (reading memorandum inaudible to the reporter).

H.M.Jr: Can I do anything about it?

Foley: No, I am just reporting this. Victor Scholis, Special Assistant to Harry Hopkins, came over yesterday. He is a former reporter of the Times in Chicago. He wanted to know if we could hold up on the Skidmore case until after the election in April. I told him I would not touch it; that I would mention it to you if he wanted me to, and he asked me to.

Gaston: He is covering a lot of territory, isn't he?

White: I heard some general remarks that may not be news to you at all, I don't know, but the effect of it was that the collection of income taxes in Chicago is terrifically rotten, and I was given at least six instances of personal experiences in connection in which the graft is terrific. Now, this dates back about eight months ago or a year ago. I don't know - maybe the situation has changed.

H.M.Jr: Put it down in writing and give it to Mr. Hanes.

White: There is no danger of that; I am just communicating that information.

H.M.Jr: You say you were given six specific cases.

White: I would not quote them.

...Mr: Federal taxes.

White: Income taxes - just a general comment. This was a discussion with regard to income taxes.

...Mr: I think if you have anything that Manes wants to know about it. You can give it to him verbally, if you want to tell him about it.

White: I did not get it that way, so I could not give it to him either verbally or in writing.

...Mr: What do you mean, Harry?

White: Oh, I mean these fellows were telling people that they knew one fellow who spoke of his brother, for example, who had to deal with the income tax collector. I am merely citing that in order to indicate the situation.

...Mr: The thing to do when you get people like that is to say: "Don't talk in generalities; give me specific cases". I have had that ever since I have been in here. Wayne Taylor, last year, went down to this club for some shooting and there were a lot of Chicago people there who told him income taxes were being used for blackmail purposes. I asked Wayne to run it down. We ran it all down and there was nothing to it. But if you get something like that, don't let them throw that in your face. Press your demand for definite information.

White: Yes.

Wayne: I just don't believe that, you know. I don't believe there is a thing to it. If anybody can prove it then we want to find out damn quick.

White: If you are sufficiently familiar with the situation so you don't believe it, that is all that is necessary.

Wayne: I think you should try to investigate it. I think we should not close our eyes and say it is perfect.

...Mr: I would not let anybody tell me there is any graft in the Treasury about income taxes or anything else, without putting the fellow right on the spot, in fairness to me and to the Treasury.

White: Well, it was quite a lengthy discussion in which any number of instances were cited but the minute you begin to put any of those fellows on the spot they shut up like a clam.

H.M.Jr: Make him eat his words - make him put up or shut up.

Gaston: The answer you always get is they don't dare to talk because the Bureau will take vengeance on him if he does.

White: I think it is a simple matter, if you are familiar enough with the situation, and have traced these things down with sufficient care so as to be confident there is nothing in it.

H.M.Jr: You never know and the only way you can know is like when I went out in the field and the stuff I got, and, incidentally, we will have a record of this fellow - about this man coming over about the Skidmore case.

Foley: Victor Scholis.

H.M.Jr: Isn't he Harry's publicity man - how did you leave it?

Foley: I told him there wasn't anything I could do; if he wanted me to mention it to you I would be glad to do it.

H.M.Jr: And what did he say?

Foley: He asked me if I would.

H.M.Jr: Well, the way the thing stands we are going to present it to the Grand Jury in April in this town - I can not remember the town, outside of Chicago.

Foley: Well, he said they were not asking the thing be - any punches be pulled or anything of the kind; all they wanted to do was keep it out of the campaign.

Gibbons: Well, the election is in April.

Foley: First week in April.

H.M.Jr: I can not possibly postpone anything for anybody.

Foley: I told him that that is what I thought you would say.

H.M.Jr: What other good news have you?

White: I am sorry to have all bad news.

H.M.Jr: You really haven't any really bad news. I don't know that you gave me any bad news, George?

Hanes: I have nothing this morning.

H.M.Jr: Steve, this Committee on Political Affairs will come in here at four o'clock this afternoon; we will then go to Florida.

McReynolds: You have not been able to get a hold of Jim.

Gibbons: No, Jim is not back, but I have talked to Guy and talked (inaudible) yesterday on the telephone and he called Andrews and Andrews said he probably would be with (inaudible)

H.M.Jr: Well, the rest of you fellows come in at four o'clock.

McReynolds: Will you see that the people are here.

Gibbons: You want Guy Helvering and Herbert.

H.M.Jr: You don't want to bother with that, do you. (addressing Mr. Hanes)

Gaston: You should educate him.

H.M.Jr: You think we should educate him.

Gibbons: Yes.

H.M.Jr: I think he has an education.

Hanes: I am pretty clean in politics, up until now.

H.M.Jr: But the Treasury is on a twenty-four hour basis.

Duffield: The members of the fiscal-monetary committee have been informed of a meeting at ten o'clock Friday.

H.M.Jr: That does not include the visitors; just the fiscal-monetary committee.

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Duffield: Visitors? What do you mean?

H.H.Jr: Hopkins and Henderson.

Duffield: Mr. Delano, Mr. Bell, Mr. Hanes and Mr. Eccles. The gentleman who spoke for the National Manufacturers' Association on Social Security that day, has his technicians ready to come down and talk any time Mr. Haas and Mr. Brown are ready. Is that all right for them to come?

H.H.Jr: Yes, fine. Herbert?

Gaston: Harry Eaton called up yesterday and told me that he learned that Cairns and a man on leave from Justice and another named - he did not know what his job was, had gone to Hamburg for something in connection with German trade and wanted to know if I could tell him anything about it and would it embarrass us if anything were said about it, and I said, "distinctly it would". I told him I wished he would keep it confidential and he said he would but somebody else in New York learned about it, because he heard it in New York.

H.H.Jr: Anything else?

Gaston: No. I still think there should be some expert testimony on our side on this gold thing.

H.H.Jr: All right, you name me a first class economist who is outside of Government, with a national reputation, who will come down and testify - give me one name.

White: We combed the list. There are really none that we are positive of. There is Rogers. We are not positive of what they will say after they get on. That is the difficulty. They may be in favor of the power -

H.H.Jr: That is the sad thing, gentlemen. Don't think I would not have been out asking for these people to come down if I knew who I could ask.

Bell: How about Burgess; would he do - how does he feel, do you know.

H.H.Jr: Well, I know how the Federal crowd would feel. They are all for discontinuing this power because I tested them, including Williams. This is a lonesome place, the Treasury.

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Easton: Rummley gave me several names but I would be afraid of anybody Rummley gave us, because he represents that committee for the Nation.

Mr. Easton: Bernard Rummley.

Mr. Easton: The trouble is, Mr. Secretary, they get up there and say it in such a lukewarm way, "Yes, it is of minor importance" - they would not go out on a limb and fight for it. I can not blame them, but their lukewarmness is enough to counteract the effectiveness of the other.

Mr. Easton: Do you fellows have a suggestion? I have thought this thing over very carefully. It is the most important legislation we have. I am not just sitting here not thinking about it, but I don't want to call down somebody and have him known as my witness and then have them go sour on me.

Mr. Easton: I would like to call up Hanson and speak to him over the telephone and see how he feels - if he feels strongly would he come down.

Mr. Easton: You better bring him down in an airplane because the last hearing is this morning.

Mr. Easton: They are going to have another one.

Mr. Easton: Hanson would be good - he has a good reputation.

Mr. Easton: You know what he said here that day.

Mr. Easton: O. K.

(Meeting concluded)

March 14, 1939.

"The Vice-President questioned the advisability of the Brazilian loan as he felt that we were using taxpayers' money to pay back private creditors. He said for the last 40 years it had been the Republican policy to loan Treasury money to foreign countries to pay our own creditors. Garner said that the Democrats had consistently followed this policy."

Dr. White:

Secretary Morgenthau would like you to put a research man on the above and go back for the last 50 years - particularly in Ways and Means. He wants you to do a thorough research job.

McHugh
Room 285

March 14, 1939.
4:25 p.m.

HMJr: Hello.

Operator: Mr. O'Neal. Go ahead.
Edward A.
O'Neal: Hello.

HMJr: Hello.

O: Hello.

HMJr: Ed?

O: Yes.

HMJr: Yes - Henry Morgenthau.

O: Yes, Henry.

HMJr: Did you call me?

O: Yes, I wanted to know - did you arrange about Ogg going up?

HMJr: Well, I've got our man contacting the committee up there and he - as soon as he heard he was going to get in touch with Mr. Ogg.

O: I see, I see. Well, he -- I want him to go to work and get up our statement. You know, he better get it up anyhow, hadn't he?

HMJr: Yeah. It's going to be on Thursday, if he goes up.

O: Thursday if - he'll go up.

HMJr: Yes.

O: Well that's fine - give him more time.

HMJr: Yeah.

O: Well, that's fine. I - I sure appreciate that, Henry. I appreciate the opportunity of going up there.

HMJr: Fine. I'll find out why - where they hit you, but immediately I'm coming back and maybe they haven't got the invitation yet.

O: Well - well, I'll tell you what you do. Ogg says that he's got to go to Stanton, Virginia to make the speech Thursday to the Virginia farmers, and was wondering if you'd --

HMJr: Get him up there tomorrow?

O: That if he could get up tomorrow just a little while. It wouldn't take long. Just behind Henry, you know.

HMJr: Well, Henry is going up Thursday.

O: He's going Thursday.

HMJr: Well, let me get ahold of the fellow who represents the Treasury on the Hill and we'll find out about it.

O: All right. Certainly enjoyed seeing you today. I haven't seen you in so damn long.

HMJr: Well, I hope to see you soon again.

O: All right. Thank you, and you let him -- let Ogg know.

HMJr: Right away.

O: Thank you.

RE CONGRESSIONAL WITNESSES ON
STABILIZATION

March 14, 1939.

2:20 p.m.

Present: Mr. Gaston
Mr. White
Mr. Hanes
Mr. Bernard

H.W.Jr: I got you an economist. I got you two.

White: Good. Good.

I heard Jeff Coolidge this morning.

H.W.Jr: Did you?

White: Yes. I asked a couple of the newspapermen what impression he made on them, because I didn't know whether my own views would be sufficiently objective, and they both said he made a very bad, poor impression.

H.W.Jr: Well, you know who is ready to go up on the Hill for me tomorrow morning? Henry Wallace.

White: Henry Wallace - very good.

Gaston: Excellent.

H.W.Jr: And Ogg, of the Research Bureau, American Farm Bureau Federation. They endorsed it. I just had lunch with Wallace. Sending Ogg up from American Farm Bureau Federation.

White: He made a lot of statements this morning.

Gaston: Would you think it advisable to caution Ogg not to present the view that we ought to devalue further?

H.W.Jr: Is he on that side?

Gaston: I'm afraid he may be.

H.W.Jr: Well, you can get hold of him.

And incidentally, Wallace wants you (White) to ride up with him to talk to him as he goes up.

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Waston: That's the danger: if anybody presents that view, they'll take thumbs down right away.

H.M.Jr: I don't think - well, Ed O'Neal said he'd do whatever I asked him to. In fact, just a resolution asking for extension

Waite: Some of those men who are testifying are definitely intellectually dishonest - the technicians, experts.

(Bernard comes in)

H.M.Jr: Bernard - pull up a chair - is Glass going to sit tomorrow?

Bernard: Yes.

H.M.Jr: He is?

Bernard: Tomorrow morning.

H.M.Jr: Now, Henry Wallace has agreed to go up tomorrow morning and wants to testify.

Bernard: On the stabilization?

H.M.Jr: Yes. but he's got an appointment at 11 o'clock, so if he could be the first witness... He's got an appointment with the President.

Bernard: I think I can arrange that.

H.M.Jr: Do you think I should call the Senator myself, or can you handle it?

Bernard: I can handle it.

H.M.Jr: Supposing you try it first.

Bernard: All right, sir.

H.M.Jr: Now, the Secretary of Agriculture - at least I've asked the Secretary - he's agreed to do it. And have you got a pencil? Here, I'll lend you one. When you come in here, you always want a pencil and paper. And then Mr. Ogg - O-g-g- - the economist

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for the American Farm Bureau Federation, is ready to testify too. He can follow the Secretary of Agriculture.

And incidentally, somebody around here can get - the American Farm Bureau Federation is giving out a release today, or at least they've sent a letter up endorsing this bill.

But you (Bernard) try to get those two on. But Mr. Wallace - they start at 10, don't they?

Bernard: Oh-huh.

H.L.Jr: 10 o'clock.

Bernard: Well, 10:30.

White: May I make a suggestion, Mr. Secretary. Sparr is going on tomorrow; he can be quite effective. If he goes on after Secretary Wallace, he can neutralize, negate, and do harm to Secretary Wallace's testimony, because there is nobody to answer Sparr, and he's a technician. I would suggest suggest that if it's agreeable to you and the Secretary, to have Wallace's testimony after Sparr. They're going to have a meeting on the following day again to give us a chance, and if he could testify then after

H.L.Jr: Who is Sparr?

White: He's a Professor at Columbia, head of these fifty-five economists. He's got a 20-minute statement which he was going to read today, but they said it was a little late, put it off to tomorrow.

H.L.Jr: Wednesday for Mr. Wallace would be just as good.

Bernard: That's tomorrow; you mean Thursday.

H.L.Jr: Providing - you have to call up his office, ask his secretary.

White: Otherwise, they coming after him will hurt a good deal of his testimony. They can twist it and distort it the way they did today.

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H.J.Jr: Now listen, Henry - I mean Harry - this is the Secretary of Agriculture, and I only just found out that I've got the whole of organized agriculture back of this thing.

White: Well, I think it's an excellent thing. But I think it would be better if he could come after.

H.J.Jr: What do you (Gaston) think?

Gaston: I think it would be better for him to come after Sparr.

H.J.Jr: Well, see if you can get him on Thursday, and Ogg also. But you've got to first call up Mr. Wallace's office. But I don't want - the reason I'm hesitating to take White's advice - don't want them to tell me afterwards, "Well, it's too late."

White: Better find that out, because the Thursday meeting was not definite. That's important.

H.J.Jr: You better call up the clerk first. This is what you do. Call up the clerk - is that who you contact?

Bernard: Oh-huh.

H.J.Jr: Say, "The Secretary of the Treasury would like to have two witnesses, one Mr. Wallace and the other Mr. Ogg. Now, if they can go Thursday, all right; if not, get them on tomorrow." I don't want them to say, "Too bad." And when they hear Wallace is coming - they don't want Wallace, see, but Wallace is raring to go. And he'll make a damn good witness, and that puts agriculture back into the thing, and the whole agricultural bloc, and I think that will be just enough to put it across.

Now, the other thing is this. What about putting on Feis from the State Department?

Gaston: I think you could.

H.J.Jr: He's going to be here at 2:30 and I'll find out how he stands. I'll let you know.

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White: If he is staunchly for it, yes. If he is luke-warm, I would say no, because they'll push him.

Gaston: But that's what we want; if he can say from the diplomatic point of view it's very important, that's what we want.

White: Yes - if he said that.

A.S.Jr: Can I be a little "caustic"? I think his ideas are wonderful, that I thought up.

(Hanes comes in)

I've got two first-class economists to go up on the bill to testify on my gold bill. One is the Secretary of Agriculture; he's going to testify. Two - Mr. Ogg, officially representing the American Farm Bureau Federation.

Hanes: Good.

A.S.Jr: In other words, organized agriculture is back of it, and nobody knows it. And I'm going to try to get the State Department to send up Herbert Reis, if he's enthusiastic for it. See, in other words, we'll demonstrate to the world that the Administration is one - one for all and all for one. Right?

Hanes: That's a good idea.

A.S.Jr: Don't you think that's a good idea?

White: Is Ladies for it?

A.S.Jr: He's for it, but I'm afraid - otherwise - I'm afraid - he told me he was enthusiastically for it, but I'm afraid to send him up there. Would you (Gaston) agree with me? I mean on account of his reaction on Senator Glass.

White: Yes.

A.S.Jr: What?

White: I didn't think of Senator Glass.

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H.M.Jr: And then the agricultural crowd are just fit to be tied on Eccles on account of his agricultural statements.

Bernard: I think this is wonderful, to get this man up there.

H.M.Jr: I think so.

What I also got is this. Wallace tells me tomorrow is a very important meeting of the Commercial Policy ...

White: Thursday or tomorrow - I didn't hear of it.

H.M.Jr: And this is what is his policy.

All right, you (Bernard) go to work and let me know, will you?

Bernard: All right. (goes out)

White: What position do you want - have you come to a conclusion as to what position you want to take yet?

H.M.Jr: Yes. I'm for the export bounty on cotton.

White: You're with him on the position he's going to take.

H.M.Jr: Yes.

White: You know what he's going to do.

H.M.Jr: It's there. (Referring to memorandum)

White: And you want to support this.

H.M.Jr: I haven't read it. I don't know how fancy this is. But after all, of all the things, I think the least evil is export bounty, and that's the American Farm Bureau Federation's position.

White: Then if it comes to a vote ...

H.M.Jr: We vote for export bounty. Are you for it?

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White: I'd have to read this over.

H.M.Jr: Oh, you're so fussy.

White: One thing more. We're getting a letter from Senator Wagner ...

Henes: Requires a lot of study to see what it's going to do to hit particular phases.... Got to raise your tariffs coming the other way.

H.M.Jr: I told them they'd die of cotton. Couldn't see it.

White: One thing more

H.M.Jr: If Mr. Henes is interested; let him look at that memo.

White: I'll make a copy, send you the original.

Senator Wagner may send this letter down, which now contains about eighteen questions. They'd like an answer tonight or tomorrow morning. So I'd like to show you the letter, or the questions.

H.M.Jr: Show it to Gaston. I haven't got time to think. I'll just have to sign on the dotted line.

White: Well, the questions are coming to us.

H.M.Jr: Well, you two fellows get together.

Gaston: I want to get together with you (White) on that testimony we haven't sent back yet.

H.M.Jr: I'll put my "rep" in your hands.

RE FLORIDA COLLECTORS APPOINTMENTS

March 14, 1939.
4:00

Present: Mr. Gaston
Mr. McKeaynolds
Mr. Gibbons
Mr. Helvering

Gibbons: There's that note - I had it typed so you could read it better - what the President said to you. Inst's on Larson.

H.M.Jr: Is that the fellow

Gibbons: That's the Collector

McR: Collector of Internal Revenue.

Gibbons: There's a vacancy - I looked up - a fellow named Kahn - put as an attorney in the Comptroller of the Currency's office; getting \$6,000 a year.

H.M.Jr: Come in, Guy. (Helvering comes in)
Sorry to bother you on these political matters, but I'm being bothered.

Now let me get this thing straight. This fellow - Fah, is that his name?

Gaston: Fahs.

H.M.Jr: First place, have we investigated him?

Helvering: Will be within a day or two. Being investigated right now.

H.M.Jr: So we don't know whether he's all right yet.

Helvering: Information I get, there's nothing against him particularly. I called yesterday for a report.

Gibbons: Do you know whether he's an attorney or not?

Helvering: No, he's in the banking business; whether active in the banking business, I don't know, but he's some officer in a bank in Florida. He's been in the legislature at least one term.

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H.M.Jr: Well now, this isn't - Fahs isn't the man they first recommended.

Delvering: No.

H.M.Jr: The first fellow they recommended was

Delvering: Fellow by the name of Dill.

Gibbons: Wasn't he a bootlegger or something?

H.M.Jr: The first fellow - what's his name?

Delvering: Dill.

H.M.Jr: Now they come through with a fellow by the name of Fahs; they haven't got the answer yet.

Gibbons: Allie Angle told me something on Dill - couldn't go through.

H.M.Jr: Well, Dill's out.

Gibbons: I got Andrews to agree to appoint Angle this morning.

H.M.Jr: Andrews?

Gibbons: He's the other Senator.

H.M.Jr: To appoint who?

Gibbons: Allie Angle - to go along with his reappointment.

McK: That's the Collector of Customs. Got both the Collectors down there on the pen.

H.M.Jr: What about angle?

Gaston: When does his term expire?

Gibbons: Has expired some time ago. He asked me to confer with Andrews. Allie is a very proper fellow, and they wanted him to run for United States Senator down there. Andrews said, "Oh yes. I don't think he should be disturbed."

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A.S.Jr: How do you spell that angle?

Gibbons: A-n-g-l-e - A-l-l-i-e. Allie angle.

A.S.Jr: Now what we going to do about Fahs?

Gibbons: Wonder if you could get Larson to run in the primaries for United States Senator.

A.S.Jr: Is that up now? Is that coming up?

Belvering: Comes up next year.

Gibbons: He has to run in '40. And it's been intimated - they say anybody could beat this fellow Andrews, and you could split - get Andrews against Pepper and that's all you need to keep him there.

A.S.Jr: Now, Guy, what about this, because I have this letter of Larson and

Belvering: Now's that?

A.S.Jr: I have your letter in regard to Larson. I'm just sounding - I'm not making any recommendations, but the President again asked me Monday to do something about it, and I'm just asking ...

Belvering: Well, Mr. Secretary, I don't like to get in the position of Mr. Senator Pepper isn't asking for Larson's resignation just for Larson. He wants to go in there, and four men have already been chosen, as it comes to me, to take the principal places in that office. I think it's a disruption of the whole office and the appointment of Pepper's political side of the question in there; I think it's all strictly political.

Now, Mr. Larson has made an excellent collector. He has gone along with Pepper's organization. I asked him myself when I was coming back from there last week, week before last. I said that I wanted to know if he had gone along with Pepper. He said, "Well, yes, I donated to his campaign and everything, but I didn't get out and do as he wanted me to, have my men get out two weeks before election

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and spend all their time in promoting his candidacy."

Now, I don't like to see us get in the position where a Senator is going to control politics in the state by controlling income tax returns of the taxpayers of that state; I just think it's a bad thing.

Now, there isn't a - now, Larson has accepted Pepper's recommendations where he had vacancies, but he won't kick his good men out and put some fellow in there that just doesn't fill the bill.

That's my personal feeling about it.

H.S.Jr: Well, I didn't know. Let's wait now until we get a recommendation about Fahs, see; and that hasn't come through yet?

Belvering: No. Of course Senator Pepper's called me up and asked me if I wouldn't notify him the very day it was received, so he could discuss it with me. I told him as quick as it got in and we had a chance to review it, I'd let him know.

H.S.Jr: This is the way I feel. I think I'll ask him to come down. I think I'll have you here. I'll simply repeat what you said. You can say the same thing, say, "As far as we're concerned, he's a Democrat who's done his work well, a Roosevelt Democrat, a Democrat before Chicago, I think...."

Belvering: Yes.

H.S.Jr: "... and as far as I'm concerned, when a man, a Democrat, has rendered good service, lived up to our rules and regulations, I'm not going to put him out."

Belvering: And a man whom Pepper has recommended highly for some other position.

H.S.Jr: Now, if the President of the United States wants to overrule me and order me to do this, all right, but the President will have to order me to do it.

Belvering: That's the way I feel about it.

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- H.I.Jr: I will not recommend that Andrews* be removed, see, Guy? Because I've told your boys not to play politics and they were pretty good about it; now I'm not going to play politics. I'm just going to sit here. If the President wants to call up and tell us to make out the thing and move him out - after all, I'm only an appointive officer and if he wants to overrule me it's all right.
- Sen: I think he ought to know the whole story.
- Sen: I think you'll have to change your rules about political activities on the part of your collectors if this is what's going to happen, because the reason why they're tryin' to get him out is because he wouldn't play politics against your rules and regulations.
- Sen: I think Pepper ought to know that if this new man should do what he asked Larson to do, he'd be fired.
- H.I.Jr: If
- Sen: That if any collector - if his appointee as collector should do the thing that he asked Larson to do and Larson refused to do, why, you'd fire him.
- H.I.Jr: Well, we'll sit tight and I have
- Pepper: Some place along the line the Senator got the idea that I'd been out opposing this.
- H.I.Jr: Well, I told him - there was something or other about - trying to say that you and I are not together. I said, no, you and I had never had any differences, in fact that you never refused to do anything I asked you to and that he must have gotten the wrong angle, so forth and so on, and I had the utmost confidence in you. He made some such statement to me; I don't know whether he got it from here, but I did my best to correct that impression. Of course, that's an old game, you know: driving a wedge in.

* H.I.Jr. undoubtedly meant Larson.

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Helvering: He called me and asked me - he said, "I understand you're trying to get into the internal politics of the state of Florida."

I said, "No, I'm not."

He said, "Why are you opposing changing the Collector?"

I said, "When it comes to that question, it's a matter of running a good collector's office."

"Well," he said, "I'm serving notice on you - won't confirm him."

"Well," I said, "Senator, he doesn't have to be confirmed."

-CH: As far as he's concerned, he's not in a term office at all. He's Collector as long as he's let stay there.

Gaston: That's nice; that's interesting.

-CH: As far as the Customs man is concerned, that's a term that expires, but the Revenue doesn't expire.

Helvering: The collector's commission - so does mine - as far as that's concerned, they read "at the pleasure of the President." If the President would tell me in the morning he didn't want me any more, of course I'd have to get out.

H.A.Jr: What's that?

Helvering: I say the President could say to me tomorrow morning, "Helvering, we want to put a fellow in there," and of course I'd have to get out. So does the Collector

H.A.Jr: You say you'd have to get out.

Gaston: At the will of the President. Guy holds his job at the will of the President.

Helvering: Collector's the same thing. I have no term and the Collector has no term.

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The Senator wanted to know why that was. I said in handling the money of the Government - must be some reason - when the President got a good man in there, wanted to keep him as long as he could.

Gibbons: Mr. Secretary, I wanted to bring to the attention of the President that to put a man in the Collector's office isn't as important in Customs, but it's different for the Collector of Internal Revenue, where they have these income tax returns.

H.M.Jr: Don't you think I've done that? I mean I can't - this goddamn needling is going on all the time, and I'm going to sit tight, and the President will have to do it over my head.

Summary of radio discussion on "Business Needs Tax Reform"
by Congressman Celler (N. Y.) and McCormack (Mass.) on March 14, 1939

The Congressmen agreed on the need for tax revision in the interest of business recovery and confined their discussion to the corporate and individual income taxes. McCormack emphasized the need for maintaining the present volume of revenues; Celler agreed, but added that a temporary loss of revenue may be justified if it will result in business recovery and subsequent increases in tax collections.

Celler recommended the replacement of the corporate income, capital stock and excess profits taxes by a single corporate income tax and the unconditional repeal of the undistributed profits tax. McCormack agreed and indicated that savings in the cost of tax compliance would follow.

Celler recommended that corporations be permitted to carry over net losses for at least two years; that taxes on intercorporate dividends be eliminated and that corporations be permitted to file consolidated returns. McCormack is sympathetic to such suggestions and indicated the need for study of these problems by the appropriate committees. At this point he said:

"Secretary Morgenthau stated that extensive tax studies have been made by his Department, and that he would place this information at the disposal of Congressional Committees. I assume the studies made by the Treasury Department include data on the items you have just mentioned. If so, I am sure the Ways and Means Committee will be glad to examine this material very thoroughly when it comes to a consideration of tax revision."

Celler maintained that the surtaxes imposed on individual incomes are too high and not only reduce the amount of revenue the Government receives but, by preventing capital investments in production, increase unemployment or prevent reemployment. McCormack implied agreement and suggested that the matter be considered by the Ways and Means Committee.

McCormack expressed a view that the tax on capital gains and losses "should be sharply amended" so as to stimulate investment in productive enterprise. Celler implied agreement.

United States Senate

COMMITTEE ON BANKING AND CURRENCY

March 14, 1939

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

My dear Mr. Secretary:

My interest in our monetary policy as Chairman of the Senate Committee on Banking and Currency has, of course, been intensified by the Committee's present consideration of my bill (S.910) to extend certain monetary powers. I should like your help in answering a number of questions which have arisen both before and during our consideration of the bill.

I ask these questions with no critical intent, but solely with the hope of clarifying the whole subject. I realize that they relate to problems which are somewhat complex and technical and that any comprehensive answer may of necessity be somewhat lengthy. Nevertheless, I feel that a satisfactory discussion of them would be very helpful to the Congress and the public and I would appreciate your going into some detail.

The questions that seem to me most pertinent are these:

1. Who owns the gold now in the Treasury?
2. How much of the gold in the Treasury has been purchased with funds obtained from the sale of interest-bearing obligations of the government?
3. Why has so much gold come to the United States in the past five years?
4. Is it true that gold comes here in large amounts because the Treasury is paying a higher price than other countries for gold and because it buys gold at a fixed price?
5. How much more gold do you think we will get?

Hon. Henry Morgenthau, Jr.

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March 14, 1939

6. Why doesn't the Treasury stop buying gold?

7. Of what use to us is this large stock of gold? Is there any likelihood that we will get so much of the world's gold that we will "get stuck" with it?

8. Isn't it true that foreigners are getting shares of our productive industries and giving us in return gold that we have no use for?

9. What action, if any, should be taken with respect to the gold situation? Should we, for example, return to the gold standard of pre-1933?

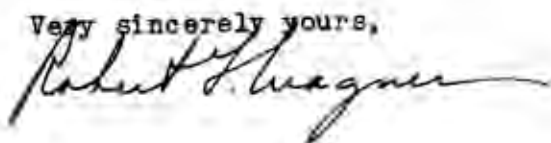
10. Did devaluation of the dollar in 1934 have an unfavorable effect on our imports?

11. Who in England and France has the power of altering the gold value of their currencies and what is the extent of that power?

12. Is there any basis to the contention that the power to devalue operates to undermine the business man's confidence so as to deter him from making loans and investments in the United States?

I believe that you can supply more satisfactory answers to these questions than anyone else and I should therefore appreciate your replying to them at your earliest convenience.

Very sincerely yours,



March 14, 1939 - Dictated

At Cabinet on March 19th the President opened the meeting by referring to a memorandum that I had given him at lunch on March 8th in regard to countervailing duties for Germany. The President said that I brought this to his attention some six or seven months ago and that he had recommended postponing any action because the State Department was nervous as to the effect that such a ruling would have on Europe; that I now felt that unless I carried out the law I might go to jail and he didn't want me to go to jail, therefore, he would ask the Attorney General to give me a ruling two weeks from Monday.

The President said, "This matter has been in the hands of Homer Cummings for some time but was held up by me at the request of the State Department". Welles then made his plea that this be postponed because, in the next several weeks, things looked as though they might reach a crisis abroad and he cited, as an example, that in Japan they were closing certain private docks for military purposes only, which seemed pretty far fetched to me.

During the discussion, for a short period, it seemed as though I wasn't going to get an opinion and I said, "I think I am entitled to one" and Frank Murphy spoke up and said, "Don't worry, you will get one. I will give you one tomorrow." The President said, "No, not until two weeks from Monday. In the meantime, if anybody goes to jail, it will be Frank Murphy". Then Welles again made a plea for postponement the President told Welles that he should inform the German Embassy that this is coming and it is now in the hands of the Attorney General and they would have an opportunity to change their methods if they wanted to and that each individual importer would have a chance to fight it out and prove that he was not receiving a bounty.

For some reason or other, the President had it in for the State Department and I thought was very unreasonable in his criticism of them.

The Vice-President questioned the advisability of the Brazilian loan as he felt that we were using taxpayers' money to pay back private creditors. He said for the last 40 years it had been the Republican policy to loan Treasury money to foreign countries to pay our own creditors. Garner said that the Democrats had consistently followed this policy.

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Thursday night I had Justice Frankfurter for dinner; told him my plan (1) recovery in '40 meant the next President would be a liberal one (2) recovery in this country - its influence on the world. He agreed entirely. He then cross-examined me about our tax program and I answered him quite frankly but cautioning him that it was a confidential matter between the President and the Treasury. He didn't criticize it but said he thought we ought to dilute the program so it wouldn't appear we were doing too much for the rich and make it more palatable to the "millions of unseen and unheard from followers of the President." He suggested that I talk to people like Norris, LaFollette and farm leaders and while I might not convince them still they would get the impression of the sincerity of my purpose and he thought it would be helpful to me. He said, "Be sure to do it yourself. Don't let Hanes do it because he is too much of a salesman."

Yesterday at lunch with the President he said he could not send up his message to Congress in regard to having a Joint Committee to study economy because they would fill the committee up with people of Harry Byrd's type. I said, "Didn't Early give you my message that he should get a list from the Vice-President and the Speaker beforehand". He said Early had not given him my message and that he was going to suggest that they appoint a committee in Congress from Ways and Means in the House and Currency in the House and the two comparable committees in the Senate to study where money could be saved and that he would appoint a committee from the Executive end who could act as expert witnesses before the Congressional Committee. I said, "You know, Mr. President, you more or less promised Mr. Harrison that you would send a letter". He said, "Oh I am going to write him a letter."

He then talked about his meeting with the leaders that morning. He said, "Even Jack Garner agreed that the Congress, left to itself, would not put in any economy measures." He said, "In talking about the tax bill, they feel by opening it up it might be like a Pandora box and if we didn't increase the taxes on the little fellow that would increase criticism on the big fellow and how would that be, in any way, an appeasement to business?" I am dictating this 24 hours later and, to the best of my memory, I got the feeling that he was leaning towards no tax bill and I think my memory is right because I said to the President, "You have to have a tax bill whether you like it or not on account of certain taxes expiring."

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Of course, later in the afternoon Barkley gave out this statement, which more or less paraphrased what the President told me at length.

BARKLEY DOUBTS WISDOM OF TAX REVISION
LEGISLATION 6661 81 4/38

WASHN - SENATOR BARKLEY DEMOCRATIC FLOOR LEADER STATED THAT HE DOUBTED VERY MUCH THE WISDOM OF UNDERTAKING ANY TAX REVISION AT THIS SESSION OF CONGRESS EVEN IF IT WAS IN THE NAME OF REMOVAL OF TAX BARRIERS ON BUSINESS

THE DEMOCRATIC LEADER CONFERRED ON TAXES ALONG

THE DEMOCRATIC LEADER CONFERRED ON TAXES ALONG WITH OTHER LEGISLATIVE SUBJECTS AT A WHITE HOUSE CONFERENCE WITH PRESIDENT ROOSEVELT TODAY

-0-

I said we had made the breakdown along the lines he asked for and Hanes and I would like to see him so he said, "Send it over to me". I said, "It shows that we save the \$10,000. corporation money and that the burden falls on the corporation with the minimum or over". So he said, "Send it over to me so I can be studying it and I will see Hanes and you in the morning." I said, "You know you said you'd see Harrison" so he said, "I will see him Thursday or Friday." I tried to pin him down but he wouldn't be pinned down.

He then told me that he had Berney Baruch for supper Saturday night and he told him the story about Arthur Krock, which was most uncomplimentary to Krock, with the hope that Berney would pass it along. So seeing that he was trying to

get something over to me I said, "Well you remember, Mr. President, when you dined with us at our house last spring I told you that anybody who is close to Arthur Krock can't be loyal to you." Then he said, "Warn John Hanes about Arthur Krock." I said, "I have - two or three times but I want to tell you that Hanes is a thousand percent loyal to you." He said, "Yes, I know that but he just doesn't understand."

Before going in, Henry Kannee said to me, "Please try to leave by a quarter to two because I have been told to get you out at that hour because from now on the President is going to rest for one half hour every day after lunch." I said, "I think that's a fine idea and I will get out just as quick as I can."

I brought up the question of the Collector of Internal Revenue for Florida and this is the first time that the President put a little grit into his voice and he said, "You're asking me to do a lot of appeasing - suppose you do some of it and don't make me do it all with the Senators. I want you to see what you can do." So I said, "Well, Mr. President, this man has served well for five years." He said, "I don't care. You ask me to do some appeasing - now you do some" which, I think, illustrates better than anything else how he really feels towards me at this time.

He also said, "Are you keeping track of the cotton situation and Henry Wallace?" I said, "Trying to". He said, "Keep track of it".

Then he fished out my letter that I wrote him about Walter Lippmann's article. Then he gave me a long lecture for my benefit using Walter Lippmann as a wedging point; that Walter Lippman was simply an opportunist and, if I would look back over his articles, I would see how wrong he has been.

My attitude towards the President these days is to be extremely polite but not to give in. The President said, with great emphasis, "I will not have you or anybody from the Treasury making any definite recommendations to Congress". So I said, "That's easy, Mr. President, because that's been my policy for 5 years."

TREASURY DEPARTMENT

Washington

FOR IMMEDIATE RELEASE,
Tuesday, March 14, 1939.

Press Service
No. 16-75

Secretary of the Treasury Morgenthau today announced that reports from the Federal Reserve banks indicate that \$1,266,973,300 of Treasury Notes of Series A-1939, maturing June 15, 1939, have been exchanged, \$894,415,600 for the 2-3/4 percent Treasury Bonds of 1960-65, \$319,444,500 for the 2-1/2 percent Treasury Bonds of 1950-52 and \$53,113,200 for the 1-1/8 percent Treasury Notes of Series B-1943.

Subscriptions and allotments were divided among the several Federal Reserve districts and the Treasury as follows:

Federal Reserve District	For 2-3/4 percent Bonds of 1960-65	For 2-1/2 percent Bonds of 1950-52	For 1-1/8 percent Notes, Series B-1943
Boston	\$ 39,230,500	\$ 20,222,200	\$ 2,237,600
New York	570,618,000	216,509,700	36,029,100
Philadelphia	40,924,400	4,947,000	2,092,100
Cleveland	17,547,500	9,374,100	800,600
Richmond	29,835,300	5,206,900	502,600
Atlanta	8,243,300	1,696,500	107,000
Chicago	130,182,100	25,375,500	7,247,700
St. Louis	7,814,700	11,354,000	1,329,300
Minneapolis	11,769,300	12,659,800	311,000
Kansas City	9,718,200	6,103,500	642,500
Dallas	7,752,200	1,945,300	1,563,500
San Francisco	17,839,900	3,523,000	228,700
Treasury	2,940,200	527,000	21,500
TOTAL	\$894,415,600	\$319,444,500	\$53,113,200

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BUSINESS NEEDS TAX REFORM

Joint Discussion by Congressman Emanuel Celler of New York, and Congressman John W. McCormack of Mass., Broadcast Over the Coast-to-Coast Network of the National Broadcasting Company from Station WRC, Washington, D. C., March 14, 1939. 11/2/44

MR. CELLER: Business has been waiting for some time to receive assurances on any changes that may be contemplated so far as tax legislation is concerned. The recent statements made by President Roosevelt and Secretaries Morgenthau and Hopkins, each following the other and each promising tax relief, were welcomed by business and the nation as an intention to prove the Administration's policy of business understanding.

MR. MCCORMACK: It is timely, therefore, to discuss this evening some of the tax proposals business is talking about and see how they fit into the picture.

MR. CELLER: May I digress for a moment, Congressman McCormack, to explicitly compliment you on the splendid work you did in working for tax relief for business during the writing of the 1938 Revenue Measure. Your personal leadership in the fight against the proposed punitive tax on closely-held or family-owned corporations, which resulted in its rejection, won the admiration of the public, who now regard you as one of the constructive leaders in tax legislation. This is fitting, in view of the important part played by the Ways and Means Committee, of which you are a distinguished member, in framing tax bills.

MR. MCCORMACK: Any part I may have played in bringing about tax relief and in opposing unsound tax proposals was freely contributed, and the results in the business field during the past year have confirmed my beliefs, expressed during the writing of the measure, and also shared by associates of mine on the Committee and in the House.

MR. CELLER: Since a very large part of Federal revenue is derived from corporate and individual Income Taxes, I think it is proper that in our discussion this evening emphasis should be on Income Taxation. Every tax measure requires earnest consideration of the effect it will have on individual savings and business savings, as well as upon their relation to other major factors of our enterprise system.

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MR. McCORMACK: There is another point, Congressman Celler, that must be borne in mind in any discussion of this subject. The fiscal condition of the Government requires that we must have due regard for the amount of revenue required to carry on Government operations. We must keep in mind, therefore, the fact that the Government cannot stand any loss of revenue at this time, and this must be considered when suggestions are made for further tax revision.

MR. CELLER: That, of course, is a proper attitude. It is my feeling, however, that if through tax revision there should be a temporary loss of revenue but a stimulation of business, Congress should still favor such changes even at the cost of a small deficit to the Treasury. Increased business activity will quickly absorb such temporary losses and the Government will in the long run profit greatly from increased future revenue receipts.

MR. McCORMACK: Suppose we discuss briefly; first, corporate Income Taxes; and second, Individual Income Taxes. What changes do you think could be made in the Corporate Income Tax structure without serious loss of revenue?

MR. CELLER: Many suggestions have come to my attention in recent weeks; however, I believe that one tax only should be imposed on corporate income. Included in this tax would be the Corporate Income Tax, the Capital Stock Tax, and the Excess Profits Tax. I am assuming, of course, that no effort will be made to reenact the Undistributed Profits Tax.

MR. McCORMACK: The Undistributed Profits Tax automatically expires at the end of this year, and so far as I am concerned I am opposed to the continuance of even its limited application of two and one-half per cent contained in the present law. The plan you suggest for incorporating the other taxes into one tax possesses merit. It should not be difficult to arrive at a flat rate which would bring into the Treasury as much revenue as is now received from these various separate taxes. The repeal of the Capital Stock Tax and Corporate Excess Profits Tax would be a tremendous stimulant to business, removing the grave uncertainty that these taxes now impose upon business. In addition to the fact that there would be no loss of revenue, an important

factor would be the tremendous savings in the preparation of tax returns. Such a plan would reduce very greatly the records which business is now forced to maintain; would eliminate many reports now required; and, in addition, the administrative problems of the Government would also be greatly simplified.

MR. CELLER: Bravo! Congressman McCormack. Permit me to suggest that your Committee could also very properly give consideration to other changes. For example, provision should be made for permitting business to carry over its net losses for at least two years as an incentive to expansion and to assume risks. A major obstacle to business expansion is the reluctance to venture into new enterprises with a prospect of two or three experimental years resulting in losses which could not be deducted or offset against subsequent years' gains. Such a provision was contained in previous Revenue Measures.

Other worthy suggestions made to me by business groups include the filing of consolidated returns by parent/^{and} subsidiary corporations and the elimination of taxes on inter-corporate dividends.

MR. MCCORMACK: So far as I am concerned Congressman Celler, I am very sympathetic to such suggestions. The abuses which brought the repeal of the consolidated returns were confined to a limited field. That situation has now been substantially adjusted. We now allow banks, railroads and street railway companies to make consolidated returns. Study of the extension of that principle is clearly in line.

I agree with you, Congressman Celler, that an immediate study of the carry over of corporate losses should be given by the appropriate Committees.

Secretary Morgenthau stated that extensive tax studies have been made by his Department, and that he would place this information at the disposal of Congressional Committees. I assume the studies made by the Treasury Department include data on the items you have just mentioned. If so, I am sure the Ways and Means Committee will be glad to examine this material very thoroughly when it comes to a consideration of tax revision.

MR. CELLER: There has been much discussion recently of the tax rates on individual income; particularly the surtax rates, and the thought has been freely expressed that these rates are too high.

It is contended that Government cannot take away everything a man makes and, at the same time, encourage business. The first object of taxation, of course, is to secure revenue. When the problem is approached with that purpose in view the next step is to find a rate which will produce the largest returns. What suggestions have you to offer here, Congressman McCormack?

MR. MCCORMACK: In the matter of encouragement to private enterprise, I am of the opinion that our surtaxes on incomes are too high. There is a saturation point beyond which we should not go. Taxes that limit or restrict the incentive to invest in private enterprise are not wise. Not only do such taxes reduce sharply the amount of revenue that Government receives, but, insofar as they prevent capital investments in production, they increase unemployment, or to put it in converse language they prevent re-employment.

I believe in the right of individual initiative, of the profit system, and that an individual is entitled to the legitimate profits of his or her efforts.

MR. CELLER: Experience shows that high rates do not produce the largest revenue. Experience is all the other way. The truth of this statement is found in the striking comparisons that may be made in the tax yield during the years 1924 and 1927.

MR. MCCORMACK: Reference is frequently made to experience during those years as demonstrating that a rate lower than now exists will produce increased revenue and will release private investment capital so that it can function in private industry and business in a constructive way. Suppose, Congressman Celler, you give the radio audience a few additional details covering the official record in those years.

MR. CELLER: In the year 1924 the maximum rate, normal and surtax, under the Federal Income Tax Law was 46 per cent. It produced revenues aggregating 704 million dollars. In 1927 the maximum rate, normal and surtax, was reduced to 25 per cent, and it produced revenues aggregating 831 million dollars. A further breakdown of the figures for those two years is illuminating. It will show that the 25 per cent maximum rate in effect in 1927 produced 38 million dollars Less from taxes levied on the salaries and earnings of those with taxable income ranging from \$1,000 to \$25,000; while from those whose taxable income ranged from \$25,000 to \$1,000,000, and over, there was collected 175 million dollars More.

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MR. McCORMACK: Analyzing the figures you have just given, Congressman Celler, it is apparent that the 175 million dollars' increase in revenues from levies on those in the higher brackets is a levy on many times that amount invested in productive industrial and commercial activities, and those investments were making jobs. At the same time, also, this system was reducing the levies on the incomes in the lower brackets, thereby releasing more to the individuals in those groups for their own comforts, pleasures and savings, and resulted in greater purchasing power.

MR. CELLER: That is correct, Congressman McCormack. In other words, the lower tax rates encouraged investment capital to finance private business and industry, produced more Governmental revenues, and removed the "incubus" to which Chairman O'Mahoney of the Temporary National Economic Committee referred in a recent speech in Chicago, during which he said: "We have got to replace Government spending with private spending. Taxation is the great incubus upon the back of enterprise." We have a wealth of precedents to support our contention in this matter.

MR. McCORMACK: It is difficult for many persons to understand that you can reduce tax rates and at the same time increase revenues. Yet, such is the fact. By such action you are simply offering an incentive to production and trade and a stimulation to the flow of capital, and that is what creates jobs. This fact was clearly recognized by the late President Wilson when he stated in his Message to Congress in 1916: "The Congress might well consider whether the high rates of income and profits taxes can in peace-time be effectively productive of revenue and whether they may not, on the contrary, be destructive of business activity and productive of waste and inefficiency. There is a point at which, in peace-time, high rates of income and profits taxes discourage energy, remove the incentive to new enterprise, encourage extravagant expenditures, and produce industrial stagnation with consequent unemployment and other attendant evils."

MR. CELLER: The late President Coolidge also supported President Wilson in this position. He went further and fixed the rate at which Treasury experts estimated the maximum revenue would be produced at 25 per cent.

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I believe this is sound doctrine. I see no element of danger to Federal revenue. If past experience is any criterion, revenues should actually be increased very materially. This system--the American enterprise system--gave the American people the highest living standard in the history of the world, and, what is more important, a living standard that was still the best in the world even at the depth of the depression.

MR. McCORMACK: You seem to have made out a good case for a reduction in the surtax rates, Congressman Celler, and I believe it is a matter that the Ways and Means Committee should take into consideration.

At this time I should like to refer briefly to the Capital Gains and Losses Tax. The United States is the only important nation in the world that imposes such a tax. It has been asserted by some economists that the outright repeal of the Capital Gains Tax would induce such a tide of investment that the Government would be floated right off the financial reefs it now faces. It is asserted that this one act would create a sufficient prospect of profit to overcome the inertia of business men about which Secretary Morgenthau complained. Because of its actual effect in dollars and cents, it alone might exert the kind of power which will unfreeze the great mass of capital now lying idle in banks and seeking profitable investment. Such a step would permit men to take profits commensurate with the risks.

It is my opinion that the tax on capital gains and losses should be sharply amended so as to induce the existing frozen capital to invest in productive enterprise, thereby resulting in reemployment and, at the same time, bringing in greater revenue to the Government.

MR. CELLER: That is a bold suggestion, Congressman McCormack. We must not lose sight of the fact, however, that this Administration is accustomed to taking bold measures to meet any crisis, and I am convinced that the present situation warrants such a step. Certain it is that the investment of capital would produce immediate and general benefits that far outweigh all the theoretical disadvantages. It seems to boil right down to this. The resumption of

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private investment is absolutely necessary. None of our other problems can be dealt with unless we can bring about the resumption of private investment. That being the case, we ought to use whatever proper means are necessary to achieve the end. There is too much at stake to jeopardize the future by half-way measures.

MR. MCCORMACK: Above all, what we need is tolerance and understanding on the part of all of our people--on the part of employer, employee, and Government itself. Legislation along the lines we have discussed will go a long way towards restoring confidence and will insure a speedy return to prosperity for all of our people.

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RE TAX PROPOSALS DISCUSSED WITH
PRESIDENT AND CONGRESSIONAL LEADERS

March 15, 1939.
2:25 p.m.

Present: Mr. Hanes
Mr. Gaston

H.A.Jr: I wanted to return to the President what I took off his desk for a very definite reason. See what I mean?

Hanes: Yes. This is the one he was reading from. It had my pencil figures on it.

H.A.Jr: What's the other one?

Hanes: This one here?

H.A.Jr: What's the other one, the individual one?

Hanes: That was mine.

H.A.Jr: I want it. I'll tell you in a minute why.

Hanes: O.K.

H.A.Jr: (On phone) Hello. - Please lay off on everything now until I get through, see; I can't handle anything. As soon as I'm through, I'll let you know.

Now sit down, gentlemen, let me do the pacing, see? Now, Herbert, sit here, I want to show you this. We were with the President and the President said that he gave us three pieces of paper. See, Herbert?

Gaston: Yes.

H.A.Jr: These three. Where can I get - look, Johnny, he had that one too, didn't he?

Hanes: Yes, sir.

H.A.Jr: Now, he gave these three. The only difference between this one and this one is he brought this thing up to the top, you see. It's identically the same. And he wanted the thing copied so he could send it up to the bill, you see.

Gaston: He wants this copied.

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H.M.Jr: We did it. Here are the photostats, you see.

Gaston: Yes.

H.M.Jr: Now, the reason I'm showing you this is, I want you to take it over for me. Now here are the three pieces of paper that he had, and I want him to have them back.

Gaston: Yes.

H.M.Jr: Now, the reason we didn't photostat this is because he's been talking about five things and he didn't talk about this one, which has to do with the personal one, you see.

Gaston: Yes.

H.M.Jr: But I thought he might want it back on his desk. So I'm just returning the three that he handed to me.

Gaston: Did they originate here in the Treasury?

H.M.Jr: The Treasury, yes. These are the three here.

Gaston: Those are the copies of the one he wanted copied, except that you've brought up this material to the top, you've changed the order, at his suggestion.

H.M.Jr: No, but we just thought it better to bring it up here. It's exactly the same except the order.

Gaston: Yes.

H.M.Jr: And I want him to have back

Gaston: ... everything he gave you.

H.M.Jr: ... everything he gave me. And I'm returning this and

Gaston: Yes.

H.M.Jr: And he said that he was going to take this - and this is plus - and send this this afternoon to Harrison and Jere Cooper with a letter from himself.

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Qastor: yes.

H.S.Jr: Now, if they thought it was all right over there - I mean just for my records I'd like to have a copy of the letter he sends to Harrison and Jere Cooper this afternoon.

Qastor: yes.

H.S.Jr: Now the thing - I'm making this for the record - which amazed us so much: he went into this whole discussion and he kept talking about these figures, and these fellows could tell the figures didn't make sense and they didn't add up, because he didn't let them know that there were five things, you see.

Qastor: yes.

H.S.Jr: And then when he got through he said, "Well, we'll give you a copy." And he said, "No, Henry, you better do it and send it back to me this afternoon. You know how to do it in the treasury." So the President said, "What I'm going to do - I'm going to write a letter, send this up to Pat, tell him I'm sending it to him at his suggestion and ask him whether he wants to make any more suggestions after they've studied it, you see."

but he's gone much, much further than I thought he would, because he's letting them see all five things. Up to now he kept only talking about three things, which were the three things which Pat mentioned. Now the President's handing them this. But the reason I want this back on his desk is because we haven't talked about the individual business, and there it is, you see, and the President will recognize these. These will be back on his desk.

then he also said - I said, "What you going to do about this letter to Pat about forming a committee?" he said, "Oh, I'm going to do the two things together."

Qastor: Said, "I'm going to do them together," - in Pat's presence?

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H.M.Jr: No, this was to me alone.

Gaston: Did he speak to Pat about it at all?

H.M.Jr: No, he never mentioned it.

Then we asked about Social Security, and we're to meet with him again Monday and discuss Social Security.

Now, I may be kidding myself, but it seemed to me that while we were right there in the middle of the thing, the President decided, "I'm going to let them have this. You boys think this over. If you've got any other suggestions, let me know; we'll have another meeting."

I pointed out to him I was leaving on the 24th. He said, well, I had to get Social Security out of the way first. I said I'd be gone for two weeks. And then he said, "Well now, we mustn't show this to anybody - these figures."

Is that about - that about covers it.

Bones: That's right.

Gaston: Is he going to send these with his approval?

H.M.Jr: Who?

Gaston: Is the President going to send them to Pat and Poughton with his approval or just say, "These are the things we discussed the other day."?

H.M.Jr: That's the impression I got.

Gaston: The latter.

H.M.Jr: The President was shooting so fast - it was quarter past one, they had all the doors open, kept shuttering in and out. I just got the feeling suddenly that he gave a flip, decided, "I'll give them this." Then when I stayed behind for a second, he said, "This is all fine. I'm going to send this up. It's their suggestion, and I'm going to ask them if they have any other suggestions to make." But do I interpret about right?

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Wanes: Yes.

H.M.Jr: The thing was so fast, because here was Johnny and I sitting there, knowing that the President wasn't giving them the whole picture, and I getting more and more uncomfortable and Johnny more and more uncomfortable; then suddenly the President decided he's going to give them the whole picture.

Wanes: And he reads the whole thing to them, all five points.

H.M.Jr: Yes. Did he read all five?

Wanes: He read all five points to them and explained that the difference was brought about by the fact that up to that time they'd been figuring on two items and he'd been figuring on five.

H.M.Jr: There may be some catch in this. I don't think there is. If there isn't, I think we have every reason to be very happy. I mean I think - I mean I think the President is

Wanes: Well, at least he wouldn't take those things and send them up there if he didn't know what was in them and hadn't given a lot of thought to them.

H.M.Jr: He knows what's in them. He had them a long time, so

Waston: Well, this goes to Kennee, I suppose.

H.M.Jr: This goes to Kennee, and this one goes to Kennee.

Waston: Yes.

H.M.Jr: Tell him the President's waiting for it.

Waston: The President's waiting for it, yes.

H.M.Jr: And if they would, after they write a letter to Doughton and Harrison, if I could have a copy for my files I'd appreciate it.

Waston: Yes.

Wanes: Not Doughton, but Jerry Cooper.

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H.M.Jr: Jere Cooper.

Do you think that might - I don't want to irritate him. What do you think, Herbert?

Gaston: I think that's all right.

H.M.Jr: Ask for it. If he

Gaston: I'll ask for it.

H.M.Jr: Ask for it. If he doesn't want to give it, the President can make up his own mind.

Gaston: Yes.

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ROOSEVELT SAYS ADVISABILITY OF REARRANGING
CORPORATION TAXES IS STILL UNDER STUDY

WASHN - PRESIDENT ROOSEVELT TOLD HIS REGU-
LAR TUESDAY AFTERNOON PRESS CONFERENCE THAT THE
ADVISABILITY OF REARRANGING FEDERAL TAXES
ON CORPORATIONS WAS STILL UNDER STUDY - HE
DECLINED TO INDICATE WHETHER HE WOULD SUPPORT
TAX REVISION THIS YEAR - HE POINTED OUT HOWEVER
THAT THERE MUST BE SOME KIND OF A LAW
PASSED AT THE PRESENT SESSION OF CONGRESS TO
RENEW THE SO-CALLED NUISANCE TAXES AND EXTEND
CORPORATION INCOME TAXES

THE CHIEF EXECUTIVE SAID SENATOR HARRISON
AND REPV COOPER ARE COMING TO THE WHITE HOUSE
TOMORROW OR LATER IN THE WEEK TO CONTINUE TAX
DISCUSSIONS

WHEN ASKED FOR COMMENT ON RECENT STATE-
MENTS BY SENATE MAJORITY LEADER BARKLEY AND
SPEAKER BANKHEAD TO THE EFFECT THAT NO TAX REVIS-
-ION WAS PROBABLE THIS YEAR THE PRESIDENT
SAID THAT HE DIN-T THINK HE HAD TAKEN THAT UP
AT ALL AND THAT IT WAS STILL IN THE STUDY
STAGE

MR ROOSEVELT SAID THE ONLY DISCUSSIONS SO FAR HAVE RELATED TO THE CONSOLIDATION OF ABOUT FIVE DIFFERENT CORPORATION TAXES INTO ONE TAX - HE SAID THE BULK ABOUT 90 PC OF THE TREASURY-S REVENUES FROM CORPORATIONS COMES FROM THE PERCENTAGE TAX - THIS WAS APPARENTLY A REFERENCE TO A CORPORATION INCOME TAX

THE PRESIDENT SAID THAT THERE IS GENERAL AGREEMENT THAT THE TOTAL AMOUNT COLLECTED IN TAXES FROM CORPORATIONS AS A WHOLE MUST NOT BE REDUCED - NOBODY IN THE MAJORITY PARTY WANTS THE TOTAL REDUCED HE SAID - THE THING THAT IS UNDER STUDY IS THE DISTRIBUTION OF CORPORATION TAXES HE EXPLAINED

THE CHIEF EXECUTIVE SAID THIS WAS AN IMPORTANT POINT AND THERE HAD BEEN SOME MISUNDERSTANDING OF THE MATTER - HE SAID THIS WAS THE GENERAL MISUNDERSTANDING AND HE HAD NO INDIVIDUALS IN MIND

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GROUP MEETING

March 15, 1939.
9:45 A. M.

(Secretary's Office)

PRESENT: Secretary Morgenthau
Mr. Hanes
Mr. Bell
Mr. Duffield
Mr. Graves
Mr. McReynolds
Mr. Lockhead
Mr. Gibbons
Mr. Gaston
Mr. Foley
Mr. White
Mrs. Klotz

H.M.Jr: Now, let us get a report first on the Stabilization Fund; where are we on that, and the testimony, etc?

Foley: Well, Ogg, of the American Farm Bureau Federation -

H.M.Jr: The "H" is silent. (laughter)

Foley: Yes. He is going to testify this morning and Dr. Feis is going to be on tap and if Glass goes over until the afternoon, because the Senate may not be in session this afternoon, he will be available. Secretary Wallace is going to testify tomorrow morning. Now, Larry tried to get a hold of Sumners last night to make similar arrangements for those three people to testify in the House. I have not been able to definitely determine that Farror Sparr, or whatever his name is, is a registered lobbyist. He is not checked over at the State; he is not registered over there. Wagner is going to ask him some questions this morning.

H.M.Jr: Ask who?

Foley: Sparr, as to who is financing him and whether he is a registered lobbyist and what his interests are.

H.M.Jr: Finally come through?

Foley: Yes.

H.M.Jr: Attaboy.

White: He claims he does not have to be; that he operates as an individual and is part of a group.

H.M.Jr: Somebody is paying for that friend of Herbert Gaston's who is down here.

Gaston: The man's name is Moree - he is the outside contact man.

H.M.Jr: That is the fellow you ought to ask about. Ask Sparr who pays for Moree - who pays his salary and expenses - that is the fellow.

White: He attends all of the hearings.

Gaston: Yes.

H.M.Jr: That is the fellow; now go ahead.

Is there any answer to the greenback thing?

I took the Foley memorandum, which is around here somewhere - I must have left it somewhere. I showed the memorandum to the President and he read it very carefully and shook his head and said, "That is entirely up to Congress". (The memorandum referred to is marked Exhibit 1 and made a part of this record.

Did you read what the Wall Street Journal quoted him as saying this morning?

Gaston: He made a statement about it.

H.M.Jr: And then I want to go on record and say, "So far as I am concerned, Mr. President, if you want to know how I feel, I think we should confine ourselves to getting an extension", and he said, "That is right". So that is the answer to the Foley memorandum.

Foley: Well, it was not my proposal; it was Senator Wagner's and I think he would like a telephone call from you.

H.M.Jr: I must have left some papers yesterday, somewhere, because this one I took over - it is the funniest

thing - there is a memorandum somewhere - did you find him?

Hanes: He is somewhere between Omaha and Shoshone.

H.M.Jr: You can not get him.

White: We got that letter from Senator Wagner yesterday afternoon.

H.M.Jr: Well, now, all right. I can see you gentlemen at 11 o'clock on that letter.

White: That is the letter we have got?

H.M.Jr: You haven't the answer.

White: No, we are working on it.

H.M.Jr: Now, I would like to make a suggestion on that. When you have it ready I would like Dr. Goldenweiser to take a look at it and get his opinion.

White: The more hands the merrier.

H.M.Jr: Fine, I am glad you have that attitude.

White: We don't have to accept it if we don't think it is an improvement.

H.M.Jr: But I would like to ask him to come over and sit down. I personally would like him to do it for me, not as a Federal Reserve matter but as an individual.

White: We worked until about two o'clock this morning; we will have it done this afternoon.

H.M.Jr: Would you ask him or would you like me to ask him?

White: Either way, whichever you like.

H.M.Jr: All right, I will ask him. What time do you think?

White: Some time tonight or tomorrow morning.

H.M.Jr: Don't you think it is just another -

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White: Unquestionably, if he catches one thing he justifies his presence.

H.M.Jr: He has been around a long time.

White: We should have others going over it. It depends upon the time we have, because the answer will be about - it is about three times longer than your statement.

H.M.Jr: I would like both Gaston and Duffield to read it.

White: Yes, but I am speaking outside of the Treasury - as soon as we can get a draft ready - it depends on what arrangements we can make. We might use it, if necessary, not as your answer but as a preliminary statement and then after we get it polished up in the best kind of shape then send a formal answer.

H.M.Jr: Mack, I want to thank you for what you have done for Marlene Deitrich.

McReynolds: She did not send me any telegrams this morning.

H.M.Jr: But I want to thank you.

McReynolds: You are very welcome.

H.M.Jr: I mean the way you responded. You don't need to worry about poor Mack.

McReynolds: Mrs. Klotz did all that. There is a letter here for your signature that I guess you can not sign, asking you to undertake to support the War Department in its request for additional funds on this auto-giro type of test airplane.

H.M.Jr: We support the War Department.

McReynolds: Yes, I will leave that to Bell. They were going to assign three of those test auto-giros to the Coast Guard and he is very anxious to get them, so he has written this letter to the Appropriations Committee asking - just saying that he thinks it is a good thing to do.

H.M.Jr: No, no.

Bell: It is in the Budget, Mr. Secretary.

Mr. J.: That is all right. What about Mr. Hoffman, William Green's man.

Mr. Reynolds: Well, he is still in Philadelphia. We can bring him back if we want and assign him to Baltimore. I got the impression the last time I mentioned it that you did not know how far you wanted to go in accomodating him, so I have not done anything further about it. (the following is the Secretary's conversation with Mr. Goldenweiser on the telephone).

"Hello, Goldenweiser. How are you? We are preparing here an answer to Senator Wagner on some gold questions - questions about gold and some time tonight or tomorrow morning it will be ready, and I would like you, as an individual, if you would, not as a Federal Reserve matter, to take a look and give us your criticisms. And when it is ready Harry White will contact you. I would appreciate it. Thank you."

He will be delighted.

Mr. Reynolds: Do you want to do anything about it?

Mr. J.: Here is what I want to ask: Is this part of the movement of sending people from Washington to field offices that Graves is interested in.

Mr. Reynolds: Yes.

Mr. J.: Now, have we made a single exception?

Mr. Elotz: No.

Mr. J.: Then we can not start -

Graves: That would be my idea. The work is being sent to the field and there will be nothing here.

Mr. J.: Have we made a single exception?

Graves: Not that I know of.

Mr. Reynolds: What they are asking for now is that he be moved back to Baltimore from Philadelphia. I said, "That is all right - I don't care whether they move him back or not", but what they want to do is to get -

Graves: There are many cases where people are trying to get

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exceptions but as far as I know they have not been made.

H.M.Jr: Tell William Green that on the recommendation of Harold Graves I would not do it; tell him I am terribly sorry, but - we have moved how many hundred people out -

Graves: Six hundred.

H.M.Jr: And we have not made an exception and I am sure he would not want us to break our rules.

McReynolds: No. They haven't any objection down there in Revenue in moving him back to Baltimore when the Baltimore office is open. I don't think - I mean he would have to take a reduction in pay to come back to Baltimore.

H.M.Jr: What do you think of that?

Graves: All right.

McReynolds: No objection to that.

H.M.Jr: Mr. Graves approves of that.

Graves: Yes, assuming the Revenue people do, and I understand Mr. McReynolds says they do.

McReynolds: He wants to take a cut in pay and come back to Baltimore. They want him brought back here and then sent to Baltimore when the Baltimore office is open.

H.M.Jr: Are you two fellows in agreement?

McReynolds: Yes.

H.M.Jr: Then I will leave it in your hands.

McReynolds: We are moving him back to Baltimore. Of course, Internal Revenue had already promised Hoffman they would move him back to Baltimore when the Baltimore office was opened.

Mrs. Klotz: We did not know about that.

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McReynolds: Just the same we are doing it for William Green.

H.M.Jr: Is this enough to ask the American Federation of Labor to go up and testify in support of the Stabilization Fund?

McReynolds: Well, I don't know. I sort of had the impression that they were kind of falling down on that. Anyhow, I had lost interest.

H.M.Jr: Well, anyway do it for him and there may be some time when something comes up. Dan?

Sell: I don't know whether Mr. White or Mr. Haas told you about our further conference with Dr. Goldenweiser on his suggestion that the funds, in the special depository be called and put in the Federal Reserve Bank.

H.M.Jr: What is the answer.

Sell: We thought if it was going to be done it should be done gradually and sort of even out the flow of funds in and out, but we came to the conclusion that probably nothing should be done at this time, fearing that it might have somewhat the same effect as the Federal Reserve action in reducing excess reserves, throwing a monkey wrench into the machinery at this time. There is no danger, apparently, of the excess reserves causing any immediate boom, so we thought we would let it lay for the time being for further study. I think that is correctly stated, isn't it, Harry?

White: Yes, quite correct.

H.M.Jr: Anything else?

Sell: That is all.

Graves: Nothing.

H.M.Jr: Where is your friend, the Comptroller General, on the orange and blue tickets?

Graves: I am to meet with those people today, Mr. Secretary, and go into that.

H.M.Jr: Did you go to the Grocer's meeting.

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Graves: Yes, sir.

H.H.Jr: What happened?

Convent: Well, it was mostly a love feast. There was nothing new of any specific nature. Dr. Parran made a statement - the best statement made by anybody there, a very ably conceived statement.

H.H.Jr: Did the Grocers put up a good lunch?

Graves: Yes, fine. I did not notice they had any surplus, food though (laughter).

H.H.Jr: Anything else?

Graves: That is all.

H.H.Jr: Haven't they pulled you in on this Chicago thing?

Graves: Yes, Mr. Helvering and Mr. Wenschel and I are in it.

Leachman: There is a slight easing of the foreign exchanges but not enough to indicate that they are at all worried about the Czechoslovakian situation.

H.H.Jr: Gibbons?

Gibbons: The only thing, there is a protest against re-appointing the Collector of Customs in Philadelphia. The Germans have organized an American society, native born Americans of German antecedents. Their purpose is to educate themselves in the traditions of America and so forth. We have had a couple of telegrams and a hearing is being held this morning. I prepared a letter as to what it is all about, and I would like to look it over if I may be excused.

H.H.Jr: All right.

Gibbons: I have to be up there by ten-thirty.

H.H.Jr: All right, you are excused. (Mr. Gibbons retires from the room)

White: Ed Foley and the boys decided it would not be wise for Hanson to come down here with the expectation of talking off the record, because he is an outsider and he is not a member of the Government.

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H.M.Jr: Who?

White: Hanson. We thought, on the whole, it was a dangerous procedure.

H.M.Jr: So the only suggestion you made is now out the window.

White: The only one I have is out the window, that is right. But I have another suggestion that is not out the window yet. It has never been in. It refers to the discussion I had with Clay. I don't know how long you spoke with him but I can repeat very briefly what his views are.

H.M.Jr: Why not do it at ten-thirty. You are coming in at eleven, aren't you?

White: That Committee on Commercial -

H.M.Jr: What time is that?

White: Eleven o'clock.

H.M.Jr: Well, I have a number of things I want to take up with you. Now, on that Commercial thing, I think - I don't think it is fair to say to you that you should commit yourself. I think you should listen and then come back and report.

White: I will do that. There is just one thing that Clay said that is of some interest that he claims he is a minority of one so I feel very sympathetic with him, and I would like to get what little support I can, even if it is only from the British Treasury. I asked him how he felt about increasing the proportion of bills on long term issues in the Treasury and he said he was strongly for it, but he said he was a minority of one in the British Treasury. Since I sympathized with him, I thought I would like to take the occasion -

Lockhead: British Treasury or Bank of England?

White: Bank of England - he remains a minority in both places. You would spoil it, Archie.

H.M.Jr: I think I can tell you this story. Did Clay tell you his French story?

White: He did not.

H.M.Jr: Well, he said that suddenly in October, the French woke up to certain facts with reference to the Italians - I can not attempt to tell it to you in French, but the way the Frenchman put it to the Italian, he says, "Just because Italy is shaped like a boot is no reason to think that French is shaped like the back of a man".

White: France looks differently, depending from which direction you look at it.

H.M.Jr: Now, for an Englishmen, I think the Bank of England did pretty good.

White: And particularly Olay; he is quite a Puritan.

H.M.Jr: Anything else, Harry?

White: That is all.

H.M.Jr: Foley?

Foley: At ten o'clock this morning, before Judge Bailey the order to show cause why the witnesses should not be compelled to testify in the Transamerica case is coming up. They asked for an adjournment and Bailey refused to grant it. I have Riley Campbell in from Chicago this morning.

H.M.Jr: Yes.

Foley: To go over the situation with him.

H.M.Jr: Well, now, won't he sit in with Helvering.

Foley: Yes, he is down here for that and also to bring me up to date.

H.M.Jr: Fine.

Foley: I am kind of short handed, right now, with Cairns in Europe. Manning is doing the Customs work. Ordinarily Manning would be the best fellow to go to Chicago and observe on the Ananberg case. I was wondering if you would have any objection to using Sammie Kaus for that.

H.M.Jr: On the Ananberg case?

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Foley: Yes.

H.M.Jr: I think that is swell.

Foley: He is very good at special assignments of this kind and there is a labyrinth of evidence there and I think he could bring a fresh point of view to the situation.

H.M.Jr: To show you what a good idea you have, I had it in mind myself and when I was in Chicago, I thought of Sammie Kaus on the Ananberg case would be swell, so I am heartily in accord with it.

Foley: Thank you sir.

H.M.Jr: And I would just let him go out there.

Foley: Yes.

H.M.Jr: And I think when the thing breaks, the day before they try it, Chick Schwartz, I think we owe him that, as Mike Igoe drove him out of town, I think it would be very nice if Chick went back for a week, don't you think so?

Gaston: Yes, when they start the presentation -

H.M.Jr: Wouldn't he love it.

Gaston: Yes, he would, very much.

McReynolds: I might tell you, if you don't already know it, that because of their historical research, Harold holds Sammie Kaus in very high esteem.

Foley: Well, the only hesitation -

H.M.Jr: That is too deep for me.

Graves: He is talking about the history of the Civil War.

H.M.Jr: Well, I hold both of these gentlemen in high regard.

McReynolds: Well, I have always had a suspicion.

H.M.Jr: I don't get it, do you? It is all right. I think that is good.

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Foley: The only drawback on Sammie is, he is a little tactless once in a while but I can fix that up with Bill Campbell so we won't have any trouble.

H.W.Jr: Cut his hair. But he is a driving force.

Foley: Yes.

H.W.Jr: And he has a nose for crime.

Mr. Klotz: I don't know what you mean by that.

Walter: That is terrible - I think that needs further explanation.

Foley: I was listening to the radio the other night in a taxicab and, speaking of noses, it was Ernest I think, said on the radio, "We have a goat over at our house; he hasn't any nose", and the other fellow said, "A goat without any nose. How does he smell", and he said, "Terrible".

H.W.Jr: All right.

Lockhead: That is a good story every five years, isn't it?

Winton: I agree - terrible.

H.W.Jr: All right.

Foley: They added on to the Treasury and Post Office appropriation bill a provision which curtails materially the dissemination of material with the frank. It provides that no department shall transmit through the mail, free of postage, any book, report, periodical, bulletin, pamphlet, list or other articles or documents except official correspondence, unless request therefore has been previously received by such department or independent establishment or such transmission is required by law, and Barkley put two provisions on it. There is also a provision that the heads of departments have to certify to the Postmaster General that nothing was transmitted through the mail in violation of that paragraph at the end of each fiscal year, and then Barkley added these two provisions -

H.W.Jr: May I interrupt you. You have two ex-Post Office

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inspectors here. If you will take it up with them and report back in twenty-four hours I will be glad to hear from you.

Foley: Well, the Bill passed the Senate with this provision in it and it has gone to conference. I don't know whether -

Gaston: It will stop our Savings Bond propaganda. That is the only way it will affect us seriously, but it would stop Jim Bryan's work. Of course, all the rest of the departments are greatly exercised. I imagine we could do something about it if you think it is proper to do it.

Bell: May I give you a little background of it.

H.M.Jr: Please.

Bell: That is the reason it is made drastic, to see what kind of protest will be sent up there and I advise that you protest and after you protest I think the Director of the Bureau of the Budget will be given authority to investigate the whole matter and report to Congress in January.

McReynolds: In other words the provisions will go off.

Bell: Yes, but I would protest because that is what they are expecting.

McReynolds: The boys are preparing a letter on it.

H.M.Jr: You fix up a good letter.

McReynolds: I got in contact with both Commerce and Agriculture yesterday and suggested they might want to protest also.

Foley: And Interior has been in touch with Herbert.

H.M.Jr: Anything else?

Duffield: Pass.

Gaston: That is the only thing I was going to bring up.

H.M.Jr: All right, thank you, everybody.

(Meeting concluded)

(This was shown to the President
by HM, Jr on 3/14/39)
TREASURY DEPARTMENT

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INTER OFFICE COMMUNICATION

DATE MAR 13 1939

TO Secretary Morgenthau
FROM E. H. Foley, Jr., Acting General Counsel

Larry Bernard spoke to Senator Wagner this afternoon concerning strategy for handling the legislation to continue the Stabilization Fund and the power to revalue the dollar.

The Senator is looking forward to considerable opposition, both in the Committee and on the floor, to the continuation of the power to revalue the dollar. Apparently, the Senator suggested to the President that the power to revalue the dollar be permitted to lapse on June 30. Larry gathered that the Senator received no encouragement from the President on this score, and the Senator is now prepared to make a fight for the continuation of both powers. However, Senator Wagner disclosed that he had informed the President that the President's support would be needed if the anticipated opposition develops.

The Senator suggested that some support for the legislation might be picked up if an additional section were added to repeal the authorization in the Thomas Amendment for the issuance of \$3 billion of greenbacks. While this may result in the loss of support from Senator Thomas and inflationary-minded members, such a proposal might be appealing to some of the sound-money advocates.

The Senator would like to have you consider this proposal and give him a ring.

E. H. F.

March 15, 1939

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SPEAKER BANKHEAD CLARIFIES POSITION ON TAX REVI-
SION PROSPECTS

WASHN - SPEAKER BANKHEAD TODAY SOUGHT TO CLARIFY HIS POSITION FOR PROSPECTS FOR TAX REVISION LEGISLATION AT THIS SESSION OF CONGRESS

THE SPEAKER SAID THAT WHEN HE MADE HIS STATEMENT ON TAXES YESTERDAY HE DID NOT MEAN TO LEAVE THE IMPRESSION THAT NO CONSIDERATION

NO CONSIDERATION WOULD BE GIVEN TO CHANGES IN EXISTING LAW PROVIDED THE VOLUME OF REVENUE WAS MAINTAINED

-IT WAS MY OPINION- THE SPEAKER SAID -THAT IT IS VERY IMPROBABLE ANY CHANGE WILL BE MADE WHICH WOULD RESULT IN A LOSS OF REVENUE-

MR BANKHEAD ADDED THAT -THE WHOLE THING IS A MATTER FOR CONSIDERATION OF THE WAYS & MEANS COMMITTEE WHICH ORIGINATES ALL TAX LEGISLATION-

YESTERDAY THE SPEAKER GAVE IT AS -MY OPINION THAT THERE WILL BE NO SERIOUS EFFORT FOR GENERAL REVISION OF ANY TAX LAWS- AT THIS SESSION

-Q-

March 15, 1939

SEN HARRISON STUDIES TREASURY TAX
FIGURES IN WHITE HOUSE

WASHN - SEN HARRISON -DEM MISS- CHAIR-
MAN OF THE SENATE FINANCE COMMITTEE SAID A
STUDY WAS MADE OF CERTAIN FIGURES FROM THE
TREASURY RELATING TO TAXES IN THE WHITE
HOUSE - HE WAS ACCOMPANIED BY REPV COOPER -DEM
TENN- A MEMBER OF THE WAYS & MEANS COMMITTEE
SECRETARY OF TREASURY MORGENTHAU AND UNDER-
SECRETARY HANES AT A WHITE HOUSE CONFERENCE WITH
PRESIDENT ROOSEVELT

SEN HARRISON SAID -THE TREASURY HAS
FIGURES WHICH WE HAVE NOT SEEN BEFORE AND
WE WANTED TO SEE THEM-

HE ADDED THAT NO CONCLUSIONS WERE REACHED
BUT THAT PROGRESS HAD BEEN MADE

-n-

March 15, 1939.
9:38 a.m.

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Ronald
Ransom: I hate to
/Bother you about a personal matter, but if I could take
just take a second of your time, I'd like to tell
you that I was planning a spring vacation this
year. Mrs. Ransom and I thought we'd take a slow
boat and go over to Europe and I thought I'd spend
a week or ten days in Paris and London.

EW: Yeah.

R: That's entirely unofficial. I haven't even mentioned
it to any member of the Board.

EW: Yeah.

R: And I did not want to plan to do that if you could
see any possible objection. I know that sometimes
these things are misunderstood, and the easiest way
to avoid misunderstanding is to take time a little
by the forelock.

EW: Oh! Why of course go, and when you do go, the people
who work for the Treasury in London and Paris, I want
to let them know that you're coming.

R: I would like to see them, of course. But I didn't
want to call on anybody in either government, of
course. This is purely a vacation and Cochran and
Butterworth - those people I like to see whenever
I can see them.

EW: Yes. Well, we'll do everything we can - I've got
only one criticism and that's I'm jealous.

R: On what?

EW: I'm jealous that I can't go --

R: Oh, well, if you and Mrs. Morgenthau could go along,
the trip would be perfect.

EW: By all means - and my blessings go with you.

R: All right. Thank you, Mr. Secretary.

EW: You bet.

March 15, 1939.
9:39 a.m.

HMJr: Hello.

Operator: Secretary Ickes. Go ahead.

HMJr: Hello.

Harold Ickes: Hello, Henry; you called me yesterday.

HMJr: Yes, can I still say "Happy Birthday"?

I: Oh, yes. I had you note. Thanks a lot, that was very kind.

HMJr: Harold, you talked to me about the Skidmore case --

I: Yes.

HMJr: And you said you were interested.

I: Yeah.

HMJr: And I was out there over the weekend.

I: Oh yes - yes, I saw you were.

HMJr: And --

I: On a vacation.

HMJr: What?

I: On a vacation.

HMJr: Right.

I: Yes.

HMJr: And --

I: Anyone who goes to Chicago on a vacation in March ought to let me know in advance and I'd send them to St. Elizabeth's.

HMJr: Well, I had a very good time out there. That's a grand crowd out there - that public - you know -

I: Yeah.

HMJr: That -- you know, that crowd -- the clearing house.

I: Yes.

HMJr: And -- but this is the thing that I want to put a little flea in your ear. You know this fellow Dick Sholis -- S-H-O-L-I-S?

I: No.

HMJr: Former Chicago newspaper man whose --

I: No, I don't know him.

HMJr: Whose publicity -- personal publicity for Harry.

I: Oh, the one he brought down here?

HMJr: Yeah.

I: No, I don't know him personally.

HMJr: Well, I want you to think this over and then I want your advice. Now, he comes over and sees Ed Foley --

I: Yeah.

HMJr: And says that he hopes that we'll postpone the Skidmore case until after the Chicago election.

I: (Laughter) Did you see Campbell when you were out there?

HMJr: Oh, yes.

I: Well, you know what his plan is.

HMJr: Yeah, I know all about it.

I: Well, hell, he can handle it the same way and that'll be just after the election.

HMJr: Well, I -- I -- as far as I'm concerned I'm pressing for the earliest possible trial.

I: Well, I think you're right about it.

HMJr: And I'm not going to change one iota.

I: Well --

HEMR: Now, I don't know what the hell this -- this business of --

I: I -- well, what was running in my mind -- I suppose that -- I thought maybe Campbell might want to handle that out at Freeport.

HEMR: He is going to handle it out at -- out there.

I: He is?

HEMR: Yes, he is.

I: Well, that's all right.

HEMR: And he's handling it, as I understand it from what he told me, just as soon as the Grand Jury meets.

I: Yeah. Well, that will be early in April.

HEMR: Early in April.

I: And election is the fourth of April. I don't see how he can get any action before that.

HEMR: Well --

I: I mean, if you handle it in the natural course, the thing takes care of itself anyhow, Henry.

HEMR: I see. But I just -- this was an angle that I didn't understand and -- but --

I: Well, it's a damn disreputable angle.

HEMR: But we'll --

I: That fellow -- I have -- I know all about that fellow.

HEMR: You do.

I: And there hasn't been anyone worse.

HEMR: Well, I don't -- I don't know, it's a mystery -- there are so many things which are a mystery, but I want you to know --

I: Yes.

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HMJr: That we are going ahead. We're going to have --

I: Yeah.

HMJr: At Freeport, that's the place.

I: Yeah. Yes, that's what he told me.

HMJr: And the --

I: Well, that would mean the jury couldn't convene before the third of March, and the election is on the fourth.

HMJr: You mean April don't you?

I: Yeah, I get you, Henry, and I think you're dead right.

HMJr: And I'm pressing for early and I'm not going to change my plans.

I: Yeah. All right.

HMJr: But I want you to know - and on the other one, the big one - the Annenberg case - we're getting along beautifully.

I: Yeah. So --

HMJr: And I'm keeping Frank Murphy personally posted.

I: Well, that's fine.

HMJr: But -- I wanted you to know because the Chicago -- having you -- you having called me, why --

I: Yeah.

HMJr: There she is.

I: Yeah. All right, Henry.

HMJr: And if you hear anything, you see, that anybody's trying to dig under us --

I: I'll let you know.

HMJr: Will you please?

I: You bet I will.

HMJr: Because Frank Murphy suggested something without telling me what -- that there was some tunneling going on.

I: Well, I don't doubt it, but I -- I'm not cognizant of it.

HMJr: Well --

I: But if I hear anything I'll let you know.

HMJr: I wish you would.

I: I will, Henry.

HMJr: Good bye.

I: Good bye.

March 15, 1939.
11:14 a.m.

HMJr: Hello.

Operator: McCormack.

HMJr: Hello.

John W.

McCormack: Hello, Mr. Secretary.

HMJr: How are you?

M: Fine, thank you. How are you?

HMJr: I'm fine. I've just been enjoying reading yours and Celler's debate on -- or rather joint report.

M: Where was that in?

HMJr: The one that you gave?

M: Yeah. We -- last night night -- I mean -- what -- where did you get it? Oh, did you get a copy of it, did you?

HMJr: I got a copy of the talk. I got it from the radio station.

M: I see.

HMJr: And -- I think that's all to the good.

M: You think it's -- you think what?

HMJr: I think it's all to the good.

M: Fine. I'm glad to hear you say that -- I -- I, of course, naturally -- whatever any -- whatever -- whatever we do we naturally get ahold of you and Hanes and -- and cooperate right along, but I think it's a -- I think it's a good idea for some of us to -- of course you can't -- sometimes you can't go as far as you'd like to, but to -- from -- as far as the Administration is concerned to -- to see that the damn thing isn't stolen away from us.

HMJr: Right! I don't know who helped you or if anybody helped you, but I'd like him to help me sometime.

M: Why we -- there's a fellow by the name of Kelley that prepared most of that stuff for Maney Celler.

HMJr: Who's Kelley?

W: He's connected with Georgetown in some way - or was.

WJR: Uh huh.

W: A darn capable fellow. I only met him the other day and he -- he had drawn up a colloquy without even consulting me, and then they came over to my office the night before last, and then I -- I made some changes which I -- made some of my statements more affirmative. I've -- I've always felt the surtaxes were too high. I -- frankly -- of course, you and I know how those go in. That went in through the LaFollette group, you know, in the Senate.

WJR: Yeah.

W: And I've always felt that they were too high; they interfered with individual initiative --

WJR: Yeah.

W: And the most illiberal thing to me is anything which interferes with -- deters the individual in doing something which is all right.

WJR: Yeah.

W: I believe in taxing them, but I -- but I -- anything that interferes, I think really, is illiberal government.

WJR: Well I'm glad, just at this time, to have you and Celler -- because -- I mean, I'm not underwriting everything that you fellows said, but I think it's glad to have said it just at this time. And I think it's all to the good, and whenever the Ways and Means is going to be ready, why I'm ready.

W: Well, I'm glad -- well, fine. Well now, of course, we're on that social security now.

WJR: Yeah, when do you think you're going to be ready?

W: Well what we're doing -- of course, you know the real job we're doing in social security is laying the record to form public opinion against these felicitous schemes.

WJR: I know.

M: And I really think we're doing a good service from that angle because it means a lot of time and all that, but we've got to meet it some day.

HMJr: Well just keep this in mind - I'm going to tell this to Jerry Cooper when I see him at noon - I expect to go away on the twenty-fourth of this month.

M: Uh huh.

HMJr: Will be gone for two weeks.

M: Yeah.

HMJr: So whenever you fellows start on this tax bill, of course, I want to be there the first day.

M: Well, the -- you know what entered my mind -- why don't you take -- Jerry, of course, is chairman of the subcommittee and a fine fellow --

HMJr: Yes.

M: And I'm -- I'm on the subcommittee also.

HMJr: I know that.

M: Why don't you suggest to Jerry that before he -- if we don't have any official meetings of the subcommittee that -- sort of get the Democrats on it together so he can -- so before you go away we can get into a sort of a little huddle and have a general idea of what you -- what you have in mind.

HMJr: What Bob Doughton calls his kitchen cabinet.

M: Exactly.

HMJr: I'll -- I'll suggest that. I -- that's a good idea.

M: That's -- that was what I -- I've had that in mind and I think it would be -- we fellows can be -- we fellows can be sort of looking into it ourselves and then -- then we'd be in a position to -- where we could carefully get the advantage of anything and then -- I mean from a public angle -- and sort of lay the foundation.

HMJr: Well --

M: Any -- any plan you have we could put through the House.

- WJF: Well, that isn't what we wanted -- I agree with you. We want the party to get the credit for it.
- M: Certainly.
- WJF: And I want to work with you fellows the way I have for six years now.
- M: Uh huh.
- WJF: And when I see Jerry I'll tell him, now if he wants to have a little meeting anytime, why I'd love to come up and sit down with you fellows.
- M: Well I -- I personally feel -- Jerry and I are very friendly. I'm a great admirer of his; I -- there's -- the subcommittee as a matter of fact, last year when Fred Benson was appointed Judge, I said to Jerry and Bob Doughton -- I says, "I want you to understand my position." I'm senior to Jerry on the general committee, but Jerry is senior to me on the subcommittee.
- WJF: Yeah.
- M: I recognize on subcommittee seniority.
- WJF: Yeah.
- M: I says -- now once -- I'm telling you this so there will be no misunderstanding -- I said, "I'm not waiting for you to come to me; I'm coming and letting you know."
- WJF: Fine.
- M: Then some columnist tried to, while we were home, create the impression that there was a controversy, because that was -- because certain -- I suppose, certain business interests would -- wanted to do it.
- WJF: Yeah.
- M: Now when I came back I met Bob Doughton and Jerry and I told them the same thing. I said, "Never mind what any columnist said." The first I knew about it was when I read it in the paper myself. And I said, "no matter what I told you last year stands." I said, "Jerry Cooper should be chairman of the subcommittee, and I want you to know, Bob Doughton, that I -- that as far as I'm concerned, I'm recommending it."

HMJr: Uh huh.

U: And there's no embarrassment to me. As a matter of fact I -- I -- it's only just; it's only fair; and so that you will have no feeling of disturbance or embarrassment, I'm telling you what my views are.

HMJr: Good.

U: And it's the only manly thing to do.

HMJr: That's right.

U: Because four or five years ago, you know, they worked during the summer time on the -- on tax avoidance -- I could have been on the subcommittee then, but I'd rather -- I'd rather been up -- I'd rather been up in -- I'd rather be in New Hampshire.

HMJr: Yeah.

U: And, hell, those fellows -- the only fair thing to do is to recognize seniority in the subcommittee, and I'm -- and -- so that I -- I referred to this so that you'll understand that my state of mind was that I was for Jerry Cooper for chairman of the subcommittee because he deserved it.

HMJr: Uh huh. Well, I'm glad to have had a little talk, and I'll make the suggestion to Jerry and see what will happen.

U: And tell me while I've got you, is there anything new on my collector?

HMJr: No I haven't heard a word. I'm just sitting tight, and I'll get my tipoff from the chairman of the National Democratic Committee.

U: I see.

HMJr: And I haven't heard a word, and nobody has talked to me.

U: I get you. All right.

HMJr: That's where she stands.

U: All right, fine.

HMJr: Good bye.

U: All right, good bye, Mr. Secretary.

March 15, 1939.
3:49 p.m.

FMJr: Hello.

Robert
Wagner: Hello.

FMJr: Bob?

W: Yes, Henry.

FMJr: How are you as a gold expert.

W: Well, I tell you, we are going to have an awful battle on that, Henry.

FMJr: Are we?

W: I'd like to talk to you about it. Oh, yes. My fellows are leaning the other way - they are getting - they are all becoming friends of business.

FMJr: I see.

W: And they say that business - I talked to several of them, but we'll go along a little ways to see if we can "feel them out" a little.

FMJr: Yeah. Well, I'm -- I'm --

W: I mean, I always look facts in the face, you know.

FMJr: Yeah. Well, when can we get together?

W: What's that?

FMJr: When can we get together?

W: I'd like to drag this just a little bit to see -- see -- let the House -- if the House should act all right, it'll help a good deal, don't you know, and I understand they will.

FMJr: Yeah. Well, now --

W: By maneuvering a little bit, you know.

FMJr: Yes. Well then you'd like us to put the pressure on in the House and try to get it through there?

W: Yeah, that's what I thought.

HMJr: Yeah.

W: It would help, you know.

HMJr: O. K. Well now, any time you -- you want to let -- see me, I'm at your disposal.

W: Well I -- I'm just trying to "feel" some of these guys out, don't you know?

HMJr: Yeah.

W: Brown of Michigan is apparently -- is away from us.

HMJr: Is he?

W: I don't know who can handle him.

HMJr: Well, couldn't Frank Murphy handle him?

W: Well, he ought to, but I think he's one of those, you know, independents -- what they call the fellows that are not rubber stamps.

HMJr: (Laughter)

W: You know?

HMJr: I don't know those guys.

W: Yeah, I know.

HMJr: (Laughter)

W: You know -- you know what I mean.

HMJr: I know what you mean.

W: Yeah.

HMJr: Well I'm here at any time you want me.

W: Well I -- you gave me a thought; I think I'll talk to Frank about that.

HMJr: Yeah.

W: But he mustn't give me away.

HMJr: Oh, no, no.

- 3 -

W: Yeah.

HMJr: Well now look, anytime --

W: Maybe you'd better do that, Henry.

HMJr: Ah --

W: Or do you think I'd better do it; what do you think?

HMJr: Well, -- ah -- why don't we both do it?

W: Well, all right.

HMJr: Or maybe it better come from you, I think.

W: All right, I'll call him up.

HMJr: I think -- but I want you to know this -- I'm tremendously interested. Anytime I can help, you call on me--

W: Yeah.

HMJr: And I'll come up on the Hill in five minutes' notice.

W: Yeah, well I want to -- the work you'll have to do will be to see some of these fellows.

HMJr: Well, whenever you're ready, you tell me.

W: Yeah. Well I -- of course, Adams, I guess you can do nothing with. I think he has settled the other way.

HMJr: Well, supposing we put the pressure on the House and get it through.

W: Yeah. That's the thing -- that'll help a lot.

HMJr: And -- how do you like our tax program?

W: Well, what is it? I've been trying to find out.

HMJr: Yeah.

W: He's going to let the rich off and tax the poor, or what --

HMJr: Oh, no; nothing like that.

W: Well, I mean, I hear so many reports of --

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HMJr: Yeah, well --

W: In the meantime Hitler is -- is moving to the east, you know.

HMJr: I know.

W: He's keeping -- keeping away from us.

HMJr: I know. Well, all I can say is we had a good meeting today and we're making steady progress.

W: Yeah, that's the thing.

HMJr: Between Harrison, and Jerry Cooper and the President.

W: Oh, is that so?

HMJr: Yeah, we're getting along -- had another meeting; very good; best feeling all around.

W: Good!

HMJr: And each time a little bit better.

W: Swell. The only thing that you've got to get from them is votes once in a while, do you know?

HMJr: (Laughter)

W: Well all right, Henry, I'll let you know when the thing gets toward a focus, you know?

HMJr: I understand.

W: Yeah.

HMJr: O. K.

W: All right.

HMJr: Good bye.

JR

PLAIN

London

Dated March 15, 1939

Rec'd 4:41 p. m.

Secretary of State,
Washington.

336, March 15, 7 p.m.

FOR TREASURY FROM BUTTERNORTH.

1. In the course of a statement in the House of Commons this afternoon on the division and absorption of Czechoslovakia the Prime Minister announced that of the pounds 10 million credit in the Bank of England (my 119, January 28, 2 p.m.) "the late Czechoslovakian Government" had withdrawn to date pounds 3,250,000. The balance of pounds 6,750,000 still remained in the Bank of England and that steps have been taken so that no further payments should be made "until the situation has been cleared up and definite conclusions reached".

The British Treasury informed me that this was all that could be publicly said at the moment but that the real fact was that the British Government had no definite information as to what would be the future status of the component parts of Czechoslovakia.

A

-2- #336, March 15, 7 p.m., from London.

A well informed and reliable Czech source states that gold and foreign assets in the Czechoslovakia National Bank amounts to the equivalent of pounds 25 million; that about pounds 1 million of the money advanced by Great Britain which has come into the possession of the Czech authorities remains allocated but unspent; that the holdings of foreign assets by Czechoslovakian citizens which have been declared and deposited with the Czechoslovakian authorities is "very substantial" and must total well over pounds 10 million; that there are no doubt hidden reserves of the Czechoslovakia National Bank and foreign balances and assets of other Czechoslovak banking institutions. My informant pointed out that besides these foreign assets which will in due course pass into German hands Germany will also acquire much needed locomotives and rolling stock, the use of three big armament plants as well as existing armaments and airplanes. On the other hand Germany will also acquire the burden of supplying raw materials to Czech industry if it is to be beneficially employed.

2. The British security markets have been weak today but the volume of trading has not been large.

There

-3- 3356, March 15, 7 p.m., from London.

There is no atmosphere of tension such as existed at the time of the Anschluss not to mention the crisis of last September but the tearing up of the Munich Four Power Agreement will leave a lasting imprint on the city and on British public opinion generally.

3. In the course of a conversation last evening Ashton-Gwatkin told me of his recent discussion with Funk touching on certain financial matters which may be worth recounting as having in-between-the-lines significance. Funk maintained that he was personally opposed to exchange controls which he termed "a cursed system" and expressed a desire to consolidate Germany's external debts in a single loan. His vague and nebulous plan was that the B.I.S. should consolidate all Germany's external long-term obligations which Germany would then agree to service and amortize. Furthermore the standstill credits should be divided into 3 (9) current trading credits and more or less fixed investment credits; the latter could be consolidated with the long-term obligations. Funk claimed that he felt it was disgraceful that German foreign obligations should be selling at a discount abroad. He stated that he had informed Hitler that it was his ultimate aim to establish

-4- #336, March 15, 7 p.m., from London.

establish the mark as "noble" international currency. When queried about this he admitted that he was thinking in terms of a two mark system; an internal mark which would preserve its internal purchasing power and an external mark for transactions abroad. When asked how such a system would differ from exchange control he grew even vaguer. But what was clear was that he was seriously concerned about the German balance of payments. What seems clear to me is that a rearrangement of the standstill to include some such differentiation as that mentioned above is being thought about.

4. The dollar has been strongly bid all day. The main support for the pound came through the Bank of France selling dollars freely and buying substantial quantities of francs. Of the 155 bars sold at gold fixing 23 were married and the British fund supplied the remainder. No substantial dealings occurred after fixing.

JOHNSON

NPL

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 15, 1939, 5 p.m.

NO.: 489

FROM COCHRAN.

The breaking up of Czechoslovakia is reflected in continuous nervousness on the Paris exchange market. This morning sterling was gained by the French control, but the control has been selling dollars through Guaranty, Chase and Lazard's this afternoon, presumably to help relieve pressure on the British control. By half-past three this afternoon Guaranty alone had sold \$2,000,000 for the control. It was necessary for the rente fund to intervene to support French rentes. Although it is not expected on the Paris market that France will become involved in any international complications because of the happenings in Czechoslovakia, trades are somewhat confused because these moves have been so sudden.

I refer to the second paragraph of my telegram of March 14, No. 478.

Market gossip is to the effect that the French six-year consolidation loan will be for the sum I mentioned, will carry 3 3/4 percent interest, and will be issued at 98. However, I have not been able to get official confirmation as yet, because the official of the French Ministry of Finance with whom I spoke at 4 o'clock today said the arrangement had not been finally concluded.

END MESSAGE.

BULLITT.

March 18, 1939.
4:18 p.m.

HMJr: Hello.

Operator: Mr. Farley. Go ahead.

HMJr: Hello.

James
Farley: Hello, Henry. I thought I could see you today, but I got all jammed and I'm going to be late tonight, but I'll be back next week and I'll give you a ring just as soon as I get back.

HMJr: What a pal!

F: Well, I -- I just can't help it.

HMJr: O. K.

F: Is there anything special that.....

HMJr: No. No, I just wanted to swap stories with you.

F: O. K. Well, I'll, positively, you can count on it, I'll give you a ring Tuesday when I get in.

HMJr: I want to talk to you about Florida.

F: Yeah, O. K. He doesn't want to do anything down there, for God's sake, does he?

HMJr: Yeah.

F: He does?

HMJr: Yeah.

F: Well, it's just too silly for words.

HMJr: And how!

F: Huh?

HMJr: And how!

F: Can't you talk him out of it?

HMJr: Well, I'm still sitting; I'm old Sitting Bull.

F: Yeah. Well I'll -- I'll go to him then. I'll try to help you on that.

HMJr: I need some help.

F: I don't know whether you need -- I can be of service, but I'll do what I can.

HMJr: Yes, you can. I need some help badly.

F: Well, I'll try to help you there.

HMJr: O. K.

F: I just autographed a photograph for you and I'll read the inscription. I trust it will meet with the -- your approbation; that's a good word, isn't it?

HMJr: Very good.

F: "A real old friend who has my most sincere respect and admiration".

HMJr: Wonderful!

F: O. K., sir.

HMJr: Thank you very much.

F: All right, Henry. You're all right yourself, are you?

HMJr: I'm -- I'm pretty well.

F: Good. Well, take it easy; and keep cool, calm and collected.

HMJr: All right.

F: O. K. Oh, protect my interests tomorrow.

HMJr: Right.

F: All right. Thank you, Henry.

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE
CONFIDENTIAL FILES

DATE March 16, 1939,

TO: L. W. Knoke

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND,

I called Mr. Bolton at 10:30 today. Europe was stunned, he said, and semi-paralyzed as Hitler's plans in Czechoslovakia became clearer. It was something that nobody had expected. There would be a growing feeling, he thought, that we are now living in a condition of armed peace or bloodless war with the prospects of open warfare becoming inevitable. The next two or three weeks, he felt strongly, would bring a renewal of the flight of capital from Europe to America. Meanwhile the markets were depressed but not particularly active. He had done \$5,500,000, the Dutch had sold \$9,000,000 and the French had had to support their currency. The belga was practically on the gold point to London and to New York; the Swiss franc had turned weaker. He didn't think that anything could happen in the next few weeks which would bring about a return of confidence. I asked how the last 2 1/2 months had left the British fund; had they lost over that period or managed to hold their own. Bolton wasn't quite sure of his figures other than that they definitely had not lost on balance since the end of the year but probably gained £15,000,000 or £20,000,000.

He did not know the size of Czech balances in London. The National Bank had a small sterling account with the Bank of England and in addition probably a dozen or so other accounts with commercial banks. The National Bank's gold holdings with the Bank of England represented a fair amount.

274 A



Office of the Attorney General
Washington, D.C.

March 18, 1939

The Honorable,
The Secretary of the Treasury.

My dear Mr. Secretary:

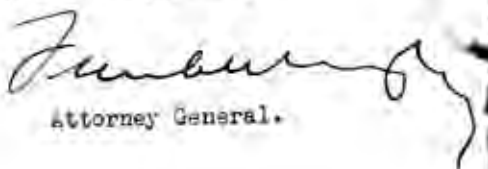
Under date of February 18, 1939, the President addressed a letter to me in which he expressed the desire that I undertake to cause a thorough and comprehensive study to be made of existing practice and procedure of the various administrative boards, agencies, and commissions of the Federal Government, with a view to detecting any existing deficiencies and pointing the way to improvements. I enclose a copy of the President's letter. Accordingly, I have appointed a Committee on Administrative Procedure to undertake this task. The members of that Committee are: Assistant Attorney General Morris, Chairman; Honorable W. Lawrence Groner, Chief Justice of the United States Court of Appeals for the District of Columbia; Solicitor General Robert H. Jackson; Assistant Attorney General Carl McFarland; Assistant Solicitor General Golden W. Bell; Honorable Arthur T. Vanderbilt, of Newark, New Jersey; Honorable Dean Acheson, of Washington, D. C.; Professor Henry Hart, of the Harvard Law School; Professor Harry Schulman, of the Yale Law School; Dean Lloyd Garrison, of the Wisconsin Law School; Professor Ralph Fuchs, of the Washington University Law School, and Professor Blythe Stason, of the Michigan Law School.

I have also provided for the establishment of an Advisory Committee to consist of one representative from each of the several administrative boards, agencies, and commissions of the Federal Government, such representative to be designated by the head of the department or independent establishment concerned. I would therefore appreciate it if you would designate a representative as a member of this Advisory Committee for each administrative board, agency, or commission under your authority and communicate to me the name of such representatives. In case

you are in doubt as to the various units within your department which should be represented, you might appoint a general representative to confer with Mr. Morris on this question.

I feel confident that, with the cooperation and assistance of the Advisory Committee, and sub-committees thereof, there can be accomplished a very valuable contribution in this difficult and ever-growing field of administrative law. I need not, I am sure, say that I will sincerely appreciate your cooperation in this connection, and that of the administrative agencies under your direction. When the members of the Advisory Committee have been named, the Chairman of the Committee on Administrative Procedure, Assistant Attorney General Morris, will call a meeting of the Advisory Committee to plan its work.

Very sincerely yours,


Attorney General.

March 16, 1939

4 p. m.

Present:

Dr. Feis }
Mr. Steinbauer }
Mr. Lochhead }
Dr. White (for part of meeting)

Dr. Feis: Welles is simply gasping for breath.

HM, Jr: I spoke to him because I had a call and then he started to explain and said you were coming over, so I said fine.

Dr. Feis: There are three matters, all of which are connected with this Czech-German situation that he wanted to put up to you.

Simon announced in the House of Parliament today he was asking the Bank of England not to make any exceptional transfers and we thought we would suggest to you, in the light of Simon's announcement, did you want to consider that the Federal Reserve do the same thing; that they should not make any unusual transfers without consulting you.

Mr. Lochhead: The Federal only has \$19,000 balance with the Czechs.

HM, Jr: What do you want us to do? Just tell me.

Dr. Feis: We are honestly thinking out loud. Do you want to discuss it with the Federal Reserve? I am not very well prepared on this because the thing has all come up like a cloud.

The Czech Government -- in the first place, the thought is Czechoslovakia owes the United States Government about \$185,000,000. She has certain bonds issues out in private hands. All we know is that when Germany took Austria it took all the assets of Austria everywhere

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and has not recognized any debts. Therefore, the thought naturally presents itself, Are we just going to let it happen all over again? Nobody knows. There has not been time enough to think about it, but in the event we should, it might be helpful if any stuff that either the Czech Government or Czech banks had over here were kept over here. I don't believe we have any legal authority to do that, but it is something we thought you might like to talk over with the Federal Reserve.

Mr. Lochhead: May I speak here? When this came up, I figured on the Export-Import. I called up Whittemore and asked if they had anything out with Czecho. They have out \$100,000. It is guaranteed by the Anglo-Czech Bank. I asked if they were taking any steps to grab balances. He said Pierson had gone to New York

Dr. Feis: Pierson is here. Spoke to him fifteen minutes ago.

Mr. Lochhead: Maybe he was telephoning. The Export-Import Bank's loan to Czechoslovakian interests is guaranteed by the Anglo-Czechoslovakian Bank. The Anglo-Czechoslovakian Bank has enough balances in the Chase National Bank of New York, at the moment, to cover the obligations due to the Export-Import Bank as well as the obligations due to the Chase.

Dr. Feis: There's your best example.

Mr. Lochhead: I said, "Are you going to get an attachment?" He said, Our obligations are not due yet. I said, It seems to me it is up to some of your legal people to put some stoppage on those whether they are due or not. Whittemore said, Of course the Chase Bank would not honor any call on these funds which might come from the German Government's representative in the United States. I pointed out that the danger was that the Germans would take control of the Czechoslovakian banks and send cable instructions, properly authenticated according to the Chase's code arrangement, ordering payments out of the Czech's bank balance on Chase's books.

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HM,Jr: Let me call up George Harrison. I say, George, talk this over with your attorney if you can put a stop order until we can think about it. If you think you are fairly sure you can get away with it, tell them to hold up until we can get a chance to turn around.

Dr. Feis: The New York banks.

HM,Jr: George Harrison will call up the New York banks and say Washington wants 24 hours - 48 hours to turn around. During that time if you can hold up transactions, we would appreciate it with no recourse on us. They have to do it purely on a volunteer basis.

Dr. Feis: Welles wondered if you wanted to say something like that.

(At this point, HM,Jr placed a call for either George Harrison or Mr. Sproul.)

Dr. Feis: Also those bond issues. Congress might want to do something about it, pass a law authorizing the impounding of this stuff, but if the stuff is out of the country it has nothing to work on.

(At this point, HM,Jr spoke to George Harrison and record of the conversation is attached.)

Dr. Feis: Thanks.

HM,Jr: That's number one.

Dr. Feis: Second: countervailing duties action.

HM,Jr: You don't want to wait until Monday week?

Dr. Feis: You have the idea. Welles is planning to call in Thompson tomorrow evening -- the German charge, and put him on record that this is coming.

HM,Jr: Tomorrow night?

Dr. Feis: Tomorrow night. Take it that is satisfactory to the Treasury?

HM,Jr: Sure! The President so directed.

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Mr. Foley: The sooner the better.

(Dr. White joined the group here.)

HM, Jr: (To Dr. White) I don't know what you are doing, but this is more important. We have just stopped all payments on Czechoslovakian banks. National Resources can wait. We have asked American banks voluntarily to make no payments. We can't sit around and wait while you talk about electric power, soil erosion!

Dr. Feis: Tomorrow evening the Charge is to be told the Treasury feels called upon to apply countervailing duties.

That brings up the question as to what form Welles is to put this in and, after all, it's a very technical and unfamiliar ground, so he asked us to phrase up for him just what he would say and may I read it to you? "On the basis of a study of the actual experience under certain so-called "barter" transactions in German-American trade, the Treasury Department has come to the conclusion that those transactions involve the bestowal upon German exports to the United States of a bounty or grant within the meaning of Section 303 of the Tariff Act of 1930. The Treasury Department therefore proposes, under the mandatory provisions of Section 303, to impose and collect countervailing duties upon such imports into the United States in an amount equal to the amount of the subsidy."

Dr. White: That sounds all right with a slight change.

HM, Jr: Go over and sit down there.

(While White, Foley, Lochhead and Steinbauer worked on the draft, Dr. Feis and HM, Jr continued their conference.)

Dr. Feis: The third thing is this. What I am saying to you now

HM, Jr: Excuse me a moment. (To the group) I think you ought to read it to Johnson.

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Dr. Feig: This thing is all subject to a meeting that will take place in the Department later in the afternoon between geographical officers, legal advisers and Welles and so on, but that meeting will consider the subject in the light of this action of the German Government.

(At this point, George Harrison phoned the Secretary and copy of their conversation is attached.)

HM, Jr: What's this other thing?

Dr. Feig: A meeting is about to take place. The question before the meeting is this: in view of the German Government's action, can it be said that the Czech Republic with which the Trade Agreement was negotiated is no longer in existence and that is so does not or is not then our Trade Agreement with Czechoslovakia out of existence? That is the question they will discuss this afternoon. Mr. Welles asked me if I would put this up to the Treasury: if that meeting comes to the conclusion I have indicated, would it not then follow that the Customs would issue an order?

HM, Jr: That's right?

Dr. Feig: At once.

HM, Jr: That's right.

Dr. Feig: Saying that these rates were no longer applicable.

HM, Jr: That's right.

Dr. Feig: That's question A. Question B, resulting from something I raised, whether if such an order was issued, should it or should it not include a time period.

HM, Jr: We do it the same way we did the other thing. The way we did it before. Anything that was loaded on the freight car ready to be shipped; in the cars.

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Dr. White: Or en route.

HM, Jr: I would handle it just the way we handled the other.

Dr. Feis: You mean Sudetenland?

HM, Jr: If it was in the cars

Dr. White: Whichever gave them the greatest chance.

HM, Jr: Consular invoice or in the cars.

Mr. Steinbower: Another question. Not only do you affect glassware from Czechoslovakia, but that would also automatically refer to imports from Belgium. That would not arise in the Sudeten case. We withdraw this concession not only from Czechoslovakia, but every other country

HM, Jr: You mean because if you had a trade treaty with Czechoslovakia, then that same concession also went to Belgium?

Dr. Feis: That's right.

Mr. Steinbower: It goes to every country except Germany.

HM, Jr: Let me ask you this. Legally, couldn't you as a friendly gesture continue to let Belgium have it?

Mr. Steinbower: Not if you let the agreement go out of existence.

Dr. Feis: There is no way.

Dr. White: But they are not so very important for the other countries.

(At this point, HM, Jr asked the operator to have Mr. Johnson of Customs come to his office.)

But this can be done, by virtue of the fact that

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Czechoslovakia may cease to be the most important supplier and the other country might become so, we would have to re-negotiate.

HM,Jr: But as of overnight you can't?

Dr. White: I am not so sure it might not be done.

HM,Jr: The point I raise, it would be a terribly nice thing if you did not punish all the rest of the world just because Czechoslovakia became part of Germany, but I don't know.

Dr. Feis: Unless Johnson has some idea. It's all legal basis. If it cannot be done, my thought was since much of this goods anyway is imported under letters of credit or acceptances with which the American importer would have to go through with, the higher rate would fall on your American importer -- whether you want to consider a 30-day notice. We are not urging that.

HM,Jr: Let me get this straight. Suppose you fellows declare tonight -- when are you having your meeting?

Dr. Feis: That's the point. The White House has worked over this. Welles is so mad he can't see.

HM,Jr: Which way is the White House?

Dr. Feis: It's not worked up on this specific thing. It's general. The White House is sore over what Hitler has done and they want to give some consideration to it, so Welles would like to do this, if possible, tomorrow night.

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- Leis: Now, subject to that agreement in the meeting this afternoon - as I say, if this afternoon's meeting comes to another conclusion, then forget this conversation.
- H.M.Jr: All right. What we'll do is, the three of you go to work with Johnson - I've sent for him - and begin to draw up rules and regulations for the Treasury as of (1) Czechoslovakia become part of Greater Germany. Right?
- Leis: Well, I'd rather put it this way: as though the independent Republic of Czechoslovakia, with which this trade agreement was negotiated, were no longer in existence.
- H.M.Jr: And (2) just see whether there is a chance, in doing it, that due to the cancellation of the Czechoslovakian trade treaty - whether there is a possibility of extending the most-favored-nation clause - is that it, or what do you call it?
- Leis: No, of retaining
- H.M.Jr: ... the same schedules?
- Leis: ... the same rates on the same products coming from other countries: the same lowered rates. But I'm virtually certain there isn't.
- Withdrawer: Well, may I interrupt there? There wouldn't be a question of maintaining them indefinitely; I think we'd have to renegotiate them. The question would be, if you wiped them out from Czechoslovakia, would there be any way you could still let them run for thirty days against the other countries.
- H.M.Jr: You fellows have got to explore it.
- Withdrawer: There is a third point. There is a difference between declaring them an independent country and considering them part of Germany, and that is one which may relate to exchange and the possibility that additional countervailing duties might be imposed, where the goods are dumped, because of that determination.

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Reis: Let's not face that one tonight. That's still another one.

H.M.Jr: would you do this, Herbert, so that we get the thing. ...

Reis: You've got it down there.

H.M.Jr: No, as you people make up your minds or shift, see, will you let Archie know?

Reis: I can see this meeting going on in the Department for all hours. While we're over there on that, if your staff could be considering this on this supposition ...

H.M.Jr: Then tomorrow morning we could talk about it, huh?

Reis: Now, on that other thing you took out ...

Poley: Here it is. (referring to attached summary statement)

Reis: Is it satisfactory to you now?

Poley: Instead of saying "a study of the actual experience," let's say "on the basis of an investigation of developments in so-called 'barter' transactions." Otherwise it's all right.

Reis: If Welles then reads from this when they're seeing Thomsen, that's satisfactory to the Treasury.

White: Is that going to be made public?

Reis: No.

Poley: It's his statement to Thomsen when he comes in.

Reis: This is awful strange stuff to Welles, and we just want to be sure he puts it in that language.

H.M.Jr: And the President of the United States directed the State Department to so inform the representative of the German Embassy here.

White: But not the press.

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Feis: This is just to tell Thomsen that it's coming.
Now, when are you going to take your action?

H.M.Jr: The President told the Attorney General to bring
in a ruling a week from Monday.

Feis: Well, that puts the German Government on notice
between now

H.M.Jr: ... and a week from Monday.

Feis: A week from Monday.

Foley: Would you want to O.K. that?

H.M.Jr: Keep it?

Foley: O.K. it.

H.M.Jr: O.K. it. (Initials statement)

Feis: On the other, I'll get in touch with your group
in the morning.

H.M.Jr: Now I'm going to call you "Cautious Herbert."
All right?

Feis: That's fine.
And on the first one - what was the question? -
I'll report agreement.

H.M.Jr: You've got a hundred percent cooperation around
here. Hasn't he?

Stinebower: Perfect record.

H.M.Jr: As a gold devaluationist, you're all right.

Stinebower: There's one further question on this last point.

Lochnead: I'm glad we told New York we're selfish. I think
it's time we started to be selfish.

Feis: That argument of George Harrison's is the silliest
one

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H.M.Jr: Anything else today?

Feis: No.

H.M.Jr: If I bring up something in a kidding manner, do you promise not to pursue it?

Feis: Please.

H.M.Jr: What?

Feis: Yes.

H.M.Jr: Yes?

Feis: Yes.

H.M.Jr: I was all prepared for cotton, and thank God you didn't mention it. Good night. Good night.

an investigator 7 developments in

On the basis of [a study of the actual experience under certain] so-called "barter" transactions in German-American trade, the Treasury Department has come to the conclusion that those transactions involve the bestowal upon German exports to the United States of a bounty or grant within the meaning of Section 303 of the Tariff Act of 1930. The Treasury Department therefore proposes, under the mandatory provisions of Section 303, to impose and collect countervailing duties upon such imports into the United States in an amount equal to the amount of the subsidy.

March 18, 1939.
4:10 p.m.

WMJr: Hello.

Operator: Governor Harrison.

WMJr: Hello.

George Harrison: Hello.

WMJr: Hello, George.

H: Hello, Henry.

WMJr: How are you?

H: O. K., thank you.

WMJr: George, Herbert Feis is here from the State Department. I've got the loud speaker on, see?

H: Yes.

WMJr: They've come in, in an informal way, to talk to us about deposits of both the Czechoslovakian Government and banks in Czechoslovakia, of deposits in New York. You see?

H: Yes.

WMJr: Now, the thing has come so fast -- talking for the Administration -- we don't know where we're at.

H: Yeah.

WMJr: And the thought was that if you thought well of it, that you might, on a strictly personal basis, ask the New York banks if they could hold things up for twenty-four or forty-eight hours; at least forty-eight hours, Herbert Feis says -- until we could turn around and see where we're at.

H: Yes.

WMJr: They'd have to do it as a volunteer measure without recourse to you or recourse to us.

H: Yes.

WMJr: See? But the State Department feels that if that could be done, it would give us a chance to know where we're at here. We don't know where we're at now.

H: Well, I've gone over the situation pretty well here already.....

HMJr: Yes.

H: And all the banks that I have talked to will probably honor routine drafts. I mean, drafts that may have been put in the mail long before yesterday.

HMJr: Yeah.

H: I don't think any of them will make any unusual payments.

HMJr: Well now, do you think, in view of my conversation with you, that you might talk to the more important ones on a purely informal basis?

H: Does this relate not only to the Czechoslovak National Bank but to all commercial banks?

HMJr: Yes. Yes.

H: And your idea is to hold up all payments?

HMJr: Well, -- just a minute, let me ask Feis -- just a minute.
(Talks aside)

Just a minute, George, please.

H: Yeah.
(Pause)

HMJr: The thought is that all important transactions, see? Hello?

H: Yes.

HMJr: I suppose if the check was drawn, say, prior to yesterday, and is a legitimate commercial transaction, I don't suppose you can ask the banks to hold it up.

H: Yeah, I think that would be a mistake.

HMJr: But anything, I would say, that -- that since yesterday, which is an abnormal transaction, and if they could hold that up.

H: Yes. All important transactions originating since yesterday.

HMJr: Yes.

H: Well that's all right. Until -- for two days, or until.....

HMJr: Well, let's -- let's say until Monday the -- or if the State Department knows sooner, they'll let us know at once.

H: Yeah.

HMJr: Today is what, Wednesday?

H: Today is Thursday.

HMJr: Thursday -- well, if they could -- until -- until -- let's say until Monday and then the State Department by Monday will -- will contact me again.

H: Yes. And then -- till I hear something more from you. Well now, I can mention this conversation.

HMJr: Yes.

H: That'll make it much simpler for me.

HMJr: Oh, yes, and tell them -- but tell them -- we're asking this but -- it's a volunteer measure and no recourse on you or us.

H: Yeah.

HMJr: But the suggestion comes, you can put it, from the Administration. (Aside: Is that all right, Herbert?) Yes, from -- from the Administration.

H: Uh-huh.

HMJr: See?

H: All right, I see.

HMJr: Now, let me ask your advice. Do you think this is all right?

H: Well, I think it's all right. I think that they ought to do it for their own self-protection, frankly.

I think the way I would do it is hold it up until Monday -- unless there are further developments in the meantime.

HQJr: Oh yes, yes. And if there's anything develops, good or bad, I'll ask the State Department to let me know at once.

H: Yes.

HQJr: But I would like this to go out still tonight, if you don't mind.

H: Well, I'll see what I can.....

HQJr: By phone.

H: Yeah. Well now, I'll be frank with you. This morning I came in -- I, of course, thought about our own account.

HQJr: Yes.

H: We have nineteen thousand dollars only of the Czechoslovak National Bank.

HQJr: Smart boy, huh?

H: And I gave orders that no payments were to be made out of that account without consulting with me.

HQJr: Yeah.

H: And then I changed it so as to say that any payments originating before yesterday in usual course, could be paid.

HQJr: Could be paid?

H: Yes. But anything since then, would be consistent with what now you're asking....

HQJr: Yes.

H: Now.....

HQJr: Well, I'm asking exactly the same rule to be applied to commercial banks that you apply to your own.

H: Yeah.

SMJr: Exactly the same.

H: Yeah. You may be interested -- I don't know whether you know it or not, but Sir John Simon asked the Bank of England to do the same thing.

SMJr: Well I -- I don't know. (Aside: Did you know that, Herbert?) Herbert says that's what brought him over here.

H: Well, I thought maybe an inquiry I made of Moffat this morning made -- they -- in trying to help me and help the market, I spoke to Moffat and told him that the newspaper report.....

SMJr: Feis knows about this. This is all new to me, see?

H: Yeah.

SMJr: But Feis is nodding his head. He seems to know all about it.

H: Uh-huh. Well, all I want to do is to ask them whether they could confirm rumors that the Army had taken over the banks. He didn't know, but said he would send a cable and see what he could find out.

SMJr: Well, he's nodding his head and saying that that cable went out.

H: I see; all right, sir.

SMJr: And, will you let me know tomorrow?

H: I'll talk to you tomorrow about it.

SMJr: Thank you very much.

H: Good bye.

SMJr: Good bye.

JR

PLAIN

London

Dated March 16, 1939

Rec'd 4:06 p.m.

Secretary of State,
Washington.

346, March 16, 7 p.m.

FOR TREASURY FROM BUTTERWORTH.

1. The Chancellor of the Exchequer announced in the House of Commons this afternoon that no request had up to the present time been made for the transfer of any gold reserves held in London by the Czechoslovakia National Bank and that the British Government had requested the Bank of England not to make any exceptional transfer of gold or balances without previous reference to the British Government.

2. The London Stock Exchange was weak this morning and jobbers had to resort to their crisis tactics of widening the spread between buying and selling prices sufficiently to make trading unattractive. But in the afternoon the market developed a measure of strength. Some buying came in so that at the close the price declines on the day were small. Nevertheless the events of the past 48 hours have made an indelible impression on the city, many wishful illusions have been eradicated and the actions
of

-2- #346, March 16, 7 p.m., from London.

of Nazi Germany are being generally seen as openly and unpredictably predatory. Among other things this will mean an increase in crisis consciousness; in the Spring and summer months to come, quite aside from the actuality of Axis tactics, there will be increased market sensitivity to rumors, alarms and excursions. All countries contiguous to Germany or Italy will be potential sources of nervousness; flights for example from the guilder and Swiss franc seem most likely to develop at some stage. America's unique position as a safe repository for funds will be enhanced in the eyes not only of the speculator but of those who seek safety for their savings.

But today given the circumstances the foreign exchange market was comparatively quiet. Although the dollar was bid most of the day the most noteworthy occurrence was the weak tendency of the Swiss franc. Only 83 bars were dealt in at gold fixing 29 of which were married the market supplying all. The premium was unusually high at 1-1/2D.

JOHNSON

HPD

March 18, 1939.
3:40 p.m.

Frank
Murphy: This is Frank Murphy.

HMJr: Yes, Frank.

M: How are you, Henry?

HMJr: Pretty well.

M: That's good. Say, I sent for Raymond Starr.

HMJr: Yes.

M: I talked to -- whom I talked to you about, and he arrived here today and is in town.

HMJr: Yeah.

M: Before you see him I wanted to tell you one thing further.

HMJr: Please.

M: As I have indicated before -- hello?

HMJr: I hear you.

M: What you need is a careful lawyer.....

HMJr: Yes.

M: Not a political philosopher.....

HMJr: No.

M: Or a left-winger.....

HMJr: No.

M: Or a fellow who might be party of any clique or that kind of thing.

HMJr: That's right.

M: A careful lawyer, and the longer I'm in public life a greater regard I have for a quiet, unostentatious, and careful lawyer.

HMJr: Yeah.

M: Of good integrity.

HQJr: Yeah.

M: As Attorney General you could take my complete recommendation of this man.

HQJr: Yes.

M: You -- you would be secure; you could have no concern, and you probably would have a staff managed with greater regard for fine administration of a legal office and you could see it often in Government. Now, I think you ought to talk with him.

HQJr: I'd like to. Now, how long is he going to be here?

M: Well, he's here today and --

HQJr: Only today?

M: Well, he can remain tomorrow, I suppose. I can get in touch with him and --

HQJr: Well, I -- I --

M: Would you prefer tomorrow morning?

HQJr: Well, if I could see him -- I'm going to the Doctor's at nine o'clock -- I wonder if he could come here at eleven-thirty tomorrow.

M: Eleven-thirty tomorrow; I'll get in touch with him.

HQJr: Would you?

M: Yes, Henry.

HQJr: That's Raymond, isn't it?

M: Yeah, Raymond Starr; eleven-thirty.

HQJr: Yeah, I'd like very much to--

M: Raymond -- he's in no sense political, you know.

HQJr: I understand.

M: It's like Harold Smith. Harold Smith isn't political; there isn't anything political about him.

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HLMr: Well, I'd love to see him and --

M: And you would have -- this thing that -- an office of your particular character needs more than anything else. Not political or philosophical advice, but seasoned, mature and careful judgment.

HLMr: Right.

M: See? All right.

HLMr: That goes a long way with me.

M: Well that's the thing, and I -- I know just what you want and I know that some of our friends with the best of intentions would recommend another type of personality for you.

HLMr: I get you.

M: And it's just what you don't want.....

HLMr: Right.

M: In your department.

HLMr: Well I'm ever so much obliged and if you'd ask him to come over at eleven-thirty tomorrow, I'd like very much to sit down and talk.

M: All right.

HLMr: Thank you so much.

M: Good bye.

March 16, 1932.
3:48 p.m.

HMJr: Hello.

Operator: Mr. Welles. Go ahead.

HMJr: Hello.

Sumner
Welles: Hello.

HMJr: Yes, Sumner.

W: Henry, how are you feeling?

HMJr: Pretty well.

W: As Henry Wallace was telling me this morning that you weren't up to the mark I'm sorry.

HMJr: That's right. I haven't seen him or heard from him today.

W: I'm sorry.

HMJr: You mean -- Wallace I mean. Are you sorry I haven't heard from him today?

W: No, I'm sorry for the circumstances.

HMJr: Oh! Is there something you wanted.....

W: Oh, I thought you were calling me. Why, I.....

HMJr: Why should I call you?

W: I tried to reach you, but you were out, and I sent for Herbert Feis and spoke to him about the two matters that I had in mind that I wanted to take up with you, and asked him to see if he could come over to see you.

HMJr: He's on the way over now.

W: Is that all right?

HMJr: Sure. Shall I let it go until last?

W: Yeah. I think the -- the specific suggestion I wanted to make is one of real importance and I wanted to see if I could get your decision today so I could take it up with the President early tomorrow morning when I'm going to see him.

- 2 -

HMJr: Sure.
W: Have it explained to you.
HMJr: O. K.
W: Thanks a lot.
HMJr: Good bye.
W: Good bye.

March 18, 1939.
3:49 p.m.

HMJr: Hello.

Operator: Mr. Green. Go ahead.

HMJr: Hello.

William
Green: Hello.

HMJr: How are you?

G: Well, pretty well, Mr. Secretary. How are you today?

HMJr: Oh, I could be worse.

G: (Laughter) Well, if there's room to be worse why you're in pretty good shape. I'll tell you what I called you about -- do you remember the other day I -- you -- I called you about our man Mr. Hoffman?

HMJr: Yeah.

G: Sent back here, and you reported that you would arrange to have it done and I was very happy.

HMJr: Yes.

G: Now they report that the -- the matter has moved in this way, that he is to be transferred to Baltimore. Well, of course, there isn't much difference in Baltimore and Philadelphia.

HMJr: Well, as I -- as I remember it -- maybe I'm wrong, because there's a lot of things that I try to do, but I thought I said I'd look into it. I didn't think I'd made any promises.

G: Well the -- the request I made was that he be retained here in Washington because of the very active part he played in our American Federation of Government Employees union.

HMJr: Right. Now, here's the situation, I -- I think we've moved, I think it's some six hundred people out.

G: How's that?

HMJr: We've moved, I think it's some six hundred people out of Washington into the field.

- 2 -

Q: Uh-huh.

WJR: To decentralize this thing.

Q: Yeah.

WJR: And up to now, I haven't made a single exception.

Q: Yeah.

WJR: And we've had requests from everybody, and we're trying to meet the taxpayer in the field and give him a "Yes" or "No" and not make him come to Washington.

Q: Uh-huh.

WJR: Now, it's -- it's a complete decentralization of the office.

Q: Here -- here in Washington?

WJR: Yes, we're -- we're closing down.

Q: Oh!

WJR: And moving these people out into the field, and as I understand it -- I've spent quite a lot of time on this Hoffman matter -- that we put it up to him, would he be satisfied on the Baltimore, even though it meant a reduction in salary and the answer I got back was that he was satisfied.

Q: He -- he said he was satisfied.

WJR: Hoffman said he was satisfied.

Q: Uh-huh. Well, our interest in the matter was to have him remain here because he -- he was an officer of the -- of the -- the big local union here of the --

WJR: Here's the situation --

Q: Government employees.

WJR: I'd do it for anybody -- I'd do it for you, but I haven't -- I think it's six hundred people out of Washington --

Q: Uh-huh.

- 3 -

WMJr: I've had to take the position from Senators and Congressmen that this office is going to be closed down.

G: Yes.

WMJr: And these people have to go to the field and do their work in the field. And up to now I haven't made an exception for a single person, and it would be terribly hard to make one exception and then every Senator and every Congressman is going to be sore.

G: Uh-huh.

WMJr: But as long as I treat everybody the same, nobody can -- who is fair-minded -- can be displeased at me.

G: Yes.

WMJr: And we've treated everybody alike.

G: I see.

WMJr: Now that's the situation.

G: So that -- I suppose it would be -- that means you could scarcely bring him back here then?

WMJr: I really -- and -- and not -- and be fair to the other five hundred and ninety-nine.

G: Uh-huh.

WMJr: It really wouldn't be fair to them.

G: I see. Do you think that you might be able to do it later on sometime?

WMJr: No, I wouldn't want to, because -- no, the office is in the process of being decentralized and the men sent from here to the field.

G: Yeah.

WMJr: And that's been going on now for -- oh, almost a year.

G: Yeah.

WMJr: And as far as I know, I haven't made one exception.

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G: I see.

WMJr: And the pressure on us has been something terrific.

G: Uh-huh.

WMJr: To keep the people here. They've got their homes and everything else, but it's like whatever you try to go States' rights and left Federal, there's always this terrific kick.

G: Yeah. All right, thank you, Mr. Morgenthau.

WMJr: I want you to know that Hoffman said he was satisfied.

G: Uh-huh.

WMJr: But he --

G: He said he was satisfied?

WMJr: Hoffman reported he was satisfied.

G: Yeah. All right, thank you, Mr. Secretary.

WMJr: Thank you.

March 16, 1939.
3:57 p.m.

HMJr: Hello.

Operator: Secretary Wallace.

HMJr: Hello.

Henry Wallace: Yes, Henry?

HMJr: Thank you so much for going up and testifying.

W: Well, I hope it did some good.

HMJr: I read it on the ticker and it read very well. I'm sure it did a lot of good. I appreciate it very much.

W: That's fine. Did you - did get in touch with you?

HMJr: No. Feis is sitting in my outer office now and I can smell cotton.

W: I see.

HMJr: So - what it is.

W: Yeah.

HMJr: So, if there's anything you wanted to give me to guide me.....

W: Jesse Jones and I called on Senator Bankhead and Senator Smith today.....

HMJr: Yeah.

W: Senator Smith is in - Oscar Johnson had just been in to see him and we found him in a difficult mood.

HMJr: Well, I have your plan before me. See?

W: Um-hm.

HMJr: And as far as I'm concerned - I mean, of all the things that have been -- I mean, this is the one entitled "Exportation of Surplus Cotton Under Government Loan". Hello?

W: Yes, I -- just a second -- just a moment, please.

Operator: Operator.

W: You got -- hello?

MR: Hello.

W: Hello.

MR: Yes.

W: Just a second. (Aside: Have you got a copy of that plan?)

MR: Hello.

W: (Aside: Let me see it -- yeah -- is this it?)

MR: Hello.

W: (Aside: You don't have it?) How does it start out reading, Henry?

MR: About "(a) Transferring cotton from Government loans to normal channels of trade; (b) Financing the loss to be incurred"; does that sound familiar? "(c) Preventing the domestic price of cotton," and so forth.

W: Yeah, that's right -- that's right; that's what I -- that must be the one I left with the President yesterday.

MR: Well, this is the one you sent me.

W: Oh, yes.

MR: Now, as far as I'm concerned -- I mean, I'm not ex -- I'm in the Treasury, but unless somebody can show me different, I'm going along with you on this.

W: Now, does it get down to this on -- under a big "A" "Transferring cotton from Government loans towards the normal channels of trade"?

MR: That's right. That's right.

W: Well, I think that's -- I think that's probably identically the same memorandum I have before me this minute. "(b)".....

MR: Dated March 13th.

- 3 -

W: Dated March 13th?

HMJr: Yes.

W: Well, it's been a slight change. We've got.....

HMJr: Well.....

W: Under date of March 14th.

(Operator interrupts)

HMJr: Hello.

Operator: Operator.

W: I think it's the same thing.

(Line disturbance)

W: Hello?

HMJr: There's something the matter on the phone.

W: Yeah, they keep buzzing it.

HMJr: Well, as far as I'm concerned -- I mean, after all,
-- to work it out with cotton.....

(Line disturbance)

W: Hello?

HMJr: Hello? It's -- that's your problem, but this looks --
I'm willing to go along with you on this, see? Hello?

W: Yes, Henry.

HMJr: Do you hear me?

W: Yes, I've got you now.

HMJr: See? I mean, you're not going to have any trouble
from the Treasury on this.

W: I see.

HMJr: See? I mean, I'm not going to go out -- I mean, my
position is this: Wallace is responsible for cotton;
this looks good to us.

W: I see.

HMJr: I mean, as a plan without getting into the details.

W: Yeah.

HMJr: You see what I mean?

W: Yeah.

HMJr: And it's all right with us.

W: Well that's -- that's fine. I tell you what -- this is what we run into with Bankhead.....

HMJr: Yeah.

W: That he's a little afraid that it may break the domestic price. Bankhead is very sensitive.

HMJr: Yeah.

W: It might conceivably break the domestic price for a month or two.

HMJr: Yeah.

W: Not seriously, but some, and he's very sensitive about inventory stocks in the hands of the mills.

HMJr: I see.

W: And he'd like to get that part buttoned up, but Bankhead is disposed to go along.

HMJr: Uh-huh. Well.....

W: I would.....

HMJr: Let me -- may I just say this: Just count the Treasury -- as long as you're fooling around with this, this stays about eighty-five or ninety per cent the same. See?

W: Yeah.

HMJr: You don't have to worry about us.

W: Now, Henry, Bank... -- or Oscar Johnson is calling on the President tomorrow. The President has asked me to be present.

- 5 -

HMJr: Good !

W: I suggested that it might be a good thing if you and Jesse Jones were also present; I don't know what his -- I don't know whether they are going to ask you to be or not.

HMJr: Well.....

W: I would -- I would -- I think it would be a fine thing if you and Jesse could be there.

HMJr: Well, I've got this Fiscal and Monetary Committee from ten to eleven-thirty.

W: Uh-huh.

HMJr: See?

W: Well, this would be coming about -- about eleven forty-five.

HMJr: You really want me there?

W: Yeah.

HMJr: Well, if you want me there, I'll be there.

W: Fine. Good.

HMJr: All right. All right.

March 16, 1939.
4:26 p.m.

HMr: Hello.

Gov. Geo.
Harrison: Hello, Henry.

HMr: Yes, George.

H: I just started to call up and then before doing it, one thing occurred to me. You asked me whether I thought this was all right and I do.

HMr: Good.

H: . . . it's
Because/what we're doing -- but thinking ahead a little bit; you know the Export-Import Bank has got first guaranteed credits here.

HMr: Yeah.

H: I don't know whether they are going to take steps to protect themselves on those guaranteed credits.

HMr: Now let me -- wait a minute, Archie Lockhead is right here. (Aside: What are they doing, Archie?)

(Pause)

Archie says the account is with the Chase and that Pierson is supposed to be working with Stern on it.

H: Who is supposed to be?

HMr: Warren Pierson.

H: Lockhead is.

HMr: Warren Pierson.

H: Oh, I see.

HMr: Is supposed to be working with Stern of the Chase.

H: I see.

HMr: The account is with the Chase.

H: That's what I had in mind it is. I think it would be awfully embarrassing to have you or me.....

HMJr: Yeah.

H: If we call him up -- suggest even that they do not make out payments, and then the Export-Import Bank decides to slap a lien on these accounts -- do you see my point? I.....

HMJr: Well, Archie is listening. He's getting it and when he -- when you get through talking, I'll have him call up Warren Pierson at once and tell him what you say.

H: Well, all I mean is, that if there is any chance that they are going to do that, then I think it would be considered -- might be considered bad taste.

HMJr: I see.

H: If you and I suggest that they don't make any out payments because they would say we were doing it selfishly to protect the Export-Import Bank. They'd say those fellows called us up and said don't make any payments and then they put a lien on the account.

HMJr: (Aside: What's the answer?) Wait a minute, let Archie talk to you. You fellows are getting too technical for me. Do you mind?

H: (Laughter)

HMJr: Let -- let Archie talk.....

H: Well, all I'm trying to do is.....

HMJr: Wait a minute; he'll talk to you a minute. Do you mind?

H: Why, sure.

HMJr: They've got a -- the State Department has got a pistol at my head. This is one of three things they want an answer in fifteen minutes. Just a moment.

H: All right.

Archie
Lockhead: Hello.

H: Yes, Lockhead.

- 3 -

21 This morning I got in touch with the Export-Import Bank Whitmore here, and asked them what they had with Czechoslovakia....

22 Yeah.

23 And they have some -- roughly, I think it's about a hundred thousand dollars due them, and the first maturity is towards the end of this month.

24 Yeah.

25 The account -- I think it's the, let's see, Anglo-Czechoslovakian -- one of the Anglo-Czech banks -- the account is with the Chase bank.

26 Yeah.

27 Whitmore tells me that Pierson was in touch this morning because I said that they ought to be doing something to try to protect themselves if there are any balances here. I understand that they checked with Stern and find that there are enough balances there to cover the commitments of the Export-Import Bank in addition to the Chase's own commitments.

28 Yeah.

29 Whitmore was telling me that the maturity -- the first one doesn't come due until the second -- a couple of weeks. They didn't know whether they'd have any right to make any claim on a value that wasn't due.

30 Yeah.

31 I simply told them I thought that it was up to them to try to work out something -- that if the money was there to see that it didn't get out.

32 Well now, that's just my point. I -- if that's true, and that's what the Export-Import Bank is doing, it might embarrass the Secretary if I -- and here's a suggestion now; call up these banks and say don't let those accounts run down.

33 It won't -- it won't embarrass him at all, because, I mean, this is a general protection. I don't think that -- we may be in a position to try to protect the Export-Import Bank over -- over somebody else, possibly. I don't think we could hardly take that

position, but as a general -- as a general protection though, we want to make sure that the balances in that bank don't get out. I think the Export-Import can fight it out for their share of it if they -- as long as they know that nobody else has gotten hold of it yet. And that is -- that is the point they are trying to -- trying to work out. Now, as I say -- what I was afraid of, that they'd get some cable instructions from abroad to pay that balance over to somebody; you see, to a third party.

W: Well.....

L: And that's the main thing. As long as you're going to stop that by doing that now, you see, the Export-Import Bank up to now, as far as I've heard, hasn't figured out any way of getting an attachment on it.

W: I don't think that you quite caught my point. I'm trying to protect the Secretary of the Treasury, and I don't want to put him in the position of having requested banks to volunteer by not making out payments and then maybe next week, or some other week, to have a -- an attachment made by the Export-Import Bank on that account, because these fellows will say, "Why hell, they ask you not to take any out payments, and now they've come in and slapped an attachment on the accounts themselves."

L: Well, of course, to tell the truth, I'm trying to get the viewpoint here. I think that's just the whole thing, they're trying to get the attachment so that the State -- I mean, the Government has a claim of a hundred and sixty-five million or something like that. I've checked all these bonds here and those accounts and they want it so they -- they can get an attachment on it later. I think that's the whole -- the whole reason for grabbing it so the Americans -- Americans here can get a lien on it.

W: Well, I.....

L: I mean, that's the basis the State Department has come in on; the fact that there is a hundred and sixty-five million dollars due to the Government, that there's a certain number of bonds outstanding, and there are other obligations such as the Export-Import Bank, and they want to be sure that these Americans/protected.
are

- 5 -

- W: All right, as long as you know the facts, that's all.
- L: Yes, and in the meantime, as I say, I'm going to get in touch again with the Export-Import Bank. It seems rather interesting -- there was -- the President of that bank, I think, is either in New York or due here any day now, so they will be trying to work out something. But I think what they are all afraid of here that the -- with the Germans in possession of the Czech banks, that they might send over messages to make payments, and that's what they are trying to protect.
- W: Sure. That's what I'm trying to protect.....
- L: Yes. But I think as far as being accused of doing it for selfish reason I'm very -- I think that is a very -- it is a very selfish reason they are trying to do this on.
- W: Uh-huh. All right.
- L: (Laughter) It's -- it's a little high-handed all the way through, but they feel that's all they can do just now is to try to be just a little high-handed also, just now.
- W: Uh-huh. But of course this request remains in effect only until Monday anyway.
- L: Yes. I mean, that's all -- they have to find out where they stand. I mean, you have to have -- I mean this can't be done indefinitely, because I can see the banks would be up against.....
- W: Well, I should think the best protection would be a little -- little frank with these fellows as I talk to them.
- L: I think so.
- W: Huh?
- L: I think so. Oh, I -- I think you have to be fairly frank with them; I mean, it's -- it's a friendly basis; they have to realize why you're asking them.
- W: All right. I think that's the closest of any.....

- 8 -

L: (Aside: What's that?)

H: Is to be frank with them.

(Pause)

L: Well that's -- that's O. K.

H: All right.

TREASURY DEPARTMENT

314

INTER OFFICE COMMUNICATION

DATE

3-17-39

TO Secretary Morgenthau
FROM Mr. McReynolds

H. R. 4425, as reported to the Senate by Mr. Byrnes, provides that in the case of the Federal Deposit Insurance Corporation and the Board of Governors of the Federal Reserve System no reorganization plan formulated by the President shall provide "for the transfer, consolidation, or abolition of the whole or any part of such agency or of its head, or of all or any of the functions of such agency or of its head". The exemption of these two agencies was not contained in the bill as it was sent to the Senate by the House.

In his report, Senator Byrnes explains the exemption of the Federal Reserve Board by stating that the Board supervises the Federal Reserve banks all of whose stock is owned by the member banks of the system; that the expenses of the Board are paid through assessments levied on the Federal Reserve banks and that the funds derived from such assessments are not Government funds or appropriated moneys. The exemption of the Federal Deposit Insurance Corporation is explained "because as in the case of the Board of Governors of the Federal Reserve System, funds are derived from assessment upon banks".

Neither H. R. 4425 as it was sent to the Senate by the House, nor as it was reported by Senator Byrnes with amendments exempted the

office of the Comptroller of the Currency. The explanation for the exemption of the Federal Reserve Board and the Federal Deposit Insurance Corporation would of course be equally applicable in the case of the Comptroller's office.

If the Reorganization Bill is enacted into law as it now stands, any reorganization plan formulated thereunder could provide for the abolition of the functions of the Comptroller's office or for the transfer to or consolidation of those functions with either the Federal Reserve Board or the Federal Deposit Insurance Corporation. No reorganization plan, however, could provide for consolidating or transferring the functions of the Federal Reserve Board or the Federal Deposit Insurance Corporation to any other agency, or for abolishing these agencies. In other words, so long as any two of the agencies which now perform functions with reference to banking are exempted from the provisions of the Reorganization Bill it will be impossible for the President to provide in any reorganization plan for unifying and consolidating all of the banking functions in a single banking agency.

MR

"
Cabinet"

316

COPY

March 16, 1939

My dear Senator Byrnes:

It has been brought to my attention that effort is being made to have the Office of the Comptroller of the Currency exempted from the provisions of the pending Re-organization Bill H. R. 4425.

To avoid any misunderstanding, I think I should advise you that this office has taken no part in any attempt to so influence Members of the Congress. It has, on the contrary, discouraged such action on the part of its friends, and will continue to do so. Aside from the impropriety involved in any intervention in our own behalf, I feel that the decision as to the future status of this office should be left entirely in the hands of the Congress and the President of the United States.

Very sincerely yours,

Preston Delano
Comptroller

Honorable James F. Byrnes,
Chairman,
Select Committee on Government Organization,
Washington, D.C.

March 17, 1935.
11:17 a.m.

317

HMJr: Hello -- hello -- hello -- come on, please.
Governor Geo.

Harrison: Hello.

HMJr: Hello.

H: Hello, Henry.

HMJr: Yes.

H: I've called up all those fellows, and I don't think there's any question that they all agree and will cooperate.

HMJr: Yeah.

H: One had some reservations as to whether they could legally do it in some cases, but they said the power -- was legally within their power, they certainly would do it.

HMJr: Yeah.

H: So, I think that pretty well covers it. Of course, I think that the British are going to go even further than we've done.

HMJr: So I hear. So I hear.

H: They'll just block all assets of all kinds.

HMJr: The thing is moving terribly fast.

H: Oh, I'm -- I'm -- I've just been amazed by it.

HMJr: Yeah. Well, thanks very much; I'll talk to you later in the day.

H: All right. Let me know if there's anything I can do.

HMJr: Well you -- you got the other message I sent.

H: Yes -- that you gave Knoke.

HMJr: Yes.

H: About noon.

HMJr: Yes.

- 2 -

H: Yes. That's not on the radio or anything is it?

HMJr: No, no.

H: Uh-huh.

HMJr: No, no.

H: All right.

HMJr: I'm -- have people here now.

H: Yes. All right.

HMJr: Thank you.

H: I see.

March 17, 1936.
1:00 p.m.

HMJr: Hello.

Operator: Mr. Knoke. Go ahead.

HMJr: Knoke?

L. W.
Knoke: Yes, Mr. Secretary.

HMJr: What's happened today so far with the pound sterling?

K: Pound sterling is four sixty-eight and one-eighth at the moment. That is the order that the British just gave us. We have not operated, but we are just about on the operating point.

HMJr: They have given us order of four sixty-eight and what?

K: One-eighth.

HMJr: And one-eighth.

K: Yes.

HMJr: Well that's fairly generous, isn't it?

K: Oh well, that is -- they are -- that's practically -- pretty close to where the rate has practically been all morning.

HMJr: And what is -- how much have they done today?

K: They have done a total of forty million dollars.

HMJr: They did forty million dollars?

K: Yeah.

HMJr: Wouldn't you -- would you say that they've done all they could?

K: Oh, yes.

HMJr: And has it been effective?

K: Decidedly so, bearing in mind the developments.

HMJr: Yeah. And it hasn't been necessary for us to do anything.

K: Nothing, so far. No.

HMJr: I see. And you're satisfied the way she's going?

K: Well, I think the markets are remarkably steady in the -- in the face of these impossible developments.

HMJr: Now what about the French?

K: The franc? The French have supported; the figure that -- that Bolton gave me for the French was -- was split with the British -- with the -- with the Swiss and the Belgians five million dollars.

HMJr: Well, that's nothing.

K: In other words, not under severe pressure but the -- they have had to support the same as the others.

HMJr: I see; but -- but they together have done five million?

K: They've done five million; the Dutch did ten; and the London market has done about twenty-two twenty-three.

HMJr: Oh, the forty is altogether?

K: The forty is altogether.

HMJr: For everybody.

K: Yeah.

HMJr: Oh, I see. I see. Well, I'm going to talk to Butterworth at one-thirty and I think I'll tell him that we're satisfied what they're doing here -- we hope they keep up the good work, and if there's anything we can do on this side, let us know.

K: Why that's fine. I called Bolton back about -- just before one -- before twelve, to be sure on what they had done with regard to Czechoslovakian balances.

HMJr: Yes.

K: And he -- he concerted to me that that is definite. A letter has been sent by the Chancellor of the Exchequer and has been distributed during office hours to the banks in -- in England.

HMJr: What does he say, the Chancellor?

K: The letter reads as follows:

"His Majesty's Government considering it -- consider it advisable that banks and other financial institutions who hold balances, securities, or gold, of the persons in the former Czechoslovakian Republic, including the former Czechoslovakian Government and National Bank, should not make any payments from such balances or parts of the securities or gold without advice of His Majesty's Treasury."

HMJr: I see. Well, that's certainly clear enough.

K: That's definite, and that letter has been signed and has been handed to the banks and those more directly concerned were advised within -- in advance.

HMJr: Well, they did that today?

K: Yes.

HMJr: And we did ours last night.

K: Yes, well, only that -- that theirs is definite.

HMJr: Well, we haven't got the authority.

K: Yeah.

HMJr: We have no authority. All right. I'll let Archie and he'll let you know what Butterworth says, and I've sent for Bewley also. See? But I'm going to take the attitude -- we think they're doing fine; we hope they'll continue and if there's anything that we can do, to let us know.

K: Well, I think that is the helpful thing to do.

HMJr: Righto. Thank you.

K: Righto.

March 17, 1938.
4:50 p.m.

Operator: Go ahead.

HMJr: Hello.

L. W.
Knoke: Yes, Mr. Secretary?

HMJr: Knoke?

K: Yes, sir.

HMJr: Did we do anything today?

K: It's been very inactive this afternoon.

HMJr: Good.

K: We did fifteen thousand pounds and that's all, and we don't know what to do with it just now.

HMJr: Fifteen thousand pounds.

K: One - five -- fifteen.

HMJr: What?

K: Fifteen. One - five.

HMJr: Oh, I see. You don't know what to do with it?

K: Yeah.

HMJr: Uh-huh. Well.....

K: Apart from that -- I mean, that's the only activity in sterling; the guilders were weak and we bought about two million one hundred.

HMJr: Uh-huh. Well, that's all right.

K: No, the market has not been exciting this afternoon.

HMJr: Thank you. Good night.

V: Good night, sir.

March 17, 1939.
5:22 p.m.

HMJr: Hello.

Operator: Mr. Welles.

HMJr: Hello.

Sumner
Welles: Hello, Henry.

HMJr: Sumner...

W: Yeah.

HMJr: Do I understand that you're going to let a representative of the German Embassy know tonight?

W: That's right.

HMJr: And that is -- up to know they have not been notified?

W: They have not been notified.

HMJr: In regard to the countervailing duties.

W: That's right.

HMJr: Well, I just -- I didn't know whether you did it last night or tonight.

W: No. I put it off -- I thought it desirable to have this come after what was said today instead of before.

HMJr: I see. I see. Well then we're all right. My press release, I think, is either in the process of being let out or will be let out very minute.

W: All right.

HMJr: And I just wondered how the timing was.

W: That's right. Well, he's coming in at six.

HMJr: We're all set.

W: Yeah.

HMJr: The way it works out -- some luck that we didn't do the countervailing duties ten days ago.

W: Oh, I think it is much better.

HMJr: Oh yes, the way it has worked out.

W: Much better.

HMJr: All right, Sumner.

W: It's an accumulative effect.

HMJr: Oh, yes.

W: The general impression on the Hill seems to be very good.

HMJr: It does?

W: As to what we've done today.

HMJr: As to your statement.

W: Yeah.

HMJr: Well, I should think it would be. It was an excellent statement.

W: Well, even Johnson -- Hiram Johnson approved.

HMJr: Good heavens!

W: It's amazing.

HMJr: You're coming.

W: It looks that way.

HMJr: All right.

W: Thank you, Henry.

HMJr: You didn't mind my story on the reason, did you?

W: (Laughter) Not a bit. I thought Henry Wallace looked a little bit sheepish, but that was all right.

HMJr: Well, I thought it was an amusing story.

W: Not a bit.

HMJr: All right.

W: Good bye.

HMJr: Good bye.

March 17, 1939

In answer to my reminder to the President, that he should send Senator Harrison and Jere Cooper the tax information, the President said to Colonel Watson "If Henry reminds me again I will not do it at all. So I stayed behind the cotton meeting to-day and said, "Mr. President, don't you think it would be a grand idea, in order to keep Pat Harrison's shirt on, that Pa Watson should call him on the telephone and say that due to the European situation you had not gotten around to the letter and would do so in a day or two?" With a smile on his face, the President said to me, "That is a good idea. Have Pa Watson do it." I also told Pa Watson to phone Jere Cooper and Watson said, "Who is Jere Cooper" and then I explained.

I stayed behind and told Miss LeHand that I would do the best I could to keep Harrison's shirt on but she would have to help. She said she would try but would not make any promises.

MAR 17 1939

ADD ROOSEVELT

WASHN - PRESIDENT ROOSEVELT SAID TAX DISCUSSIONS ARE STILL IN THE FACTUAL STAGE AND THAT NO DECISION ON POLICY OR METHODS HAS BEEN REACHED - HE INDICATED THAT DISCUSSIONS MAY REQUIRE ANOTHER TWO WEEKS

HE AGAIN STRESSED THE FACT THAT NO THOUGHT IS BEING GIVEN TO A REDUCTION IN THE TOTAL REVENUE FROM TAXES ON BUSINESS

THE PRESIDENT SAID HE INTENDED TO DISCUSS VARIOUS THINGS WITH THE NATIONAL LABOR RELATIONS BOARD TODAY BUT STATED FLATLY THAT AMENDMENTS TO THE WAGNER ACT WERE NOT ON THE AGENDA

THE CHIEF EXECUTIVE DECLARED HIMSELF IN FAVOR OF AN APPROPRIATION FOR GUAM IN THIS YEAR-S RIVERS AND HARBORS BILL

WHEN ASKED FOR COMMENT ON S E C CHAIRMAN DOUGLAS REPLY TO SUGGESTIONS OFFERED THIS WEEK BY THE STOCK EXCHANGES COMMITTEE HEADED BY JOHN M HANCOCK MR ROOSEVELT SAID HE THOUGHT THAT WAS LARGELY A TECHNICAL MATTER AND THE KIND OF THING THAT CAME WITHIN THE SPHERE OF S E C AFFAIRS - HE ADDED THAT HE THOUGHT MR DOUGLAS HAD MADE THAT AGENCY-S POSITION FAIRLY CLEAR

WASHN - PRESIDENT ROOSEVELT SAID HE HOPED TO HAVE A SUPREME COURT NOMINATION SOON BUT WARNED HIS PRESS CONFERENCE NOT TO TRY TO DEFINE THE WORD SOON

MAR 17 1939

FEDERAL RESERVE BANK
OF NEW YORK

March 17, 1939.

Dear Mr. Secretary:

Very little corporate security financing has gone through in the last two weeks; in fact, there was not enough to write about last week. The total for the two weeks comes to only \$11,300,000. Two small utility bond issues supplied \$7,200,000 for refunding and \$600,000 for new capital. The only other issue was \$3,500,000 of common stock in the Lockheed Aircraft Corporation. The Lockheed stock was priced at 31, slightly under the prevailing market, and was quickly sold, even though recent earnings have been relatively low and no dividend is being paid. You will recall that a major portion of the \$17,000,000 of common stock sold last year was in aviation companies.

Eastman Kodak Company has just registered 225,092 common shares to be offered to stockholders in April. The funds are to be used for capital investment gradually over the next few years. The offering price has not yet been filed, so that the amount to be raised is uncertain. If it is sold only moderately under the market price of 175, it will involve over \$35,000,000 and will be the largest issue of common stock for new capital in eight or nine years.

Corporate financing is expected to pick up next week with the marketing of two or three good-sized issues. Others are expected in April. While a marked increase from the exceptionally low recent levels is anticipated, there is as yet no indication of a recovery beyond the levels prevailing during the latter half of 1938.

Municipal bond awards also are at a very low ebb. Awards during the last two weeks combined have amounted to less than \$13,000,000. Market yields of municipal bonds have recently established a new all-time low record, but there is no sign of greater municipal borrowing in the open market. New issues are undoubtedly considerably less than the constant serial maturities.

Yours faithfully,



Allan Sproul,
First Vice President.

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

March 18, 1938.

Dear Mr. Spruall:

For the Secretary I am acknowledging your letter of March 17th.

As you know, Mr. Harguthen very much appreciates receiving these current reports on corporate security financing, which are turned over to him immediately upon their receipt in this office.

Sincerely yours,

H. S. Klate,
Private Secretary.

Mr. Allan Spruall,
First Vice President,
Federal Reserve Bank of New York,
New York, New York.

GW/Dea

Noted

A. Lochfield

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Rio de Janeiro, Brazil

DATE: March 17, 1938, 4 p.m.

NO.: 75

I refer to my telegrams No. 57 of March 4, No. 70 of March 13.

I am told by the Exchange Director that today the Bank of Brazil will close exchange for maturities and daily quotas for the period February 8 - 10.

Inform Commerce.

SCOTTEN.

EA:LWW

March 17, 1939.

My dear Mr. President:

The Second Liberty Bond Act, as amended, provides that the face amount of bonds, certificates of indebtedness, Treasury bills, and notes issued under the authority of that Act, and certificates of indebtedness issued under the authority of Section 6 of the First Liberty Bond Act, shall not exceed in the aggregate \$45,000,000,000 outstanding at any one time and provides further that the face amount of bonds issued within that limitation shall not exceed in the aggregate \$30,000,000,000 outstanding at any one time.

At the present time the Treasury can issue approximately \$5,000,000,000 face amount of additional public debt obligations under the Second Liberty Bond Act. On the basis of the current budget estimates this balance will be sufficient to carry the Treasury well into 1940. I do not believe, therefore, that it is necessary to request at this time an increase in the limitation on the total debt that may be issued and outstanding under authority of the Second Liberty Bond Act, as amended.

The limitation of \$30,000,000,000 on outstanding bonds presents, however, a different problem. The amount of bonds which

- 2 -

the Treasury can issue within this limitation, after taking into consideration the March 15 refunding operations, is approximately \$1,800,000,000. Taking into consideration our cash requirements between now and January 1, 1940, the monthly issuance of United States Savings bonds, and the possible refunding operations which the Treasury may wish to conduct, it seems quite apparent that the balance of \$1,800,000,000 will not be sufficient to give the Treasury that latitude required in its financial operations over the next few months. In order that the Treasury may be in a position to take advantage of favorable market conditions and not be forced to confine all of its financing operations to short-term obligations, I strongly urge that a recommendation be made to the Congress that the limitation of \$30,000,000,000 on bonds be eliminated entirely so as to give the Treasury the flexibility it needs for its financing operations during the next fiscal year.

Faithfully yours,

DWB:MIS

The President,

The White House.

swB

TO THE COMMISSIONER

I am transmitting herewith a letter dated March 17, 1939, from the Secretary of the Treasury regarding the limitation placed upon the total amount of the public debt obligations which may be issued and outstanding at any one time under authority of the Second Liberty Bond Act, as amended. You will note from this letter that the Secretary of the Treasury feels that there will be no necessity for increasing the present limitation of \$25,000,000,000 on the total public debt which may be outstanding at any one time, but does feel very strongly that it will be necessary to increase the present limitation of \$30,000,000,000 face amount of bonds which may be outstanding at any one time.

I recommend that the Congress take such action as may be necessary to give the Treasury the authority which will enable it to carry out its financing operations during the next fiscal year as may be for the best interest of the Government in line with market conditions at the time of such financing.

2

WILL FOR RELEASE

WILL FOR RELEASE

WILL FOR RELEASE

March 20, 1939

CONFIDENTIAL: To be held in STRICT CONFIDENCE and no portion, synopsis, or intimation to be published or given out until the READING of the President's Message has begun in the Senate or the House of Representatives. Extreme care must therefore be exercised to avoid premature publication.

STEPHEN EARLY
Secretary to the President

TO THE CONGRESS OF THE UNITED STATES:

I am transmitting herewith a letter dated March 17, 1939, from the Secretary of the Treasury regarding the limitation placed upon the total amount of the public debt obligations which may be issued and outstanding at any one time under authority of the Second Liberty Bond Act, as amended. You will note from this letter that the Secretary of the Treasury feels that there will be no necessity for increasing the present limitation of \$45,000,000,000 on the total public debt which may be outstanding at any one time, but does feel very strongly that it will be necessary to increase the present limitation of \$30,000,000,000 face amount of bonds which may be outstanding at any one time.

I recommend that the Congress take such action as may be necessary to give the Treasury the authority which will enable it to carry out its financing operations during the next fiscal year as may be for the best interest of the Government in line with market conditions at the time of such financing.

FRANKLIN D. ROOSEVELT

THE WHITE HOUSE,

MARCH 20, 1939.

"TREASURY DEPARTMENT
WASHINGTON

"March 17, 1939

"My dear Mr. President:

"The Second Liberty Bond Act, as amended, provides that the face amount of bonds, certificates of indebtedness, Treasury bills, and notes issued under the authority of that Act, and certificates of indebtedness issued under the authority of Section 8 of the First Liberty Bond Act, shall not exceed in the aggregate \$45,000,000,000 outstanding at any one time and provides further that the face amount of bonds issued within that limitation shall not exceed in the aggregate \$30,000,000,000 outstanding at any one time.

"At the present time the Treasury can issue approximately \$5,000,000,000 face amount of additional public debt obligations under the Second Liberty Bond Act. On the basis of the current budget estimates this balance will be sufficient to carry the Treasury well into 1940. I do not believe, therefore, that it is necessary to request at this time an increase in the limitation on the total debt that may be issued and outstanding under authority of the Second Liberty Bond Act, as amended.

Regraded Unclassified

- 2 -

"The limitation of \$30,000,000,000 on outstanding bonds presents, however, a different problem. The amount of bonds which the Treasury can issue within this limitation, after taking into consideration the March 15 refunding operations, is approximately \$1,800,000,000. Taking into consideration our cash requirements between now and January 1, 1940, the monthly issuance of United States Savings bonds, and the possible refunding operations which the Treasury may wish to conduct, it seems quite apparent that the balance of \$1,800,000,000 will not be sufficient to give the Treasury that latitude required in its financial operations over the next few months. In order that the Treasury may be in a position to take advantage of favorable market conditions and not be forced to confine all of its financing operations to short-term obligations, I strongly urge that a recommendation be made to the Congress that the limitation of \$30,000,000,000 on bonds be eliminated entirely so as to give the Treasury the flexibility it needs for its financing operations during the next fiscal year.

"Faithfully yours,

H. MORGENTHAU, JR."

March 17, 1939

1:40 p. m.

Present:

Mr. Bewley
Mr. Lochhead
Mrs. Klotz

(Note: Just before Bewley came in to the Secretary's office, the Secretary spoke to Butterworth and copy of their conversation is attached.)

HM, Jr: I am sorry to make you miss a lunch.

Mr. Bewley: Not at all.

HM, Jr: But I thought you might like to have this information which is fairly important and I had this call -- which is between my lunch and Cabinet -- I have just been talking to Butterworth.

What I wanted to say to you was, last night on a volunteer basis, we asked all of our banks to freeze all of the Czech accounts and everyone have done it on their own. We have no authority.

Mr. Bewley: Uhhuh.

HM, Jr: Thought you might like to know that.

Mr. Bewley: Very interested; yes.

HM, Jr: Of course, two hours ago Bolton phoned that your people got out a letter asking your people to do that.

Mr. Bewley: Is that accounts for private Czech citizens?

HM, Jr: Everything. Everything that has not been drawn prior to the day Hitler walked in there is frozen. We are not giving this out, Bewley. This is for your Government.

-2-

Mr. Bewley: Oh, yes! Oh, yes! But we are doing the same?

HM, Jr.: Halifax told Kennedy he was thinking of doing this, but an hour or two ago Bolton read the letter over the phone to Knoke. A direct letter.

Mr. Bewley: Really! I see.

HM, Jr.: We have done it by word of mouth, telling them it was voluntary and telling them no recourse on me, and everybody agreed. I keep saying only one I am having trouble with is the Export-Import Bank. They are not sure they can. It is true! But they have \$100,000.

Mr. Bewley: This is all American banks; everywhere.

HM, Jr.: Of course, it's New York, which is 99%.

Mr. Lochhead: We have not gone any further than the New York banks.

Mr. Bewley: That covers everything.

Mr. Lochhead: Covers 95%.

HM, Jr.: Now, the other thing I wanted to tell you was that, through this morning, your people did \$40,000,000 in Sterling and the thing has held very well. I am very much pleased. They gave us an order to hold it at 4.68-1/8, which is a good price.

Mr. Bewley: Yes.

HM, Jr.: And so far we really have not had any opportunity to do anything, but we are ready to help if necessary.

Mr. Bewley: Yes. Yes.

HM, Jr.: And I wanted you to know that.

Mr. Bewley: I do. Thank you.

HM, Jr.: Anything you want to ask me?

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Mr. Bewley: No, I think not. I am extremely interested, but nothing especial to ask.

HM, Jr: But I wanted your Government to know.

Mr. Bewley: Oh, yes! I will tell my Government at once.

HM, Jr: If you will come around tomorrow -- call up -- (to Mr. Lochhead) I think that Social Security meeting is at ten -- but I think around noon, if you drop in around noon we will let you know what happened.

Mr. Bewley: I will do that. Yes. Yes. Thank you very much indeed.

HM, Jr: Well, it's just another one of these things.

Mr. Bewley: Another one of these things. That's right. Very unpleasant.

HM, Jr: Mr. Welles gave out a very strong statement about an hour ago.

Mr. Bewley: Oh, did he?

HM, Jr: Yes; very strong.

Mr. Bewley: I hope we will give out a very strong statement.

HM, Jr: Your Minister goes on today at 3:15, on the air. I hope that I can listen.

Thanks for coming in. Drop in around noon.

Mr. Bewley: I will. I will come in around noon.

oOo-oOo

March 17, 1939.
1:30 p.m.

Operator: Go on.

HMJr: Go ahead.

B: Hello, Mr. Butterworth.

Over-sees

Operator: I'm sorry. Just a minute, please -- just a minute.

HMJr: Now what's the matter?

B: He was on the line.

(Pause)

HMJr: Hello.

B: Mr. Butterworth.

HMJr: Yes.

B: Go ahead.

HMJr: Hello.

Butterworth: Hello, sir.

HMJr: How are you?

B: Very well, thank you. And you, sir?

HMJr: I'm all right. Butterworth, -- hello?

B: Yes?

HMJr: Is -- you -- I don't know whether you've been in touch with the Treasury there or not -- the British Treasury.

B: I had a word with Phillips.

HMJr: But they've done some forty million dollars in pounds, I understand, combined.

B: Yes.

HMJr: That includes operating both for the French and the Swiss.

- 2 -

E: Yes.

WMJr: And they've been very successful in holding the pound, under the circumstances, I think, quite steady.

E: Yes.

WMJr: They've given us an order now in which to operate it, four sixty-eight and on eight.

E: Yes.

WMJr: And I wanted to say that for today, I think that they have taken care of the situation very well; that I'm Pleased.....

E: Yeah.

WMJr: And that we stand ready to do our bit, if and when necessary.

E: Good.

WMJr: But up to now, nobody has called on us.

E: Yeah.

WMJr: Now, Bowley is outside, and I'm going to talk to him in a minute.....

E: Yes.

WMJr: And I'm going to tell him that yesterday, at the suggestion of the State Department, we got in touch with all the New York banks and verbally told them that it would be pleasing to us, that if any drafts drawn on private or Government Czechoslovakian accounts after the Germans had walked in.....

E: Yeah.

WMJr: That they would refrain from cashing those checks until the Administration here had a chance to turn around, and every bank agreed to do it.

E: Yes.

WMJr: I mean, purely a voluntary measure on their part.

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B: Quite.

WMJr: And I thought that the people in England might like to know that.

B: I'm sure they would. As a matter of fact, the Bank of England, this morning, I understand,

WMJr: Yeah.

B: In much the same way.

WMJr: I know about it; I got a copy of the letter from Bolton to Knoke.

B: Information as to the holdings of Czech National and Czech institutions, but the Ambassador had a talk with Lord Halifax,....

WMJr: Yes?

B: And he has sent you a telegram.

WMJr: Yes.

B: It says that the British are going to try to do the same thing.

WMJr: The British are going to try to do the same?

B: Yes.

WMJr: I thought they did do it today.

B: Well no, they simply asked -- the Bank of England asked the city institutions to give them information as to the extent of the Czech holdings.

WMJr: Well now, Bolton called Knoke a little while ago and said they got out a formal letter.

B: If they have, Halifax didn't know it when he talked to the Ambassador about an hour ago.

WMJr: Well, it's at least an hour -- two hours ago that Bolton called, read the letter to him over the phone, and -- a -- a definite order.

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B: Correct then.

WMJr: I'm always glad to keep you up-to-date.

B: Well, the Ambassador just came back from Halifax, and Halifax apparently had a talk with Simon and they said they were going to see what way they could -- could deal with this situation and still not break the law too much.

WMJr: Well, the letter that they rep'd to us was -- was just a direct order.

B: Well, they probably found a way then.

WMJr: Well, - or they are taking a chance.

B: Yes.

WMJr: I've noticed this, that the Treasury, since the first of January, in England, seems to be very direct.

B: (Laughter)

WMJr: All right, I'm glad to hear you laugh. I was afraid you had missed some of my innuendo earlier in the conversation.

B: No.

WMJr: So -- well, anyway I wanted to keep you up-to-date. We don't know of anything that we could do now, but I want them to know first, that I'm pleased at what they're doing, and second, that we stand ready to help if necessary.

B: Fine. Thank you so much for telling me and I do appreciate it.

WMJr: And -- that the -- that all of the banks here got that word last night from us on a voluntary basis, and they all agreed.

B: Good.

WMJr: So everything is -- the only person we're having any trouble with is the Export-Import Bank.

B: (Laughter)

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HJr: That's the truth. They're not sure whether they can conform, but otherwise we are getting cooperation.

B: Good.

HJr: This thing, as far as I was concerned, came as a complete surprise to me. I don't know whether you people foresaw it over there.

B: Well, I don't think anybody foresaw it -- the way it would be done. I think a great many people foresaw the fact that the -- that certain changes would have to take place if the -- the

HJr: Yeah.

B: But I don't think anybody expected that the Germans were going to go in there and send their troops in that way into Czechoslovakia....

HJr: Yeah.

B: Czechs, and were going to make it a part and parcel of the German Reich. That came, I think, as a complete surprise to everybody.

HJr: O. K. All right.

B: But it looks as though it seems that there are difficult times ahead.

HJr: Yeah. Give my regards to Ambassador Kennedy and tell him of this conversation, will you please?

B: I will indeed, sir.

HJr: Good bye.

B: Good bye.

March 17, 1939

10:45 a.m.

Present:

Mr. Hanea
Mr. Lochhead
Mrs. Klotz

HM, Jr: (To Mr. Lochhead) As you know, Mr. Welles is coming out at twelve o'clock with a statement about this Germany and Czechoslovakia, etc. and so on. I understand they are going to invoke countervailing duties tomorrow. I think the President wants him to do it tomorrow.

Today is the day the Stabilization Fund ought to go in and, if necessary, spend a little money to soften the thing as she goes down and I want you to get hold of Knoke for me, have him call up Bolton and say we are ready to stand by; what would you like us to do.

Mr. Lochhead: I have just been talking to Knoke, who had just finished a telephone conversation with Bolton of the Bank of England. Bolton had said -- this is interesting -- that they are invoking an order, or it is in process of being prepared, blocking all Czech balances over in England. That is apparently going to be in some official form, but they are blocking everything and they have probably about 6,000,000 pounds of 30,000,000 dollars. In the United States we can only figure roughly \$3,000,000 -- very small balances.

The British have sold about \$35,000,000 exchange this morning. I told Knoke when he was calling me that naturally, when he phoned, that we would stand by, but at that time it was not decided whether the English would sell gold which they held here to provide the balances necessary or whether they would obtain the dollar balances by selling gold to us in London. But I told Knoke to watch it.

Rates are holding very firm, but I did tell him

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not to be afraid, if it was necessary we would take gold over there. We would probably accelerate the movement of it, but we would take it.

HM, Jr: But this is the kind of day the Fund is there and if we lose a half million dollars, it is just too bad.

Mr. Hanes: Right!

Mr. Lochhead: Up to noon-time, rates are all holding firm. Incidentally, on Dutch guilders, McKeown of the Fed called up and we got about 300,000. I told him, "You have the order; keep right to it."

HM, Jr: I am going to use the word "lucky Jew" because supposing we had done the thing last week with the Germans and then everybody would say Morgenthau did it. Now they are doing it -- the President is tickled to death he has a weapon and he's tickled to death to use it.

Mrs. Klotz: Just lucky! Just lucky!

HM, Jr: And Hitler did it this week instead of last.

Mrs. Klotz: He always does this for you!

(At this point, HM, Jr spoke to Knoke on the phone and the following is his side of the conversation.)

HM, Jr: I am standing here with Mr. Hanes and Mr. Lochhead and this is the day where if it costs us a little money, it won't bother me. What I want to say is, I understand the British are doing their bit and have spent \$35,000,000, but if the thing should get sloppy, call up Archie and if we have to spend a little money and lose a little money, today is the day we can do it.

Very confidentially, for you and Governor Harrison only, Mr. Welles is going to make a very stiff statement at noon. The Acting Secretary of State. So I just want you to know that.

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Well, if the thing gets sloppy and gets out of hand, I want to step in and soften the blow as she goes down and I am not afraid to spend some money. That's what the Fund is there for.

But you keep in touch. And the only place I will be is at the White House, but I am reachable.

Righto!

oOo-oOo

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Legation, Praha, Czechoslovakia

DATE: March 17, 1939, 4 p.m.

NO.: 47

Reference is made to your telegram No. 12 of March 16.

The banks are not occupied by troops - when the entire country is occupied by the military there would be no point in any such procedure. German authorities, however, have complete control of all banking transactions.

CARR.

EA:LWW

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 17, 1939, 4 p.m.

NO.: 497

FROM COCHRAN.

Yesterday the Paris exchange market was closed because of a holiday. Interbank trading was nervous, and there was a heavy slump in securities. Because of international political developments, there was today a definite flight from European currencies into the dollar.

At half-past three when I talked with the Bank of France the French control had yielded one and one-quarter million pounds; eight million dollars had been lost by the British. As yet no announcement has been made as to the French consolidation loan which was to have been floated on the markets in the Netherlands and in Switzerland. Because of the German situation this may now be indefinitely postponed. Reynaud has been advised against this loan by the Governor of the Bank of France, who believes that it would injure the credit of the French Government. Other friends of the Finance Minister have warned that getting too closely tied up with Mannheimer would not be too good. This morning in support of French rentes the French rente fund spent 300,000,000 francs. Support was also necessary for forward francs. The atmosphere on the market is in general much worried in view of reports of recall of Ambassadors from Berlin, rumors that Italian troops

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troops have landed in Albania, Daladier's request for special powers for a time, and so on.

BULLITT.

RECEIVED

EA:LWW

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE: March 17, 1939

5 P.M.

To Secretary Morgenthau

FROM W. H. Hadley

Although the Government security market was quiet today, prices eased from 1 to 8/32nds up until 3:00, and in late trading, fell another 1 to 7/32nds. Treasury bonds at 5:00 were from 2 to 15/32nds lower than last night. The only offerings coming into the market were in small amounts, and no indications of general selling were evident.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: March 17, 1939, 6 p.m.

NO.: 352

STRICTLY CONFIDENTIAL.

Will you please inform Secretary Morgenthau of the following:

I saw Halifax and asked him whether the British Government was going to release the gold which is held in England for the account of Czechoslovakia. He replied that yesterday Sir John Simon had discussed the matter with him. Sir John had said that the gold was held in the Bank of England for the account of the Czech banks, and that the Bank of England believed that when drafts were presented they could not refused to honor them. I suspect, however, that a way will be found by someone to at least tie up the gold, and if it is at all possible to attach some of it to pay back part of the advance which was recently made to the Czechoslovak Government.

KENNEDY.

FEDERAL RESERVE BANK
OF NEW YORK

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OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

L. W. Kneke

DATE: March 17, 1939.

TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

Mr. Bolton called at 10:30 this morning. They had sold so far about \$18,500,000 in the London market in addition to the Dutch about \$10,000,000 and \$5,000,000 split among the French, Swiss and Belgians.

The British Government was going to block all Czechoslovakian balances and assets in London of anybody in the former Czechoslovakian Republic and the following letter had, accordingly been signed by the Chancellor:

"H. M. G. consider it advisable that banks and other financial institutions who held balances, securities or gold of the persons in the former Czechoslovakian Republic including the former Czechoslovakian Government and the National Bank, should not make any payments from such balances or part with securities or gold without advice of His Majesty's Treasury."

I suggested that he give me an idea as to the total involved. Bolton thought it was in excess of £8,000,000 and might well run up to something much bigger. I indicated that according to figures before me, free Czechoslovakian balances in this market were not likely to be much more than \$3,000,000, in addition to which there were securities held in custody regarding which no figure was to be had. However, the bulk of such securities probably comprized Czechoslovakian external bonds, the value of which was swiftly fading away.

As to the general situation in Europe, Bolton stated that

OFFICE CORRESPONDENCE

CONFIDENTIAL FILES

L. W. Kneke

March 17, 1939.

TELEPHONE CONVERSATION WITH
BANK OF ENGLAND.

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people were beginning to wake up to the circumstances, that there was a fair amount of criticism of the British Government and that the flight of capital was beginning and probably likely to go on. The French Government was asking for plenary powers and were planning to suspend the Chamber for a year. The British Ambassador to Berlin had been instructed to return and there was even some talk of the possibility of introducing conscription.

I called Bolton back at 11:55 to make sure that I had understood him correctly as to what was being done about blocking Czechoslovakian balances and assets in England. Bolton confirmed to me that the above letter had actually been signed by the Chancellor and had been distributed during business hours today. Everybody who was intimately concerned had been told of it in advance.

His dollar sales of the day to the market in London had increased another \$4,000,000, so that his total dollar losses today were about \$40,000,000. I mentioned our purchases of guilders and belgas and added that we were as anxious as ever to cooperate with him and that I felt that whatever became necessary would be done here. This, Bolton replied, they appreciated very much. He asked whether we had taken any particular steps over Czechoslovakia and I explained that Mr. Harrison had called up the leading men in the bigger banks

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE March 17, 1939.

CONFIDENTIAL FIRMS

SUBJECT: TELEPHONE CONVERSATION WITH
BANK OF ENGLAND,

L. W. Knake

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here who we knew had Czechoslovakian balances and had at the suggestion of the Secretary of the Treasury made an informal request for their voluntary cooperation in not effecting for the time being any important and unusual transactions against Czechoslovakian owned accounts. Mr. Harrison had been assured by all of them of their cooperation.

LWK:KW