TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

May 17, 1939.

TO Secretary Morgenthau

FROM Mr. O'Connell

For your information.

At to-day's hearing before the Temporary National Economic Committee the main witnesses were Edward Stettinius and Owen D. Young.

In general their testimony was to the effect that neither of their companies will have any occasion, in the fore-seeable future, to tap available sources of investment capital, both men being of the opinion that their respective companies will continue, as they have in major part in the past, to finance any program of plant expansion and improvement out of earnings.

Mr. Young also discussed some other problems including taxes. He recommended against any undistributed profits tax except one aimed at undistributed profits held for the purpose of avoiding the payment of taxes on income, and on questioning indicated that he felt that as a practical proposition such a tax should only be made to apply to personal holding companies. He indicated that he felt this type of tax was unfair to small, new and growing concerns, and stated that in his opinion undistributed profits tax did not operate to the disadvantage of large and well established firms such as General Electric. He also took the position that a capital gains tax is entirely undesirable at this particular time, being of the belief that such a tax operates as a deterrent to risk capital.

He stated that he is in favor of "pump priming" by Government if supplemented by affirmative Government action designed to stimulate private development in the field of industry, utilities, etc.

The hearing will continue tomorrow with further witnesses from industry, including Mr. Sloan, Chairman of the Board of General Motors.

Joseph J. O'Connell Jr.

The Bill now up for your consideration involves extension for a two year period of the Stabilization Fund and of existing monetary powers relative to the devaluation of the dollar and the acquisition of newly-mined domestic silver.

This Bill differs from the general run of bills in several important respects: It does not call for the expenditure of any public funds; it does not create any new powers, nor does it involve the extension of any powers of control or regulation of business or economic activity. Lastly, it involves no conflict of interests as among various groups in the United States.

In most discussions of monetary problems, bitter conflict arises because there is one group that seeks through manipulation of the monetary mechanism a solution of economic problems, whereas another group reacts so violently to such Utopian illusions that it fears to grant the government any monetary powers whatsoever.

I hope that in this discussion we can narrow down the questions in dispute to the real issues which are simple and I have the definite

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feeling that once they are made clear much of the opposition which I have heard raised will disappear.

The Bill, as you know, consists of two sections. The first calls for an extension of the Stabilization Fund; the second for an extension of the powers to lower the gold content of the dollar and to coin newly-mined domestic silver.

With respect to the first section, there is virtually no difference of opinion among the members of either House of Congress. There is almost unanimity of opinion on the desirability of continuing the Stabilization Fund.

This was not always the case. When in 1934 the Stabilization Fund was instituted considerable doubt was expressed in some quarters both as to its utility and as to the wisdom of vesting the control of $2 billion in the hands of one man. It was felt that the Stabilization Fund might increase economic tensions and antagonisms; it was felt that huge losses would result from its operations; it was believed

that the Fund would be employed to manipulate the monetary system; that it would be used for purposes not consonant with those stated in the Gold Reserve Act; it was feared that a government agency with no experience in such matters could be no match for professional speculators and would be a pawn for their manipulation and profit. No less a person that Owen D. Young expressed the opinion in the hearings on the Gold Reserve Act that stabilization funds were a menace to business, a menace to economic welfare, and might even prove a menace to peace. Such were the fears and misgivings which were expressed in 1934.

But what does the record show? The Stabilization Fund has been in operation for a period of more than five years and three months and the record shows that the Fund has in no way been employed for any purposes other than that indicated by Congress in the establishment of the Fund. Its uses have been specifically limited to stabilizing the exchange value of the dollar. Instead of increasing economic tensions and antagonisms the Fund has been employed to mitigate economic tensions and to foster the collaboration of important

countries. It has been one of the main instruments for maintaining the stability of the dollar in a situation which demanded skill and patience.

None can doubt that the successful management and operation of the Stabilization Fund has fully vindicated the action of Congress in establishing it and in delegating its administration to the Secretary of the Treasury.

The five years during which this Fund was in operation included periods in which currencies were subjected to tremendous pressure; periods in which war scares sent as much or more money scurrying from one country to another in a single month than has ever been true before. During September and October of last year, at the time of the Munich crisis, over a billion dollars of funds flowed to this country. With the aid of the Stabilization Fund we were able to keep the exchange uncertainties down to a minimum despite that enormous inflow and despite the acute political crisis.

As for the management of the Fund and the uses to which it has

been put, Secretary Morgenthau has succeeded in handling the Fund in a manner completely above suspicion and above criticism. Undeterred by the wildest rumors which have been deliberately circulated in the international press, and by certain individuals in this country, he has inflexibly adhered not only to the spirit of the Act but to its exact letter. I am glad to have this opportunity publicly to congratulate Secretary Morgenthau upon his efficient and businesslike fulfillment of so enormous a responsibility and upon his successful handling of $2 billion dollars.

I am happy to observe that even the Republican House Committee report on the money question recommended the continuation of the Stabilization Fund which it found highly desirable. The only change it recommended with respect to the Stabilization Fund is that there should be less secrecy as to its operations.

As a matter of fact, the American public knows much more about the condition and operations of its own Stabilization Fund than does the public of any other country having a stabilization fund. The

demand for more detailed information on the operations of the American Stabilization Fund can only be interpreted either as a desire on the part of exchange speculators to obtain information which would enable them to operate at a profit against the Fund or as simply a political attempt to mislead the people to believe that the Administration has something to hide.

Our Stabilization Fund is no more secretive about its activities than are other stabilization funds. The secrecy surrounding the operations of the Fund is not as great as many people suppose. Of the whole Fund of $2 billion authorized by Congress, $1.8 billion remains in gold in the Treasury and appears regularly in the Treasury Daily Statement. In other words, complete information with respect to 90 percent of the Stabilization Fund is reported to the public every day. The only information withheld relates to the day-to-day operations of the working portion of the Fund consisting of only $200 million. This information is not revealed to the public because it is of such a nature as to be of use only to the professional exchange speculators.

It is unfortunate that a few months ago there was circulation of rumors and considerable comment in the press to the effect that the Fund was being used for purposes not indicated in the Act. To put an end to these unwarranted insinuations and baseless rumors the Secretary voluntarily presented before the appropriate committees a balance sheet of the Stabilization Fund to date. He has stated, furthermore, that he has no objection whatsoever to presenting a similar annual balance sheet each year and also to give Congress as well as the President an annual report of the operations of the Fund.

I therefore recommend that no change be made in the section of the Bill extending the life of the Stabilization Fund except to provide that the powers shall expire on June 30, 1941 instead of January 15, 1941 and also to provide that a copy of the annual audit of the fund shall be submitted to the Congress as well as the President.

The second section of the Bill extends for an additional two years the powers vested in the President to fix the gold content of the dollar and to provide for the unlimited coinage of silver. These powers were first included in paragraph (b)(2) of Section 43 of the Act of May 12, 1933. This act gave the President authority to reduce the gold content of the dollar down to 50 percent of its

former gold content and contained no time limitation upon the exercise of such power. The Gold Reserve Act which was approved on January 30, 1934 left unchanged the maximum amount to which the President could reduce the gold content of the dollar but provided that any reduction of the gold content of the dollar would have to be to at least 60 percent of its former gold content and also provided that the powers to revalue the dollar and provide for unlimited coinage of silver would expire on January 30, 1936 unless extended by the President for an additional year.

The day following the enactment of the Gold Reserve Act of 1934 the President, by proclamation, reduced the gold content of the dollar from 25.8 grains of gold .9 fine to 15 5/21 grains of gold .9 fine, thereby reducing the gold content of the dollar to 59.06 percent of its former gold content and increasing the monetary value of gold from $20.67 an ounce to $35.00 an ounce. The gold content of the dollar and the monetary value of gold has remained unchanged since that date. On January 10, 1936 the President, by proclamation,

extended until January 30, 1937 the time in which he could exercise his powers relative to the content of the dollar and to the coinage of silver. By an Act of Congress, approved January 29, 1937, these powers were continued for an additional two and one-half years to expire on June 30, 1939. Section 2 of the Bill now before us for consideration would extend for an additional period the time during which the President may — not must — exercise such powers.

If the discussion on this section of the Bill is to be confined to its merits, the essence of the problem is simple. There are only two pertinent questions that need to be asked.

1. What is the purpose of this power? and
2. Why is it necessary to grant it to the President rather than have it retained solely by Congress?

The purpose of the Presidential power to lower the gold content of the dollar to 50 percent of the old gold content is to assist in the stabilization of the dollar in the foreign exchange markets of the world and to protect the position of the dollar against the disastrous effects of competitive depreciation of foreign currencies.

Let me make one fundamental fact clear. It is impossible for us to maintain stability of the external value of the dollar unless foreign countries cooperate with regard to the same objective with respect to their currency. A dollar has a value in the foreign exchange markets only in terms of other foreign currencies. If the British let their currency decline, then the foreign exchange value of the dollar rises. An exchange rate is just what it indicates - a ratio between two currencies. When one of those two currencies declines, then the other ipso facto rises, and when one rises, then the other ipso facto falls. The United States cannot regulate the exchange value of the dollar by its own actions alone. The United States can stabilize the external value of the dollar only if the other major countries of the world want to, or agree to, or are forced to, or are induced to, regulate their currency to keep in step with ours - or if we regulate our currency to keep in step with their currency. To ignore this elementary fact is to miss the point of all stabilization operations and to misunderstand the functions and purposes of this Bill.

How does the possession of the power to devalue help to maintain stability; how does it offer any protection to us against competitive depreciation of foreign currencies? By providing a defensive weapon which serves to help prevent other currencies from initiating a competitive currency war. When

foreign governments know that the President has the power to reduce the gold content of the dollar, they are deterred from trying to obtain a competitive advantage by depreciating their own currency.

This power fulfills exactly the same function in the sphere of currency stability and in the prevention of competitive attack upon our currency as does the possession of our strong Navy in the prevention of military attacks against our territory.

Suppose that a foreign Government — let us call it Government X — is eager to increase her exports, that it wishes to reduce the competition of foreign producers in her own markets; that it, in short, seeks to improve her competitive position in the markets of the world. One of the methods that any government may resort to in order to approach that objective is to permit its currency to depreciate.

Practically all foreign governments can use this device without restriction. Remember that the executive branch of practically every country in the world can depreciate its currency through instantaneous administrative action. They need no new legislation.

They need no prior consent of the legislative body. They need no prolonged public discussion. It is necessary only for such a country to have a cabinet meeting on Monday night and on Tuesday morning confront us with a lower currency and ipso facto with a more expensive dollar.

That not only can happen, it has happened - innumerable times. This matter of currency depreciation is no abstract, far-fetched idea. It has been only too real; its effects are only too evident. By executive act a country can lower the price to foreign countries of all its products. By this one stroke a foreign-made automobile, for example, can sell in the American market at 10, 20 or 30 percent lower than it sold the day before. By this one stroke a foreign government can more than offset the tariff schedule that Congress has so painstakingly

built up to protect domestic industries. Nor do we have a single law in our statute books that adequately protects the domestic market against such acts. We have anti-dumping laws; we have laws which protect us against discriminatory treatment but we have no laws which promptly and effectively protect us against the competitive depreciation of foreign currencies. The law now under consideration is our only prompt and effective weapon of defense in this regard.

Our domestic manufacturer will find that the prices of the goods he has been selling to country X is higher to his foreign customer by 20-30 percent. He will find that he is forced either to reduce his prices or lose the business. Not only that but our exporters will find themselves suddenly confronted with the same handicaps in third countries. The exporter who sells his goods in any other country in the world in competition with the manufacturers of country X will find that his competitors can sell their goods in all markets at lower prices as a result of the depreciation. After a passage of many months and years some of these disadvantages may disappear, but during the lengthy period of adjustment we will suffer

from the deflationary effects of our worsened trade position.

We must remember that when the currency of country X declines it sooner or later pulls with it other currencies because other countries are forced to defend themselves either through increasing restrictions on their import trade by higher tariffs or more stringent quota provisions, or by depreciation of their currencies, or both. No country can for long stand the adverse and severe effects that follow the depreciation of an important competing currency without attempting effective counter measures. Therefore, when we speak of country X depreciating its currency we must bear in mind that that means currency depreciations of more than one country. The situation is such now that the depreciation of one important currency brings as many as 10 or 20 currencies along with it. Last year when sterling depreciated by some 5 percent, 20 other currencies went down with it.

Let us trace briefly the consequences of that depreciation on the American people. The exporter finds his foreign market cur-

tailed both in the countries which have depreciated and in third countries. It means that automobiles made in Detroit, in Cleveland, in Kenosha, will lose in competition with automobiles of other countries. It means that our wheat and cotton growers will find that their products are less attractively priced than they were the day before. It means that the manufacturers of my State and your State will suffer losses of orders and will be forced to curtail their production.

Even more serious is the effect on our domestic producers who are exposed to foreign competition. Our domestic market will be flooded with the goods of countries that join the depreciation parade. Our shoe manufacturers, our textile industry, our dairy industry, our cattle growers, meat packers, lumber industry, and producers right through the thousands of articles that we make in competition with foreign producers will be suddenly exposed to the competition of greatly decreased prices of imported goods.

The consequences of this sudden attack on our economy on these three fronts must inevitably be falling prices, more unemployment, decreased profits, decreased production, and decreased standards of living for the American people. That was the situation which prevailed in 1932. That is the situation which has confronted country after country at varying times in the last twenty years and that is the situation which we wish to prevent. We have, you will agree, trouble enough in attempting to keep our domestic economy on an even keel. We have a sufficiently complex problem before us in attempting to attain a higher level of business activity without bringing about more serious obstacles to overcome.

I find it hard to understand the attitude of some of the Senators who are opposing this section of the Bill. They are the first to come to the defense of the American manufacturer when his American market appears to be threatened by foreign producers. They are on record as favoring protection of American industry from low-cost competition from abroad and yet they are opposing a Bill which

is the only effective defense we have against steps taken by foreign governments which would destroy our protective barriers. When the dollar rises in the exchange markets, depreciation of foreign currencies acts to cut down and even wipe out many of our tariff duties.

For example, we have a duty of 33-1/3 percent on certain types of woolen goods. Let us see what happens to that duty when a foreign currency depreciates. Let us assume that the sterling dollar rate is $5.00 and enough woolen goods to make a suit cost £2 sterling or $10.00, making the total cost to the American importer $10.00 plus the 33-1/3 percent duty or a total of $13.33. Now supposing that sterling depreciates to $4.00. The same ad valorem duty remains in effect. The American importer of British woolens still pays 33-1/3 percent but instead of the cloth costing $13.33 it costs him $10.66. In other words, the protection afforded the home producer by the duty, has been almost completely wiped out - and wiped out without consent by our Congress. It amounts to a reduction in our

tariff schedule imposed upon us by a foreign government. Depreciation of foreign currencies can be just as destructive to our domestic industry as a wiping away of tariff schedules. In fact, it is even more destructive because, as I pointed out, it hits our exporters as well as our producers for the home market and it lowers the dollar prices of imports that pay no duty now as well as those that are subject to duty.

Just how does the extension of this power give us protection against foreign currency depreciation? I wish I could say that the extension of the power to the President to devalue the dollar by some 9 percent of its old gold content is complete insurance against any competitive depreciation by other countries. I wish we would have in this Bill complete defense against such attacks. I wish that this Bill did give percent insurance of a dollar stable in terms of all foreign currencies. But unfortunately the Bill offers no such absolute protection any more than does our Navy offer absolute assurance that this country will never be attacked. This Bill does, however, constitute an effective

weapon in helping to prevent such a situation. It constitutes in fact the chief weapon. So long as we have this power other countries will hesitate a long time before embarking upon any competitive race for depreciation. So long as we have this power another government will pause before taking action. They will say "what use is it for us to depreciate our currency when we know that the President of the United States can meet depreciation of our currency by immediate action. And, should the President take such action he can neutralize or more than neutralize any action that we can take." The government of country X will say, "if we reduce our currency by 10 percent and if the President of the United States likewise reduces the dollar by 10 percent in terms of our currency, then we are back just where we started from, only worse, because we have initiated a competitive war against a powerful country and we do not know what the end will be." Every foreign government will hestiate before taking such a step.

It not only will make that foreign government hesitate but, Mr. President, it has. Only last Fall the pound fell from $5.00 to

$4.60 in a brief period and looked as though it would continue to fall. It was, of course, more than just the pound sterling falling. It was the whole sterling bloc and a lot of other currencies that were following sterling in the decline. The chief important currency that did not decline was the dollar. As I said before, the decline of sterling and the failure of the dollar to decline changed the exchange rates. As sterling fell more and more complaints were made of the adverse effects of this decline. It was reported to me, for example, that the American pulp producing industry appealed for protection against the effects of declining sterling. This industry said that they had been successfully competing with foreign and particularly with Finnish pulp producing companies in the markets of the United States and in several markets of the world. They said they were able to carry on such profitable competition so long as the pound sterling did not drop below $4.86, and so long as the sterling block including Finland, remained at proportionately the same levels. But they stated when the pound dropped to around $4.60

and Finnish currency declined with it the Finnish pulp producing companies were able to undersell American pulp producing companies in this country and as a result American pulp producing companies began to lose money and were faced with the necessity of laying off a large part of their employees. That is but one instance which illustrates the effects of depreciated currencies upon American business. The knowledge of those potential effects led the Secretary of the Treasury last Fall to indicate to the British Government his concern over falling sterling. He clearly indicated that any further substantial decline in sterling would create a new situation which would call for reexamination of our situation. He did not have to tell them that the President possessed the power to lower the gold content of the dollar; he did not have to tell them that the President had the power to neutralize overnight the effect of a lower sterling in the world markets. They knew it full well. The British press knew it and fears were expressed in the British press that the United States might do just that. It was not necessary for

the Secretary to make any threats, to point to the President's powers but to indicate what the United States might do. The British authorities were fully cognisant of those powers. I do not know what discussions took place in the British Treasury. I do not know how much further the British pound would have fallen if the President did not possess the power to defend the dollar against such action. But I do know that within a few days following the discussions of the Secretary of the Treasury with the British Treasury, the fall of the pound was halted and it hasn't fallen from that point since, despite additional international crises and despite assertions by British industrialists and economists that a lower price of sterling would be of great assistance to them.

I agree with many of you that this would be a far better world if no defensive powers were necessary, if we could again resort to a state of fixed exchange rates in which there was neither danger nor expectation of alteration, just as I would agree with many of

you that this would be a far better world if we had no armies nor navies and if all the nations lived together in peace and security. Much as I wish and much as you wish such a state of affairs, I am sure none of you would use that hope as a justification for eliminating our army or for handing over our navy to some foreign government for scrap iron. Unfortunately our policies must be shaped with due attention to the world in which we live and not in the world as we would like to have it. Nor need I repeat to you Secretary Morgenthau's reiterated statement before both committees that we would be the first to join in any international arrangements seeking to eliminate the possibility of competitive depreciation. We have already joined in such an arrangement in the Tripartite Accord of 1936. In fact, those of you who read the articles in the Saturday Evening Post describing its achievement realize that this country took a leading part in the creation of that arrangement.

The essential point to grasp in deciding whether you are going to vote for or against this Bill is that we are asking for this power

not because we want to devalue the dollar, not because we expect to devalue the dollar, but because we want to avoid being confronted with a situation which would make it necessary for us to choose between the alternatives of the devaluation of the dollar or to suffer the effects of declining trade. We regard this power as a preventive which is far better than a cure. We regard this power as an essential instrument to put the United States on an equal footing in the international monetary field with the leading powers of the world. We regard this power as a necessary accompaniment to our Stabilization Fund, as an essential background to the consummation and continuation of the Tripartite monetary arrangement which has done so much to restrain the depreciation of currencies in the past three years of international political and economic crisis.

I might say at this point that the Tripartite Arrangement of 1936, which was an understanding between the United States, Great Britain and France, and to which three other countries adhered, was an important step towards achieving stability in foreign exchange

markets and preventing currency wars. I do not believe that this international understanding, which has been acclaimed throughout the world, could have been achieved without the powers granted to the President by this legislation. This understanding could not have been achieved unless the United States was on an equal footing with the other major countries of the world; if the executive did not have the same power that the executive branch of these other countries have over the foreign value of their currencies.

Without the power to devalue our bargaining position would have been so weak that I doubt very much whether the arrangement could have been consummated. We would have had nothing to offer. We would have been in no position to give or receive a quid pro quo. More than that, it is not at all certain that were we to permit the power to devalue to lapse that we would be able to maintain the agreement should the disturbed international situation continue. The effectiveness of the Tripartite Accord rests partly in the fact that each of the three countries possess the power to further depre-

ciate their currencies should circumstances in their opinion so warrant.

I turn now to the second question which may be asked about this Bill. Why is it not sufficient for the power to be retained exclusively by Congress?

Depreciation of a currency can be effectively administered only if granted to the executive branch of the government and cannot be effectively administered by the legislative branch. In modern times, in modern nations, it has always been the case that the Executive had administered the law. Legislatures have usually given authority in advance or retroactive approval to action taken. This has been so because it would be so inept and so destructive to ordinary economic life if the legislature attempted to act on such monetary matters. For during any crisis any disturbance would be intensified by continued debate as to nature of the action to be undertaken. Because of the complicated nature of each situation that may arise involving depreciation of currencies,

it is necessary that before Congress take action that it either rely upon the studies and the analyses of the executive branch of the government or that it carry out its own analyses and its own studies which would be time-consuming and provocative of extended debate.

Just what is the difference in practice between permitting the power to reside only in Congress and having that power shared by the executive branch? Let us take a specific instance. Let us return to the situation of last Fall when sterling was declining. Everybody knew that the President possessed the power to devalue further. Everybody knew that if the well-being of the United States demanded it, action could be taken quickly. The President and the Secretary of the Treasury could be relied on to adopt such monetary action as was in the best interest of the people. What would have happened if the power was not delegated to the President? In the first place Congress was not in session to discuss these things and it might have been necessary to convene it solely for this purpose. But if Congress had been in session there would have been prolonged discussions as to what action

to take. As the discussion was being carried on the world would know that Congress could make one of two choices — either to take no action or to depreciate the dollar. Everyone would know that if the dollar were to be depreciated, there was one way in which they could make sure profits. They could take their dollars and convert those dollars into foreign currencies, and into gold in foreign countries. There would be a panic in the money markets as American and foreign holders of dollar balances and dollar assets evidenced their distrust in the dollar. Foreigners would liquidate their assets and their bank accounts in this country and rush either into other currencies or into gold. A tremendous outflow of gold from the United States would ensue.

The result would have been that Congress would have been forced to adopt the very depreciation which it had been only contemplating. The more prolonged the discussion the greater the probability that such action would have to be taken. If Congress were eventually to decide to retain the status quo the people speculating against the dollar would merely send back the funds

which had left the country. But in the meantime the panic and uncertainty would have impeded the legitimate commercial and financial transactions carried on by United States businessmen with perhaps disastrous effects on domestic business activity.

If Congress were to retain the power exclusively unto itself, then foreign governments will no longer consider that power as being effective to meet emergency situations. They will no longer be restrained from depreciation of currencies because they would not expect that Congress will be able to act on monetary matters with the requisite degree of preciseness and rapidity. So long as the executives of some countries possess that power andthe executives of other countries do not possess that power, so long will competitive depreciation be one of the devices which will be adopted by some foreign countries to achieve benefits for themselves at the expense of others.

As it happens the United States can justifiably claim that in its procedure with respect to the power to change the value of the

currency it is more democratic than any other country. For in no other important country is there any statutory limitation on the extent of the power to devalue. We are the only large country in the world which announces that it will not devalue its currency more than 9 percent of its old gold content without prior permissive legislation.

I would like to turn now to some major objections which have been advanced against this Bill.

I heard it emphasized at committee hearings from those who opposed this legislation that the devaluation of the dollar in 1933 accomplished no good; that it did not contribute anything to subsequent recovery and that, therefore, the power to devalue the dollar should not be continued.

An examination of what took place in this country as well as in the other countries of the world between 1931 and 1936 makes it perfectly clear that dollar devaluation in this country just as currency depreciation in other countries has been a vital factor in breaking the downward spiral of business and prices in this country

and in other countries.

Let us look at the record. In September 1931 Great Britain went off the gold standard and her currency immediately began to depreciate. During the next year sterling dropped from $4.86 to a low of $3.25. The departure of England from the gold standard and the depreciation of sterling was preceded or accompanied by similar action on the part of some score of countries. Japan depreciated her currency by more than 60 percent; the United Kingdom, the British Dominions, the Scandinavian countries, Argentina and other Latin American countries depreciated their currencies by 40 percent or more.

Now let us see what happened to prices in those countries. In practically every one of those twenty-odd countries whose currencies were depreciating during that period prices which had previously been rapidly declining ceased to fall and in some cases actually rose.

Now let us take a look at what was happening in the United States and in the other countries whose currencies were not depreciating

during this period. From the Fall of 1931 to the Spring of 1933 wholesale prices in the United States fell more than 15 percent. The prices of farm products and the prices of imported goods fell more than 25 percent. In France, Netherlands and Belgium prices were falling even more rapidly than in the United States; in Germany, Italy and Switzerland prices fell roughly about as much as they did in the United States. In other words in those countries which did not lower the value of their currency prices continued to fall, business continued to decline, unemployment continued to increase, and trade continued to drop. Whereas in those countries whose currencies depreciated, the deflationary spiral was brought to a halt.

Now let us take the situation in the United States following the abandonment of the gold standard by the United States in April of 1933 and the depreciation of the dollar which occurred thereafter. We find that the wholesale prices in the United States rose almost 30 percent from March 1933 to September 1934. Farm prices almost doubled during that period.

The downward movement of prices, business, trade and employment were stopped and recovery began. While this was happening in the United States those countries which continued to cling to the old value of their currencies continued to experience deflation. These countries hung on until the Fall of 1936 when they likewise depreciated their currencies. The same thing happened in those countries after depreciation. Deflation ceased with the depreciation of their currencies.

There is nothing mysterious about this connection between depreciation of a currency and a rise in prices. In the first place your exports cost much less to the foreign importer; consequently he buys more; there is an increased demand for your exports. In 1934, for example, our exports were over 30 percent higher than in 1932 and because of the increased demand there was a tendency for prices to move up on all goods that are exported. In the second place all imports cost more. They cost more because it required more of your dollars

to buy a given amount of foreign currency than was true before depreciation took place. In the third place all goods produced out of imported materials rose. And this helped prices of domestic commodities to rise. In the fourth place business began to improve as a consequence of the stoppage of disastrously falling prices. Merchants no longer feared to increase their inventories and the increased demand for goods made business better; put more men to work and better business meant better prices, particularly since they were moving from a very low level.

Failure adequately to recognize the important role played by dollar devaluation in breaking the back of the deflation in this country and of the decline in prices is due to the fact that many people had the notion that there would be a rise in all commodity prices mathematically proportionate to the depreciation of the currency and that this situation not having occurred, dollar devaluation was deemed to have been a complete failure. The mere

fact that unwarranted claims were made for dollar devaluation is no sound reason for failing or refusing to recognize the important role that currency depreciation in this country has played in stopping the rapidly expanding depression in this country.

No one familiar with events in the United States would claim that the lowering of the value of the dollar was the only factor responsible for the rise in prices and inauguration of recovery. Obviously there were other forces at work. No one can say how much the depreciation of the dollar contributed and how much the other factors contributed. All that we do know is that depreciation was one of the important factors in the price rise. We do know that deflation did not stop and recovery did not begin until we had begun to devalue the dollar. We also know that the same thing has happened in most other countries.

Had it happened in only one or two or three instances we might have said it was merely coincidence but since it happened in country after country I think we can say with full justice that the depreciation of the dollar in 1933 constituted an important factor in the rise of prices that took place. However, the undeniable fact that depreciation of the dollar in 1933 did cure that particular situation does not mean that we want to apply this power to every situation. Conditions change and each situation has to be examined in the light of the special circumstances. This Administration doesn't want the power because it expects to depreciate the dollar. The best proof of that is the fact that the Administration has not used this power though it has had it for over five years.

A second objection that has been raised is that this legislation gives dictatorial powers to the President. Obviously this is nonsense. Congress still retains in full the power to regulate the currency of the United States. Characterization of executive discretion on economic matters as being equivalent or similar to the vast powers over life and liberty possessed by dictators serves only to confuse the real issues. To call the power to reduce the gold content of the dollar by a limited amount dictatorial is to indict all the democracies of the world, since almost all the democracies have given that power and more to the executive branch of the government. Furthermore, to call dictatorial the existence of power in the executive which would increase the efficiency of a democracy is really an attempt to discredit and undermine democracy and I personally am suspicious of many of those who would restrict the administrative powers of the executive branch of the government by crying dictatorship. Such persons are really weakening the democratic processes of government. They weaken democracy by denying to a democratic government the capacity for quick decisive action in time of danger.

Another objection to this Bill is that the possession of the power to further devalue the dollar destroys business confidence by creating uncertainty with respect to the future of the dollar. To me the contrary seems true. Instead of destroying the confidence of the businessmen in the future of the dollar, I believe it operates to enhance it. This Bill is designed to promote stability in the exchange value of the dollar and it is a stable dollar that the businessman wants when he is planning for the future.

The businessman now lacks no confidence in the dollar. On the contrary, the one place where the businessman displays more confidence than in any other field is with regard to the soundness of the dollar. This is true not only of American businessmen but of foreign businessmen and bankers as well, and they display their confidence in the way which matters most — by investing their funds in the dollar. I need not remind you of the billions of foreign capital which have come to this country to be invested in dollar balances and assets. The bonds of the United States Government which are payable in a certain number

of dollars simply and not in terms of gold are selling at their lowest interest rate in history. The banks in the United States whose deposits are in terms of dollars are attracting more foreign deposits than has ever been true before. Would foreign bankers buy dollars and keep their funds in dollars if they didn't have confidence in the soundness of that currency? Would the United States Government be able to borrow on long term bonds at less than 3 percent a year if the businessman and the bankers lacked confidence in the dollar?

I would ask whether you know of a single instance in which an exporter has refused to sell his goods for three months, six months, a year, two years or five years, or has preferred to put his bill in any currency other than the dollar because he has lacked faith in the dollar. He has lacked faith in other currencies and has therefore insisted, wherever he had the choice, on making his bill payable in American dollars rather than in foreign currencies. This is true not only of American exporters but it is even true of foreign exporters who prefer to have their bills paid in dollars rather than in the

currencies of their own country. I think that we can say that the dollar has now become the leading international currency. More and more is business being set in terms of dollars because of the increasing confidence in the future of the dollar. So great is the confidence in the American dollar that we find millions of our paper currency leaving our shores to be employed in business transactions and hoarded in foreign countries. The Federal Reserve Board has stated that in the past two months alone over $70 million of American paper currency has left this country.

The best way to reduce business confidence in the dollar is to refuse to renew these powers. Why? Because what the businessman is afraid of is a repetition of instability in currency markets; repetition of falling prices and of a deflationary spiral. From past experience the businessman knows that falling prices have disastrous effects upon our economic system. He knows that at such a time national income declines, business profits disappear, the security of loans is undermined, and the volume of business falls.

The informed businessman knows this well. And he knows that any governmental power which would help prevent such a situation is a cause for added assurance. The power to devalue thus constitutes for the businessman an added assurance that prices will not decline because of depreciation of foreign currencies. I concede at once that it is not a perfect insurance. I grant that notwithstanding the possession of this power it is possible that other countries may be driven to desperate expedients. Yet that merely underlines the fact that we should not undertake to curtail our powers in that direction.

Another argument that has been used at great length by the opponents of this Bill is that there are no circumstances under which the use of such power would be justified — that for instance, during the post-war period when numerous important currencies were depreciating at an astronomical rate we were able to maintain prosperity in this country without altering the gold content of the dollar.

This argument sounds plausible, especially when it is put forth by learned economists who presumably are students of economic history. But in looking into this matter I found that the situation was in no way comparable with 1932. The United States in those years was not at a competitive disadvantage in the international markets of the world as a consequence of the depreciation of foreign currencies. During the war years prices in European countries rose much more than prices in the United States and at the same time the European currencies were pegged and not allowed to depreciate. Under such circumstances the United States enjoyed a substantial competitive advantage in the world markets. This competitive disadvantage of European currencies was not entirely overcome during the years immediately following the war. Despite the sharp depreciation of their currencies our competitive position was not impaired principally because in those years prices within the countries were rising almost as fast as their currencies were depreciating. Our exports were being maintained at a high level, and we were in a period of rising production and business prosperity. More important, however, was the fact that European countries in the immediate post-war period were engaged in the vast task of economic

and social reconstruction. While on the one hand they had an almost unlimited demand for American goods owing to the depletion of their productive equipment resulting from the vast amount of destruction to their economic system in the war period they were unable to produce increasing amounts for export. To compare present conditions with the period immediately after the World War gives a misleading interpretation of both periods.

Are there any circumstances which would justify the use of the powers granted to the President by this legislation? If the policies of foreign governments are carried out in defiance of any objection on our part and if their action is not justified and is used solely for the purpose of obtaining a competitive advantage over us, then we might use this power to protect our markets from imported products which come in over the tariff barriers and to protect American exporters to maintain their markets abroad. It will be used solely for the protection of American business and because it will give additional stability to international trade and to international monetary relationships. But I believe that the mere possession of the power will by itself probably be sufficient to deter foreign governments from a course of action

which might justify the President's using it.

Another question has been asked in this connection. If foreign countries allowed their currencies to depreciate again, is the United States going to follow suit? Whether or not the depreciation of a foreign currency injures the United States sufficiently for us to take defensive action depends upon a number of factors. It depends upon the trend in prices in the United States and in the country that is depreciating its currency, as well as the importance of that particular currency with regard to United States interests. It depends upon the state of business and of our foreign trade, upon our balance of payments situation and the economic situation abroad, etc. There are a host of factors which need to be studied and taken into account before any decision can be reached as to whether or not it would be helpful for the United States to act. There are many cases on record such as the depreciation of the franc in 1936 and 1937 which for several important reasons did not justify parallel action by the United States.

Continuous study of the factors involved in international trade and in international monetary relationships is necessary in order to provide a safe guide for action by the United States with regard to its currency. There is no danger that the executive branch of this Government would permit the dollar to automatically follow the course of other currencies. It has not done so in the past, and it has no intention of acting without due cause in the future.

Another argument used by opponents of the Bill is that the emergency situation which justified the granting of the powers to the President has passed. It is hard to believe that anybody supposes that there is no international emergency. One need only read a few reports coming from foreign countries to tell us that more countries are planning exceptional measures to increase their export trade and to prevent foreign countries from selling as much products within their own domestic markets. The emergency which justified

giving these powers to the President is an emergency that has grown in intensity since 1934 — if an emergency existed in 1936, it exists a thousand-fold today.

It is sometimes said that the United States should serve as a model for the rest of the world, that if the United States rigidly fixes the gold value of its currency, then other countries would be so impressed by our example that they would follow suit. I am afraid that I can find little basis for this hope. It is like saying that if the United States were to give up its navy other countries would be so impressed by our desire for peace that they would also give up their navies and the danger of war would evaporate.

It have heard it stated in committee hearings that depreciation of foreign currencies is not harmful to us because the American consumer can then buy his imports at a lower price. It is admitted by those who take this position that depreciation of foreign currencies

may be bad for the exporter and bad for the domestic manufacturer who sells for the home market, but they say these disadvantages are compensated for by the fact that the American consumer gets his goods at a lower cost. But they forget an important fact. When that happens the American consumer can buy his imported goods at a lower price only at a terrific cost to himself. He does so at the sacrifice of reduced national income, of falling prices and increasing unemployment. What avails his ability to buy goods at a lower price when he finds he is out of a job? For example, when foreign currencies were depreciating in 1932 the American working man could buy imported goods at prices lower than had been seen in this country for decades. Yet he was much worse off than before because of the serious economic repercussions that intensified foreign competition helped to promote. When we are prosperous we buy more imports. When we are in a depression our imports drop. For example, in the year 1932 our imports

had fallen to less than half their former level notwithstanding the fact that imported goods were very low in price. Again 1938 our imports fell sharply and the reason was not that the price of imported goods rose — they had not risen; in fact they fell a little — but chiefly because we were in a recession.

I have also heard another argument raised in committee hearings on this bill — one that appeared to make an impression on some of the committee members. This argument went as follows: Supposing currencies of other countries do depreciate — that advantage for the foreigner lasts only for a short time. After a while the price adjustments will take place which will eliminate that advantage. The adjustment will take place as follows: In the country whose currency is depreciating their prices will rise. In our country prices will fall. And they will rise high enough in that country and fall low enough in our country to offset the advantage obtained by the depreciation.

In the first place, let me point out that this hypothetical chain of events is contrary to the facts. I could cite you a number of instances, but let us take the case of Japan alone. That country depreciated its currency by 60 percent in the two years from 1931 to 1933. Yet during that period prices in Japan rose slightly and not nearly enough to compensate for the effect of the depreciation. If price adjustments took place with such a degree of rppidity as to offset any competitive disadvantages, then no country would ever attempt to secure a competitive advantage by depreciation and the number of instances of currency depreciation in history would be very small indeed. Moreover, even assuming that after a period of three or four or five years price adjustments do take place which correct the initial advantage of the depreciating country, just see what is happening during that period in the other countries. Remember that the price adjustments take place in part

through falling prices. Do we want to have falling prices again in the United States? Are we willing to suffer a repetition of 1931 and 1932 merely to be the guinea pigs for an economist's laboratory experiment — just in order to let the economists prove that in the long run all things adjust themselves?

The section in this Bill dealing with the coinage of silver relates, I would like to point out, only to the question of the acquisition of newly mined domestic silver. It is under this provision that the President has issued the series of proclamations pursuant to which the Government acquires newly mined domestic silver. The provision of the present Bill is not used to purchase foreign silver. It is under the Silver Purchase Act of 1934 that the Government acquires foreign and other silver but not including newly mined domestic silver.

One of the unfortunate aspects of consideration of this Bill before the various committees has been the attention which has been paid to this section of the Bill. Actually it is not a matter of

major economic importance. Last year the Treasury purchased 65 million ounces of silver, for which it paid about $43 million and on which there was a seigniorage profit accruing of $43 million. It is evident at a glance that the economic importance of such an expenditure is quite secondary to the kind of problems I have been discussing with respect to the rest of the Bill.

But whether important or unimportant, the fact remains that the coinage of domestic silver does not in itself constitute an economic loss to the United States. On the contrary, there are certain economic advantages that flow from that program. In the first place, the coinage of domestic silver does not cost the Treasury or the people of the United States one penny. The silver is purchased with the silver dollars that are coined from the silver acquired or with silver certificates secured by the purchased silver. Not only is the acquisition of silver not a loss, but there is, as you know, a seigniorage profit of 64 cents for every ounce of silver acquired; 64 cents which the Treasury can spend when the need arises; 64 cents

which when spent makes it necessary to borrow that much less or makes it possible to reduce the outstanding debt by that much.

In the second place, the acquisition of this domestic silver unquestionably adds to employment. I would not venture to say how much. I think many of the claims that have been made in this respect have been grossly exaggerated. Nonetheless, it cannot be denied that some increase in employment, both direct and indirect, has followed the purchase of domestic silver and that there have been beneficial indirect effects as well as direct effects. Were the United States to cease acquiring domestic silver, there is no question but that there are certain communities in our Western states that would suffer disastrously from the curtailed income in this area. Unemployment in this area would increase somewhat, and some merchants in those communities would be hard hit. I would be the last to claim that the acquisition of domestic silver is vital to our recovery program or to the maintenance of our national income, but I would be equally the last to claim that it has no economic advantages.

There are some who concede this yet who fear that the additional acquisition of $40 million worth of domestically mined silver per year added to our monetary base is going to give rise to inflation. Last year this country added over $2 billion to its gold holdings. The monetary value of the silver acquisition was less than five percent, of this amount. In view of that fact, the claim of those who fear that our acquisitions of domestic silver will help bring about inflation, cannot be treated very seriously.

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.Prepared by: Mr. Seltzer,
Mr. Murphy,
Mr. Haas.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 17, 1939

TO Secretary Morgenthau

FROM Mr. Haas

Subject: HOLC 2-3/4's of 1939-49

1. Shall announcement be made on Thursday that the terms of the refunding offer will be made on Monday and the unrefunded bonds redeemed on August 1?

Yes. The market is very strong and, barring serious European disturbances, should be exceedingly receptive to a refunding offer. In fact, the postponement of such an offer under present circumstances is apt to give rise to speculation regarding the possibility that the Secretary is in possession of some very unfavorable information not known to the public.

2. Shall the refunding issue be dated May 15 or June 1?

The argument in favor of a May 15 dating is that the future servicing and refinancing, if any, of the issue will be farther removed from the regular Treasury financing date than if a June 1 dating is used.

As against the May 15 and in favor of the June 1 dating is the possibility that the use of the former will make some people think that the offering had previously been decided upon and then held up. The June 1 dating might appear somewhat more customary.

We have no strong preference, but lean slightly toward the June 1 dating.

3. Maturity

The existing HOLC debt structure permits bonds to be called for redemption in every year between now and 1952, as may be seen from the following list of outstanding obligations:

	(In millions)
2-3/4's of 8/1/39-49	$ 905
3/8's of 5/15/40	128
5/8's of 5/15/41	192
2-1/4's of 7/1/42-44	879
3's of 5/1/44-52	779

It would appear from an analysis of the Corporation's requirements, contained in our memorandum of April 21, 1939, that an issue maturing in 9 or 10 years, but callable several years in advance thereof, would be wholly satisfactory. Such an issue would likewise fit well into the Corporation's maturity schedule as tabulated above.

Attention should be called to the fact that such an issue will be exceedingly difficult to price closely; and that an ample margin of safety should therefore be allowed; and for the following reasons:

(a) The upward curve of interest rates is so steep during the first eight or ten years that it would make a considerable difference in the price of the proposed issue if the market, by reason of the low coupon, should evaluate it as an 8-, 9-, or 10-year issue, rather than, to its earliest call date, as a 7-year issue. There are no strictly comparable issues outstanding -- with similar call periods and low coupons -- to serve as close guideposts.

The Goldsmith letter on the Government bond market a few weeks ago, in discussing the refunding of the HOLC bonds, called attention to the distinct possibility that a 6-9, 7-9, or 7-10 year refunding issue might be evaluated by the market on the basis of the final maturity date rather than the period to the first call date, or for some period in between. Further, officials of the New York Federal Reserve Bank likewise report that discussion along this line has taken place among some of the dealers. For this reason, it would be highly desirable to obtain a wide concensus of dealers on the probable price basis of the refunding issue.

(b) The issue to be called is very widely distributed, and even a handsome premium is likely to leave a significant fraction untendered in exchange. A liberal premium is the more necessary because of the fact of this wide distribution.

(c) If the exchange is made as of May 15, the bond holders will be asked to give up their 2-3/4 percent coupon two and a half months early, and two months early if the exchange is made as of June 1. This sacrifice amounts to about 18/32 or 16/32, respectively. In other words, in the pricing of the new issue, an extra premium of such an amount should be allowed to cover this sacrifice.

(d) Operating in the opposite direction from the foregoing factors are the considerations that the new issue will be a refunding rather than a new cash issue; that it will bear the lowest premium of any outstanding bond of comparable maturity; and that banks will welcome an issue of such maturity -- considerations which should enhance the attractiveness of the issue and cause it to sell on a lower yield basis.

The choice of precise maturity and coupon, with a view toward setting a satisfactory probable premium, can better be determined after observing the market during the next few days.

May 18, 1939
10:10 a.m.

HMJr: Hello - Walter Lippmann.

Walter Lippmann: Yes.

HMJr: Henry Morgenthau.

L: Hello, Henry.

HMJr: How are you?

L: Very well.

HMJr: I just wanted to tell you that I enjoyed reading your piece yesterday very much.

L: Oh!

HMJr: The one on reformers.

L: Oh yes, yes. Well, I'm glad you did.

HMJr: And it gave me a good deal of -- of pleasure and satisfaction.

L: Oh well, very -- I'm -- it's very nice of you to say that.

HMJr: And.....

L: I -- I hope things are going along with some hope of good results.

HMJr: Well, we farmers are always optimistic, you know.

L: Yeah.

HMJr: And I've been in worse fights than this.

L: What's that?

HMJr: I have been in more difficult situations than this and have it have a happy ending.

L: Uh-huh.

HMJr: And I'm still hoping that we will have a happy ending.

L: I see. Well, good luck to you. I have a piece this morning you might have a look at which is on the -- more or less the same lines.

HMJr: I -- I didn't see that.

L: What's that?

HMJr: I didn't -- in the -- in the New York Tribune?

L: It's in the New York paper and in the Washington Post too.

HMJr: It's funny, I -- I didn't.....

L: Yeah.

HMJr: Well, I certainly will look at it.

L: Yeah.

HMJr: Well, I just wanted to tell you how I felt.

L: Thank you very much.

HMJr: All right, Walter.

L: Good bye.

May 18, 1939
10:15 a.m.

HMJr: Hello, Jesse.

Jesse Jones: How are you?

HMJr: I'm all right, which is -- I had my back all strapped up, but otherwise I'm all right.

J: I see. Well, I called you yesterday -- you're answering my call?

HMJr: Yeah. Everything settled?

J: Huh?

HMJr: Everything settled?

J: Well, I think we're in agreement on -- on Nicaragua, yes.

HMJr: Well, this is in answer to your call.

J: All right. I think we are in agreement. Now the -- of course the -- the Nicaraguans aren't in agreement. I mean, they haven't.....

HMJr: Yeah.

J: But -- but as between State and Export Bank, we've got the things all worked out.

HMJr: I see.

J: The -- each of us had to give a little bit.

HMJr: Uh-huh.

J: And so forth and I think the plan is all right.

HMJr: Well.....

J: The other thing I was going to talk to you about -- you mentioned the other day about wheat.....

HMJr: Yes.

J: .....May wheat. Now, I talked to Henry Wallace -- I talked to John Goodloe.

HMJr: Yeah.

J: And he explained to me that the -- they were taking a good deal of wheat now.

HMJr: Yeah.

J: And I didn't -- I wasn't in a position to talk intelligently to him about it. I didn't.....

HMJr: I see.

J: But I think that -- I did talk to Wallace and I -- I told Wallace of your -- of your thought in the matter.

HMJr: I'm sure.....

J: It was more or less incidental and I -- had it in connection with another visit we had -- but -- but you had brought it up and I was bringing it to his attention.

HMJr: Good.

J: So that's about all I could do about it, I guess.

HMJr: Well, that -- that was all right. The -- we're going to try to do a job for Home Owners' Loan Monday.

J: Well, that's fine.

HMJr: Yes.

J: Are you going to do short term, or haven't you decided?

HMJr: Well, I really -- the boys are talking between seven and ten and I haven't got my teeth into it yet.

J: I see. All right. Well, thank you very much. I hope to see you soon.

HMJr: I hope so.

J: Good bye.

May 18, 1939

To: The Secretary

From: Mr. Hanes

I had luncheon today with James H. R. Cromwell. He told me that his senatorial aspirations were going to be decided upon next week.

He is down here showing a motion picture made from his book entitled "In Defense of Capitalism" by James H. R. Cromwell and Hugo E. Czerwonky. I went down to the Capitol where the film is being shown in the District of Columbia committee room, just by the floor of the Senate. It did not prove anything to me.

J W H.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

May 18, 1939.

TO Secretary Morgenthau

FROM Florence McGuire

For your information -

At the suggestion of Mr. McReynolds, I made a thorough check of the daily-calendar record kept by me as secretary to Herman Oliphant of all his callers and the nature of the calls, so that I might give you the background history of Mr. Oliphant's relation with Ben Grey.

My records show that Mr. Oliphant met Ben Grey for the first time at a surprise party given by Sherman Mittell for Lowell Mellett at the Cosmos Club at 6:30 on March 9, 1938. Mr. Oliphant had known Mr. Mittell for some time and both Mr. Mittell and Ben Grey are connected with the National Home Library Foundation. I recalled when I saw the article on Associated Gas & Electric Company case in the New York Herald Tribune on May 17, 1939, that the only other time, to my knowledge, that Mr. Oliphant saw Mr. Grey was at a luncheon on March 11, 1938 at the Carlton Hotel. Mr. Grey had asked Mr. Oliphant when he met him at the cocktail party on March 9, 1938 if he might come to the office or have lunch with him sometime soon. Mr. Grey did not divulge the nature of the question he would like to discuss with Mr. Oliphant. I remember it because when Mr. Oliphant returned from the luncheon that day he was considerably upset by the fact that Ben Grey had approached him about the Associated Gas & Electric Company case. Mr. Oliphant had been scrupulously avoiding seeing anyone connected with the case as he had been trying to channelize all interviews through Commissioner Helvering.

My memory is further substantiated by the fact that in the record there is a memorandum to you from Mr. Oliphant under date of March 11, 1938 wherein he set out for your information the identification of Ben Grey. This he had dictated to me immediately upon his return to the office from the luncheon.

I kept a record of all Mr. Oliphant's callers and the nature of their calls. But even apart from the record, I am confident, that Mr. Oliphant never saw Ben Grey other than at the two times enumerated herein.

FMcG

May 18, 1939

To: The Secretary

From: Mr. Hanes

I went up to see Congressman John McCormack today at 12 o'clock. He started out by saying that he was terribly confused by the various conflicting reports which he has read in the newspapers. He said that he had gathered the impression from his Boston papers that the so-called Harrison program was in direct conflict, or at least different in several respects, to the Treasury program. He said that he had had no notice from either Doughton or Cooper of a meeting of the sub-committee to discuss the situation, but that Mr. Doughton had announced at the Social Security executive session that they would begin to talk general taxation fairly soon. For that reason he was desirous of asking us whether we favored the so-called Harrison program so that he would know how to conduct himself should the sub-committee be called to discuss this problem.

I told him that I had not discussed the Harrison suggestions with you in detail, but that my own feeling was that it was good as far as it went. I told him that I personally was willing to go much further but that I did not feel like muddying up the water by making further suggestions when there was every reasonable prospect of reaching an agreement with the Senate Finance Committee on the basis of Senator Harrison's memorandum.

Mr. McCormack said that his view corresponded with mine, that he did not think the Harrison proposals did more than "take a small bite at the cherry." He said again that he was willing to go down the line for us and advocate any plan which we could agree upon. He was extremely cooperative in every respect, and said that we could rely upon him for any assistance within his power to give. That's a pretty broad statement but I believe him when he says it.

J. W. H.

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Original to Lacy at home 5/18/39 H H

JWH:jr

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Original to Secy.
at home 17/8/39
4:45

JWH:jr

May 18, 1939

FOR THE SECRETARY:

Mike Flynn who was working up a story today on the measures to be included in the next big spending program asked Senator Wagner about reports that Wagner was considering a plan to spend the $1,800,000,000 from the Stabilization Fund for housing. The Senator replied by saying, according to Mike, "You've been talking to the Treasury." Mike denied this and explained how he got the report, whereupon Wagner admitted that he did have some such idea and planned to talk it over again "with the boys downtown" during the next few days, but he would not say who the "boys downtown" are. Mike says that Wagner is in no hurry with the Stabilization Fund bill until he sees what can be done with this new idea. From Leon Henderson, Currie, and others, Mike has a long list of spending proposals on housing, highways, railroad equipment, etc., he will publish tomorrow.

ESD

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 18, 1939.

TO Secretary Morgenthau

FROM E. H. Foley, Jr.

For your information

The hearings on our monetary legislation before the Subcommittee of the Senate Committee on Banking and Currency were completed today.

It is expected that the Subcommittee will report the legislation to the full Committee the first part of next week. Larry Bernard anticipates that the vote in the Subcommittee will be 5 for continuation of the power to revalue the dollar and 5 against the continuation of such power. There should be no difficulty in the Subcommittee in connection with the continuation of the stabilization fund and the power to purchase newly-mined domestic silver at a price higher than the world price.

Larry Bernard believes that the Senators on the Subcommittee in favor of continuing the power to revalue the dollar are: Smathers, Byrnes, Miller, Bankhead and Barkley; those opposed: Adams, Brown, Glass, Taft and Townsend.

We anticipate that the vote on the continuation of this power in the full Senate Committee on Banking and Currency will be 11 in favor and 9 opposed.

E.H.F.Jr.

May 18, 1939
10:18 a.m.

Operator: Go ahead.

HMJr: Hello, Ross.

Ross Magill: Yes, Henry.

HMJr: Where are you?

M: I'm down at the National Bureau of Economic Research.

HMJr: Oh.

M: Sitting in with Jake Viner.

HMJr: Oh! Have you.....

M: I'm -- I'm alone now, if that's what you are.....

HMJr: Have you seen Blough?

M: Yeah.

HMJr: Has he left you?

M: Yes. He -- I saw him -- I had this meeting down here with the committee on a fiscal study which they are making at ten o'clock.

HMJr: Yeah.

M: But I saw Blough at nine this morning.

HMJr: Yeah.

M: And I think that statement is in good shape, Henry.

HMJr: Good!

M: And I -- I -- I would -- I hope that you can go ahead and give it. I think that it's a good job and will do you credit.

HMJr: Right.

M: The -- the only questions I had about it were comparatively minor ones.

HMJr: Yeah.

M: There is one sentence, which, in the undistributed profits tax portion -- which I think should be polished up.

HMJr: Right.

M: But that's not a job of any great difficulty and -- and I dare say Blough has already got it done.

HMJr: Fine!

M: But the rest of it, I think, is good. I think it has a good ring to it and I -- and I think it will do a lot of good.

HMJr: Yeah. Well.....

M: Now, Blough left me when I came down to this meeting to go over to see Karl Shoup.

HMJr: Yeah.

M: And I presume that he's in his office.

HMJr: Yeah.

M: He told me he was planning to call you sometime during the morning.

HMJr: That's right.

M: Yeah.

HMJr: He's going to -- well, I just wanted to make sure how it was.

M: Yeah. Well, I think it's good. I -- I read it -- read it through from beginning to end quite carefully, because I wanted to get again the -- the force of that first part.

HMJr: Right.

M: And -- and I think that -- I think you've really done an excellent job under very difficult conditions. And I certainly hope that you can hold the fort.

HMJr: Well, I'm still holding the fort but the ground is sort of sinking from under me.

M: It is, eh?

HMJr: But we'll see -- but I just wanted to make sure you had seen it.

M: I -- I said to Roy that -- I suggested to him to say to you -- well, I'll say it to you directly. I -- you and I spoke about it when you were down in Georgia.

HMJr: Yeah.

M: And that is that for what's it worth, in your discussions, bear in mind that -- certainly the greater part of what is contained in this statement.....

HMJr: Yeah.

M: .....we conveyed to the President way back in 1937.

HMJr: Right.

M: This isn't some new thought.

HMJr: No.

M: It isn't the result of -- of Hopkins, or Harrison, or Hanes, or anybody else.

HMJr: I know that.

M: Now, secondly, I think in the same statement it should be -- I wish we could get across to the man across the street, but I don't -- I suppose it's impossible, that this is by no means a right-wing philosophy. I presume that certainly 95 out of a 100 competent economists and thoughtful students would agree on this program quite objectively, without any thought of partisanship or policy, or anything else.

HMJr: Yeah.

M: So that it -- it isn't that somebody is trying to sell him a bill of goods. This is the natural and proper development.

HMJr: Uh-huh. Well, ever so much obliged, and as things develop, I'll keep you posted.

M: Well, thank you, Henry. I'll be -- I -- I want to get down to Washington sometime next week, but I'll be around here where you can get ahold of me the rest of this week.

HMJr: Thank you.

M: Good luck to you.

HMJr: Good bye.

M: Good bye.

MORGENTHAU SAYS NOTHING NEW ON TAXES

WASHN - SECY MORGENTHAU SAID TODAY THAT HE HAD NOTHING NEW TO ADD ON TAXES - THE SECRETARY SAID THAT HE DID NOT KNOW WHEN THE NEXT TAX CONFERENCE BETWEEN CONGRESSIONAL LEADERS AND THE PRESIDENT WOULD BE HELD - 1048

MAY 18 1939

11 51 A M

MAY 18 1939

ADD MORGENTHAU

WASHN - SECRETARY MORGENTHAU REFUSED TO CONFIRM CHAIRMAN DOUGHTON-S STATEMENT THAT HE IS IN AGREEMENT WITH CHAIRMAN DOUGHTON ON THE PROPOSED REVISIONS IN THE TAX STRUCTURE

-0-

1050

SEN O-MAHONEY SAYS CORPORATE TAX STRUCTURES TO BE CONSIDERED ~~BY CONG~~ BY MONOPOLY COMMITTEE AS INTEGRAL PART OF ECONOMIC PICTURE

WASHN -

MAY 18 1939

1059

ADD O-MAHONEY

WASHN - SEN O-MAHONEY CHAIRMAN OF T N E C SAID THAT THE CORPORATE TAX STRUCTURE AND THE ADVISABILITY OF TAX CHANGES WILL BE CONSIDERED BY HIS COMMITTEE AS AN INTEGRAL PART OF THE NATION-S ECONOMIC PICTURE NOW BEING STUDIED BY THE GROUP

-0-

MAY 18 1939

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE

May 18, 1939.

TO Secretary Morgenthau

FROM Mr. O'Connell

For your information

To-day's witnesses before the Monopoly Committee hearing, among whom were included the Chairman of the Board of the United Aircraft Corporation and Mr. Sloan, Chairman of the Board of General Motors, testified to the same general effect as have previous witnesses, namely, that the corporations which they represent have not in the past and will not in the fore-seeable future, have any occasion to tap accumulated savings. Both witnesses stated definitely that they were entirely able to finance any future expansion out of earnings and that they intended to do so as a matter of business policy.

It is my understanding that to-day's testimony completes this phase of the investment study. The Committee recessed until Monday, at which time the problem will be approached with a view to determining what happens to the savings of those who save.

Joseph J. O'Connell Jr.

GROUP MEETING

May 18, 1939.
10:55 A. M.

PRESENT: Mr. Hanes
Mr. Foley
Mr. McReynolds
Mr. Gaston
Mr. Haas
Mr. Bell
Mr. Duffield
Mr. Lochhead
Mr. White
Mr. Graves
Mrs. Klotz.

H.M.Jr: What have you got, John?

Hanes: Just as a matter of information, the Comptroller's Office reports the First National Bank of Parksley, Virginia, as having deposits of about $260,000 today.

H.M.Jr: National?

Hanes: National Bank.....

H.M.Jr: Have you got that stuff?

Gaston: Yes, they are working on it.

Duffield: I have nothing.

Foley: I have nothing, Mr. Secretary.

Haas: I have something, I want to talk to you about that employment proposition, you know.

Lochhead: The foreign markets are all very steady and quiet. This is a religious holiday in Catholic countries. It is Ascension Day, and the situation is more quiet than it has been for the last few days.

White: You asked about the reason for the sharp rise in Italian stocks -- 15 per cent on the annexation of Albania. We have looked through all the newspapers and cables, and there seems to be no other explanation than the fact that there has been a successful outcome. The magnitude of the

rise began to some extent, with Munich. That is not a very adequate explanation, but it is the best we can get. I have a comprehensive memorandum here in regard to changes in the situation. When it crops up again, we will be notified.

H.M.Jr: I was asked in the press conference, but could not give any explanation, as to the situation of General Motors and International Harvester in the Argentine. Can you give me something on that?

Lochhead: That was discussed at one of the Export-Import Bank meetings. They cut down the quota on American cars. The American manufacturers were anxious to keep that market, and, at the same time, the Argentine people were anxious to keep down the distribution of American cars. What they aim to do is to allow them to increase their quota. General Motors and the other motor people will accept in payment Argentine government notes for two or three years - a short term loan. They do not want to do that, but they apparently figured it would be better to get a little credit that way. Incidentally, along that line, at the Export-Import Bank, they are going ahead with that $500,000 for the bank. As far as other credits are concerned, they simply state that they will agree to consider other propositions up to $2,000,000. It is not a commitment. They will not make any commitment at all, but they will agree to finance it. That is due to the fact that they do not want to put commitments on their books for specific amounts, because they have no authority to lend specific amounts.

H.M.Jr: What happened to my suggestion.....

Lochhead: I asked Lawrence Pearson yesterday in regard to that, and he said he understood that Jones --

H.M.Jr: He is stalling.

Lochhead: But the mere fact that they are setting up the books in this way, and not making definite commitments, shows that they are not going very hard after that.

White: What do they call that kind of a loan?

Lochhead: They call it a credit -- along the lines of a specific credit, but only to be used in case of need, and also with the details left rather open.

H.M.Jr: Ed, will you be good enough to get word to the Attorney General on the so-called motion picture cases that the earliest I will have a report will be on the 22nd? I do not know whether it will be in shape to forward to him or not, but I doubt it, as he is going out there and wanted to take something along on the 19th. I will not even receive it until the 22nd and I have grave doubts as to whether we will have anything. If we can get it, we will give it to him. Is that right?

Gaston: That is right. The St. Louis Post-Despatch had a story about the income tax returns of three prominent members of the motion picture industry, and calling for an investigation, and named Daryl Zanuck, William Goetz and Joe Schenck. He came to Elmer Irey with the story. Elmer did not give him anything, but Marq Childs told him where to get the story. He got it from Charlie Russell.

H.M.Jr: Who is Charlie Russell?

Gaston: Charlie Russell is the former Deputy Commissioner in charge of the Income Tax Unit. He left somewhat over a year ago, and is now representing one or more of those men.

H.M.Jr: He ought to know.

Gaston: Mark Childs thought it was good authority when he read the story.

H.M.Jr: Dan?

Bell: We are just about completing the audit of the Commodity Credit Corporation. I believe their capital is completely wiped out. They have additional funds of $19,000,000, making a total of $119,000,000.

H.M.Jr: I want to ask whether I should say "Oh, boy!" or "Tsk," "Tsk," "Tsk"! (Laughter)

White: That was the audit for last year. Next year it will be "Oh, boy!"

Bell: In that connection, I find that the Commodity Credit is charging the borrower --

H.M.Jr: The bar?

Bell: Is charging the borrower 4 per cent interest. Theoretically, they are charging him 4 per cent interest. The banks take these obligations for one year and get 2½ per cent, and the Commodity Credit, in theory, gets 1½ for underwriting the loan, but what we are doing is selling a one year obligation for 2½ per cent. Then it is renewable under certain conditions. I have not found out what those conditions are, but I think it is something for the stockholders to look into, that we are selling guaranteed obligations for one year at 2½ per cent, which is a little out of line with other Treasury financing; but I will have the facts in a few days.

H.M.Jr: When you do that, will you also compare it with intermediate credits elsewhere?

Bell: There is not, of course --

H.M.Jr: Well, I have not looked to see what they could do with one year paper, but certainly they do not pay a half of one per cent.

Bell: The last was 4/10th for six months.

H.M.Jr: How much?

Bell: 4/10th for six months. That includes commission.

H.M.Jr: Of course, this is a swell deal for the banks.

Bell: That is right. That is a shrewd deal.

H.M.Jr: Will you look into it?

Bell: Yes; I am getting some more dope on it. I will have it in a day or two.

H.M.Jr: I hope you do.

Bell: We have $20,000,000 of 2-3/4 Home Owners' Loan bonds that we are going to refinance.

H.M.Jr: How much?

Bell: $20,000,000 in the Postal Savings Investment Account. Don't you think we ought to sell those and get the rights and not exchange --

H.M.Jr: What would you do with the rights?

Bell: Well, we will sell these bonds and put the money in a 2 per cent obligation, and sell the rights on the

market, rather than take whatever is offered in exchange, which would certainly be less than 1-3/4.

H.M.Jr: $20,000,000?

Bell: Yes.

H.M.Jr: I do not like to have those postal savings a Government guaranteed obligation, by any means.

Bell: We have had them for some time.

H.M.Jr: Did they go over easily?

Bell: Very easily. They went up this morning.

White: Yes. This morning the whole thing was 5/32; the rights about 2/32.

H.M.Jr: You are selling them out complete?

Bell: Yes. The Attorney General has charge of the Alien Property Trust Fund and he has recently -- well, first I should explain that each six months -- had the duty of distributing the earnings of that investment to the so-called beneficiaries, German people, etc. That is quite a task, and in order to get out from under, he has recently had an executive order signed by the President, which directs you to sell the securities of that Alien Property Account, and put the money to the credit of the Trust Fund in the Treasury; but instead there are no earnings there, so there is nothing to distribute, and there are only $13,000,000 of Government securities still out after this financing is over.

H.M.Jr: Does that sound all right?

Bell: The only other thing I have is that I understand Mr. Smith, Director of the Budget, is to write some sort of a letter to the Appropriations Committee. He does not know what kind of a letter, and I am wondering if you would have any information to help him out.

H.M.Jr: And how long had you been Acting Director of the Budget?

Bell: Four years and a half, but he has only been such for two months.

H.M.Jr: In the conversation at the luncheon on Wednesday, the President said "I see that Senator Russell says this is not an increase this year over last. Is that correct?" "Well," I says "my lawyers tell me it is 370 plus, and I stand on those figures here." The President says "Well, if somebody has the figures, send them up to the Hill."..... I am just giving you what he said -- "because they don't know." "Well, I take it what you want me to do is to get word to the Director of the Budget that he should send word up?" And he says "Yes". I says "Would you like a copy?" He says "Yes, I would like a copy." In the old days you would know what to do and I take it you would send it to Chairman Taylor, wouldn't you?

Bell: Yes; if it is going to the House, but as long as Russell raised the question, I suppose it would go to Glass, and send Taylor a copy.

H.M.Jr: Yes, but you have had messages like that before.

Bell: But he has not. That is the difficulty.

McReynolds: I went around to see him and gave him all the information we hold. He was a little "foggy" about it.

Bell: The 372 -

H.M.Jr: Have you the details?

Bell: Yes, practically, I know what happened. You realize that 372 is over the President's budget estimate?

H.M.Jr: I understand.

Bell: Yes; 1940, but not over the 1939 appropriations.

H.M.Jr: I understand.

Bell: I will take care of it. I think I can.

H.M.Jr: I think the statement I made is perfectly clear. Weren't you at my press conference on that?

Hanes: No - Oh, yes; surely. Yes, you were all right on that.

H.M.Jr: I said it was 370 over the President's budget estimate. You sat right here.

Hanes: And that was right, too.

H.M.Jr: Don't you try to crawl out of that.

Bell: I think there is a difference between what you told the President and what Russell said on the floor.

H.M.Jr: Yes, there is, surely.

Bell: He says that 235 put in for parity payments takes the place of 212 put in last year, and, therefore, the two years are comparable. That is correct.

H.M.Jr: I think everybody ought to be straightened out.

Bell: All right. That is all I have.

H.M.Jr: I think you should have something for me on the Home Owners' Loan in the morning.

Bell: We will.

H.M.Jr: You get it, and we will start at 10 o'clock. Let us start first on the Home Owners' Loan.

Bell: Very good. I should explain that I have not seen Mr. Hanes, as you asked me to. He was completely tied up yesterday.

H.M.Jr: That is not his story.

Bell: I went down, and he had gone to the Hill.

H.M.Jr: There is nothing particularly significant in this cash income and outgo, as I have been looking at it, is there?

Bell: No, I do not think so.

H.M.Jr: Could you or somebody else give me the figures? How about Straus? Hopkins asked me about that.

Bell: I will be glad to.

McReynolds: The union people have been picketing the Commerce Building for the last couple of days.

H.M.Jr: I thought they had settled that.

McReynolds: I have been having a little difficulty with the union people myself lately, and I hope we won't have any picketing around the Bureau. They want an official negotiating group in the Cafeteria Association. They have about 75 employees. The employees themselves are not interested, but organizers for both the C.I.O. and A.F. of L. have been insisting that the Labor Relations Board hold an election among those employees to designate the negotiating group. I told them we could not have a hiring hall there, because we had to be careful to exercise some supervision over who was hired in that cafeteria. I got Eiker, who is the district supervisor for the National Labor Relations Board coming in this afternoon to take it up again. He has already been in to see me.

H.M.Jr: He is a good man.

McReynolds: Yes, and he is doing the best he can to quiet them. I talked to Gardner Jackson about it some time ago. As far as the C.I.O. is concerned, they have gotten off our necks. They have not been coming in. As to the A.F. of L. if those fellows think they are going to put a picket line in front of the Bureau --

H.M.Jr: How about this fellow that Bill Green wanted left in Baltimore?

McReynolds: I have talked to them. You don't get the same measure of common sense in the A.F. of L.

H.M.Jr: Do you want any help?

McReynolds: I do not know what help anybody can give. Of course, we could let them go ahead and hold their election. The only result would be that they understand that they cannot exercise any control over those fellows, and they admit it.

H.M.Jr: Do you want me to get in on it?

McReynolds: No; I just wanted you to know about it.

H.M.Jr: You just want me to hold your hand?

McReynolds: I did not want to bring it up to you sooner. This thing has been going on for six months, and I do not expect anything to happen.

H.M.Jr: Is the cafeteria any good?

McReynolds: The cafeteria is excellent, it is well run, but this may result in our having to run the cafeteria again ourselves. I do not want the publicity of this picketing. It is a good cafeteria. It is run by the employees association.

Mrs. Klotz: It is very good.

McReynolds: They run it themselves. They elect their own people. They have good meals, and they are cheap; but, after all, we cannot let those fellows control the people who are working in the Bureau. That cafeteria has to go on, or we would have to close the Bureau. If they call a strike and close the cafeteria, we would have to close the Bureau, and we have been running 24 hours a day there.

H.M.Jr: Well, you keep me posted.

McReynolds: I will.

H.M.Jr: One other thing. Will you look up and ascertain when the law was passed which gave all of these special powers to the Assistant Secretary of War which he now has? Was it in this Administration or a previous administration, and under what circumstances?

McReynolds: I guess it was when that position was created.

H.M.Jr: It is most unusual.

Bell: I think it was in the National Defense Act, when a part of them were given to him.

H.M.Jr: Will you look it up?

Bell: Yes.

H.M.Jr: And the circumstances. Why is he in charge of purchasing and why is the Assistant Secretary of War in charge of national mobilization? Why do all those things go to the Assistant Secretary?

Bell: I think it was created at the time that they were talking about industrial mobilization, and he wanted somebody to handle it particularly. That was one excuse for creating the job.

H.M.Jr: Was it done in Woodring's time?

Bell: No; no.

McReynolds: No, before Woodring.

H.M.Jr: This other thing is just a little matter. I think George should handle this, and I think you should do this for me before lunch today. Miss Lonigan wants to sit in at my conferences. She wants to know something about the effects on unemployment. Well, I don't want that. I think the Directors have a meeting only once a week. I work in the Treasury from 9 until 4:30, and I cannot get to them. If you two gentlemen can find work to keep her busy from 9 to 4:30, I will give her about six months notice.

McReynolds: George can give her work, if she will do it.

H.M.Jr: She writes a memo. to me about 4th grade statistics. She cannot do the work of 4th grade statistics.

Haas: She did the last job I gave her the other day.

H.M.Jr: At any rate, she is here from 9 to 4:30. Those are the office hours for everybody except me.

McReynolds: Correct.

H.M.Jr: All right. From 9 to 4:30 she is to be in her office, and once a week --

Bell: Take that as an order?

H.M.Jr: Anyway, will you please attend to that?

McReynolds: We will.

H.M.Jr: Does anybody want to see me, because I am going home at one o'clock, and I will not be back today.

(Meeting concluded 11:30 A.M.)

May 18, 1939

My dear Mr. Sproul:

The Federal Reserve Bank of New York is holding, subject to the order of the Secretary of the Treasury, for account of the Board of Trustees, Postal Savings System, $8,000,000, face amount of 2-3/4% Home Owners' Loan Corporation Bonds, series B, 1939-49, and instructions have recently been issued to transmit to your bank an additional $12,272,000, face amount of such bonds for this account.

You are hereby authorized to sell at the market from time to time on and after May 22, 1939, in such amounts as, in your opinion, are justified by market conditions, up to an aggregate of $20,272,000 Home Owners' Loan Corporation 2-3/4% bonds of 1939-49 for account of the Postal Savings System. The bonds held by your bank in safekeeping, subject to the order of the Secretary of the Treasury, for that account may be released for this purpose. The proceeds from the sale of these securities should be deposited in the Treasurer's account for credit of the Postal Savings System, symbol No. 42-001, and the established procedure with respect to the sale of securities for this account should be followed.

Very truly yours,

(Sgd) H. MORGENTHAU Jr.

Secretary of the Treasury

Mr. Allan Sproul,
First Vice President,
Federal Reserve Bank of New York,
New York City.

WTH:HBW

10:30

BRITISH EMBASSY,
WASHINGTON, D.C.

May 18th, 1939.

Dear Mr. Secretary:

Would you be so kind as to give me two or three minutes at some convenient moment to allow me to present to you my new Financial Adviser - Mr. G.H.S. Pinsent?

If you agree to this, perhaps you would tell your secretary to communicate with mine as to day and hour by telephone.

Yours very sincerely,

R.C. Lindsay

The Honourable
Henry Morgenthau, Jr.,
United States Treasury,
Washington, D.C.

289

WASHINGTON, D.C.
MAY 8
8:30PM
1939

The Honourable

Henry Morgenthau, Jr.,

United States Treasury,

Washington, D.C.

BRITISH EMBASSY

JR

GRAY
London
Dated May 18, 1939
Rec'd 2:25 p.m.

Secretary of State,
Washington.

704, May 18, 6 p.m.

FOR TREASURY FROM BUTTERWORTH.

One. I understand that Lloyds, with the knowledge and consent of the Bank of England, is planning to take steps to set up a company or trust in the United States which will hold offsetting American assets against certain dollar insurance liabilities. This step is of course being taken to avoid complications arising out of any action by the British Government in the event of war to take over the dollar assets of British nationals and corporations.

Two. Documents indicating the form and constitution of the continental assets realization trust referred to in paragraph numbered three of my 685, May 15, 6 p.m., are going forward by pouch. The moving spirit in this project is Leonard Ingrams a British subject who is head of the London branch of the Chemical Bank and Trust Company. Ingrams states that the Chemical Bank is in no way connected

-2- #70, May 18, 6 p.m., from London.

connected with this endeavor; that the Bank of England has given it its informal blessing; that he has received assurances from the Reichsbank that it will "cooperate in every way".

Three. The firmer tone of yesterday has continued today in the London stock exchange, governments as well as equities being up, war loan for example closing at 93-9/16. The turnover however remains small. Dealings in the foreign exchange market were few and far between due to Ascension day. Of the 152 bars sold at gold fixing 39 were married, Samuel Montagu still being the only big buyer.

KENNEDY

CSB

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 18, 1939, 6 p.m.

NO.: 964

CONFIDENTIAL.

Today I was told by Paul Reynaud that he had almost concluded arrangements through Mannheimer to consolidate all the French Government's outstanding short term obligations, which amounted to around 6,500,000,000 francs. About 600,000,000 francs of this amount he expected to repay. The balance of approximately 6,000,000,000 francs would be converted into obligations to fall due at the end of six years. Mendelssohn of Amsterdam and other Dutch banks and certain Swiss banks would take up the obligations.

The Polish Ambassador and the Polish Minister of War had asked Reynaud yesterday for an immediate advance of 2,000,000,000 francs. They said they wanted 1,000,000,000 in free money, and 1,000,000,000 would be spent in France. Reynaud hardly expected that there would be difficulty about the 1,000,000,000 to be spent in France, but he was still hesitant about the other billion. He felt that the Polish were fully justified in their demand, and that to grant it would be in the interest of France. However,

he

he had to exercise extreme caution not to upset his financial bark which was sailing so successfully at the moment.

I was asked by Reynaud whether the United States Government could not extend credits to the Polish Government for cotton purchases. I said that I had already been approached by the Polish Ambassador in this regard, and that I understood that in the immediate future the Polish Minister of Commerce expected to take it up in Washington.

It is requested that this telegram be repeated to the Treasury Department.

BULLITT.

EA:LWW

REB

GRAY

London

Dated May 19, 1939

Rec'd 2:30 p. m.

Secretary of State,

Washington.

712, May 19, 5 p. m.

FOR TREASURY FROM BUTTERWORTH.

One. The reaction of the London press to the Anglo-German discussions regarding Anglo-Czech financial assets and liabilities referred to in paragraph numbered two of my 694, May 16, 9 p. m. is critical. The reports also are on the whole factually erroneous. Wohlthat is not in London; the German representatives are Muller, von Susskind and Rutter. They met with Waley of the British Treasury and Lever of the British committee of long and medium term creditors yesterday and it was agreed that the talks were exploratory, designed to ascertain whether negotiations could be successfully undertaken. Waley states that the German representatives were informed that if the matter could not be handled through negotiations the British Government proposed to pass legislation during this session of Parliament to take over the impounded Czech assets and use them to

liquidate

REB

2-#712, From London, May 19, 5 p.m.

liquidate British claims. The British Treasury states that the impounded assets total 14-1/4 million pounds. Against this they want 6,000,000 pounds to satisfy the Bank of England's previous credit to Czechoslovakia (of which 2-1/2 million pounds had actually been drawn before March 15) and 3-1/4 million for the refugee fund. Besides this there are other claims now totaling over 13 million and increasing daily; these claims have however not been carefully investigated and it is expected that a large number will prove to be bogus; furthermore they are computed at their face, unable to obtain, value at the official rate of exchange prevailing prior to March 15. The figure of impounded assets does not include about five hundred thousand pounds of Czech gold which is security for specific offsetting obligations.

My impression is that the British Treasury would be reluctant to foster legislation to seize and distribute the impounded Czech assets, not only because it would work hardship on Czech firms and individuals but also for the precedent it would create.

The press has got hold of the fact that gold of the Czech National Bank was deposited with the Bank for International

REB

3-#712, From London, May 19, 5p.m.

International Settlements, which in turn holds earmarked gold here in its own name. The British Treasury's view is that it cannot go into the question of the ultimate ownership of gold held in London in the name of the Bank for International Settlements; that legally ownership is vested in that Bank and any question of disposition of its assets is a B. I. S. matter.

Two. In connection with the "Van Zeeland Spanish loan project" referred to in paragraph numbered one of my 682, May 14, 9 p. m., the Chancellor of the Exchequer replying to questions in the House of Commons stated:

"So far as I am aware it is not the case that the Spanish Government have expressed any desire to borrow from this country and no approach on the matter has been made to the Foreign Transactions Advisory Committee. There is no probability owing to present conditions of it being found possible to issue foreign loans of any substantial amount in this market and accordingly the question of giving consent to the raising of any loan by or on behalf of the Spanish Government does not arise. In these circumstances on being consulted as to British financial institutions associating themselves with an inquiry into the financial and

economic

REB

4-#712, From London,May 19,5p.m.

economic position of Spain His Majesty's Government expressed the view that this would be inappropriate for the reasons above stated and no British financial institution has associated itself with the proposal."

Three. The London Stock Exchange has been inactive but lower today; likewise the foreign exchange market has been almost idle with the British authorities supplying but few dollars. Eighty-seven bars were sold at gold fixing at one-half penny premium, two were married, Samuel Montagu being the big buyer.

KENNEDY

HPD

DEPARTMENT OF STATE
WASHINGTON

May 19, 1939.

My dear Mr. Secretary:

There are enclosed for your confidential information paraphrases of two telegrams from Ambassador Bullitt with regard to the financial affairs of France and Poland.

Sincerely yours,

Herbert Feis

Herbert Feis,
Adviser on International
Economic Affairs.

Enclosures:

Paraphrase, No. 964 of May 18
from Paris.

Paraphrase, No. 961 of May 17
from Paris.

The Honorable

Henry Morgenthau, Jr.,

Secretary of the Treasury.

PARAPHRASE OF TELEGRAM RECEIVED

FROM: American Embassy, Paris, France

DATE: May 19, 1939, 5 p.m.

NO.: 968

FOR THE TREASURY.

Press reports from London to the effect that the German authorities want to get control over part of the Czech gold held in London are noted with interest here. Today an official of the French Treasury mentioned that apparently the reports refer to that part of the Czech National Bank gold reserves which had been deposited by the Bank with the BIS, and which are deposited in London in the name of the BIS. In this regard it was recalled that BIS assets are immune from confiscation. The Bank of France, this official said, does not hold any Czech gold. He said that only about 30,000,000 francs are held in French private banks for Czech accounts. He added that the invitation which the French Treasury sent out to French banks on March 20 last, effective March 15, to block all holdings or credits that may be on deposit with them for account of Czech individuals or concerns is still in effect, and that for the time being no change is contemplated.

END SECTIONS ONE AND TWO. BULLITT.

SECTION THREE of No. 968.

Reference my No. 955 of May 17, we were informed confidentially by a Treasury official this afternoon that negotiations between a group of Amsterdam banks, headed by Mendelssohn and the Nederlandsche Handelmaatschappij, and the French Government for a loan of 155 million florins had been satisfactorily concluded. It was said that the loan takes the form of six year French Government bonds at an interest rate of four percent and that these bonds are payable at the option of the holder in Swiss francs, dollars and in florins, at a fixed rate. Subscriptions may take the form of short-term French treasury bonds previously issued on the Amsterdam market, or of cash.

SECTION FOUR.

According to LE TEMPS the Minister told the Chamber Finance Committee on Wednesday that the Government was not considering a loan to Spain for the time being, and that if Germany does not recognize Czechoslovak debts, certain retaliatory customs measures will be taken against her by France. According to LE TEMPS, the Minister estimated that approximately ten billion francs might be expected from the conversion of portion of the new loan issued May 15th. The Minister finally estimated receipts of gold

at about 20 billion francs since last November.

Trading on the exchange and security markets is very dull and restricted. The guilder is stronger and rentes and most French securities showed fractional losses.

END OF MESSAGE

BULLITT

EA:DJW

QUINTUPLICATE

No. 182

STRICTLY CONFIDENTIAL

Rangoon, Burma, May 19, 1939.

STRICTLY CONFIDENTIAL

SUBJECT: Yunnan-Burma railway and highway.

THE HONORABLE
THE SECRETARY OF STATE,
WASHINGTON, D.C.

SIR:

I have the honor to report that in the course of a conversation with the Chinese Minister of Communications, Chang Kia-Ngau, on May 14th, he told me that he was confident the British would build the Burma link of the Yunnan-Burma railway as soon as they were convinced that it was China's intention to complete the line in Yunnan.

The Minister was an overnight guest of the Governor of Burma in Maymyo (the summer capital) en route to Rangoon after a trip of inspection over the Yunnan-Burma highway, and he discussed with him the question of linking China and Burma by rail.

The Chinese official pointed out here that roadbed work was now being done on both the Yunnan-Burma route and that of the proposed railway north from Yunnanfu to the Yangtze River at Suifu, above Chungking. He said that about a third of the materials required for the Yunnan-Burma railway were now available in China, and he expressed confidence in China's ability to obtain the remaining materials necessary under

foreign

foreign credits. He estimated that the line in China, from Yunnanfu to the Burma border, would have a length of about 500 miles and would cost approximately £4,000,000. He asserted that the decision to build from Yunnanfu to the Yangtze River had done away with French opposition to the Burma rail connection, as the French saw an advantage to them in the shorter route from the Yangtze to the sea via their railway from Yunnanfu to Haiphong, Indochina.

Regardless of political developments in China, he said, the Chinese Government meant to construct the two railways as rapidly as possible.

Highway Not As Good As Expected.

The Minister of Communications also told me that the Yunnan-Burma highway was not as good as he had expected to find it, but he added that his journey over it had enabled him to realize the difficulties involved in its construction. He said that the improvement of the road would be continued, that if necessary laborers from other sections of China would be recruited for the work, and that every effort would be made to keep the highway open for traffic during the rainy season.

It is stated that relatively few men are now at work on the western portion of the Yunnan highway, and the reasons for this are said to be the approach of the rice-planting season and the prevalence of malaria in that part of the Province at this time of year. For the same reasons working forces on the Burma section of the highway from Lashio to the border,

which

which are composed almost entirely of Yunnanese, are greatly reduced, and some of the work marked for completion before the opening of the rainy season has not been done. The rains of the southwest monsoon have now commenced.

One of those who accompanied the Minister of Communications over the Yunnan-Burma highway and who came to Rangoon with him was Mr. Ta'n Po-ying, director of the road.

Burmese Opposition to Communications.

Burmese opposition to road and rail communication between Burma and China, as manifested by the Burmese press and by Burmese politicians in the Legislature, was one of the matters discussed by the British Governor of Burma and the Chinese official at Maymyo, and when the latter met newspapermen in Rangoon he sought to dispel professed fears of an influx of Chinese as a result of the provision of road and rail facilities by giving out the following statement:

"I am very surprised to learn that there should have been such a misunderstanding. Yunnan is a vast province, with a sparse population of 12,000,000 people. Of this number, about seventy-five per cent are women, children and aged people. Therefore the number of able-bodied men is only about 3,000,000. Since the outbreak of the present hostilities, Yunnan has been conscripting soldiers and labourers. The construction of the Yunnan-Burma highway and railway, and of the Yunnan-Szechuan highway and railway, requires the service of many hundreds of thousands of people. The number of labourers required for the development of other economic projects is colossal. In view of all these facts, Yunnan may have to recruit labourers from neighbouring provinces. After the completion of the Yunnan-Burma railway and the Yunnan-Szechuan railway, there will be a corresponding development of commerce and industry, as a result of which Yunnan people will have even less incentive to emigrate into neighbouring

countries

countries. I wish to acquaint the public here with these facts so as to prove that there is absolutely no ground to entertain fears as to the probable influx of Chinese labour into Burma."

Effect of Anti-British Feeling.

While there is some fear among Burmans of economic and other consequences in the event of heavy immigration of Chinese into Burma, the likelihood of which is stressed by the Burmese press, anti-British feeling in Burma is to a great extent responsible for the opposition shown to road and rail communication with China. In the Yunnan-Burma highway and the transit through Burma of war materials for China, few Burmans conversant with these developments see more than measures in the interest and for the benefit of the British "imperialists". With reference to the probability of increased earnings by the Government-owned Burma Railways and larger receipts by the Burma Customs, Burmans point out that disbursements by the Burma Railways for personal services are chiefly to European officials and Indian employees (employment figures show 78 percent of Indians as against 17 percent of Burmans), and some profess to believe that any revenue gain to Government would be more likely to result in reductions in the income tax of "exploiting" European companies and of Indian merchants than in increased allotments for "nation-building" services. The indicated attitude of many Burmans is that there is no possibility of material benefit to them that would compensate for placing Burma in a position where it might become a victim of Japanese reprisals.

"The Burmese", said Dr. Ba Maw, former Premier of

Burma

Burma, discussing the Yunnan-Burma highway in the House of Representatives, "have ceased to be a nation and have become merely a road", and he went on to "warn" the House that the road "presented a serious obstacle in Burma's struggle for independence". It was, he asserted, "sending Burma into the international whirlpool" and making it "a pawn on the international chessboard".

Japanese Influence Reported.

That Japanese interests are promoting opposition to Burma-Chinese communications among Burmese newspapermen and politicians is reported, and it would be unreasonable, under the circumstances, to doubt that there is some activity of this kind. In its issue of March 15, 1939, the RANGOON GAZETTE (British daily in English) discussed "the persistence with which the Burmese press has been maintaining the outcry against the development of communications with China", and on the question of possible Chinese immigration said that no doubt some educated Burmans "do fear that the more easy-going Burman would not be able to stand competition". On the other hand, it continued, "it is easy to see in the agitation the hand of the Japanese, to whom the Burmese newspapers are lending themselves naively to assist their designs in China". The newspaper commented on assurances that have been given that Government officers on the frontier are watchful, and that large numbers of Chinese will not be permitted to enter Burma, and on the statement of the Chinese Minister of Communications concerning labor conditions in Yunnan, and in conclusion said: "Despite the activities of Japa-

nese

nese propaganda in this country, the future of Burma is more suitably linked with the success of the Chinese than with the triumph of Japanese aggression."

"Insult" to Burmese Newspapers.

Burmese newspapers lost no time in replying to the RANGOON GAZETTE. On May 17th the NEW LIGHT OF BURMA (largest daily in Burmese) called the English daily's accusation of Japanese influence an "insult" to Burmese newspapers, "because it is not supported by any facts", and said:

> "Big exporters and importers, mostly white-faced persons, are the only persons likely to be benefited by the development of communications with China. That is why they are annoyed at Burmans who are naturally anxious lest the Chinese immigration becomes a source of danger to the Burmese race and the Buddhist religion."

In its issue of the same date the Burmese daily PROGRESS printed the following in an editorial statement:

> "Burmese newspapers have courageously set their face against the development of communications with China because they know that linking of Burma with China by road and rail cannot benefit Burmans economically. The RANGOON GAZETTE, being the spokesman of Imperialists and foreign capitalists, might advocate the development of communications with China but they should not ascribe motives to Burmese newspapers. It naturally shows the mean outlook of those people."

Political Party Addresses Governor.

The Myochit political party, of which the recognized head is U Saw, former radical Opposition and Civil Disobedience leader who now has the portfolio of Agriculture and Forests in the new Burma Ministry, has sent to the Governor of Burma a letter, dated May 15, 1939, in which it "greatly deplores the non-

observance

observance of ordinary parliamentary decorum by Your Excellency's Government" in not taking the people of Burma into its confidence in the matter of foreign policy and attitude to the Sino-Japanese conflict. At the time of the arrival, in November, 1938, of the steamer STANHALL with the first cargo of war materials for China this political party wrote to the Governor "condemning" the transport of arms and ammunition across Burma to China, and asking for a declaration of policy. In its recent letter reference is made to an article on the Yunnan-Burma highway and the projected railway which appeared on May 4th in SHWE PYI DAW (Golden Country), a small daily newspaper now issued for free distribution by the Bureau of Information of the local Government, in which it was stated that the "immediate object" of the construction of the trade route was "the easy transport of war materials to China" in connection with the prosecution of the war with Japan, and the communication declares that the action of the Government of Burma in this matter is not far above "the actions of Italy and Germany in breaches of international faith, so severely condemned by the British". The letter says that the party has the "strongest condemnation" for the action of the Defense Department of the Government of Burma, "controlled by the British War Office", in adopting a policy of "active intervention, without being a belligerent, in the domestic conflicts of China and Japan".

Copies of the letter, it is stated, have been sent to the British Prime Minister and the leader of the

Opposition

Opposition in the House of Commons, and to the MANCHESTER GUARDIAN and the DAILY HERALD.

Reported Cession of Chinese Territory.

On May 10th the NEW LIGHT OF BURMA printed what purported to be a telegram from its "special Tokio correspondent", dated May 3d, saying that it was reported an agreement had been reached by the British Ambassador to China and the Chinese Government for the cession to Burma of part of western Yunnan in return for the construction of the new motor road and a railway at the expense of the British Government. It was said that a construction company would be formed with six European and five Chinese directors, and that a Chinese named Chan Koon Choon would be chairman. The report was promptly denied by the Chinese Consulate here and later by the Government of Burma, and when the Chinese Minister of Communications met newspapermen in Rangoon he entered an emphatic denial. "However anxious we may be to develop Sino-Burmese communications", he said, "it is certainly not our intention to barter away any part of our territory."

The report of the Burma-Chinese Boundary Commission, which was signed on April 24, 1937, and which was then submitted to the British and Chinese Governments for any further negotiations or modifications that might be considered necessary or desirable, has not yet been formally approved by either Government. The principal work of the Commission, which was headed by a Swiss army officer appointed by the League of Nations, was the demarcation of the boundary between

Burma

Burma and China in the Wa States area. It is thought that a final agreement in regard to the boundary may be a preliminary step to any definite action by British interests in connection with the proposed Yunnan-Burma railway.

Increased Attention to Burma Link.

Increased attention is now being given to the question of the construction of the Burma link of the Yunnan-Burma railway. A spokesman for the Burma Railways has told me that while the project has not been sanctioned, it is being considered by the railway management, by the Governor of Burma, and by the British Foreign Office. Chinese engineers contemplate a connection at a point on the border beyond the Kunlong ferry of the Salween River, and a line from Lashio to that point would be 110 or more miles in length. The Salween River is within Burma, and the bridge over that stream and ten or twelve miles of track beyond it would be part of the Burma link. Estimates of the cost range from 150,000 to 200,000 rupees ($52,500 to $70,000) a mile.

Respectfully yours,

AUSTIN C. BRADY

Austin C. Brady
American Consul

Distribution:

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

800
ACB/ep

RE: Home Owners Loan Bonds.

May 19, 1939.
9:45 A. M.

PRESENT: Mr. Hanes
Mr. Bell
Mr. Lochhead
Mr. Haas
Mr. Seltzer
Mr. Murphy
Mr. Hadley
Mrs. Klotz

H.M.Jr: Go ahead, Dan, and give me the financial picture of the Home Owners Loan needs, and so forth. Let us do it that way. I do not know what the picture is, you see.

Bell: They have at the present time about $150,000,000 -- $159,000,000 I think it is, and they will have about $6,000,000 to meet in this June 1st financing that we did two weeks ago. $6,000,000 of those are still outstanding.

H.M.Jr: They are not going to do what some paper said they were going to do -- sell some $6,000,000?

Bell: No. As a matter of fact, you made the reservation, not the Home Owners Loan; so it will have to come through you. They are getting in repayments at the rate of $16,000,000 to $18,000,000 a month, and they estimate that they will get in about $150,000,000 to $160,000,000 in 1940, and that will cut it to about $200,000,000 in 1941. That is the year in which the $195,000,000 will be due under this two year financing of two weeks ago. There is a call of yesterday that involves about $905,000,000 at two and three fourths percent, 1939-1949 bonds, and whatever does not come in in this refunding will be paid out of the cash balance -- of course, if it does not exceed $150,000,000. It would be a good thing if $100,000,000 of them did not come in. We could then pay off.

H.M.Jr: They are so widely spread?

Bell: Yes; I think they are being gobbled up pretty fast. The banks have been buying them.

H.M.Jr: And they have also been selling them.

Bell: They are pretty widely held.

H.M.Jr: I would not be surprised if $100,000,000 did come in in the first three days.

Bell: That would be good, because we could use $100,000,000 of the cash to pay off that indebtedness.

H.M.Jr: Yes.

Bell: There has been talk on this issue of anywhere from 5-8 to 7-10. 5-8 would be my preference, for several reasons.

H.M.Jr: Which would be your preference?

Bell: The five-year callable, eight-year maturities, but it is disadvantageous, for the reason that in the call period, 1944, in the month of May, $2,000,000,000 is maturing, one billion and a half of guaranteed and $400,000,000 of Federal Land Banks. They come at different dates, May 1st and May 15th. The reason I would say that 1944 to 1947 is a good date is because these repayments should get large in that period, or at least begin with that period, because they will certainly get an equity of fifty per cent or sixty per cent, and there might be some refinancing and paying by some Home Loan owners.

Another thing; they have this '44 call date on $786,000,000. At the same time, if there is any chance to commercialize this Home Owners Loan, that would be about the period when they would commercialize it, and there ought to be a good chance to get into this 5 per cent rate. There is a drive on in Congress to reduce it. The Home Owners Loan, however, would like to see 7-10, because they wouldn't care if the rate went up to 1-3/4ths, because if you take 1 per cent, it amounts to nine million dollars over the period, and put it on the books, you see. That is safe; but I think 6-9 might be a middle ground and be very good.

H.M.Jr: That would probably be a 6-9.

Bell: A 6-9 -- 1½, according to Hadley's figures, and still have a point fourteen thirty-seconds, which would include the interest, of course; 5/8s, 1-3/8 --

H.M.Jr: Just a second.

Bell: The Home Owners Loan would be pretty well satisfied with the 6-9. That is near enough.

H.M.Jr: What rate?

Bell: One and a half, and the 6-9 would sell for point fourteen thirty-second premiums.

H.M.Jr: How much?

Bell: 101 and fourteen thirty-seconds.

H.M.Jr: Point?

Bell: Yes.

H.M.Jr: I do not follow that.

Haas: Nearly one and a half.

H.M.Jr: Oh!

Bell: Yes; one and a half.

H.M.Jr: A point and a half.

Bell: Included in that is seven thirty-seconds interest.

Hadley: Less net loss.

May 19, 1939
10:12 a.m.

HMJr: Hello.

Operator: Mr. Sproul at Scarsdale, New York.

HMJr: Right.

O: Go ahead.

HMJr: Hello.

Allan Sproul: Hello, Mr. Secretary.

HmJr: How are you?

S: I'm feeling better.

HMJr: Good!

S: I was just about to go to town.

HMJr: We're sitting around here talking about this Home Owners' Loan.

S: Yeah.

HMJr: Have you got any ideas as to the coupon and the yearage?

S: Well, I've been talking by telephone with them as to what they've been picking up in the market, and the general idea they seem to be getting is seven to ten years and one and three quarters.

HMJr: Yeah.

S: But I've lined up four or five people for this afternoon to have a talk with and will have some better idea after I've talked with them.

HMJr: Now, would you like to know the way most of the boys here feel?

S: Yes, I would.

HMJr: Well they feel -- most of them feel six to nine, one and a half.

S: Six to nine, one and a half.

HMJr: Yeah. The reason that they don't want a five to eight is they think there is too much coming due in five years.

S: Yes, there's that forty-four maturity.....

HMJr: Yeah.

S: .....of call day

HMJr: So they'd kind of like to skip it, and they're figuring that there'd be a point and fourteen-thirty-seconds premium on the six to nine, one and a half.

S: Yeah, that's figured to the call day.

HMJr: Yeah.

S: Yeah.

HMJr: Well, supposing -- I get back from Cabinet around four o'clock, which is five your time.

S: Yeah.

HMJr: Supposing I call you then. Will you still be there?

S: Yes, and I'll have had a talk with four or five people by that time and we'll run over this idea and let you have what I think then.

HMJr: All right.

S: All right.

HMJr: Thank you.

S: Good bye.

HMJr: Good bye.

Bell: Less net loss of interest, is seven thirty-seconds, so that the most you are doing is to have rights of about one and ten thirty-seconds.

H.M.Jr: That is rich.

Bell: That is rich, but those rights are worth one point twenty-one.

H.M.Jr: I do not know what are the rights. I do not want to be influenced.

Lochhead: I do not think it is a question of the rights being influenced so much. When you look at the chart and see what happened to this market in the last week or so, it is hard to fix the price over a period.

H.M.Jr: What has happened to these particular bonds in the last week; how much have they gone up?

Hadley: They have gone up about one-fourth to three-eighths of a point.

H.M.Jr: If we had done this a week ago, you say we could have done it fourteen points better?

Hadley: You are saving more than one-eighth of a point in interest.

Bell: Yes; I think so. Those 6-9 would probably have been one and five-eighths the last two weeks.

H.M.Jr: That is why we waited; is that it?

Bell: That is why we waited.

H.M.Jr: You could leave off the laugh.

Bell: That is all right.

H.M.Jr: 7-10; how does that fit into our stuff?

Hadley: It is in a rather crowded period. 6-9 hits an area that we hardly used at all so far

H.M.Jr: Would it not be feasible, gentlemen, to give the 5-10?

Haas: A very risky question, because you have that long period.

H.M.Jr: Well, how risky?

Bell: There is quite a bit of talk in the market about this low coupon bond bringing prices at maturity, which we do not believe, and which a lot of other people do not believe, but there is that talk.

H.M.Jr: Well, if they did, what would that be?

Bell: It would be around par, I mean on the basis of par. We have had this talk, and what they are paying for their rights does not indicate that they believe it. They are just talking it. Aubrey Lanston got out a letter this morning, in which he calls attention to that, and he said it is not according to the situation at all.

H.M.Jr: Let us go around the room on this.

John, have you idea?

Hanes: I was impressed by this situation. I believe Dan is right. There will be something in this period, the five-year period. It seems to me to be not very disadvantageous to us. You say one and one half billion, plus four hundred million?

Bell: Yes. They are callable.

Hanes: They are not payable?

Bell: They are not payable. They are all callable in that period -- $760,000,000 on May 1st, and $840,000,000 on May 15, of guaranteed and $720,000,000 not guaranteed on the 15th.

H.M.Jr: At what rate?

Hanes: One and three eighths.

Bell: Eliminating the interest it would give you the 5-10. It gives a larger premium than the 6-8 at one and a half.

H.M.Jr: How much premium?

Bell: One point seventeen thirty-seconds. That is a higher premium than the 6-9 at one and a half -- three thirty-seconds based on yesterday's market.

H.M.Jr: The 6-9 at one and a half.

Bell: Yes.

H.M.Jr: How much premium?

Bell: One point fourteen thirty-seconds. Does that accord with your prices?

H.M.Jr: What about the 7-10?

Bell: The 7-10 would have to sell at one and five-eighths, and that would be point seven thirty-seconds.

H.M.Jr: What would it be?

Bell: It is seven thirty-seconds less than the other.

Hanes: You talked about the 7-10 at one and three-quarters.

Bell: This is the market.

Hanes: Yes.

Bell: That would be a hundred and two and a quarter.

Hanes: That is what they like.

Hadley: That is what they like -- one and three quarters.

H.M.Jr: Larry?

Seltzer: I personally prefer a 6-9 because, as Dan has pointed out, you have so many issues callable at the end of the five years. You would be asking the market to say that this is not a bona fide five year issue. Instead of being a 5-8, it is really a 6 or a 7-8. If you make it 6-9, you reduce that risk; you have something of it left, but, at any rate, you have not a lot of issues callable at the end of six years, as you have at the end of the five years.

H.M.Jr: The Home Owners Loan have one coming due in five years?

Bell: It is callable. That is three per cent, $786,000,000 bond issue.

Murphy: They also have one due --

Bell: Yes; that is two and a quarter per cent, $800,000,000 due July 1, but that is callable in '42, and we are assuming that will be out of the way by '44. But here you have a coupon that you have to worry about until some of the cash comes in, and I look upon any bond in this refund as a serial bond from call date on, because you are getting just enough in to pay off that cash, unless your market is such that you can call them and put them through, one, two and three years notes. You can call them and save both ways.

H.M.Jr: Henry?

Murphy: I would like first to express some dissent from what Dan says. It seems to me that if the HOLC still wants to develop its cash to put into coupon bonds, and if interest rates go up and up too greatly, these bonds will hold below par.

H.M.Jr: At that time, under the low --

Murphy: The HOLC will retire these bonds, whether they like it or not.

Bell: That will hold them right at par.

Murphy: Right around par, but it will mean that the bond requirements will be concentrated to their financial disadvantage in the lower coupon bonds, rather than in the higher coupon bonds.

Bell: I would not say at a disadvantage.

Murphy: They would like to retire the higher coupon debt first.

Bell: I think that would be so if the people would buy them, if they had the purchasing power there, and turn them in on their mortgages.

Murphy: I might also say that the revenue bonds shall call for a premium of fifteen thirty-seconds to anyone who, for some reason, should choose to turn them in, because they accrue the fifteen thirty-seconds interest. I think the existence of this fifteen thirty-seconds justifies some liberality of pricing. It makes the premiums that have been discussed look a little more reasonable than they have hitherto.

Bell: We recognize that, but, on the other hand, they are going to have difficulty in re-investing their money on August 1, which everybody is facing at the present time.

Murphy: I did not mean to say that you did not recognize it, but that is one of the highlights in my mind. As to the 6-9 that Larry has just mentioned, in pricing, I might make the same remark, because I seem to visualize it as more of a possibility that this talk about maturity might catch. Of course, I have no way of knowing whether it will or not; but, of course, logically, people that talk about pricing maturity are right. Our lowest coupon direct Treasury obligation is a two and a half, and the lowest coupon bond issue of any kind outstanding is two and a quarter. Now, we are going over to a new departure on this one here of one and three-eighths. We have nothing like that in the Home Owners Loan coupons with the option call in it. The force of habit is strong, but I believe the bond will be priced to optional call, anyway, and if it should be priced -- I will not say to final maturity, but at some intermediate maturity, the difference in your pricing would be just tremendous.

H.M.Jr: Selling at three-eights, that is the all time low, and, therefore, five or six years from now the chances are --

Bell: They will not exercise the call, but they will let them run to maturity because that is a low coupon. I think the market will look upon this bond as a serial bond eventually. Therefore, the intermediate date is the one that might govern.

Seltzer: Of course, this bond can take advantage of the market as being the lowest price available. That will make it sell on a better yield basis.

H.M.Jr: Why?

Bell: Because they do not like to pay a high premium, even though the yield is higher. It is a silly thing, but it is true.

H.M.Jr: George?

Haas: I think 6-9, too.

H.M.Jr: Do you want to expand on that?

Haas: No; but I will endorse that. I think it is very important that the premium given on this be taken into account, with these risks in pricing, which are greater in this instance than they have been in most of your financing. So, to be conservative, I would lean towards liberal prices.

H.M.Jr: Archie?

Lochhead: I like the 6-9. I think it is the most practical bond we have here. After all, on the 5-8, we would have to give a better price. It is in this narrow range, and I would not be afraid if they started prices at maturity. I prefer the 6-9, although the 5-8 gives a considerable saving in interest, because it constitutes about a million dollars a year.

H.M.Jr: A difference of one-eighth makes how much?

Hadley: A million dollars a year on nine hundred million, and on that basis I would prefer the 5-8, which would fit into the market structure. I think the 6-9 would work in smoother, and it gets into an area where we do not have any issues.

H.M.Jr: The 6-9?

Hadley: Yes.

H.M.Jr: Dan?

Bell: Well, as I say, I prefer it for the reason stated, that is, the 5-8. I have no real quarrel with the 6-9. I think that ordinarily fits in with the Home Owners Loan desires. They are looking at it from a ten year standpoint; but I have no quarrel with the 6-9.

H.M.Jr: John, did you see this week's Time?

Hanes: No.

H.M.Jr: It is a nice picture, but it does not help any. There are so many people around town that would throw a monkey wrench into these things.

Lochhead: I will have White here.

H.M.Jr: Yes, will you?

Bell: Aubrey Lanston says --

H.M.Jr: And I would like to have you listen to this, John.

Bell: Aubrey Lanston says 6⅛ - 8⅛. One and a half per cent is more logical.

H.M.Jr: The only thing that troubles me that if we get into the five year, it seems to me that we are running into a lot of Home Owners Loan stuff. Aren't we?

Hadley: A month before that you had the one and a half billion direct issue coming due.

Bell: No; callable one and a half billion. Three and a quarter callable.

H.M.Jr: It looks to me as though that might be a good year to skip. Another thing, on the five year stuff, the way I feel right now, we have not gotten out a five year note in six months. In September we might offer another five year note, and you will put another four hundred million dollars on that date. We have not offered a five year note for six months. Can I get one per cent for the Government

Hadley: About three-fourths.

H.M.Jr: So there you are. You know what I have done. If you will look over it, I have only offered a five year note every six months. That is what I have been trying to do, and so if a five year note would be again due, it would put it into June, 1944.

Hadley: That would be the same as this.

H.M.Jr: That would be the same as this. I want to get that low rate for the Government. While we are thinking about it, and this is just a thought -- do not take me too seriously --, but I am going to again raise the point of letting $50,000,000 a week of our bills run on and possibly going into the market and getting $500,000,000 in money and putting a cap on this Government bond market, if we can borrow for the Federal Government

$500,000,000 at three-fourths.

Hadley: Yes.

H.M.Jr: It would be cheap, would it not?

Hanes: For what time?

H.M.Jr: Five years.

Hanes: Five years.

H.M.Jr: You see, the thing keeps getting out of hand. We have one billion and three of bills out; we have $500,000,000 worth five year money at three fourths. Now, if we issued that we would sort of put a cap on this thing, because they own half of those bills, don't they?

Bell: Yes.

H.M.Jr: They own half of the bills.

Hadley: You force the ratings out.

H.M.Jr: But I am just thinking of that. I can not go along with you fellows on calling six months in advance. Three months, yes, but I think when we begin to call in six months -- just a second.

(Insert telephone call at 10:12 A.M.)

H.M.Jr: Now, we can come back at 4:15, you see, on Home Owners Loan. Why not ask whoever is handling this to come at 4:15!

Bell: All right. I think that is the courteous thing to do.

H.M.Jr: Ask Fahey or whoever he wants to have come at 4:15.

Bell: I think that is the courteous thing to do. It is quite a large issue, and they are interested.

H.M.Jr: Tell them what we have done this morning and invite them over here at 4:15 today.

Bell: All right.

H.M.Jr: Is that all right, John?

Hanes: All right.

H.M.Jr: I would take it that certainly the majority seems to say 6-9 at one and a half; doesn't it?

Bell: That is right.

Hadley: That is right; 7-10 one and three fourths that they mentioned in New York is about a two and a fourth point premium.

H.M.Jr: It is really funny. Here is New York asking for over a two point premium on this, and the last time they wanted me to give them four thirty-seconds.

Bell: The real money in trading is in these. Of course, they are figuring that with the two and a quarter you figure to call. They are figuring these bonds to maturity date at three-fourths.

H.M.Jr: Well, we will come back at 4:15. You fellows know what we are thinking about.

(Meeting concluded at 10:17 A. M.)

RE ECONOMIC MISSION TO VENEZUELA

May 19, 1939.
11:05 A. M.

Present: Mr. Hanes
Mr. White
Mr. Lochhead
Mr. Duggan
Mr. Briggs
Mr. Collado

H.M.Jr: What I wanted to do was - I don't know whose fault it is, it doesn't make any difference, but Mr. Welles has asked that State and Treasury get together between now and tomorrow morning on this blankety-blank Venezuelan thing. And this thing has been back and forth and back and forth, and I just thought you people should go to some room and stay there until you got the thing settled, and then forget who wrote the first memorandum and what happened to it and all the rest of it; and then when you've got some idea what you want to do, Mr. Hanes and I would like to sit down and hear it.

But there's been so much - the question of the money and all the rest of it. I don't know whether we have the money or whether we haven't got the money. Do you want to say?

Lochhead: Well, that's one of the problems that has come up. I think we practically don't have to go into very much of a huddle to decide on it. We all figured it would be very fine for Mr. Williams to go down. I understood that the Federal Reserve couldn't see it at all. Mr. Collado, you checked with the Federal, didn't you?

Collado: Mr. Sproul called and said they didn't want to guarantee anything for this summer, in view of the European situation.

H.M.Jr: There's no use my calling up John Williams and asking it as a personal favor. I don't want to do it on that basis.

Lochhead: If Mr. Welles could....

H.M.Jr: I mean rather than have Mr. Williams - I mean I don't think it's important enough for me to say

to Mr. Williams, "This is a matter I want you to do." Do you?

Duggan: Well, Mr. Secretary, we were sort of hoping that he could go down there for a month as head of the mission, start things off, possibly leave behind Dupree or somebody else to do the detail work.

Lochhead: I should think that Mr. Welles could convince Governor Harrison that it was important. That would relieve the whole situation. I think if we left it that way, it would be all right with us.

H.M.Jr: Well, Mr. Welles - that's just - Mr. Welles thinks that I should call them. You've already sounded them out?

Collado: This was about a month ago and at that time they said they couldn't make a commitment for this June, at that time, and that possibly later they could but they didn't want to hold us up.

H.M.Jr: (On phone) George Harrison, Federal Reserve of New York, please.

We'll do it right now.

Lochhead: Now, the other question about men coming up. I notice one question, for instance - they said they had to make a....

H.M.Jr: I can't hear you.

Lochhead: About Edwards - that's been cleared.

H.M.Jr: Go slower.

Lochhead: That's been cleared. They now say in this memorandum that they will make a special arrangement with the Venezuelan Government so that he'd be paid, so that would clear up that point. It would also clear up the point about Mr. Shoup. You've asked before about Professor Shoup. We didn't want to approach him, didn't know what basis we could approach him on. But if he's going to be paid by Venezuela, I think it's perfectly proper to approach him and find out if he's agreeable.

May 19, 1939
11:09 a.m.

HMJr: Hello.

Operator: Mr. Harrison.

HMJr: Hello.

George Harrison: Hello.

HMJr: George....

H: Yes, Henry.

HMJr: How are you?

H: I'm pretty well, thank you.

HMJr: George, I have the people here from the State Department and Sumner Welles was here yesterday asking me to get in touch with you about having John Williams go down to Venezuela.

H: Yeah.

HMJr: On the invitation of Venezuela's government -- at the head of mission -- financial mission. Has anybody spoken to you about this?

H: Yes, they've spoken to us before about it and we've gone into it.

HMJr: Yes.

H: And we thought it was awfully difficult for us to let Williams go at that time.

HMJr: Yeah.

H: And I thought it was all settled that he wasn't going. Then they asked about -- as I remember, they asked about another man we've got here named Lamb.

HMJr: Lamb.

H: So they -- it may have been for a different purpose they wanted him to go.

HMJr: I don't know. Well.....

H: But they -- they can have him for any purpose.

HMJr: They can have Lamb?

H: Yes.

HMJr: Well, he can't get the mission?

H: No, no, no. No, he's not -- he -- he's not -- he's not that high-geared.

HMJr: Well, George, there may be -- I'm going -- they're sitting here -- now, I'm going to tell you, there may be times in the next six months when I really want Williams. See?

H: Yes.

HMJr: Some international crisis where the U.S. Treasury may need him.

H: Well, frankly, Henry, I -- I felt this way, that it was important, this matter that the State Department wanted him for, but John is so important on our problems in the event that anything should happen.....

HMJr: Right.

H: .....in June, that I'd hate to see him get that far away.

HMJr: Yeah.

H: And I had hoped that the State Department would balance those two conveniences.

HMJr: Yeah.

H: That was really the way I wanted to do -- the way I felt about it and the reason I think I haven't got into it myself at all. I've let Sproul and Williams handle it, but I think that the last thing - the way they left it was that he was out of it.

HMJr: Yeah.

H: That is, for the time being, unless everything cleared up at the last minute and it looked to be more possible.

HMJr: Well, I'll tell them how you feel. I -- I'm not going to make this one of these, shall I say, personal requests.

H: Yes.

HMJr: Because, as I say, something might happen in the next six months where we'd have to come to you and say we want to borrow him.

H: Sure. They don't know how long it would take, do they?

HMJr: Just a minute, I'll ask them. Just a minute.

(Brief pause)

They say from two weeks to a month.

H: Yeah. Well, I'll -- I'll talk to Williams. He's here today, and I'll talk to him again and see just how he left it. I am, frankly, a little bit in the dark.

HMJr: Well, would you, and -- the State Department are very keen for him and of course I'd be delighted.

H: Yes.

HMJr: Now, I'm calling Allan Sproul at five fifteen New York time on the.....

H: Yeah.

HMJr: .....Home Owners' Loan. I don't know whether you'll be there or not.

H: Yeah. Well, I'll talk to him about it.

HMJr: Could you leave -- if you're -- if you're there, I'll talk to you and if not could you leave a memo for Allan to talk to me about it?

H: Yes, it's understood he's -- he's going to talk to you about it.

HMJr: Yeah, and.....

H: I'm -- I've got to go to Boston. I'm leaving on a one o'clock train for Boston.

HMJr: Oh!

H: But Sproul knows how I feel, and we've talked it over -- he and Maddy and I -- so that he'll give you our concerted views anyway, Henry.

HMJr: And you'll leave word on Professor Williams?

H: Well, I'll -- I'll tell -- yes, I'll tell Sproul to talk to you about that too.

HMJr: Will you?

H: Yeah. Now, don't misunderstand, we would like -- anything at all that we can do to cooperate or help the State Department, because they've been fine with us.

HMJr: I'll tell them that.

H: And I won't say anything definitely now, but I think that the -- our feeling here was, unless they've changed their minds -- that it's much safer to keep Williams here for the time being.

HMJr: Well, I'll -- they say two weeks to a month to start it.

H: Yeah, but you see the trouble is they want us to commit ourselves now, and something may happen next week.

HMJr: Yeah. Well, you -- you'll get word back to me somehow or other today, will you?

H: Yes, I'll -- shall.

HMJr: Thank you.

H: All right.

Our own man, Spiegel, we are perfectly willing to send down. That cost would be borne by the Treasury. I think Mr. White agrees. We'd take care of Spiegel.

Outside of that I think....

H.M.Jr: What are the loose ends?

Duggan: I think that covers it, Mr. Secretary. The difficulty in the past has been that we wanted to try and do this under the authorization that we have to detail civilian employees of the Government, and we were trying to find people in the Tariff Commission or Treasury or elsewhere that we could use.

H.M.Jr: (On phone) Hello. (Conversation with Governor Harrison follows:)

H.M.Jr: He says that he wants to do everything he can to cooperate with the State Department - Professor Williams is there today - but that he feels that he is such an important man and with the situation so critical in Europe, to have him - to make a commitment now and to have him out of the country when they might need him tomorrow desperately - they think he's too important a man to send out of the country. But he'll call him, he'll talk to him and let me know today. So we'll hear from Williams.

So you fellows better put your heads together: if not Williams, who?

Hanes: Any other suggestion?

H.M.Jr: God, there must be somebody else besides Williams.

Lochhead: And the other suggestion - would it be all right with you, Mr. Morgenthau, if they got in touch with Shoup to find out if he'd be interested. And about Mr. Edwards....

White: I thought you were going to get either Mr. Ryder or Mr. Fox.

Duggan: We tried to. Mr. Fox - both of them turned the thing down. They weren't told they had to go by the President.

White: Both of them were asked.

Duggan: Yes.

White: Recently?

Duggan: Last two weeks.

Collado: Just now turned it down.

H.M.Jr: Who are those fellows?

White: Tariff Commission.

H.M.Jr: Oh.

White: And both Mr. Ryder and Mr. Fox were asked to go.

Duggan: (Nods yes). No heavy pressure was put on.

White: But they were definitely and officially asked.

Duggan: Yes.

H.M.Jr: Well, you see, I think, if I may say so - I think the State Department is being a little bit unfair to the Treasury in that Mr. Welles seems to be under the impression that we are the people that are dragging our feet on this thing, and I don't think that we are - that that is quite so.

Duggan: No, I don't think it is.

H.M.Jr: Well, I wish you'd say something to him, will you, please, because he seems to think that we are the drag in this matter, that we're holding back on it. So if you wouldn't mind - I think it would be better coming from you, I mean. It's perfectly true that I have not organized a special bureau to handle these things, the way he asked me to, because I'm not sold on it yet - that there is enough work for a special bureau for this thing. And if you have this one mission we fuss around in both departments for a month trying to get people. And I'm not sold that there is enough.

And incidentally, while we're on this, the thing which I liked very, very much more was the suggestion which came from White's people, the idea of inviting members of the Finance Departments of the South American Republics to come up here and visit with us for three to six months in the Treasury. Now, I'm very much sold on that. I mean I think that's a swell idea and we could work out a sort of course and put them through the Treasury.

Duggan: I think we could build on that.

Collado: (Nods approval).

H.M.Jr: Now, that thing....

White: Take them all. There are twenty-six countries. You could pick the best man from each Treasury. It would be quite a plum for anybody down there, and that would insure that at least we'd get competent material to work on.

Duggan: I think that's an excellent idea.

White: And I think it would accomplish infinitely more, both from the point of view of the State Department - in developing the kind of relations you want, inculcating in those men the kind of monetary practices and fiscal practices that we all would like to see them develop. And that would establish contacts, because while they were here they could go the rounds and you could do that each year with a new crop. Inside of five years it would be your men that would be running - I mean not running, but would be in the operating end of the Treasuries and Banks.

H.M.Jr: You see, I saw the effects of the Near East College in Constantinople when I was out there with my father. At one time every member of the Bulgarian Cabinet was a graduate of the Roberts College. And of course the influence - you just can't measure a thing like that. I mean every single member of the Bulgarian Cabinet was a graduate of the Roberts College.

White: To a much smaller degree, that's true of the Chinese. A great many of the Chinese, you see....

H.M.Jr: I would say we could work out here - we could take one man for six months, or two men a year.

White: This is from each country.

H.M.Jr: Yes, and run them through.

Duggan: That would be fine. We have secured legislation opening up the organized government schools: Army, Navy, Agriculture, Commerce, Interior, etc. At that time you didn't have anything of an organized character. But we could get together with you and set up something and then let these other countries know. I think we could build on it.

White: We could insist on the proper kind of material, so that six months would go a long way, and the proper kind of preliminary training and experience.

H.M.Jr: Now, I'll pass this along to you. Mr. Perkins was at my house at tea time yesterday. Maybe you've seen him since he's back.

Duggan: No, I haven't, Mr. Secretary.

H.M.Jr: And he came out with a suggestion which was made to him by the General in charge of the Panama Canal - two suggestions. One - what's the country just north of Panama?

Duggan: Costa Rica.

H.M.Jr: Which is - no, that isn't it. Which is the country that has a military school that they are so proud of?

Duggan: Guatemala.

H.M.Jr: Guatemala. Well, the American General says if we could invite - somehow or other bring them up on one of our boats - bring up on one of our transports the cadets of Guatemala.... Have you heard this?

Duggan: We've heard it. We would then have to bring the cadets of every other country, Mr. Secretary.

H.M.Jr: Well, it wouldn't be so bad. And have them go to West Point and the World's Fair.

Duggan: Maybe the Coast Guard would send down for them.

H.M.Jr: We would if the Treasury could. Yes, that's the kind of thing. Bring these boys up there, let them spend a day or two in the barracks at West Point. Let them have a week down here. I'd be tickled to death. I mean it would inculcate into them some of the stuff that we have up here. Now, I'm all for bringing these boys up here. I'd go the limit if the President would say, "Send a Coast Guard Cutter down and bring them up and let them...."

Lochhead: We're sending a goodwill Coast Guard boat down to South America this year. Even though they didn't give us any funds, we're squeezing it out. But I don't think there's much more funds that you can squeeze out for Coast Guard under that appropriation.

H.M.Jr: Well, they could - there's the Panama Line, there's the Army transport.

Duggan: It's a question, Mr. Secretary, of doing it for one country and not for another.

H.M.Jr: Supposing all these cadets - arrange to let them go to West Point and Annapolis and the World's Fair and send them back.

Duggan: Good thing. Quite expensive, though.

H.M.Jr: Five hundred thousand dollars to Nicaragua is pretty expensive, too.

White: Accomplishes a lot less.

H.M.Jr: If you sit around here, we'll hatch a lot of ideas and I tell you - because I said Saturday.... Do you men want to come back tomorrow and report tomorrow? We might be able to do this tomorrow.

Duggan: Sure.

H.M.Jr: So you fellows get together, do a little digging. If not Williams, somebody else. When can you men come back and report, because I told Mr. Welles tomorrow.

Duggan: Any time that's convenient to you.

H.M.Jr: Let's say 11:00 o'clock tomorrow.

Duggan: All right, sir.

White: Would you like to report on the other matter too?

H.M.Jr: That's to report on how you'd accomplish this thing.

Duggan: All right. And I'd like to send over this afternoon,

if I might, the draft of these Nicaraguan documents, which are in good shape. Perhaps you'd have a chance to look them over.

Lochhead: The Export-Import Bank statement - this open-end....

Duggan: The whole thing is all ready now, in draft form.

H.M.Jr: If you men could come back at 11:00 tomorrow and give me a nice - all finished - nice red seals on it and everything.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 19, 1939

3 P.M. Close

TO Secretary Morgenthau

FROM W. H. Hadley

HOLC Refunding

"Rights"

	Present Price	Premium	Components of Premium (1) Int. to Aug. 1	(2) Rights Value
2-3/4% of August 1, 1939-49	101.22	1 pt.22/32	17/32	1 pt.5/32

Possible New Issues

Term	Coupon	Yield	Offering Price	Market Price	Premium	Components of Premium (1) Interest Loss	(2) Rights Value
5-7	1-1/4	1.06	100	100.30	30/32	8/32	22/32
	1-3/8	1.06	100-1/2	101.17	1 pt.1/32	7/32	26/32
5-8	1-3/8	1.08	100	101.14	1 pt.14/32	7/32	1 pt.7/32
	1-1/2	1.08	101	102.1	1 pt.1/32	7/32	26/32
6-8	1-1/2	1.26	100	101.13	1 pt.13/32	7/32	1 pt.6/32
6-9	1-1/2	1.27	100	101.10	1 pt.10/32	7/32	1 pt.3/32
	1-5/8	1.27	101	102.1	1 pt.1/32	6/32	27/32
7-9	1-5/8	1.44	100	101.7	1 pt.7/32	6/32	1 pt.1/32
7-10	1-5/8	1.46	100	101.2	1 pt.2/32	6/32	28/32
	1-3/4	1.46	101	102.	1 pt.	5/32	27/32

May 19. 1939

THE WHITE HOUSE
WASHINGTON

Frank Murphy
Memo Monday
on Movies

Hull said at Cabinet to me privately that Pres. told him Thursday he was for a tax and neutrality program at this session.

Pres. said he and his wife had a discussion on economics in this country and midnight. When he got thru he gave me a searching look

May 19, 1939

MEMORANDUM TO: Mr. John W. Hanes,
Under Secretary of the Treasury.

Whiteface Mountain Turnpike Bonds

There appear to be some $1,035,000 of Whiteface Mountain Highway 4% Bonds due May 1, 1976, all of which are apparently held by the Comptroller of the State of New York for the Canal Debt Sinking Fund. It is reported that Governor Lehman has recently signed a bill authorizing and empowering the Whiteface Mountain Highway Commission to issue bonds in an amount not exceeding $1,900,000 to Fund bonds heretofore issued and to provide additional funds for the construction of the World War Veterans Memorial Highway.

Since apparently none of these bonds have ever been issued to the public, there is little information about them. The Annual Reports of the Comptroller of New York showed the following operating receipts and expenditures:

Tolls		
1936	$51,000	
1937	65,200	
1938	65,600	
Total		$181,800
Miscellaneous receipts restaurant, gift shop, etc.		
1938		$ 15,600
Total Receipts		$197,400

Interest on bonds outstanding

1933	$10,000
1934	20,000
1935	30,000
1936	36,500
($28,733 of which came from toll receipts)	
1937	41,250
1938	41,800
Total	$179,550

Personal Service and Maintenance of Highway

1936	$ 6,650
1937	9,800
1938	20,000
Total	$ 36,450

Personal Service and Maintenance in Operation of Restaurant

1938	$ 10,500

Redemption of Bonds

1938	$ 15,000
Total Expenditures	$241,500

Apparently, the toll receipts for the years 1936, 1937 and 1938 amounted to some $181,800. Interest on bonds for that same period amounted to $119,550; operating expenses and maintenance for the same period amounted to $36,450; all of which indicates that three years' operation exclusive of an affiliated restaurant resulted in covering charges approximately 1.16 times.

For the fiscal year 1938 the operating expenses were $65,600 from tolls (and $15,000 from the operation of the restaurant). Expenses were $20,000 for personal service and maintenance of the highway; $41,800 interest on bonds; and $15,000 for redemption of bonds. From these figures it would appear that the receipts from tolls were sufficient to pay expenses, including the interest on the bonds and leaving about $4,000 for retirement of principal. To this $4,000 was added $5,000 from the operating profit of an affiliated restaurant and gift shop, plus $6,000 from cash on hand for the retirement of $15,000 of principal.

PD

Preston Delano

May 20, 1939

For the Comptroller

In 1933 the Statistical Division of the RFC made an analysis of forty toll bridges constructed during the 1920's.

The bridges were operated by thirty-five bridge companies.

The estimates of net income to be realized from these bridges were made in a number of cases by nationally-known and reputable engineering firms, in some cases the same firms that submitted estimates for the Pennsylvania Turnpike Bonds.

The analysis made by the Statistical Division of the RFC included a comparison of this predicted net income with realized net income.

In the case of five of the thirty-five bridge companies studied, the net income during the early years of operation was equal to, or in excess of, the engineers' forecast. In the case of eight of the bridge companies, the net income realized was less than the engineers'

forecast but in excess of bond interest. In twenty-two of the thirty-five companies the realized net income was less than the engineers' forecast and less than bond interest. The percentages hold good for both large bridge companies (those operating bridges which cost in excess of $3 million) and for small and medium-sized bridge companies.

Upm

OFFICE OF
THE COMPTROLLER OF THE CURRENCY

May 20, 1939

J.W.H.

Further on the subject of revenue bonds more or less comparable to the Pennsylvania Turnpike Revenue 3 3/4% bonds —

P.D.

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

Personal

May 19, 1939.

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

My dear Mr. Secretary:

On about May 3d I received a request from you to locate an officer on the retired list who is qualified as a Transportation man for duty with the Transportation System under the Chinese Government. With this information came the salary and a further arrangement for life insurance.

I have used every means we have to contact an officer who might qualify and be willing to take the detail. A large number has been contacted and I can find no one who desires to be considered for the detail. I will still continue if you so desire and let you know if I find anyone.

Regretting that I have been unable to find a man for you, and with kind personal regards, believe me

Sincerely,

Malin Craig
Chief of Staff.

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

OFFICIAL BUSINESS

347

WASHINGTON, D.C.
MAY 19
630PM
1939

PAYMENT OF POSTAGE, $300

OFFICE
SECRETARY OF THE TREASURY
1939 MAY 20 AM 9 05
TREASURY DEPARTMENT

9:15

Honorable Henry Morgenthau, Jr.,

Secretary of the Treasury,

Washington, D.C.

Personal

May 19, 1939

Present:

Mr. Hjalmar J. Procope, Minister
from Finland.

Mr. Procope: Have you had time to consider the question we discussed?

HM,Jr: Yes and no. I did not know how serious you were about it. Is this something that you really want an answer on?

Mr. Procope: Yes.

HM,Jr: You put it up to me as what we would call "a trial balloon."

Mr. Procope: It was not a question I put before you on behalf of my Government.

HM,Jr: Yes; that is what I thought. If the question is "Can your Government borrow in our markets in case of a war?" I can tell you the answer is yes. If the question is "Can your Government borrow from the United States Government?", that is something I would have to get authority from Congress. Which did you have in mind?

Mr. Procope: Let us say that now in the present situation Finland should think that it needs to put defense forces on the basis of extraordinary strength and that we need money for that purpose. Let us say, $50,000,000. Do you mean that there is no normal hindrance for our going out to borrow that?

HM,Jr: None.

Mr. Procope: Thank you for that. Is there

any possibility of getting a loan now in this market?

HM,Jr: Oh, yes!

Mr. Procope: I had the impression that it was very difficult.

HM,Jr: I have not sounded out the market, but if you ask me to I will do so at once.

Mr. Procope: The man who was with me the last time, I had him sound out people in Wall Street, not saying that it was for Finland, but in general.

HM,Jr: Oh, that is different! You see, your Government has a peculiarly favorable position, because you paid your debt. If you would say to me, "Mr. Morgenthau, can the Government of Finland borrow $20,000,000,"or whatever figure you had in mind, I can give you an answer by Monday.

Mr. Procope; Your opinion is that we can do that?

HM,Jr: Yes, but I want to go into the matter further. I cannot go to the Majority leaders in the Senate and House on an "if", but if you would tell me to I would be glad to speak to our leaders.

Mr. Procope: In order for you to get authority from Congress, do you have to introduce a bill?

HM,Jr: I can go to the leaders and say that I want to know if a bill was introduced would the United States Government lend Finland so much money? and I can get a yes or no.

Mr. Procope: I see. We are not quite ready.

HM,Jr: The minute you are ready, you will get 24 hours' service from me, but until somebody says "Yes, we are ready" why I just pigeon-hole it and wait.

Mr. Procope: Suppose you introduce a bill

into Congress, is it both Houses?

HM,Jr: Yes.

Mr. Procope: Is such an authorization given just only for one transaction for a certain amount? Is that given just for that immediate transaction? It cannot be given for the future?

HM,Jr: No. An authorization for the United States Treasury to lend $50,000,000 on the best possible terms to the Government of Finland ....

Mr. Procope: This cannot be given for one year hence?

HM'Jr: I do not know. It might be possible. We can ask them. When you are ready for me to sound them out, I will do so. I have already spoken to the President about that. You are a business man. You must tell me when you are ready to do business.

Mr. Procope: May I summarize. First, to lend on the market, short terms or bonds?

HM,Jr: I would have to find out.

Mr. Procope: There are no restrictions?

HM,Jr: On the contrary, we would give it our blessing.

Mr. Procope: What do you mean by blessing?

HM,Jr: We want to demonstrate to the rest of the world that we appreciate what Finland has done and, therefore, we want to be helpful.

Mr. Procope: You think that such a loan could be placed?

HM,Jr: I think so. I want to make sure and can give you a very quick answer.

Mr. Procope: You do not think the amount of

$40,000,000 or $50,000,000 is too much?

HM,Jr: No; I do not.

May I ask you a question? What proportion of that money would be spent in this country?

Mr. Procope: I cannot tell you.

HM,Jr: You might ask.

Mr. Procope: You mean it would be easier?

HM,Jr: If it is going to be a Government loan, that is important; if private, it is another matter.

Mr. Procope: That will be one of the questions I will ask. The Government loan requires Congressional authorization through a public bill. Is that introduced by you?

HM,Jr: It would go either from the President or from me.

Mr. Procope: You do not think it is absolutely necessary that the money would have to be used in this country?

HM,Jr: I do not know. They might ask me. We would do it a 100% Government loan or not at all. The first question they would be would be where will the money be spent and what for?

Mr. Procope: You do not think it is absolutely necessary to be spent here?

HM,Jr: I would not want to say. It would be the first time I will ask Congress for such a thing.

Mr. Procope: You had in mind a transaction for the moment.

HM,Jr: Yes. I do not know how they would feel.

Mr. Procope: You do not think it is impossible?

HM,Jr: No. I do not. I would first have a talk with them. Then if they would be friendly, I would arrange to have you and they come to my house and you could talk to them there.

Mr. Procope: I am extremely thankful.

HM,Jr: You are the only representative of any Government I would say this to: We want to show our appreciation that you have paid your debt.

oOo-oOo

RE HOLC REFUNDING

May 19, 1939.
4:15 P. M.

Present: Mr. Hanes
Mr. Lochhead
Mr. Bell
Mr. Haas
Mr. Seltzer
Mr. Murphy
Mr. Hadley
Mr. Fahey
Mr. Pavesich

H.M.Jr: Do you people have any preference?

Fahey: No. Our feeling about it is that as far as we are concerned it is our duty to fit in with your needs and your responsibilities here. That's the primary thing.

One thing about it is that - I was talking with Mr. Bell about it, and I don't know how far it's been discussed with you - our feeling is that if the Corporation is able to go along as well as it is now - I mean under no better conditions than at present - that it ought to be possible to pretty nearly clean this thing up and liquidate it completely by '45 and '46, the point being this: we are constantly gaining on collections - I mean getting a higher percentage all the time. March was the highest one we have ever had. More loans are being paid off in full all the time. There were more paid off in April than in any previous month. We ought to be able to sell these properties in hand, and we feel it is good policy to do it about as rapidly as we can without breaking the market on property, and cover that money in.

Now, in another three years these loans should be paid down to the point where it should be perfectly possible to transfer them to the private institutions and get out of them, and within that time, certainly by '45, to have sold all the property that we have got on hand. In other words, that ought to be the policy, to completely liquidate the thing and get out of it just as quickly as we can; and that it is better in the sale of property

to take in most instances - to take the loss now rather than let it drag along with the possibility of greater loss if you continue to carry this property in possession.

Now, that's our general feeling about it, and that that ought to be the objective and that it is well to keep that in mind in planning the financing.

H.M.Jr: Well, let's hear what Allan Sproul says, shall we, because I said I'd call him at this time, see?

(On phone) Allan Sproul in New York, please.

He was going to consult with the fellows, you see. The way they've got it out here, this six to nine, one and a half - after you subtract the interest loss, shows one point and three thirty-seconds premium; and the rights on the same basis they are selling at one point and five thirty-seconds premium. So either we're figuring it about right or the market's figuring it about right.

The reason - I guess Bell told you - we'd a little bit rather go six years to nine than five to eight, is to get over that - there are so many things coming due in five years.

(On phone) Hello. (Conversation with Allan Sproul follows:)

May 19, 1939
4:20 p.m.

HMJr: Hello.

Operator: Mr. Sproul. Go ahead.

HMJr: Hello.

Allan Sproul: Hello, Mr. Secretary.

HMJr: We've got -- everybody's listening to you on the loudspeaker here.

S: I see.

HMJr: So do you want to tell us what you found out?

S: Yes. I've been talking to these fellows all afternoon. They say the market's present estimate, based on the price of the call two and three quarters is about a seven ten year one and three quarter. Then they go on from there to a most optimistic -- saying you can do a good deal better than that; that you could do seven ten years, one and five eighths, six nine years, one and a half and the most pessimistic saying that one and three quarters for seven ten years is pretty thin and shouldn't -- nothing beyond nine years should be priced at one and three quarters.

A good deal of the argument centers around whether they figure the yield to the call date or to maturity and they take two positions on that. Some say the market, under present circumstances, will be figuring the yield to the call date. That's the way they're figuring yields on other -- all other obligations. The other side says that with a low coupon -- such a low coupon, short maturity obligations -- that the market will figure the yield to maturity, or particularly in case of the H.O.L.C. because they don't think that the corporation can pay off its outstanding higher coupon bonds between now and seven, eight and nine years; that therefore this new low coupon issue will be allowed to run, and whatever is paid off will be paid off on the higher coupon issues, and this one will be allowed to run to maturity. So that I should say the -- the weight of opinion is on the side of figuring these yields to maturity although there is definite opinion on the other side too.

When you come then to trying to figure an option on the coupon -- with a three-year option you -- on any coupon you figure, you get, it seems to me, two issue yields

of the call date and two leaner yields of the maturity. Now, I think that's so on a seven ten or a six nine, or a five eight. And, therefore, there's some advantage, I should say, if it's -- fits in with the outlook for the corporation's income to making the spread two yearw rather than three, in which case you could cut the coupons finer.

HMJr: I see.

S: The way we figure it here, it's six eighths at one and a half, or it's seven nine at one and five eighths, or an eight ten at one and three quarters, would be a good compromise.

HMJr: Well, Sproul, there's no sense in my recommending that they pay above one and a half under the present market conditions.

S: Above one and a half?

HMJr: Yes.

S: Well, a six -- a six eight at one and a half would -- would show, we figure, one twenty thirty-seconds premium to call date or twelve thirty-seconds/to maturity.
premium

HMJr: I see.

S: At six nine we figure would show one and a half -- at one and a half per cent -- would show one and a half premium to call date -- that's figured to call date, and minus twenty-seven thirty-seconds as figured to maturity.

HMJr: Minus twenty-seven.....

S: Yeah.

HMJr: I see. Well now look, do what -- you've listened to these fellows all afternoon. Now, boil it down and as of four twenty-five Eastern Standard Time, Washington, D. C., what do you recommend?

S: Well, I -- how far out do you want to go?

HMJr: Well, I -- I don't see any reason why they should pay more than one and a half.

S: Well that's -- that limits the years you can put it out for. If -- if you're not going to be able to pay off all of these outstanding higher coupon issues within the next -- within the period, say, forty-five, forty-seven.....

HMJr: Well listen, I don't have any crystal here so I can't do any gazing for you.

S: (Laughter) Then the thing to do, I should say, would be to get this out as long as possible and at as low a rate as possible. If there's going to be a pay-off in that area, then there's not such a need to push it out.

HMJr: Come on -- come on, put it on the line, old man. Put it on the line. What do you recommend?

S: Well, I would recommend a six eight at one and a half.

HMJr: I see. Well now, I tell you what we'll do. I haven't -- since this morning the majority of the people here want it -- the six year rather than the five year, you see?

S: Yeah.

HMJr: They want to get over that forty-four hump.

S: Right!

HMJr: And Mr. Fahey is sitting here and he agrees on that. He wants to get over the forty-four, so we -- we want it to be a minimum of six years.

S: Yeah.

HMJr: Now I don't see why they should pay more than one and a half, so it would be either six eight or six nine, depending upon how these fellows figure it, is that right?

S: That's right.

HMJr: And I can see where they are figuring that this is one and a half, the chances are they'll let it run to maturity, that they might figure it to maturity.

S: Yes.

HMJr: We'd be perfectly safe on a six eight, wouldn't we?

S: Absolutely!

HMJr: And it doesn't cost Mr. Fahey a dollar more at six eight than a six nine.

S: No, he gets the -- gets the same.....

HMJr: Well, the same coupon.

S: The same coupon.

HMJr: At the ninth year/it might cost him.....

S: The ninth year, depending on what his situation is then, it might cost him money.

HMJr: Well, neither he nor I are going to worry about the ninth year. Are we?

S: (Laughter) Nobody knows what it's going to be then.

HMJr: Yes. Now, let me just ask him a minute.

(Brief pause)

Now, just a minute. Supposing we make an appointment for tomorrow at eleven thirty -- that's twelve thirty your time. Are you going to be in?

S: Yes, I am.

HMJr: What?

S: Yes, I am.

HMJr: Well, supposing we say we'll meet again in this office and your office at eleven thirty tomorrow?

S: All right.

HMJr: But the way it looks -- you see, it'll be -- I -- My guess would be six eight or six nine.

S: Yeah.

HMJr: Just a minute. (Talks aside.) Then we can see what the market does tomorrow.

S: There's no interest in shoving it out further.

HMJr: Well, why -- why make the fellow pay one and five eighths or.....

S: Well, only if he's not going to be able to pay off more than he has outstanding now in the other issues. The....

HMJr: Well.....

S: .....two and a quarters and the threes.

HMJr: Well, he could.....

S: Because if he -- if he's not going to be able to pay off any more than that when he gets out here six or eight years he might have to do some refinancing again at a much higher rate.

HMJr: Well, let me ask.....

(Brief pause.)

He said -- he -- that doesn't worry him any.

S: Well, he's the -- he's the Doctor on that.

HMJr: Yeah, he's got a hundred and fifty million dollars cash in his pocket now.

S: Well, he may have to use some of that to pay off people who don't turn in the two and three-quarters. We figure that the with so many pieces out there'll be -- may be quite a turn-in for cash.

HMJr: Is there lots of buying going on? And swapping?

S: No, there's been some but not a great deal so far.

HMJr: But as of tonight, at six eight one and a half, you'd underwrite that, wouldn't you?

S: I would.

HMJr: It would go well, wouldn't it?

S: I think so.

HMJr: Well, if Mr. Fahey comes in tomorrow and says he wants to go out further, then we'd have to go to one and five eighths, wouldn't we?

S: I should say so, yes.

HMJr: What would that be then? What would be the yearage?

S: Well, I should say seven nine on that.

HMJr: Seven nine. Well.....

(Talks aside)

Well, he can sleep on it and -- and -- one eighth means a million dollars a year more to him.....

S: Yeah.

HMJr: .....on nine hundred million dollars.

S: Yeah.

HMJr: It's just a question of whether he wants to spend a million dollars for an extra year. he comes from New England he says "No".

S: (Laughter) Well, he might look at it as insurance for him.

HMJr: Well, He says, "You Californians are much more optimistic

S: Well, we've got.....

HMJr: You've got.....

S: .....gotten burned a couple of times.

HMJr: You've got the sunshine and we've got the money.

S: Well, we -- we're getting some of the money.

HMJr: O. K. Well, I'm ever so much obliged, and I'll talk to you again eleven thirty our time tomorrow.

S: Fine.

HMJr: Thank you so much.

S: Good night.

H.M.Jr: Is that all right?

Fahey: Sure.

H.M.Jr: But you think about it and we'll think about it. It gets down to either six-nine or seven-nine - whether you want one and a half or one and five-eighths.

John, as to tonight, I don't know how you feel. How do you feel?

Hanes: You've changed your mind on the six-nine. You now say you've got to go to seven-nine. You said six-nine, one and a half, this morning.

Bell: Still can get one and a half, six-nine. It is a little thin; that is, it is thinner than the six-eight. I think it would still go.

Hanes: That's all right, then.

H.M.Jr: (To Kieley) Bring in Mr. Fahey's - these two gentlemen's hats, so they can go out this way. We're swearing Ed Foley in.

Fahey: Well now, what about - have we got to hold a meeting tomorrow to vote on this? That's what we were planning?

H.M.Jr: Right after 11:30.

Pavesich: After the meeting here.

Bell: Give us a resolution proposing these terms.

Fahey: We've got to have the resolution after you settle it.

H.M.Jr: We'll settle it at 11:35.

Fahey: I see. It isn't necessary for us to come over.

H.M.Jr: No, I can telephone you if you want. That's right, you're quite a distance away, aren't you?

Fahey: I can come if you want me to. What I thought was to settle it promptly tomorrow, have that Board meeting and pass it.

H.M.Jr: We'll settle it between 11:30 and 11:45.

Fahey: We'll pass the resolution and put the figures on.

H.M.Jr: That's what we do with RFC: make the decision, and they hold the Board meeting and shoot the resolution over.

Fahey: That's what we'll do.

H.M.Jr: Will you let me know if you want any change on the additional year?

Fahey: Right now I don't see any reason for it.

GROUP MEETING

May 19, 1939.
9:30 A. M.

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

Hanes: I would like to talk to you about the collector for the state of Washington.

Gibbons: Is that the Internal Revenue Bureau?

Gaston: The Internal Revenue Bureau.

Gibbons: One Senator says one thing, and the other another thing. I do not know much about it.

H.M.Jr: I guess everyone knows something about it, except me.

(Mr. Hanes handed papers to the Secretary.)

H.M.Jr: Is there anything else?

Hanes: That is for ten o'clock.

Gaston: Allen says he will write another item. He wrote that himself, but it was not any invention of his. Three or four people in Justice told him about it.

H.M.Jr: What is his attitude?

Gaston: Neutral, he claims.

H.M.Jr: What else?

Gaston: Nothing else.

(Mr. Foley handed a paper to the Secretary.)

H.M.Jr: Where did you get this?

Gibbons: I turned that over to Johnson.

Foley: Yes.

Mrs. Klotz: How did he get it in the first place?

Foley: I thought he sent that to you.

H.M.Jr: Who is that?

Gibbons: McReynolds. Did you send that to me, Mac?

McReynolds: I do not know what it is.

Gibbons: Of course, the instructions are to Johnson to do certain things. I gave it to Johnson.

H.M.Jr: Where did you get it?

Foley: I think it came through Thompson.

Gibbons: That is right.

Mrs. Klotz: It came to the office from Mr. Gibbons. At two o'clock they got it upstairs.

McReynolds: "Sent to Gibbons' office at 4."

H.M.Jr: Let us have a copy made. I think in this case we can have it photostated. I think Cairns should be present with Johnson.

Foley: I think so, too. I wanted to talk to the First Secretary, if that is your wish.

H.M.Jr: Yes.

Foley: I was a little surprised when I saw it come right back.

H.M.Jr: That was not the agreement. It was that he should hold it.

Foley: Yes.

H.M.Jr: All right. I wish they would make an appointment to see this man this afternoon. Let Cairns be present.

Foley: Yes.

H.M.Jr: Plus the stenographer.

Foley: Yes.

H.M.Jr: It will be photostated.

Foley: I think that Thompson already had it photostated. He had a photostat with him. He wanted the original back this morning. He kept it and he should bring it up here. Thompson had it himself. It is not in the hands of any messengers, or anything of that kind.

Gibbons: I handed it right direct to Johnson. I was very careful, as soon as I got it --

H.M.Jr: Have you anything further?

Foley: That is all I have.

White: Nothing on the prospects of foreign trade.

Lochhead: Nothing, except that Al Hopkins called up this morning and said you wanted him on Monday, Tuesday and Wednesday, and he would rather come down then.

H.M.Jr: Harry, just a minute. (Conference off the record between the Secretary and Mr. White.)

H.M.Jr: Somebody has written in giving the economics of that. Are you through, Archie?

Lochhead: Yes.

Gibbons: Al Cohn is in town and he would like to see you some time.

Gaston: He came in last night. He has the Mayor of Los Angeles with him, and he would like to have you meet the Mayor, if you have time.

H.M.Jr: I can do it at 11:20.

Gaston: All right. I think he will be in this morning. 11:10?

H.M.Jr: 11:20. Dan?

Bell: This is the letter that authorized the sale of the Home Owners Loan bonds. I fixed it up all right. It is O. K. That is just a reminder.

H.M.Jr: I told him we would put it in the icebox for future consideration.

Bell: That is all I have.

H.M.Jr: Mac?

McReynolds: Nothing, except to report that Herbert and I both were very poor golfers yesterday afternoon, but we couldn't spoil either the weather or our dispositions.

Mrs. Klotz: You should have seen them.

H.M.Jr: Did you see them.

Mrs. Klotz: Before they left, they said "Goodbye."

McReynolds: She said it was not considerate of me to come by and tell her "Goodbye".

Mrs. Klotz: He rubbed it in a little bit.

H.M.Jr: I think I had better see that man on Monday at 10:15. I will see him on Monday.

McReynolds: At 10:15 on Monday?

H.M.Jr: And you be here.

(Meeting concluded at 9:45 A. M.)

Prepared by: Mr. Murphy
Mr. Lindow
Mr. Haas

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TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE May 19, 1939

TO Secretary Morgenthau

FROM Mr. Haas

Subject: Recent Financial Developments

HIGHLIGHTS

1. High-grade corporation bonds have not followed Treasury's in the current move, and the spread in yield between them is now the greatest in some years. (Charts I and II.)

2. The largest private placement of corporate securities on record occurred last week in the sale to fifteen insurance companies of $114.5 millions of 40 year 3-1/4's of the Commonwealth Edison Company.

3. The spread in yield between British Consols and the average of United States long-term Treasury bonds is now at its highest point since the Twenties, notwithstanding a fair recovery in the price of Consols from their crisis low. (Charts III and IV.)

4. British short-term money rates, which had risen sharply at the time of the crisis, have now lost a little over three-fourths of their total rise since the first of the year.

U. S. Securities

The United States Government bond market continued during the first half of May the extraordinary strength which it has been showing with few interruptions since the last week in February. The average yield on all Treasury bonds with twelve years or more to run until maturity or earliest call date declined further to 2.14 percent at the close on Wednesday, a decline of 0.12 percent since May 1 and of 0.29 percent since February 25, when the average stood at 2.43 percent. (Chart I.) The Wednesday figure is a new all-time low for this average, and every one of the issues included in it has made a new all-time high in price during this month. The strength in long-term direct Treasury obligations has been paralleled by a corresponding strength in the longer maturities of guaranteed obligations.

Shorter-term obligations participated in the rise in the market last week to a greater extent than they have since the first week of the current move. The average yield on 3 to 5 year Treasury notes, for example, which had declined only from 0.53 percent to 0.45 percent between March 4 and May 10, declined further to 0.37 percent at the close on Wednesday. In interpreting this movement, it should be noted that the yields of short-term securities normally swing in a much wider arc than do those of the long ones, so that in a "balanced" movement of the entire market, the yields on the notes would normally move several basis points for every one on the bonds.

The short-term issues are already so high, it should be noted, that all Treasury notes maturing prior to June 15, 1941, are selling on a negative yield basis, and even the seemingly modest premium of 8/32 bid for the new issue of HOLC 1 year 3/8's absorbs two-thirds of the whole coupon-carry which these securities will earn during their entire life.

HOLC 2-3/4's of 1939-49 -- the "rights" for the new HOLC issue -- advanced from a closing bid of 101-21/32 on last Saturday to one of 101-23/32 on Wednesday. The bid on this issue during Thursday rose above that for the end of the day on Wednesday, but was off 1/32 at the close to 101-22/32. This action is interesting, not merely as an indication of the market's expectations with respect to the character of the new HOLC issue, but also as an indication that the market had never seriously doubted that the outstanding issue would be called as of this August. Had such doubts been seriously entertained, the definite announcement of the call -- finally dissipating the chance of obtaining another six months coupon-carry -- would have caused a decline rather than a rise in the price of the issue.

High-Grade Corporate Securities

High-grade corporation bonds have not followed Treasury's in the current move. As a consequence, the spread in yield between Treasury and corporation bonds, as shown in Chart I, has been increasing steadily since the end of February, rising from 0.55 percent as of February 25 to 0.81 percent as of the close on Wednesday.

Chart II, which gives a longer-term perspective on this differential, shows that (expressed as a percentage of the yield on the Treasury bonds) it has now exceeded its previous

peak of early 1937, and is approaching closely the level of the late Twenties. The peak in early 1937 was reached in precisely the opposite manner from that in which the present one has been attained -- namely, by a precipitous decline in corporation bond prices, while Treasury's held firm and even advanced a little -- and was rapidly liquidated by a decline in the Treasury's corresponding to that which had already occurred in the corporates.

Whatever the cause or likely permanence of the widened differential between Treasury and corporation bond yields, it has greatly strengthened the technical position of the high-grade corporation bond market and made it very receptive to new issues, which have been put out with little difficulty, although in small volume, even during the most serious period of the European war scares.

Position of Insurance Companies

The sharp increase in the yield differential between Treasury and corporate bonds has presumptively increased the relative attractiveness of the latter to all classes of investors, but especially to insurance companies which are hard put to it to earn the "bogey" of an average return of 3 percent set in the computation of their policy reserves, and are now confronted with a Government bond market in which the average of all long-terms yields only 2.14 percent and the longest issue on the board only 2.34 percent.

No shift in insurance company preference from Government to corporate bond issues has been apparent, however, in the weekly figures on new life insurance company investments published in the Wall Street Journal. These figures show, on the contrary, that the life companies have been very good purchasers of U. S. Government securities during the current rise and relatively poor purchasers of corporates -- their purchases of U. S. Government securities from the first of the year through May 6 being about $93 millions in excess of the corresponding period of last year and their purchases of corporate securities about $43 millions less.

This discrepancy must be interpreted, however, in the light of the past practice of insurance companies of acquiring United States securities principally during their secondary distribution, but of acquiring other securities principally at the time of their original issuance. Viewed in this manner, the relatively low rate of acquisition of corporate securities on the part of insurance companies may

be considered as evidence of a lack of opportunity to acquire them rather than of a distaste for the acquisition of such securities, and this is confirmed by the fact that the insurance companies have been excellent purchasers for such corporates as have come on the market.

Private Placement of Commonwealth Edison Issue

A rather spectacular evidence of insurance company appetite for corporate securities appeared last week in the form of the private placement with fifteen insurance companies of $114.5 millions of 40 year 3-1/4's of the Commonwealth Edison Company. These securities were sold at 102 to yield the purchasers 3.16 percent — or about an even 1 percent more than the average yield on long-term Treasury bonds as of the date of purchase. This purchase, which has not yet been reflected in the Wall Street Journal series, is equivalent to about 60 percent of the total investments in corporate securities made by the life insurance companies reporting to the Journal from the first of the year through May 6, the most recent date available. This was the largest private placement of corporate securities on record, and has created somewhat of a furor among investment bankers, who see in it a change in financial technique likely to undermine their business.

The private placement of corporate bond issues has been growing for sometime and reached an all-time high last year when about one-third of all corporate bonds were so placed. Since this change in practice has been induced largely by the registration and other requirements of the Securities Act of 1933 and of the Securities and Exchange Act of 1934, it has naturally led to a strong demand on the part of investment bankers that these Acts or their administration be relaxed. The SEC is studying this problem and, it is reported, may soon make a report on it, perhaps recommending that privately placed issues be subject to the same registration requirements as those offered directly to the public.

British Securities and Money Markets

The spread in yield between British Consols and the average of United States long-term Treasury bonds is now at its highest point since the Twenties, notwithstanding a fair recovery in the price of Consols from their crisis low. Chart III compares the yield of the 2-1/2 percent British Consols with the average yield on long-term United States Treasury

bonds on a weekly basis, and shows that the disparity between the two series has increased steadily since the first of the year. During most of this period both series have been contributing to the growth of the disparity -- one rising and the other falling. In the last two weeks, however, both series have been rising, although the British series has not been as strong as the American. In Chart IV the figures are shown on a monthly basis, and it is seen that the differential is now higher than at any time since the commencement of the chart in 1927.

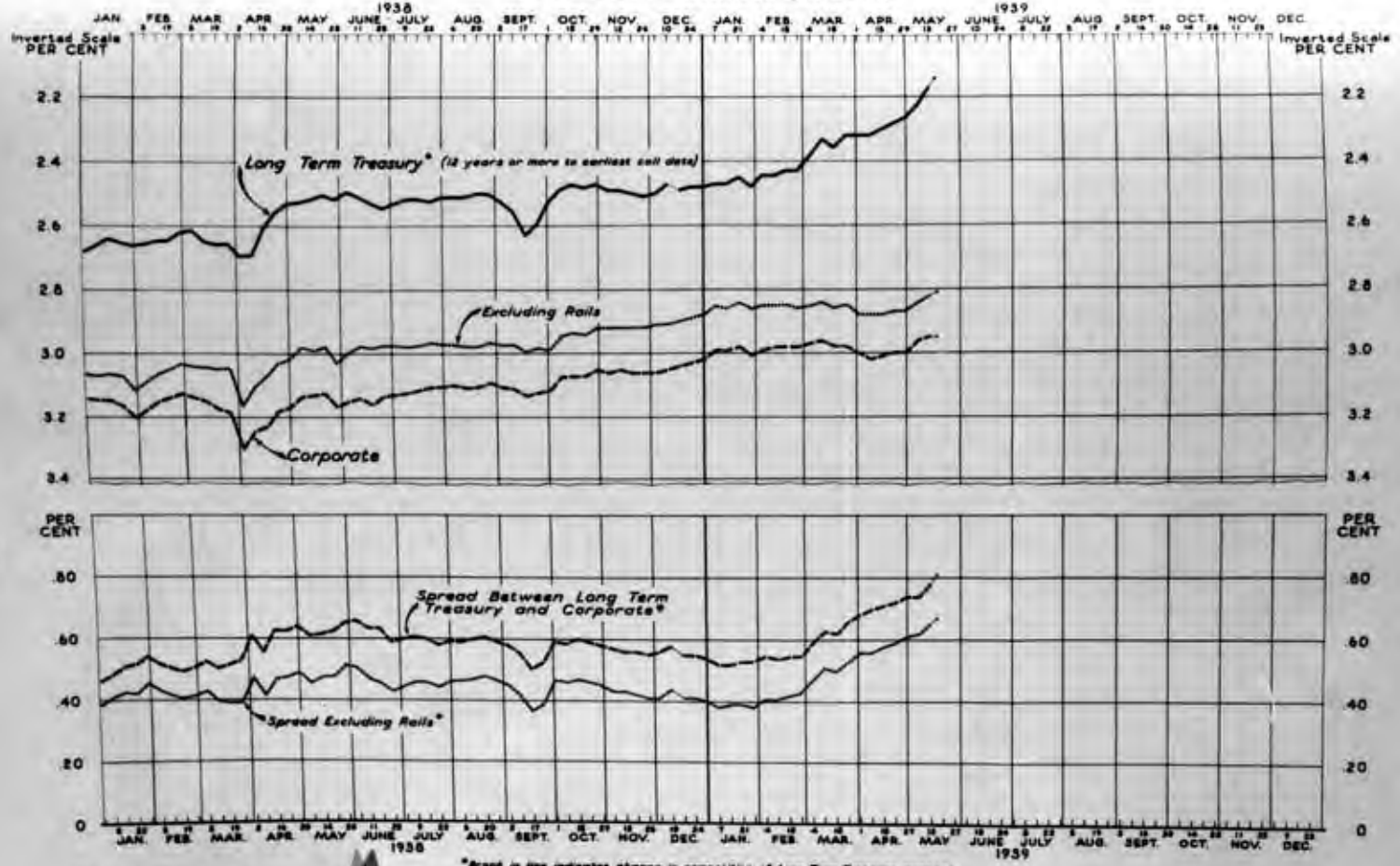
Recent weeks have also witnessed a very sharp decline in the rate on six-months bills in England, bringing the rate down almost to the point where it was before the spectacular rise accompanying the spring war crises. Thus, between March 1 and March 31, the rate increased from 0.66 percent to 1.69 percent, and then in the next two weeks, rose further to 2.38 percent. From this high point, it declined to 2 percent by the end of April, and by Wednesday of this week, it had fallen to 1.13 percent.

Attachments.

Chart I

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS

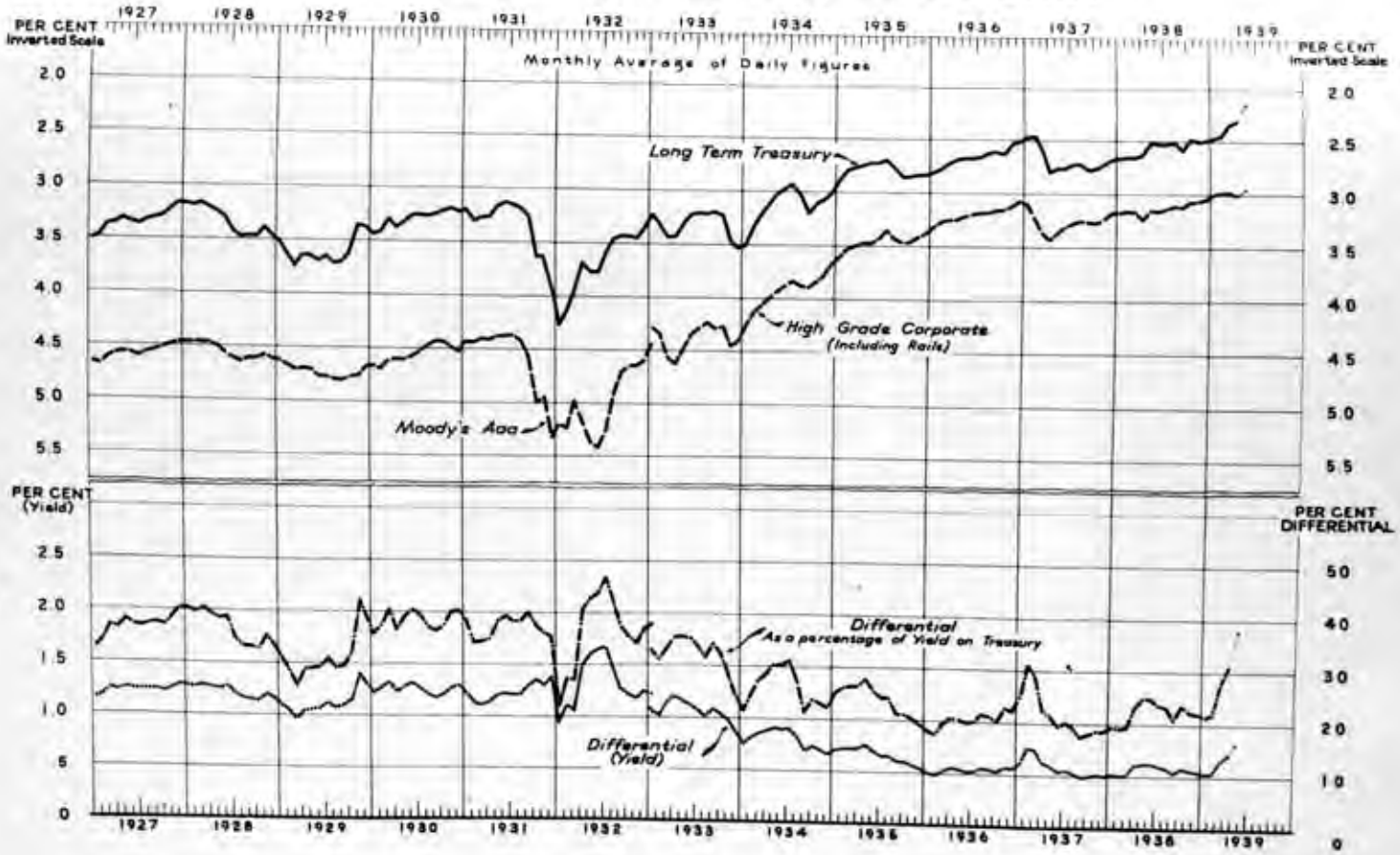
Yields Based on Saturday Quotations



*Break in line indicates change in composition of Long Term Treasury average.
Note: Latest figures shown are for May 17

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

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY AND AVERAGE OF HIGH GRADE CORPORATE BONDS



Note: Latest figures shown are for May 17

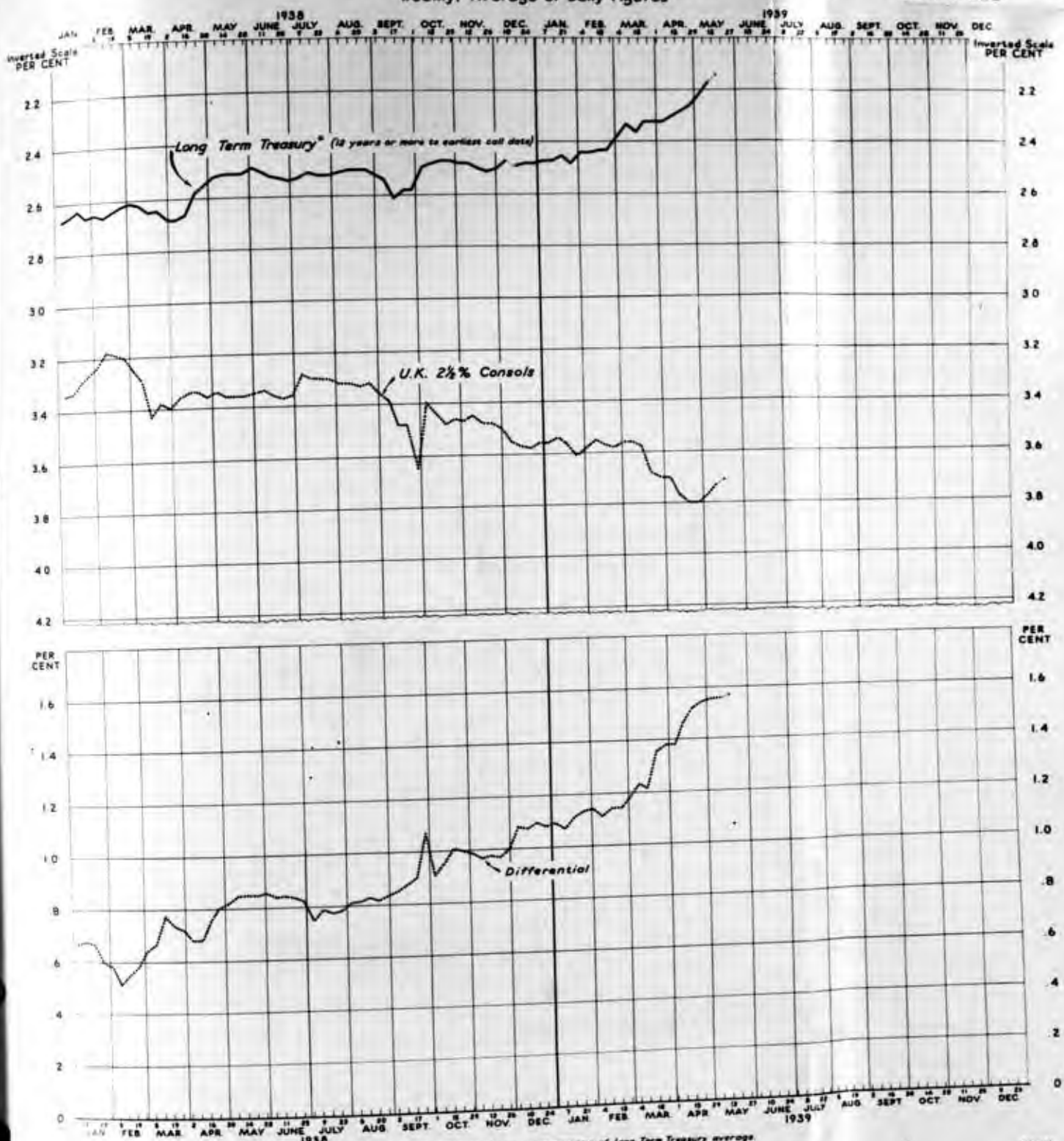
Office of the Secretary of the Treasury
Division of Research and Statistics

F-76-B

Comparative Yields of Average of All Long Term U.S. Treasury Bonds and U.K. 2½% Consols

Weekly, Average of Daily Figures

Chart III

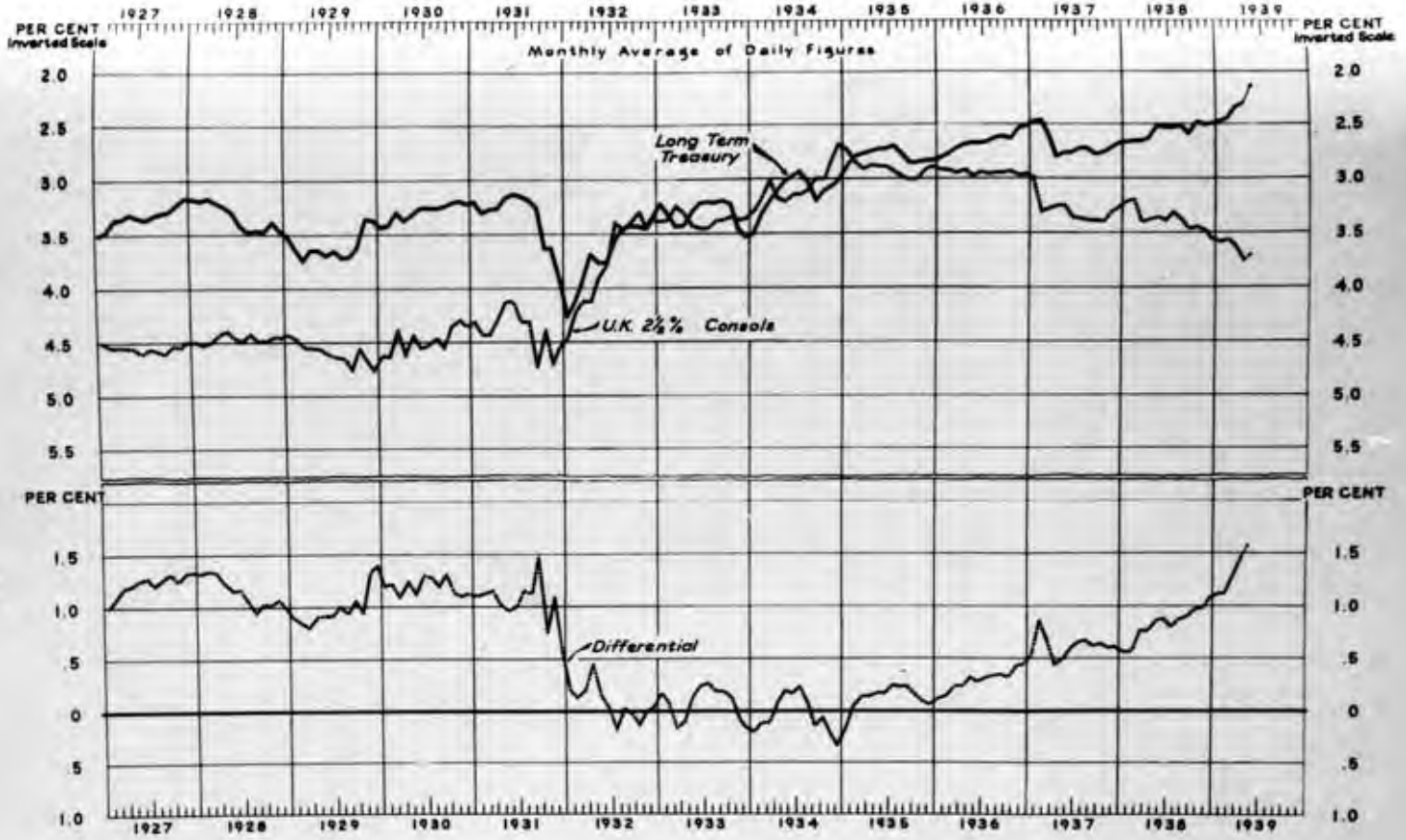


*Break in line indicates change in composition of Long Term Treasury average.
Note: Latest figures shown are for May 17

FO-126

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

COMPARATIVE YIELDS OF AVERAGE OF ALL LONG TERM U.S. TREASURY BONDS AND U.K. 2½% CONSOLS



Note: Latest figures shown are for May 17

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

FO-127

Operator: Go ahead.

HMJr: Hello.

Harold Ickes: Henry.....

HMJr: Hello, Harold.

I: Mr. Yantis of the State of Washington is here.

HMJr: Yeah.

I: And he's one of our kind of men.

HMJr: Right.

I: He's an outstanding leader out there, really, on certain ways.

HMJr: Yeah.

I: And he'd like to talk to you about Collector of Customs...

HMJr: Yeah.

I: .....and I wish you'd talk to him if you could.

HMJr: Well, the President -- a Collector of Customs?

I: Yeah.

HMJr: Oh, not -- because the President sent me a memo on Collector of Internal Revenue.

I: No, customs.

HMJr: What's the fellow's name -- well, he's tied up with Bone anyway.

I: Yeah, that's

HMJr: Now, what's.....

I: And you see the election of a Senator next year is involved in this.

HMJr: Yeah. What -- what's this gentleman's name?

I: Yantis -- Y-A-N-T-I-S.

HMJr: How long is he going to be here?

I: Well, he's going to Philadelphia this afternoon. That's the reason I called you right now.

HMJr: Now, just a second. (Pause) Tell him 11:45.

I: All right, Henry, thanks.

HMJr: Now, just a second.

I: Yeah.

HMJr: I'm very much surprised and pleased to see what you said about taxes yesterday.

I: Well, I -- I -- well, good Lord, I've always believed that, Henry.

HMJr: And -- of course, I don't know what's going to happen on that agricultural bill. I don't know what the President is going to do, but.....

I: Well, I -- I think that when -- when Congress goes over the budget, they ought to provide taxes to meet it.

HMJr: But I think Wallace is being very unfair, because he just takes it for granted that they are going to go over and it's up to me to raise.....

I: Well, that -- precisely.

HMJr: And I'm taking the position that until the President tells me that he wants to increase his budget figure, I'm going to sit tight.

I: Why, sure.

HMJr: Isn't that fair?

I: Why, I would say so.

HMJr: Huh?

I: I would think so.

HMJr: And then I told Wallace that and I told him another thing; I said, "If the President says he wants to

spend 'X' millions of dollars more, then it's up to the President to say whether he wants it to go to Agriculture, or Relief, or Public Works, or anything else.

I: That's right.

HMJr: I said, "Why -- why take it for granted that Agriculture is going to get it"?

I: Yeah, that's right.

HMJr: What?

I: That's right.

HMJr: Well, Henry doesn't like that, but I can't help it.

I: Yeah. It's all right, Henry.

HMJr: O. K.

I: All right. Good bye.

May 19, 1939
5:26 p.m.

Allan Sproul: Well, I had to be here anyway.

HMJr: Oh!

S: This is on another matter. I am calling in behalf of George Harrison and John Williams.....

HMJr: Yes.

S: .....on an inquiry from Mr. Sumner Welles.

HMJr: Right!

S: Their feeling is that it's more important for John Williams to stay here in view of uncertainties at home and abroad.

HMJr: Righto.

S: But they'd be willing to help in any way they can -- to help the State Department people find a man for the job.

HMJr: O. K. Now, if they have any suggestions, will you let me know?

S: Yes, I will.

HMJr: Thank you so much.

S: All right.

HMJr: Thank you.

S: Good night.

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Treasury Department
Division of Monetary Research

Date May 19 1938

To: Mr. White

From: Mr. Gaer

I have abstained from all criticism and tried to state everything Hansen says in as defensible a form as possible.

TREASURY DEPARTMENT

INTER OFFICE COMMUNICATION

DATE 5-19-39

TO Mr. White

FROM Mr. Gass

Subject: Professor Alvin H. Hansen's Testimony on Savings and Investment before the Temporary National Economic Committee.

Hansen's analysis:

The basic point of Mr. Hansen's analysis is contained in the single sentence: "It is the margin of income which is created by the capital goods industries that fills the gap between prosperity and depression." The high aggregate and unequal distribution of income in our society results in a strong propensity to save. Income can be sustained at a high level only so long as savings are being used to make large capital outlays. Variations in the national income are induced mainly by variations in the outlay on plant, equipment, residential construction and other durable goods.

Mr. Hansen makes it clear that when he speaks of income, consumption and investment, he is comparing the consumption and investment of the current period with the income realized in the preceding period. 1/ Of realized income, part is spent on consumption and part is saved. The level of income will be reduced unless all that which has been saved is used either by the saver himself or by others for outlay on capital goods. Capital outlays in excess of savings may take place; they are financed by the expansion of bank credit.

Money spent on capital goods is referred to by Hansen as "high-powered" money. He regards this expenditure as having a special multiplier effect.

Every boom dies a natural death. During the boom, all the possibilities created by the progress of technology and by the increased supply of productive factors are exploited. When the boom is over, " . . . there remains little that can profitably be done except to maintain the plant already constructed." Investment outlets are exhausted.

Five "outlets for savings" sustained income in the 1920's. These were residential construction, public construction, foreign investments, consumers' credit, and the automobile industry. "These, as I see it, are

1/ All of his statistical periods are annual.

the five main props to the prosperity of the 1920's. Their income-creating force was in large part spent by 1929."

The sustained unemployment of the 1930's " . . . cannot be explained in terms of ordinary business cycle analysis." The problem which the 1930's posed in an acute form is essentially of a secular (or long term) character. Our economy is undergoing basic structural changes. These changes Hansen attributes principally, in this testimony, to the slowing down of the rate of population growth. There is also some suggestion that changes in technology and in the supply of natural resources play a part.

He however qualifies the suggestion that the whole economy is undergoing a novel secular change by calling attention to the fact that even in the 19th century economic progress came in spurts and leaps, not at a uniform rate. Perhaps, he implies, we shall soon see new industries undertaking large investments. Even in 1936-1937 capital outlays on industrial plant and equipment in mining and manufacturing industry were quite comparable to those of 1928-1929. Public utilities and railroads lagged behind, but: "The important single gap, and I would like to stress this, in the recovery of 1936-1937, was residential construction and in part commercial construction."

In illustration of his analysis, Mr. Hansen presented a series of tables and charts on gross national product, capital formation, and the various components of capital formation, covering the period from 1919 through 1937. The more important of these tables and charts are based on data prepared by Simon Kuznets for the National Bureau of Economic Research.

Hansen's recommendations:

Hansen recommends three kinds of measures calculated to help maintain a high level of income: (1) measures to increase the ratio of consumption to savings, (2) measures to stimulate private investment, and (3) measures involving an increase in federal investment.

To increase the ratio of consumption to savings, he recommends that the social security taxes be reduced. While the contributory principle should be retained, only part of the cost of social security ought to be met from payroll taxes. The contributory system should be supplemented by Federal grants from taxes bearing primarily on savings. No large reserve should ever be built up.

More generally, Professor Hansen expresses strong opposition to all taxes bearing primarily on consumption. He implies that our tax system is becoming more regressive, saying that in 1938 about 50 percent of total Federal tax collections bore primarily on consumption while in 1929 only 30 percent fell into this category.

He calls attention to the difference between our method of financing social security and that of the United Kingdom. He cites figures showing that, in recent years, the higher income groups in the United Kingdom have paid all the general charges of government and, in addition, transferred an amount variously estimated at £90,000,000 to £115,000,000 for social services to the poor.

With regard to the stimulation of private investment, Hansen makes only one concrete recommendation. He advises that the guaranteed rate of interest allowed under the Federal Housing Act should be lowered from the present 5 percent to lower the costs of private residential construction.

With regard to public investment, Hansen gives his support to expenditure both for self-liquidating and for non-self-liquidating projects. He recommends the construction of more toll roads, toll bridges, etc. He also recommends the establishment of a federal railroad equipment authority, to purchase new equipment and lease it to the railroads on a self-liquidating basis.

He rejects the view that the government should undertake only self-liquidating investments. "There is danger ... that we stress too much the merit of self-liquidating projects and loans." There are many opportunities for public investments of the greatest productivity which cannot be self-liquidating.

In the course of his testimony, Hansen outlines a general financial policy.

(1) He advocates an increase in the income taxes bearing on the income brackets up to $50,000.
(2) He supports a cyclically balanced budget for ordinary operating expenditures: "The ordinary run of the operating expenditures, which in modern times must include social service, relief and welfare expenditures, should be balanced by tax receipts over an entire business cycle."
(3) He recommends borrowing to finance self-liquidating public works.

(4) He says that it is compatible with sound policy to finance even non-self-liquidating long-term investments out of borrowing, providing that provision is made for amortization out of tax receipts over the lifetime of the asset. But he also implies that it is equally unobjectionable to pay for this kind of investment out of current taxes, provided that the taxes fall primarily on savings.

(5) He recommends that a national tax commission be appointed to formulate a long-term tax policy.

All together, Professor Hansen's analysis and the policy he derives from it look forward to a greatly increased federal responsibility for maintaining a high level of income and a desirable balance between consumption and saving.

May 19, 1939

Secretary Morgenthau

E. H. Foley, Jr.

Re: Rhea Whitley - Counsel to Dies Committee.

Mr. Whitley is about 36 years of age and has been with the Dies Committee only a few months. A native of Arkansas, he attended the University of Arkansas, University of Virginia, and received his LL.B. from either Georgetown or George Washington here in the District. After leaving law school, he entered the Federal Bureau of Investigation, Department of Justice, where he served from 1928 to 1937. His record in F.B.I. was excellent - when he resigned he was in charge of the New York office of the Bureau. Previously he had served as agent in various cities throughout the country. After leaving the F.B.I. in 1937, Whitley opened a law office here in town. Shortly thereafter he married a wealthy woman and moved to Miami, Florida. About six months ago he moved back to Washington and reopened the law office which he maintained until accepting the job with the Dies Committee.

Apparently Whitley has a good reputation among the people with whom he associated.

(Initialed) E. H. F., Jr.

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File

DEPARTMENT OF AGRICULTURE
WASHINGTON

May 19, 1939

The Honorable

The Secretary of the Treasury

Dear Henry:

In view of the President's conversation with the Vice-President this afternoon, I made so bold as to write him as per the enclosed letter. I am also sending you herewith copies of the enclosures mentioned.

Sincerely yours

H A Wallace

Secretary

Enc

May 19, 1939

The President

The White House

Dear Mr. President:

In view of the conversation at cabinet meeting this afternoon with the Vice-President, it occurred to me that you might be interested in the enclosed memorandum "Internal Economic Progress vs. European Unsettlement". The Vice-President opened the subject up for discussion in such a way that I would suggest he might perhaps be interested in some of the points brought out in this particular memorandum.

I am also sending to you again a memorandum which I sent you once before entitled, "The Present Job of Government and Private Capital in our Democracy".

You may just throw these memorandm into the wastebasket when you are through with them.

Respectfully yours

H A Wallace

Secretary

Enclosures

THE PRESENT JOB OF GOVERNMENT AND PRIVATE CAPITAL IN OUR DEMOCRACY.

In the 1920's as we went from depression to prosperity, private investment increased by 5 to 6 billion dollars a year. Private investment is of course essentially the same as private debt. Widespread private investment, or debt, does not differ greatly from national debt except that often it is not paid back. The increase in private investment (or debt) gave us more production and more jobs and therefore more consumer purchasing power.

Since 1930 private investment has been far below normal and the federal government has had to step into the breach. In a capitalistic society like ours, capital for investment must be supplied or the wheels stop turning. Either individuals must supply it, or the government must supply it - or both.

Since 1930 federal indebtedness has been increasing at an average of about 2.5 billion dollars a year. This is less than half of the annual increases in private indebtedness during the 1920's, and together with debts of government agencies has hardly been sufficient to offset the shrinkage in private debts.

A substantial part of the increased federal debt has gone to replace a 15 billion dollar shrinkage in private long-term debts since 1930. Another part has gone to offset a 20 billion dollar shrinkage in bank loans. Add together the present private debts and the federal debt and you have a total today somewhat less than in 1930. (See table 1)

While the government since 1930 has added less per year to the national debt than did private enterprise in the 1920's, each dollar of government debt produced more results in terms of increase in national income than did a dollar of private debt or investment in the 1920's. (See table 2)

The real question about government debt is now how we are going to carry it, because with lower interest rates and a smaller private debt, the carrying charges on both government and private debt in 1938 were 14 percent less than in 1930. (See tables 3, 4, and 5) These interest payments took a somewhat smaller share of the national income than in 1930 and a much smaller share than in 1932. The real question is how the federal government may most effectively invest and spend for productive and social purposes until such time as private capital can carry its fair share of the social load, now increased because of the entirely different world outside of the United States and by the persistent unemployment problem within. Unemployment is the source of many of our internal difficulties.

Another question with regard to government investment or debts is what the nation gets for those expenditures. How do the tangible and social assets of government compare with the net government debt? One attempt to evaluate federal and other government assets (buildings, roads, etc.) shows assets of over 70 billion dollars at the end of 1938 and a net debt of 51 billion dollars. (See table 6)

We must do some deep thinking immediately on the proper balance between government and private investments and upon new productive opportunities for surplus farmers and displaced city people. The creation of these opportunities is now the great test and task of our democratic form of government, and its most effective performance at present is the right combination of both private and public investment in productive effort and socially desirable services.

Table I: GOVERNMENT DEBTS, PRIVATE LONG-TERM DEBTS, AND BANK LOANS AND DISCOUNTS, U. S., 1921-1938
(Millions of dollars)

	U.S. Government 1/ (June 30)	Federal agencies 2/ (June 30)	State and local 3/ (June 30)	Total Government	Private long-term 4/ (Dec. 31)	Loans and discounts all active banks 5/ (June 30)	Total private long-term and bank loans	Grand total, Government and private
1921	23,737	450	8,476	32,663	48,682	28,776	77,458	110,121
1922	22,711	730	9,893	33,334	51,200	27,759	78,959	112,293
1923	22,008	1,062	10,598	33,668	55,234	30,287	85,521	119,189
1924	20,982	1,231	11,633	33,846	60,156	31,348	91,504	125,350
1925	20,211	1,506	12,830	34,547	64,895	33,757	98,652	133,199
1926	19,384	1,659	13,664	34,707	69,861	36,051	105,912	140,619
1927	18,251	1,789	14,735	34,775	75,156	37,314	112,470	147,245
1928	17,318	1,866	15,699	34,883	80,121	39,592	119,713	154,596
1929	16,639	1,867	16,760	35,266	83,224	41,433	124,657	159,923
1930	15,922	1,871	17,985	35,778	84,500	40,510	125,010	160,788
1931	16,520	1,885	19,060	37,465	83,131	35,211	118,342	155,807
1932	19,161	2,130	19,330	40,621	80,192	28,090	108,282	148,903
1933	22,158	3,279	19,517	44,954	75,594	22,388	97,982	142,936
1934	26,480	6,735	18,823	52,038	74,300	21,431	95,731	147,769
1935	27,645	10,177	18,972	56,794	72,831	20,419	93,250	150,044
1936	32,756	11,066	19,212	63,034	71,459	20,839	92,298	155,332
1937	35,803	10,547	19,152	65,502	70,335	22,698	93,033	158,535
1938	36,576	7,969	19,170	63,735	70,000	21,380	91,380	155,115

1/ Interest bearing debt of the U. S. Government, p. 410, 1937 Report of the Secretary of the Treasury, except that data for 1938 were taken from U. S. Department of the Treasury.

2/ Total amount of outstanding securities wholly or partially exempt from Federal income taxes of the (1) Federal Farm Loan System; (2) Federal Home Loan System, and the (3) Reconstruction Finance Corporation as reported on p. 466 of the Annual Report of the Secretary of the Treasury for 1937, except that data for 1938 from U. S. Department of the Treasury and include debt of the newly created agencies, Commodity Credit Corporation and Federal National Mortgage Association.

3/ Includes both long and short-term issues. Annual Report of the Secretary of the Treasury for year ended June 30, 1937, p. 466, except that data for 1938 are from U. S. Department of the Treasury.

4/ Total private long-term debt in the U. S.; 1922, 1930 and 1934-1937 inclusive are Department of Commerce estimates, "Long-Term Debts in the U. S.," 1937 and Survey of Current Business, January 1939; estimates for 1921 from "Private Long-Term Debt in U. S.," National Industrial Conference Board. All other years prior to 1938 based on National Industrial Conference Board data (same source) with adjustments by Agricultural Adjustment Administration to bring into agreement with the Department of Commerce series. 1938 is preliminary Agricultural Adjustment Administration estimate.

5/ Loans and discounts all active banks, Comptroller of Currency reports (1938 is preliminary).

AAA, Division of Program Planning, Agricultural-Industrial Relations Section

Table 2. INCREASES IN NATIONAL INCOME PRODUCED AND IN LONG-TERM DEBTS, U.S. 1921-1927 and 1932-1938

	National income 1/	Incr. over base year	LONG-TERM DEBT: Federal (incl. agencies)	State and local 2/	Private	Total
	billion dollars	billion dollars	million dollars	million dollars	million dollars	million dollars
1921	52.6	0	24,187	8,476	48,682	81,345
1922	61.7	9.1	23,441	9,893	51,200	84,534
1923	69.8	17.2	23,070	10,598	55,234	88,902
1924	69.6	17.0	22,213	11,633	60,156	94,002
1925	77.1	24.5	21,717	12,830	64,895	99,442
1926	78.5	25.9	21,043	13,664	69,861	104,568
1927	77.2	24.6	20,040	14,735	75,156	109,931
Cumulative total	--	118.3	---	---	---	---
1921-1927 increase		--	4,147(Dec)	6,259	26,474	28,586

Ratio of cumulative increase in income to increase in long-term debt, 4.14 to 1.

1932	40.0	0	21,292	19,330	80,192	120,813
1933	42.3	2.3	25,437	19,517	75,594	120,548
1934	50.1	10.1	33,215	18,823	74,300	126,338
1935	55.2	15.2	37,822	18,972	72,831	129,625
1936	63.5	23.5	43,822	19,212	71,459	134,493
1937	69.8	29.8	46,350	19,152	70,335	135,837
1938	60.0	20.0	44,565	19,170	70,000	133,735
Cumulative total	--	100.9	---	---	---	---
1932-1938 increase		--	23,274	160(Dec)	10,192(Dec)	12,922

Ratio of cumulative increase in income to increase in long-term debt, 7.81 to 1.

1/ 1921-1927, National Industrial Conference Board; 1932-1937, Department of Commerce; 1938, Agricultural Adjustment Administration estimates.
2/ Includes both long and short-term issues.

AAA, Division of Program Planning, Agricultural-Industrial Relations Section

Table 3. GOVERNMENT DEBT AND INTEREST CHARGES, U. S., 1921-1938
(Million dollars)

	Federal			State and Local			Total Government		
	Debt 1/	Interest 2/	Rate of interest 3/ (Pct.)	Debt 4/	Interest	Rate of interest (Pct.)	Debt	Interest	Rate of interest (Pct.)
1921	23,737	1,030	4.339	8,476	380	4.48	32,213	1,410	4.38
1922	22,711	963	4.240	9,893	452	4.57 5/	32,604	1,415	4.34
1923	22,008	927	4.214	10,598	484	4.57	32,606	1,411	4.33
1924	20,982	877	4.180	11,633	532	4.57	32,615	1,409	4.32
1925	20,211	830	4.105	12,830	585	4.56	33,041	1,415	4.28
1926	19,384	793	4.093	13,664	623	4.56	33,048	1,416	4.28
1927	18,251	723	3.960	14,735	672	4.56	32,986	1,395	4.23
1928	17,318	671	3.877	15,699	716	4.56	33,017	1,387	4.20
1929	16,639	657	3.946	16,760	763	4.55	33,399	1,420	4.25
1930	15,922	606	3.807	17,985	818	4.55 5/	33,907	1,424	4.20
1931	16,520	589	3.566	19,060	863	4.53	35,580	1,452	4.08
1932	19,161	672	3.505	19,330	874	4.52	38,491	1,548	4.02
1933	22,158	742	3.350	19,517	878	4.50	41,675	1,620	3.89
1934	26,480	842	3.181	18,823	844	4.48 5/	45,303	1,686	3.72
1935	27,645	751	2.716	18,972	833	4.39 5/	46,617	1,584	3.40
1936	32,756	838	2.559	19,212	818	4.26 5/	51,968	1,656	3.19
1937	35,803	924	2.582	19,152	797	4.15 5/	54,955	1,721	3.13
1938	36,576	947	2.589	19,170	797	(4.16)	55,746	1,744	3.13

1/ Interest bearing debt (June 30th) interest on which is exempt from Federal income tax, 1937 Annual Report of the Secretary of the Treasury, p. 410, except 1938 is from U. S. Department of the Treasury.
2/ Amount payable at June 30th interest rate, 1937 Annual Report of the Secretary of the Treasury, pp. 352 and 442, except 1938 is from U. S. Department of the Treasury.
3/ June 30th rate, 1937 Annual Report of the Secretary of the Treasury, pp. 352 and 442, except 1938 is from U. S. Department of the Treasury.
4/ Debt of state and local governments (on or about June 30th), interest on which is exempt from Federal income tax, 1937 Annual Report of the Secretary of the Treasury, p. 466, except 1938 is from U. S. Department of the Treasury.
5/ Department of Commerce debt studies (other years interpolated) see p. 178 "Long-term Debts in U. S.," for 1922 and 1930, and January 1939 Survey of Current Business for 1934-37 inclusive.

AAA, Division of Program Planning, Agricultural-Industrial Relations Section

Table 4: PRIVATE LONG-TERM AND GOVERNMENT DEBT AND INTEREST CHARGES, U. S., 1921-1938
(Million dollars)

	Private 1/			Government			Total Gov't and private long-term	
	Long-term debt	Interest	Rate of interest (Pct.)	Debt 2/	Interest	Rate of interest (Pct.)	Debt	Interest
1921	48,682	2,770	5.68	32,213	1,410	4.38	80,895	4,180
1922	51,200	2,976	5.81	32,604	1,415	4.34	83,804	4,391
1923	55,234	3,187	5.77	32,606	1,411	4.33	87,840	4,598
1924	60,156	3,471	5.77	32,615	1,409	4.32	92,771	4,880
1925	64,895	3,725	5.74	33,041	1,415	4.28	97,936	5,140
1926	69,861	4,017	5.75	33,048	1,416	4.28	102,909	5,433
1927	75,156	4,329	5.76	32,986	1,395	4.23	108,142	5,724
1928	80,121	4,623	5.77	33,017	1,387	4.20	113,138	6,010
1929	83,224	4,802	5.77	33,399	1,420	4.25	116,623	6,222
1930	84,500	4,862	5.78	33,907	1,424	4.20	118,407	6,306
1931	83,151	4,805	5.78	35,580	1,452	4.08	118,711	6,257
1932	80,192	4,603	5.74	38,491	1,546	4.02	118,683	6,149
1933	75,594	4,324	5.72	41,675	1,620	3.89	117,269	5,944
1934	74,300	4,185	5.63	45,303	1,686	3.72	119,603	5,871
1935	72,831	3,987	5.47	46,617	1,584	3.40	119,448	5,571
1936	71,459	3,838	5.37	51,968	1,656	3.19	123,427	5,494
1937	70,335	3,713	5.28	54,955	1,721	3.13	125,290	5,434
1938	70,000	3,675	5.25	55,746	1,744	3.13	125,746	5,419

1/ Data in all columns for the years 1922, 1930 and 1934-1937 inclusive are Department of Commerce estimates (as of December 31st). Data for other years based on estimates contained in "Long-Term Debts in the U. S.," 1937 and Survey of Current Business, January 1939; the estimate for 1921 was taken from "Private Long-Term Debt in U. S.," National Industrial Conference Board. The National Industrial Conference Board debt estimates in million dollars are: 1922, 50,694; 1930, 85,774 and 1934,76,757.

2/ Debt of Federal and of state and local governments, interest on which is exempt from Federal income taxes, 1937 Annual Report of the Secretary of the Treasury, p. 466. For details concerning interest charges and rates see Table III (Government Debt and Interest Charges, U. S., 1921-1938).

AAA, Division of Program Planning, Agricultural-Industrial Relations Section

Table 5. Interest on specified debts related to national income, U.S. 1921-1938

	Interest charges on private long-term and govt debts 1/ million dollars	National income paid out 2/ million dollars	Interest charges as percent of natl income percent
1921	4,180	53,644	7.79
1922	4,391	57,037	7.70
1923	4,598	64,501	7.13
1924	4,880	68,160	7.16
1925	5,140	72,580	7.08
1926	5,433	74,795	7.26
1927	5,724	75,685	7.56
1928	6,010	77,359	7.77
1929	6,222	79,704	7.81
1930	6,306	73,542	8.57
1931	6,257	61,609	10.16
1932	6,149	48,644	12.64
1933	5,944	46,089	12.90
1934	5,871	53,172	11.04
1935	5,571	57,564	9.68
1936	5,494	64,809	8.48
1937	5,434	71,013	7.65
1938 (P)	5,419	66,000	8.21
1939 (est)	5,483	71,000	7.72

1/ See table 4.
2/ Agricultural Adjustment Administration series. Based on Department of Commerce and King's estimates of nonagricultural income plus Agricultural Adjustment Administration estimates of agriculture's contribution to the national income.

AAA, Division of Program Planning, Agricultural-Industrial Relations Section

Table 6. Tangible Assets and net debt of all branches of government
(billions of dollars)

	Tangible Assets (December 31)	Net Debt (June 30)
1915		5.7
1916		6.1
1917		7.3
1918	31.9	16.4
1919	32.9	30.3
1920	34.1	30.6
1921	35.3	30.8
1922	37.0	31.3
1923	38.5	31.1
1924	40.3	31.0
1925	42.4	31.4
1926	44.3	31.2
1927	46.5	31.0
1928	48.9	30.9
1929	51.2	31.1
1930	53.6	31.4
1931	55.6	33.2
1932	57.0	37.0
1933	58.4	39.7
1934	60.4	41.6
1935	62.4	43.7
1936	65.5	48.0
1937	68.4	50.9
1938	(71.0)	50.8

Central Statistical Board.
1938 estimate of tangible assets by Agricultural Adjustment Administration based on trend of previous years.

Internal Economic Progress vs. European Unsettlement

- - -

1. Recovery this spring has been delayed. Vigorous business recovery should now be under way, if the expectations of last fall had been realized. Business uncertainty this spring has been intensified by the rumors of wars and dangers of war abroad. This effect has been both direct and indirect, through the chilling effect on business commitments of a weak and declining stock market.

As shown by the enclosed chart, there have been six recessions in industrial stock prices since March 1, 1938. They have all been associated with war crises abroad. The seizure of Austria, the mobilization of the Czecho-Slovakia and French financial crisis, the crisis before Munich, the persecutions leading to the recall of our Ambassador, the dismissal of Schacht, the final absorption of Czecho-Slovakia and invasion of Albania are all registered as recessions in stock prices and to some extent retarded industrial activity.

2. Foreign crises will continue to undercut business here. The international picture is still ominous, and may continue so for many months ahead. In countries such as the United States, the extent of industrial activity reflects the free decisions of individual businessmen, guided by such barometers as security markets, commodity prices, and current sales. In countries such as Germany and Italy, industrial activity can continue on the basis of government orders and industry plans almost regardless of international uncertainty. Merely by continuing a state of chronic crisis, therefore, the totalitarian aggressors can check the economic progress of the democracies at will with no cost to themselves. This process of

economic warfare by uncertainty and threats seems likely to continue indefinitely. So long as it does, it will serve as a brake to hold industrial activity here at less than it otherwise would be.

3. Disappointing extent of prospective recovery. When the new program of public investment was proposed in the spring of 1938, it was anticipated that that renewed stimulus to activity would provide a prompt check to the recession, and would cause an upsurge in activity which would carry through 1939 and 1940. When additional relief appropriations were under discussion last fall, it was expected that industrial production would average 105 to 110 for the last half of 1939. In view of the present situation, those prognoses will have to be revised downward. While some recovery during the rest of 1939 is still probable, it may be very mild in extent. It is doubtful if men will be put back at work, over 1939 as a whole, any more rapidly than new workers are being added to those available for employment. At the end of the year unemployment may, therefore, still be as high as it was at the beginning.

Prospects for 1940 are even less promising, for the present budget calls for a material shrinkage in the net investment of federal funds after the turn of the year. The slight rise in industrial production seems hardly calculated to bring forth such a rise in private investment as to offset the prospective decline in governmental contribution to the nation's buying power. An economic recession in 1940, which had been anticipated as possible in any case after two years of progress from the 1938 lows, may therefore degenerate into another major recession, instead of merely a period of moderate readjustment.

The increase in private investment from "confidence" because of tax changes and the like seems likely to be insignificant, so long as current production is not booming, and so long as new initiatives are lacking to cut loose investment in the fields still low -- particularly in residential and commercial construction, utilities and rails.

4. Urgent need for a broad vigorous program, now. If this situation is to be altered for the better, a new vigorous program must be initiated now, so that it can get through Congress in time to become effective in late 1939 and early 1940. Such a program must be sufficiently vigorous to provide a positive business expansion here regardless of the uncertainties created by the maneuverings abroad. It must show the dictators that democracies too can act to provide jobs and welfare for their people.

5. Elements of a possible program. The Fiscal Policy Committee is now studying the elements that might go into a new positive program. Their report within a few weeks will present a carefully considered set of undertakings. In the meantime, the minimum elements of an effective program may be suggested as follows:

1. Passage of the proposed bill establishing the Federal (Fiscal) Agency to finance self-liquidating projects outside the budget, in such shape as to provide for the financing of new projects as well as existing ones.

2. Passage of a bill providing for a broad program of road and highway projects, on a self-liquidating scale based on excess taking, as recommended in the recent report of the Bureau of Public Roads. This would provide for immediate new expenditures of 800 million to one billion dollars per year.

3. Passage of the necessary legislation to provide for an immediate start on re-equipping the railroads, without waiting for railroad reorganization. This would provide new investment of 600 to 800 million dollars per year, and correct a prospective bottleneck that might prove highly disastrous in time of national emergency.

4. Passage of legislation to provide for building up a war-time reserve of essential industrial domestic products and materials of durable nature.

5. Authorization for similar self-liquidating investment in the fields of farm tenant purchase, low-cost housing, utility equipment, etc.

Rapid authorization and initiation of a program along these general lines would make it possible to guarantee an expansion in demand and business activity over the next couple of years, without any extra burden on the federal budget, and regardless of a continuation of "jitters" abroad.

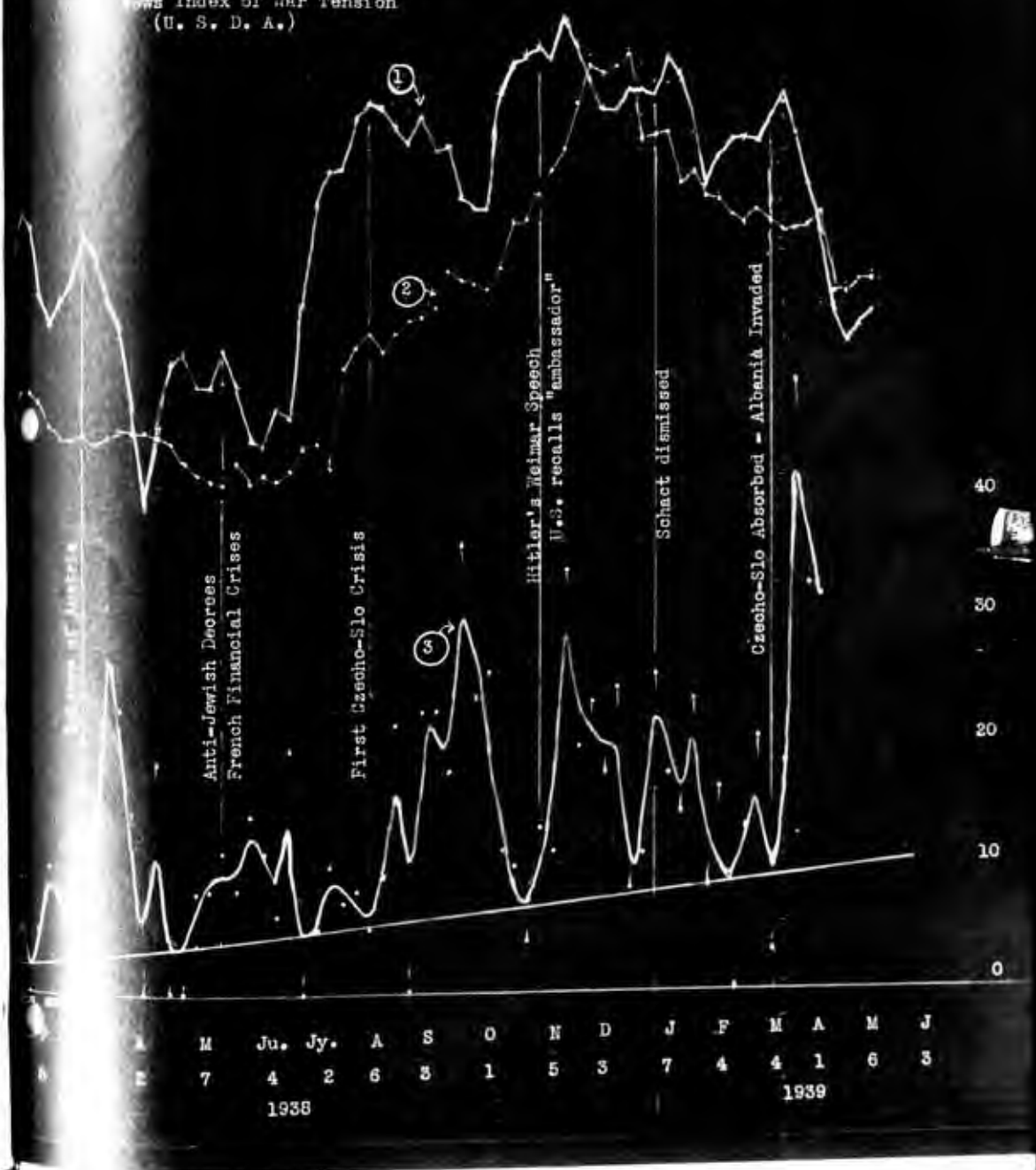
EFFECT OF WAR TENSION ON U. S. STOCK MARKET
AND INDUSTRIAL ACTIVITY

Weekly averages of:

Industrial Stock Prices (Standard)

Industrial Activity (Commerce)

Index of War Tension
(U. S. D. A.)



May 20, 1939

To: The Secretary

From: Miss Lonigan E. L.

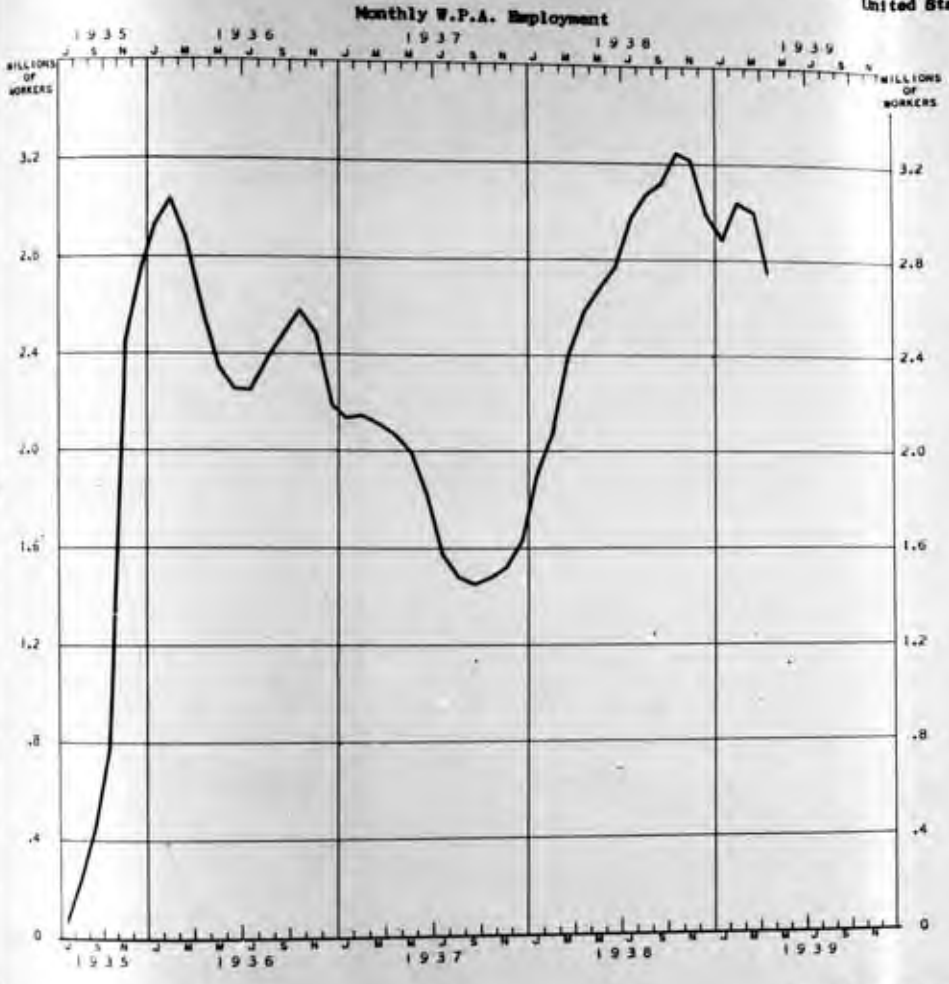
OK

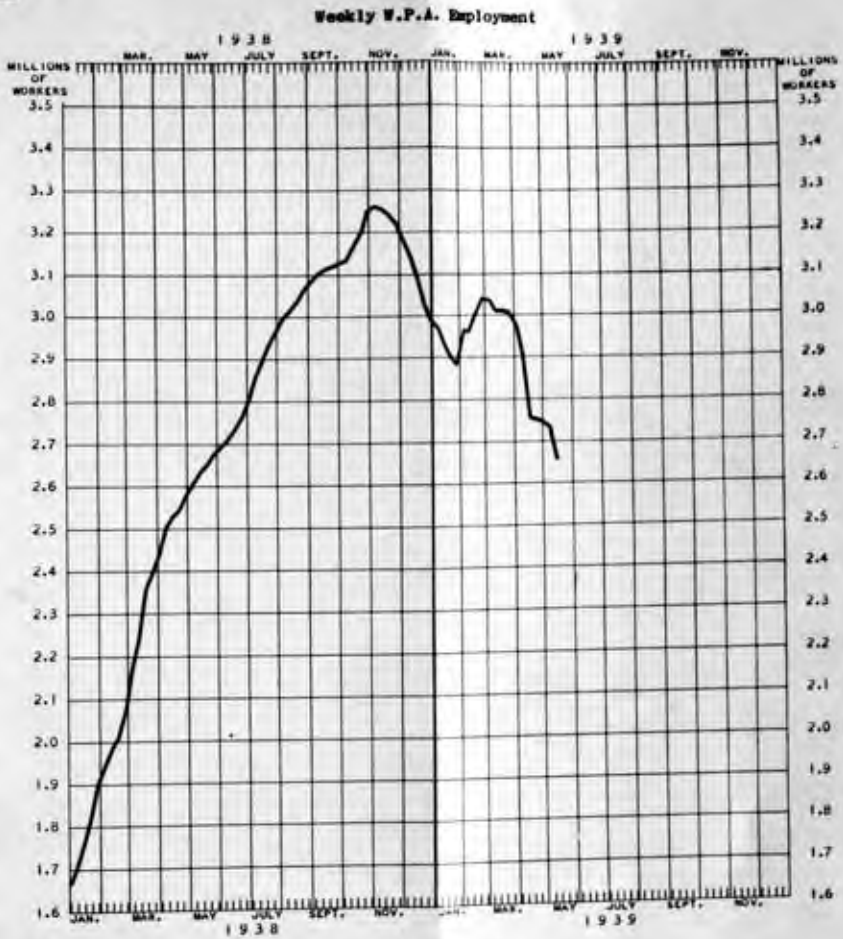
The total number of WPA workers on May 10, 1939, is 2,657,762.

The decrease from the week ending May 3 to the week ending May 10 was 76,293 workers.

WORKS PROGRESS ADMINISTRATION

Number of Workers Employed
United States





SOURCE: WORKS PROGRESS ADMINISTRATION

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

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Weekly
United States

Week ending	Number of Workers (In thousands)
1938	
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
March 11	3,009
March 18	3,012
March 25	3,006
April 1	2,976
April 5	2,901 a/
April 12	2,757
April 19	2,750
April 26	2,749
May 3	2,734
May 10	2,658 b/

Source: Works Progress Administration.
a/ Reporting date changed.
b/ Confidential.

WORKS PROGRESS ADMINISTRATION
Number of Workers Employed - Monthly
United States

	Number of Workers (In thousands)
1936	
January	2,926
February	3,036
March	2,872
April	2,570
May	2,340
June	2,256
July	2,249
August	2,377
September	2,482
October	2,581
November	2,483
December	2,192
1937	
January	2,138
February	2,146
March	2,115
April	2,070
May	1,999
June	1,821
July	1,569
August	1,480
September	1,451
October	1,476
November	1,520
December	1,629
1938	
January	1,901
February	2,075
March	2,395
April	2,582
May	2,678
June	2,767
July	2,967
August	3,067
September	3,120
October	3,245
November	3,216
December	2,986
1939	
January	2,883
February	3,043
March	3,006
April	2,749 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.

May 20, 1939
9:04 a.m.

Allan Sproul: Hello, Mr. Secretary.

HMJr: Good morning.

S: Good morning.

HMJr: I wanted to ask you how much credence you put into this, that the market is figuring the thing to the maturity date.

S: How much what?

HMJr: Credence.

S: Well, I think there's a -- quite -- I put quite a bit of credence into it. Enough to make me feel that we ought to go in between figuring the -- to the call date and figuring to the maturity date.

HMJr: And -- and that means what?

S: Well, that's why I made the suggestions I made last night to shorten the optional period from three to two years and to try a six eight at -- at one and a half or a seven nine at one and five eighths, or an eight ten at one and three quarters.

HMJr: Yeah. Well, Fahey doesn't care about the seven nine. He'd just as leave have it six eight.

S: Yeah.

HMJr: And he says he'll take his chances.

S: Yeah.

HMJr: And.....

S: I just -- I just had a session with Levy from Solomon BRothers and Hutzler, and he's emphatic on that point. Most -- he's the most emphatic of any that.....

HMJr: What does he say?

S: He says that the bonds should be figured to maturity, that that's the only way to price an issue; that's the way bonds are sold.

HMJr: Well, if you figure it to eight years, our boys say it figures about par eight thirty-seconds.

S: If you figure it .....

HMJr: To maturity, on eight years one and a half.

S: No, we figure that eight years one and a half would show about -- a premium of about twelve thirty-seconds to maturity; one and twenty thirty-seconds to the call date.

HMJr: Well -- well, then that's that much better. How much do you figure it par? How much?

S: We figure.....

HMJr: ....par -- twelve thirty-seconds.

S: Twelve thirty-seconds to maturity.

HMJr: Yeah,

S: On the six eight year one and a half.

HMJr: And to the call date twenty, huh?

S: One -- one and twenty.

HMJr: One and twenty. Well if -- did -- did Levy argue that there wasn't enough gravy in a six eight one and a half?

S: Well, his argument was that it wouldn't be priced right. He said it would go -- that you could force anything on the market but it wouldn't weather as well as it should; it wouldn't carry through bad times as well as it should.

HMJr: Well, they have a rule -- Home Owners' Loan -- that anybody can offer them these securities at par and they'll buy them. You see.....

S: Well, that's -- that certainly checks against any.....

HMJr: In settle -- in settlement of their mortgages, you see?

S: Yeah.

HMJr: So they -- if -- if they went below par, these people would be paying off their mortgages and buying these bonds.

S: Yeah.

HMJr: So there'd be a -- did you know that?

S: No, I didn't.

HMJr: Yes, they can take these bonds, as I understand it, and pay off their mortgages and get a hundred cents on the dollar on the bonds.

S: I see, so that you have a buying group made to order there if they get down to par.

HMJr: Oh, yes, and -- tremendous because they figure, you know, that -- well, every year they'll have I don't know how many millions of these things maturing and the people naturally will be in the market to buy them the second they go below par.

S: Yeah.

HMJr: So there -- there's a permanent cushion there.

S: Yeah.

HMJr: So I should think that would influence you a little bit.

S: Well it does -- it pretty near takes care of the possibility of there being a bad break in them.

HMJr: There can't be because -- I don't know the exact figures. Wait a minute, let me ask -- (talkes aside.) Archie says that Fahey's only worry is that he's going to have more money come due than bonds. Hello?

S: Yeah.

HMJr: So I -- everything was on the bullish side on this.

S: Of course, that's -- an estimate in expection of what will happen.

HMJr: But in any event, let -- let's say he only had twenty-five million a year available for this purpose. That's a tidy sum.

S: Yeah, that's quite a help.

HMJr: And he's talking in much bigger figures than that.

S: Yeah.

HMJr: And of course we can't buy these for Postal Savings.

S: No.

HMJr: So I would think if there were twelve thirty-seconds margin to the call date that that ought to be ample.

S: Twelve thirty-seconds to maturity.

HMJr: To maturity.

S: So do I. I think a six eight one and a half would be all right.

HMJr: And I'll -- I'll get word to them that whatever they do in their publicity we should point out in the publicity that these bonds can be used to pay off mortgages so that the market will know that.

S: I think they should do that.

HMJr: Right.

S: Yeah.

HMJr: Well, I'll be calling you again a little later.

S: All right.

HMJr: Thank you.

May 20, 1939
10:46 a.m.

Ronald Ransom: Hello, how are you?

HMJr: Hello, Ronald.

R: I did not know whether our views had been asked on this H.O.L.C. financing or not. Marriner is out of town.

HMJr: No, but I'd be delighted to have them.

R: Would you?

HMJr: Yeah. Now.....

R: Well, -- always a little hard put to -- to express views when they're asked and I'm particularly reluctant to express them when they're not....

HMJr: Well, I tell you what you do.

R: Yeah.

HMJr: We're going to talk about it at eleven thirty.

R: Yes.

HMJr: Would you come over?

R: Yes, can I bring Piser with me?

HMJr: Who?

R: Piser.

HMJr: Anybody you want.

R: Thanks.

HMJr: Will you do that?

R: I'll be there at eleven thirty.

HMJr: I -- I didn't know that the Fed. was interested. I'll be honest.

R: Well, we are not -- only insofar as there may be some responsibility on us about the market. I've been discussing with Piser his views as to.....

HMJr: Well, come on over -- come on over -- I tell you what you do.

R: Yes.

HMJr: Send -- why don't you send Piser over fifteen minutes earlier and let him talk to Bell?

R: I'll do that.

HMJr: See?

R: I'll send him over to Bell's office at a quarter past eleven and I'll be at your office at eleven thirty.

HMJr: Yeah. I'm delighted you called me up.

R: O. K. Good bye.

May 20, 1939
11:41 a.m.

HMJr: Hello.

Pat Harrison: Henry.

HMJr: How are you?

H: Well, you -- you've got an engagement and you've got some people in there?

HMJr: They'll be gone in ten or fifteen minutes.

H: Well, I was going out to the Club and I thought if you weren't busy that I'd drop by there in about ten minutes.

HMJr: It would be a pleasure.

H: And just talk to you and Johnny a minute.

HMJr: It would be a pleasure.

H: All right.

HMJr: He'll be here.

H: All right.

HMJr: Thank you.

RE HOLC REFUNDING

May 20, 1939.
11:30 a.m.

Present: Mr. Hanes
Mr. Lochhead
Mr. Bell
Mr. Haas
Mr. Seltzer
Mr. Murphy
Mr. Hadley
Mr. Kilby
Mr. Ransom
Mr. Piser

H.M.Jr: If these had been bills we were discussing, the possibility of letting half of them run off, something like that, we'd have called you up first (to Ransom).

(Hanes comes in)

Hanes: Good morning.

H.M.Jr: Meet Mr. Ronald Ransom, the forgotten man.

Hanes: Hello, Ronald, glad to see you.

H.M.Jr: Well, do you want to hear what - how we sit on this thing now?

Ransom: Yes, I would.

H.M.Jr: Well, we've been talking around and the men up in New York have been talking, and everybody agreed we wanted to get beyond five years on account of their maturities and our maturities. So it's a six-year something or seven-year something or eight-year something.

And then, on account of - the New York people, for their own interests, have thrown a little scare into us because they - they tell us they're figuring this thing to maturity instead of call date. They've got us a little worried on that, because they'll say, "If you sell a one and a half, one and five-eighths, why, you're going to let that run to maturity because it's so damn cheap, you're not apt to get it again." So we've got to take that into consideration.

Now, naturally, wanting to be economical, not wanting to spend too much money, we try to get the lowest coupon possible, at the same time fitting the maturity dates. Fahey says that as far as he's concerned, six to eight years is all right, he isn't going to worry about the ninth year.

So, after going around and around and talking to New York several times, what it looks like is a one and a half, six to eight years. But nothing is settled. We can be unsold, sold on some new merchandise. So if that doesn't look good to you, why, I'd be delighted to hear from you.

Ransom: Of course, our interest in it is simply due to our interest in the general Government situation. And in discussing it this morning, those Board members who were in town, with Mr. Piser, we did develop some ideas which I'll ask him to express for you. They seem to us perhaps to be worth calling to your attention, at least, under the circumstances of the case. And I'll just ask him to tell you what conclusion we had reached on that. Of course, this is entirely informal. The Board hasn't acted formally on it, the Open Market Committee hasn't; it's just for what it may be worth to you.

Piser: Well, taking the yields off the line that may be drawn through the outstanding guaranteeds on a six-year callable issue, I get a yield of about one and twenty-two. And, considering the fact that this is an exceptionally popular maturity with banks, that it is an issue entirely in exchange, with no cash, and that it will be a low-priced issue, which is generally very popular in the market, it seems to me that those three factors tend to bring down the yield at which such an issue would actually sell in the market. I am basing that partly on the 1947 bonds, which are selling out of line with the '45 and the '48 issue, and also on the basis of the Home Owners Loan issue of 1942, which is selling out of line. Taking those factors into consideration, I come out on a six-eight, for example, with a yield of one twelve, and if that's

given a coupon rate of one and a half percent, it would sell in the market at something over a two-point premium, which I think would be a very substantial profit to give the holders of the maturing issue. It might have reaction on the September and December rights, causing them to jump up in price and perhaps disturbing the whole market.

I don't place very much weight on the final maturity of the issue, simply because it would - because the issue would sell at a substantial premium; even a one and three-eighths of six-eight year maturity on the basis of the call date, I figure, would sell at about a point and a half premium. So that under those conditions I don't think very much weight would be given to the final maturity.

For that reason, it seems to me that on a six-year call a one and three-eighths coupon would be ample, and on a seven-year call date a one and a half coupon would be ample. That's my story.

H.M.Jr: Well, I appreciate it, but I think you've always got to weigh what is fair and then weigh what is in the minds of your customers. And, right or wrong, for the first time they are thinking of the maturity date. And, using one and a half as an example, I'd put it down - I'd say, "Well, I doubt if they're going to call that in six years; I think we better figure that eight years, because along in '44, '45, '46, one and a half percent will be so low they won't be able to refinance it and they'll let the thing run its whole date."

Now, maybe they're wrong, but, damn it, that's what's running through their minds. Now, you take your one and you get a minus return ....

Piser: If it's figured to maturity.

H.M.Jr: Yes, you get a minus return if you - and with a 900 million dollar thing, I can't afford to take that chance. I made a million dollars for them by waiting

one week. We can at least go one-eighth - you say we can go at least one-quarter cheaper. But if they figure it that way, we'd be sunk.

(On phone) Hello. (Conversation with Allan Sproul follows:)

May 20, 1939
11:45 a.m.

HMJr: Hello.

Operator: Mr. Sproul. Go ahead.

HMJr: Hello.

Allan Sproul: Hello, Mr. Secretary.

HMJr: Well, we're waiting to hear from the mountain.

S: Well, we've gone over it again and we still think a six eight year one and a half, taking account of the market and what the corporation wants to do, would be about the best bet.

HMJr: Um-hm. Now, -- anybody been in since then to see you?

S: Well, this morning I talked to Solomon Brothers, Discount Corporation, First Boston Corporation, and they range from -- Solomon pessimistic and wanting to give higher rates, to the First Boston, which is very optimistic and suggests that six eight -- six and a half eight and a half at one and a half rather than a six eight.

HMJr: What do they suggest?

S: A six and a half eight and a half year one and a half.

HMJr: Yeah.

S: But our view is that a six year eight year one and a half would hit the market better.

HMJr: Who says so?

S: That's our view after listening to all these people and talking it over ourselves.

HMJr: Well, Ronald Ransom is here. I wonder if he wants to ask you anything. (Talks aside.)

Well now, will you hold on a minute and we'll go around the room, will you? After listening to everybody you think six eight one and a half huh?

S: Yeah.

HMJr: Piser thinks it may go to a hundred and two.

S: Well, that's possible, although we figure that it's more likely to go to a hundred and one and a half.

HMJr: Uh-huh. Well, now just a moment.

(Pause)

Well, everybody -- I don't know -- Mr. Ransom hasn't expressed his opinion, so I won't include him, but I guess we'll make it six eight one and a half.

S: All right, sir. We'll get a wire from you.

HMJr: Yeah.

S: Fine! I think it'll go well.

HMJr: Well, this -- this is something new -- this -- a bond at one and a half and I don't want to take any chances on having these fellows figure to maturity in the minus.

S: No, and we'll take that into account -- it's something new, a bond at one and a half with an optional feature.

HMJr: Yeah.

S: And while I think cutting down the option that two years will dispel a lot of that idea of figuring to maturity, there's still some of it around.

HMJr: O. K. Thank you.

S: All right, sir.

HMJr: Thank you very much.

S: Good bye.

HMJr: Good bye.

(There follows the poll of opinion which H.M.Jr made during conversation with Sproul:)

H.M.Jr: Who doesn't think six-eight one and a half?

Johnny?

Hanes: That's - I think that's about the right answer, myself.

Seltzer: O.K.

Lochhead: I still prefer the six-nine, but I have no objection to the six-eight.

Murphy: I prefer it.

H.M.Jr: What?

Murphy: I prefer the ....

H.M.Jr: Prefer what?

Murphy: Six-eight, one and a half.

H.M.Jr: Six-eight.

Haas: Six-eight, one and a half. I think you'd rather take the risk in the possibility of its going to two; but that risk is better than going the other way.

Bell: I think it will go to two, Mr. Secretary, when the spread between guaranteed and direct Government obligations is closer together. They are now far apart.

Hadley: Six-eight, one and a half, would be all right. A six-nine would go, though.

H.M.Jr: Anything?

Kilby: No.

H.M.Jr: Dan?

Bell: I agree to that.

H.M.Jr: Do you (Ransom) want to ....

Ransom: Nothing more.

H.M.Jr: What?

Ransom: Nothing more.

(H.M.Jr then finished up conversation with Sproul)

* * * * * *

H.M.Jr: Thank you. At least you know how we arrived at it.

Ransom: Yes, exactly.

May 20, 1939.

My dear Senator:

I have your recent letter without date commenting on Section 4 of S. 591. You state that the purpose of this section was to make the bonds of local public housing authorities, secured by a pledge of annual contributions under a contract with the United States Housing Authority, available for investment and underwriting by National banks and banks affiliated with the Federal Reserve System. You express the hope that before I make any statement of my views upon this matter you will be given an opportunity to discuss it with me.

The Comptroller of the Currency has given serious consideration to this section and has conferred at length with the Administrator of the United States Housing Authority regarding its effect upon National banks. After studying every angle the Treasury has come to the very definite conclusion that Section 4 should be eliminated from the bill for the reasons set out in the copy of the attached report which I contemplate sending to the Director of the Bureau of the Budget in response to his request for my comments on the proposed legislation.

If, after you have read this report, you still want to confer with me I shall be glad to see you on the matter.

Very truly yours,

D:WH:KLH:MLB
5-20-39

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury.

Honorable Robert F. Wagner,
United States Senate,
Washington, D. C.

By hand

Enclosures.

Sir:

Reference is made to Mr. Bell's letter of February 27, 1939, requesting an expression of the views of the Treasury Department with respect to S. 591, a bill to amend the United States Housing Act of 1937, and for other purposes, and enclosing a copy of a proposed report by the Administrator of the United States Housing Authority relative to this bill.

Section 1 of the bill would authorize the United States Housing Authority to enter into additional contracts which will provide for annual contributions aggregating not more than $45,000,000 per annum. Under Section 2 the Authority is authorized to issue and sell its obligations in an amount not to exceed $800,000,000 in addition to the amount of such obligations heretofore authorized, namely, $800,000,000. Section 3 would amend Section 2 (10) of the United States Housing Act of 1937 defining the going Federal rate of interest. Section 4 of the Bill would permit national banks and State member banks of the Federal Reserve System to underwrite or purchase bonds of public housing agencies which are secured by a pledge of payments under annual contributions contracts with the Authority, without regard to the limitations and restrictions provided in section 5136 of the Revised Statutes of 1873, as amended (U.S.C., Sup. IV, title 12, sec. 24).

The Treasury is not in a position to comment upon the necessity for the enactment of sections 1, 2 and 3 of the proposed legislation since matters relating to the administration of the United States Housing Act of 1937, as amended, do not come under the jurisdiction of this Department. It is noted, however, that S. 591 would authorize an additional annual charge on the Federal Budget up to $45,000,000 per annum for contributions to public housing agencies to assist in achieving and maintaining the low rent character of their housing projects. In addition, the United States Housing Authority is authorized to issue and sell $800,000,000 more of its obligations, the proceeds to be used in making loans to assist in low-rent housing or slum-clearance projects, which obligations are fully and unconditionally guaranteed by the United States as to the payment of both interest and principal.

Section 4 of S. 591 provides that "The last sentence of paragraph Seventh of section 5136 of the Revised Statutes, as amended, is amended by inserting before the colon, after the words 'obligations of national mortgage associations', a comma and the following: 'or such obligations of any public housing agency (as defined in section 2 (11) of the United States Housing Act of 1937, as amended) as are secured by a pledge of payments under an annual contributions contract between such agency and the United States Housing Authority'".

With reference to this section the Administrator of the United States Housing Authority, in his proposed report, states that, "This section would amend the Banking Act so that national banks and (to the extent permitted by state laws) members of the Federal Reserve System will be enabled to underwrite or purchase bonds of public housing agencies which are secured by a pledge of payments under an annual contributions contract with the USHA".

Paragraph Seventh of section 5136 of the Revised Statutes of 1875, as amended (U.S.C., Sup. IV, title 12, sec. 24) provides in general that national banks (the restrictions are also extended to State member banks of the Federal Reserve System by section 9 of the Federal Reserve Act, as amended (U.S.C., title 12, sec. 335)) shall not deal in securities or stocks for their own account or underwrite securities or stock, but permits national banks to purchase for their own account "investment securities", under limitations and restrictions prescribed by the Comptroller of the Currency, provided that a bank shall not hold for its own account the investment securities of any one obligor or maker in excess of 10 per centum of the bank's unimpaired capital stock and 10 per centum of its unimpaired surplus. Paragraph Seventh provides further that the limitations and restrictions contained therein, as to dealing in, underwriting and purchasing of investment securities, shall not apply to certain types of obligations, including "obligations which

are insured by the Federal Housing Administrator pursuant to section 207 of the National Housing Act, if the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States".

If the obligations of public housing agencies are "investment securities" under section 5136 of the Revised Statutes and the regulations of the Comptroller of the Currency issued pursuant thereto, national banks could under existing law purchase for their own account obligations of a local housing agency in an amount up to 10 per centum of the unimpaired capital and unimpaired surplus of the bank. The effect of the amendment to section 5136, proposed by section 4 of S. 591, would be to authorize national banks (and State member banks of the Federal Reserve System, if not prohibited by State law) to underwrite, and to purchase for their own account, obligations of a public housing agency in unlimited amounts, since such obligations would be exempted from the restrictions contained in section 5136.

The Administrator of the United States Housing Authority states that the amendment proposed by section 4 of S. 591 "would place bonds of local housing authorities in the same category as certain obligations issued in connection with private housing construction and insured by the Federal Housing Administration". It may be implied from his statement that obligations of public housing agencies should be exempted from the restrictions in section 5136 because they are of the

same character as certain obligations insured by the Federal Housing Administration pursuant to section 207 of the National Housing Act, which are, at present, exempted from the restrictions in section 5136. The mortgages insured by the Federal Housing Administration pursuant to section 207 of the National Housing Act, as amended (U.S.C., Sup. IV, title 12, sec. 1715) are mortgages covering residential properties held by public or private agencies, for the purpose of rehabilitation of slum or blighted areas or providing housing for rent or sale, the rents or sales being regulated under housing laws or by the Federal Housing Administrator, and such mortgages may involve a principal obligation as large as $5,000,000. It is these obligations which are expressly excepted from the limitations and restrictions contained in section 5136 of the Revised Statutes by the language therein covering "obligations which are insured by the Federal Housing Administrator, pursuant to section 207 of the National Housing Act, if the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States.". The effect of that exception is to remove obligations insured under section 207 of the National Housing Act from the restrictions contained in section 5136, including the 10 per centum limit on purchases by national banks, and further to remove them from any restrictions contained in regulations issued by the Comptroller of the Currency pursuant to section 5136.

In the opinion of this Department bonds of public housing agencies

are not of the same character, in so far as security is concerned, as obligations insured pursuant to section 207 of the National Housing Act. In case of default by the mortgagor under a mortgage insured pursuant to section 207, the mortgagee is entitled to exchange the mortgage for debentures which are fully and unconditionally guaranteed as to principal and interest by the United States. It should be noted that section 5136 of the Revised Statutes excepts obligations insured under section 207 of the National Housing Act, provided that "the debentures to be issued in payment of such insured obligations are guaranteed as to principal and interest by the United States.". (Underscoring supplied) On the other hand, bonds of public housing agencies, which it is proposed, by section 4 of S. 881, to except from the restrictions contained in section 5136 of the Revised Statutes, "are secured by a pledge of payments under an annual contributions contract between such agency and the United States Housing Authority".

It would seem clear that a pledge of payments under an annual contributions contract, made pursuant to section 601 of the United States Housing Act of 1937, as amended (U.S.C., Sup. IV, title 42, sec. 1410), would not be security equal in value to debentures "guaranteed as to principal and interest by the United States". The bonds of public housing agencies are not obligations of the United States, nor are they guaranteed as to the payment of principal or interest by the United States. Section 10 of the United States Housing Act of 1937,

as amended (U.S.C., Sup. IV, title 42, sec. 1410) provides that the United States Housing Authority may make annual contributions to public housing agencies to assist in achieving and maintaining the low-rent character of their housing projects and the faith of the United States is pledged to the payment of all annual contributions contracted to be made by the Authority. Section 10 provides, further, that payments under annual contributions contracts shall be pledged as security for any loans obtained by public housing agencies to assist in the development of the housing projects to which the annual contributions relate, provided that annual contributions shall first be used to apply toward the payment of interest or principal as the same matures on any loan due to the Authority from the public housing agencies. Thus, under existing law annual contributions estimated and paid by the Authority are pledged toward the payment of public housing agencies' bonds, after matured principal and interest on loans owing to the Authority have been paid. This constitutes the basic security for the payment of such bonds, and it is understood that under the form of contract which the Authority contemplates entering into with public housing agencies it is intended that the annual contributions will be calculated in such a manner as to be sufficient to amortize the principal and interest on the public housing agencies' bonds.

Section 10 of the United States Housing Act of 1937, as amended,

in addition to authorizing the Authority to determine the amount of the annual contributions payable to each public housing agency to assist in achieving and maintaining the low-rent character of the projects, gives the Authority very broad powers to modify a contract covering annual contributions and to reduce the amount of or terminate such contributions. That section provides that where a contract for annual contributions is made for a period exceeding 20 years, the Authority shall reserve the right to reexamine the status of the housing project involved at the end of 10 years and every 5 years thereafter. If the Authority is of the opinion that changed conditions so warrant it may modify the amount of subsequent annual contributions payable to assist in maintaining the low-rent character of the project.

Section 15(3) of the United States Housing Act of 1937, as amended (U.S.C., Sup. IV, title 42, sec. 1415(3)) provides that the Authority shall retain the right, in the event of a substantial breach of the conditions contained in a contract with a public housing agency providing for the maintenance of the low-rent character of the housing project involved, to reduce or terminate the annual contributions payable under such contracts. Also, in the event of the acquisition of such project by a third party the annual contributions shall terminate.

Accordingly, under existing law the basic security for the bonds

of public housing agencies is the annual contributions payable by the Authority to such agencies, which contributions are for the purpose of maintaining the low-rent character of the projects. Under the law the Authority has the power to change a contract providing for annual contributions and to reduce or terminate entirely such annual contributions. Thus, the basic security for these public housing agencies' bonds could be drastically altered.

It is understood that the Authority has prepared a proposed form of contract covering annual contributions under which it is contended that any doubt as to the validity or continuance of the annual contributions as security for the public housing agency bonds is almost entirely eliminated. This suggested contract is a very involved document, which it does not appear necessary to discuss in detail at this time. The contract raises a number of legal questions which it is understood are being referred by the Authority to the Attorney General for an opinion.

Even assuming that the Attorney General should hold that the proposed form of contract is legal, and assuming further that such a contract would assure that the annual contributions payable to a public housing agency would be sufficient to amortize the bonds of such agency and that such annual contributions would not be reduced or terminated until such bonds have been retired, it is possible that in the future the form of contract could be changed by the Authority

in such a manner as to lessen the value of the annual contributions as security for a new bond issue. Such a new bond issue might be of a different character than a previous issue, in so far as the nature of the security for the bonds was concerned.

As already pointed out above, if section 5136 were amended as proposed in S. 591, not only would national banks be authorized to purchase for their own account obligations of public housing agencies without limit, but they would also be authorized to underwrite such obligations in unlimited amounts. It should be remembered that, in enacting the Banking Act of 1933, it was clearly the intention of Congress to divorce the commercial banking business from "the business of issuing, underwriting, selling, or distributing, at wholesale or retail, or through syndicate participation, stocks, bonds, debentures, notes, or other securities". (Section 21 of the Banking Act of 1933, as amended (U.S.C., Sup. IV, title 12, sec. 378)) In its report, the Senate Committee on Banking and Currency stated:

> "As a National banks were never intended to undertake investment banking business on a large scale, and the whole tenor of legislation and administrative rulings concerning them has been away from recognition of such a growth in the direction of investment banking as legitimate. Nevertheless it has continued; and a very fruitful cause of bank failures, especially within the past three years, has been the fact that the funds of various institutions have been so extensively 'tied up' in long-term investments." (Senate Report No. 77, 73rd Cong. 1st Sess., p. 8)

If the bonds of public housing agencies were exempted from the prohibition against underwriting contained in section 5136, the result might be the formation of a syndicate, including a number of national banks, for the purpose of underwriting these bonds. It is believed that it would not constitute a desirable tendency for national banks to participate in such an underwriting arrangement.

In view of all the facts, it is the opinion of the Treasury Department that it would be unwise to increase the existing exceptions to section 5136 of the Revised Statutes, by exempting from the restrictions and limitations contained therein the obligations of public housing agencies. Accordingly, this Department is of the opinion that section 4 of S. 591 should not be enacted.

Very truly yours,

Secretary of the Treasury.

The Director
Bureau of the Budget.

DJStes typed 5.17.39 - 5.5.39

FEDERAL RESERVE BANK

OF NEW YORK

May 20, 1939.

Dear Mr. Secretary:

The three corporate security issues included in this week's total of $3,700,000 illustrate both the small volume of such offerings and the ready demand which meets most offerings when attractively priced. Three relatively small companies obtained funds; one by placing bonds privately with an insurance company, and the other two by public offerings which were oversubscribed the first day. The private placement was by the Continental Steel Corporation, for refunding, and was an issue of debentures due in ten years, bearing the low interest rate of 3 per cent. The two public offerings were for new capital purposes and were stock issues: the Tilo Roofing Company marketed $1,500,000 of convertible preferred stock to yield 5 1/2 per cent, and the Mansfield Tire and Rubber Company floated $200,000 of additional common stock.

Arrangements for a $22,500,000 private sale of refunding bonds of the Indiana and Michigan Electric Company are reported to be nearly complete. Two bond issues totaling $19,000,000, mainly for refunding, of the Houston Oil Company and Montana-Dakota Utilities Company, are scheduled for marketing next week; and two utility company bond issues totaling $25,000,000, also mainly for refunding, have been placed in registration. As the above details indicate, prospective issues for the next three weeks are mostly for refunding and in small volume. Registration of the $135,000,000 Pennsylvania Power and Light Company refunding operation is expected any day now. It will raise the level of flotations but make no contribution to borrowing for new capital.

Municipal awards continue to be sold quickly, even though the yields are being steadily lowered. Some borrowers have recently sold serial issues due in 1 to 10 years at interest costs of from 1 1/4 down to less than 1 per cent. Awards this week totaled about $10,000,000.

Yours faithfully,

Allan Sproul,
First Vice President.

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

433 Return to Room 285

May 22, 1939.

Dear Mr. Sproul:

For the Secretary I am acknowledging your weekly letter dated May 20th, reporting on the corporate security issues for the past few days.

Mr. Morgenthau very much appreciates the comments you pass on to him.

Sincerely yours,

(Signed) H. S. Klotz

H. S. Klotz,
Private Secretary.

Mr. Allan Sproul,
First Vice President,
Federal Reserve Bank
of New York,
New York, New York.

GEF/dbs

May 20, 1939

HM,Jr called General Watson and said to him, "I am talking from home. I sprained my back. To tonight's papers we are giving out a statement to be published tomorrow morning that we are going to refund $900,000,000 of HOLC bonds on Monday. Normally I would just go ahead with a thing like this. Will you tell that to the President? If I do not hear from you by three o'clock, I will take it that he has no objections. I am recommending it."

EG

GRAY

London

Dated May 20, 1939

Rec'd 10:35 a.m.

Secretary of State,

Washington.

720, May 20, 1 p.m.

FOR TREASURY FROM BUTTERWORTH.

At the meeting yesterday afternoon of the American brokerage houses in London, referred to in numbered paragraph 3 of my 694, May 16, 9 p.m., after a great deal of discussion it was decided that a resolution should be conveyed to the Bank of England, the precise wording of which has not yet been determined. However, I am informed it will express the willingness of the American brokerage houses to cooperate with the British monetary authorities and to that end they will agree to call the attention of clients to the Chancellor's request for prohibition, that is if the prospective transactions involve the transfer of sterling into dollars and are not merely switches or the using of existing dollar balances.

The question of circulars was also discussed and it was decided not to discontinue them because it might prove difficult in that case to restart. However, for the time being

being recommendations of particular securities and predictions as to the trend of the last mentioned are to be avoided.

I might add that the practical test of the efficacy of Simon's voluntary restriction on purchases of foreign securities will occur if and when the New York stock market begins a definite upward movement. Even before Simon's statement the volume of trading in American securities was at a very low ebb, and since the first of the year London has probably been on balance a seller at American common stocks. In any case there has been an abnormal growth in the number of American brokerage houses in London from about ten in 1931 to about thirty today. This development has not been favorably regarded by the Bank of England. For instance, in a conversation I had with Montagu Norman just before I sailed for America last November, he inveighed against the London branches of American stock broking houses which, contrary to British practice, went about soliciting business and encouraging the movement of funds from London to the United States.

KENNEDY

PEG:KLP